

WOORI FINANCE HOLDINGS CO LTD
Form 20-F
April 30, 2013
Table of Contents

As filed with the Securities and Exchange Commission on April 30, 2013

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

OR

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

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

For the transition period from to

Commission file number 001-31811

Woori Finance Holdings Co., Ltd.

(Exact name of Registrant as specified in its charter)

Woori Finance Holdings Co., Ltd.

(Translation of Registrant's name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Woo Seok Seong

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

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

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

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

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing	New York Stock Exchange
three shares of Common Stock	
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

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

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

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

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

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

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

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

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

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

Large accelerated filer

Accelerated Filer

Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

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

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

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

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

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

Table of Contents**TABLE OF CONTENTS**

	Page
<u>Presentation of Financial and Other Information</u>	1
<u>Forward-Looking Statements</u>	2
Item 1. <u>Identity of Directors, Senior Management and Advisers</u>	3
Item 2. <u>Offer Statistics and Expected Timetable</u>	3
Item 3. <u>Key Information</u>	3
Item 3A. <u>Selected Financial Data</u>	3
Item 3B. <u>Capitalization and Indebtedness</u>	11
Item 3C. <u>Reasons for the Offer and Use of Proceeds</u>	11
Item 3D. <u>Risk Factors</u>	11
Item 4. <u>Information on the Company</u>	37
Item 4A. <u>History and Development of the Company</u>	37
Item 4B. <u>Business Overview</u>	42
Item 4C. <u>Organizational Structure</u>	130
Item 4D. <u>Property, Plants and Equipment</u>	132
Item 4.A. <u>Unresolved Staff Comments</u>	132
Item 5. <u>Operating and Financial Review and Prospects</u>	132
Item 5A. <u>Operating Results</u>	132
Item 5B. <u>Liquidity and Capital Resources</u>	162
Item 5C. <u>Research and Development, Patents and Licenses, etc.</u>	170
Item 5D. <u>Trend Information</u>	170
Item 5E. <u>Off-Balance Sheet Arrangements</u>	170
Item 5F. <u>Tabular Disclosure of Contractual Obligations</u>	170
Item 5.G. <u>Safe Harbor</u>	171
Item 6. <u>Directors, Senior Management and Employees</u>	171
Item 6A. <u>Directors and Senior Management</u>	171
Item 6B. <u>Compensation</u>	173
Item 6C. <u>Board Practices</u>	174
Item 6D. <u>Employees</u>	176
Item 6E. <u>Share Ownership</u>	178
Item 7. <u>Major Stockholders and Related Party Transactions</u>	178
Item 7A. <u>Major Stockholders</u>	178
Item 7B. <u>Related Party Transactions</u>	178
Item 7C. <u>Interest of Experts and Counsel</u>	179
Item 8. <u>Financial Information</u>	179
Item 8A. <u>Consolidated Statements and Other Financial Information</u>	179
Item 8B. <u>Significant Changes</u>	183
Item 9. <u>The Offer and Listing</u>	183
Item 9A. <u>Offering and Listing Details</u>	183
Item 9B. <u>Plan of Distribution</u>	184
Item 9C. <u>Markets</u>	184
Item 9D. <u>Selling Shareholders</u>	191
Item 9E. <u>Dilution</u>	191
Item 9F. <u>Expenses of the Issuer</u>	191
Item 10. <u>Additional Information</u>	191
Item 10A. <u>Share Capital</u>	191
Item 10B. <u>Memorandum and Articles of Association</u>	191
Item 10C. <u>Material Contracts</u>	197
Item 10D. <u>Exchange Controls</u>	198
Item 10E. <u>Taxation</u>	199

Table of Contents

	Page
Item 10F.	<u>Dividends and Paying Agents</u> 203
Item 10G.	<u>Statements by Experts</u> 203
Item 10H.	<u>Documents on Display</u> 203
Item 10I.	<u>Subsidiary Information</u> 203
Item 11.	<u>Quantitative and Qualitative Disclosures about Market Risk</u> 203
Item 12.	<u>Description of Securities other than Equity Securities</u> 232
Item 13.	<u>Defaults, Dividend Arrearages and Delinquencies</u> 233
Item 14.	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u> 233
Item 15.	<u>Controls and Procedures</u> 233
Item 16.	<u>Reserved</u> 234
Item 16A.	<u>Audit Committee Financial Expert</u> 234
Item 16B.	<u>Code of Ethics</u> 234
Item 16C.	<u>Principal Accountant Fees and Services</u> 234
Item 16D.	<u>Exemptions from the Listing Standards for Audit Committees</u> 235
Item 16E.	<u>Purchase of Equity Securities by the Issuer and Affiliated Purchasers</u> 235
Item 16F.	<u>Change in Registrant's Certifying Accountant</u> 235
Item 16G.	<u>Corporate Governance</u> 236
Item 16H.	<u>Mine Safety Disclosure</u> 237
Item 17.	<u>Financial Statements</u> 237
Item 18.	<u>Financial Statements</u> 237
Item 19.	<u>Exhibits</u> 237

Table of Contents

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. As such, we make an explicit and unreserved statement of compliance with IFRS as issued by the IASB with respect to our consolidated financial statements as of and for the years ended December 31, 2010, 2011 and 2012 included in this annual report. Unless indicated otherwise, the financial information in this annual report (i) as of and for the years ended December 31, 2010, 2011 and 2012 has been prepared in accordance with IFRS as issued by the IASB, and (ii) as of and for the years ended December 31, 2008 and 2009 has been prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, which is not comparable to information prepared in accordance with IFRS.

In accordance with rule amendments adopted by the U.S. Securities and Exchange Commission which became effective on March 4, 2008, we are not required to provide a reconciliation to U.S. GAAP.

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

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

In March 2011, we acquired certain assets and assumed certain liabilities of Samhwa Mutual Savings Bank through our wholly-owned consolidated subsidiary, Woori FG Savings Bank Co., Ltd., which was established in connection with such transaction. In September 2012, we acquired certain assets and assumed certain liabilities of Solomon Mutual Savings Bank, also through Woori FG Savings Bank Co., Ltd.

In October 2012, we established Woori Finance Research Institute as a consolidated subsidiary.

In this annual report:

references to we, us or Woori Finance Holdings are to Woori Finance Holdings Co., Ltd. and, unless the context otherwise requires, its subsidiaries;

references to Korea are to the Republic of Korea;

references to the government are to the government of the Republic of Korea;

references to Won or are to the currency of Korea; and

references to U.S. dollars, \$ or US\$ are to United States dollars.

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

For your convenience, this annual report contains translations of Won amounts into U.S. dollars at the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2012, which was 1,063.2 = US\$1.00.

Table of Contents

FORWARD-LOOKING STATEMENTS

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

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

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

our ability to successfully implement our strategy;

future levels of non-performing loans;

our growth and expansion;

the adequacy of 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;

Table of Contents

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 and 2012 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 and 2012 have been audited by Deloitte Anjin LLC, an independent registered public accounting firm.

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

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

Table of Contents**Consolidated Statement of Comprehensive Income Data**

	2010	Year ended December 31,		2012 ⁽¹⁾
	(in billions of Won except per share data)			(in millions of US\$ except per share data)
	2010	2011	2012	2012 ⁽¹⁾
Interest income	14,057	15,045	15,020	US\$ 14,127
Interest expense	(7,630)	(7,780)	(7,753)	(7,292)
Net interest income	6,427	7,264	7,267	6,835
Fees and commissions income	1,688	1,774	1,667	1,568
Fees and commissions expense	(572)	(579)	(664)	(624)
Net fees and commissions income	1,116	1,195	1,003	944
Dividends	201	203	163	153
Net gain (loss) on financial assets at fair value through profit or loss	39	119	(293)	(276)
Net gain on available-for-sale financial assets	1,073	1,073	566	533
Net gain on held-to-maturity financial assets	0	0	0	0
Impairment losses on credit loss	(2,873)	(2,269)	(2,121)	(1,995)
Other net operating expenses ⁽²⁾	(3,835)	(4,501)	(4,357)	(4,098)
Operating income	2,148	3,085	2,228	2,096
Share of profits of jointly controlled entities and associates	30	17	69	65
Other non-operating income (expense)	(79)	75	(6)	(6)
Net income before income tax expense	2,099	3,177	2,291	2,155
Income tax expense	498	744	493	464
Net income	1,601	2,433	1,798	US\$ 1,691
Loss on available-for-sale financial assets	(205)	(375)	(350)	(329)
Share of other comprehensive gain (loss) of jointly controlled entities and associates	(21)	(38)	57	53
Gain (loss) on overseas business translation	(19)	25	(108)	(101)
Gain on valuation of cash flow hedge	9	3	13	12
Other comprehensive income (loss), net of tax	(236)	(385)	(388)	(365)
Total comprehensive income	1,365	2,048	1,410	US\$ 1,326
Net income attributable to owners	1,289	2,137	1,584	US\$ 1,489
Net income attributable to the non-controlling interests	312	296	214	200
Comprehensive income attributable to owners	1,052	1,730	1,178	1,108
Comprehensive income attributable to non-controlling interests	313	318	232	218
Basic and diluted earnings per share	1,599	2,649	1,931	US\$ 1.82
Per common share data:				
Net income (loss) per share basic	1,599	2,649	1,931	US\$ 1.82
Weighted average common shares outstanding basic (in thousands)	806,013	806,013	806,013	806,013
Net income (loss) per share diluted	1,599	2,649	1,931	US\$ 1.82
	806,013	806,013	806,013	806,013

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Weighted average common shares outstanding diluted (in thousands)

Cash dividends paid per share	250	250	250	US\$	0.24
-------------------------------	-----	-----	-----	------	------

- (1) Won amounts are expressed in U.S. dollars at the rate of 1,063.2 to US\$1.00, the noon buying rate in effect on December 31, 2012 as quoted by the Federal Reserve Bank of New York in the United States.
- (2) For a description of other net operating expenses, see Note 39 of the notes to our consolidated financial statements.

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

	2010	As of December 31,		2012 ⁽¹⁾
		2011	2012	(in millions
		(in billions of Won)		of US\$)
Assets				
Cash and cash equivalents	4,871	6,417	5,778	US\$ 5,434
Financial assets at fair value through profit or loss	22,184	25,600	26,147	24,592
Available-for-sale financial assets	21,998	19,672	18,870	17,748
Held-to-maturity financial assets	19,886	20,036	18,685	17,573
Loans and receivables	216,792	235,160	250,106	235,230
Investments in jointly controlled entities and associates	745	928	1,038	976
Investment properties	643	499	492	462
Premises and equipment	3,097	3,135	3,186	2,996
Intangible assets and goodwill	295	448	433	408
Current tax assets	9	57	38	36
Deferred tax assets	59	80	155	146
Derivative assets	131	327	281	264
Assets held for sale	88	56	83	78
Other assets ⁽²⁾	379	377	414	390
Total assets	291,177	312,792	325,706	US\$ 306,333
Liabilities				
Financial liabilities at fair value through profit or loss	8,838	9,622	10,986	US\$ 10,332
Deposits due to customers	185,428	195,930	202,920	190,850
Borrowings	34,266	34,667	33,478	31,487
Debentures	29,111	29,266	27,960	26,297
Provisions	761	892	864	812
Retirement benefit obligation	70	120	166	156
Current tax liabilities	174	274	179	168
Deferred tax liabilities	213	260	125	118
Derivative liabilities	5	33	38	36
Other financial liabilities ⁽³⁾	11,648	19,084	25,480	23,965
Other liabilities ⁽⁴⁾	399	570	507	477
Total liabilities	270,913	290,718	302,703	US\$ 284,698
Equity				
Owners' Equity	15,701	17,525	18,666	US\$ 17,556
Capital stock	4,030	4,030	4,030	3,790
Hybrid securities		309	499	469
Capital surplus	180	176	174	164
Other equity ⁽⁵⁾	1,002	587	186	175
Retained earnings	10,489	12,423	13,777	12,958
Non-controlling interests	4,563	4,549	4,337	4,079
Total equity	20,264	22,074	23,003	US\$ 21,635
Total liabilities and equity	291,177	312,792	325,706	US\$ 306,333

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

- (1) Won amounts are expressed in U.S. dollars at the rate of 1,063.2 to US\$1.00, the noon buying rate in effect on December 31, 2012 as quoted by the Federal Reserve Bank of New York in the United States.
- (2) For a description of other assets, see Note 18 of the notes to our consolidated financial statements.
- (3) For a description of other financial liabilities, see Note 24 of the notes to our consolidated financial statements.
- (4) For a description of other liabilities, see Note 24 of the notes to our consolidated financial statements.
- (5) For a description of other equity, see Note 29 of the notes to our consolidated financial statements.

Table of Contents**Profitability Ratios and Other Data**

	2010	Year ended December 31, 2011	2012
	(in billions of Won except percentages)		
Return on average assets ⁽¹⁾	0.44%	0.70%	0.50%
Return on average equity ⁽²⁾	6.45	9.95	6.78
Net interest spread ⁽³⁾	2.12	2.31	2.16
Net interest margin ⁽⁴⁾	2.29	2.50	2.38
Cost-to-income ratio ⁽⁵⁾	46.75	48.69	53.58
Average equity as a percentage of average total assets	6.79	7.04	7.32
Total revenue ⁽⁶⁾	17,058	18,214	17,123
Operating expense ⁽⁷⁾	12,037	12,860	12,774
Operating margin ⁽⁸⁾	5,021	5,354	4,349
Operating margin as a percentage of total revenue	29.43%	29.39%	25.40%

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

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

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

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

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

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

The following table shows how total revenue is calculated:

	2010	Year ended December 31, 2011	2012
	(in billions of Won)		
Interest income	14,057	15,045	15,020
Fees and commissions income	1,688	1,774	1,667
Dividends	201	203	163
Net gain (loss) on financial assets at fair value through profit or loss	39	119	(293)
Net gain on available-for-sale financial assets	1,073	1,073	566
Net gain on held-to-maturity financial assets			
Total revenue	17,058	18,214	17,123

(7) Represents interest expense, fees and commissions expense and other net operating expense, excluding impairment losses on credit loss of 2,873 billion, 2,269 billion and 2,121 billion for 2010, 2011 and 2012, respectively.

The following table shows how operating expense is calculated:

	2010	Year ended December 31, 2011	2012
	(in billions of Won)		
Interest expense	7,630	7,780	7,753

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Fees and commissions expense	572	579	664
Other net operating expenses	3,835	4,501	4,357
Operating expense	12,037	12,860	12,774

(8) Represents total revenue less operating expense.

Table of Contents**Asset Quality Data**

	2010	As of December 31, 2011	2012
	(in billions of Won, except percentages)		
Total loans ⁽¹⁾	201,235	212,492	220,883
Total non-performing loans ⁽²⁾	6,550	3,780	3,766
Other impaired loans not included in non-performing loans ⁽³⁾	475	238	698
Total non-performing loans and other impaired loans ⁽³⁾	7,025	4,018	4,464
Total allowance for credit losses	4,718	3,759	3,564
Non-performing loans as a percentage of total loans	3.25%	1.78%	1.70%
Non-performing loans as a percentage of total assets	2.25	1.21	1.16
Total non-performing loans and other impaired loans as a percentage of total loans	3.49	1.89	2.02
Allowance for credit losses as a percentage of total loans	2.34	1.77	1.61

(1) Not including due from banks and other receivables, and prior to deducting allowance for credit losses (of 4,718 billion, 3,759 billion and 3,564 billion as of December 31, 2010, 2011 and 2012, respectively) and present value discount (of 16 billion, 31 billion and 25 billion as of December 31, 2010, 2011 and 2012, respectively) or reflecting deferred origination costs (of 74 billion, 178 billion and 258 billion as of December 31, 2010, 2011 and 2012, respectively).

(2) 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.

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

Segment Information

The following table sets forth financial data as of or for the year ended December 31, 2012 for our business segments:

	Woori Bank	Kyongnam Bank	Kwangju Bank	Woori Investment & Securities (in billions of Won)	Other	Intersegment transactions ⁽¹⁾	Total
Interest income	11,436	1,390	980	718	566	(70)	15,020
Interest expense	(5,824)	(703)	(487)	(331)	(489)	81	(7,753)
Net interest income	5,612	687	493	387	77	11	7,267
Non-interest income	9,903	375	165	2,777	656	(451)	13,425
Non-interest expense	(9,261)	(389)	(160)	(2,443)	(226)	135	(12,343)
Net non-interest income (loss)	643	(14)	5	334	430	(316)	1,082
Administrative expenses	(2,728)	(296)	(231)	(541)	(470)	309	(3,957)
Impairment losses on credit loss and others ⁽²⁾	(1,828)	(142)	(83)	(6)	(118)	13	(2,164)
Total other expenses	(4,556)	(438)	(314)	(547)	(588)	322	(6,121)
Operating income	1,699	235	184	174	(81)	17	2,228
Share of profits of jointly controlled entities and associates	28			5	18	18	69
Non-operating income	49	(11)	(7)	(24)	566	(579)	(6)
Net income before tax	1,776	224	177	155	503	(544)	2,291
Income tax expense (benefit)	327	46	41	33	34	12	493

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Net income	1,449	178	136	122	469	(556)	1,798
Controlling interest	1,448	178	136	123	490	(791)	1,584
Non-controlling interest	1			(1)	(21)	235	214
Segments total assets	247,248	28,902	18,617	24,822	27,321	(21,204)	325,706

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

(2) Consist of impairment losses on credit loss, gain (loss) on loan sales and provisions (reversal of provisions).

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

The following tables show our average balances and interest rates for the past three years:

	Average Balance ⁽¹⁾	2010 Interest Income ⁽²⁾	Average Yield	Year ended December 31,			Average Balance ⁽¹⁾	2012 Interest Income ⁽²⁾	Average Yield
				2011					
				Average Balance ⁽¹⁾	Interest Income ⁽²⁾	Average Yield			
(in billions of Won, except percentages)									
Assets									
Interest-earning assets									
Due from banks	9,671	116	1.20%	10,615	169	1.59%	13,505	269	1.99%
Loans ⁽³⁾									
Commercial and industrial	97,487	5,765	5.91	100,205	6,165	6.15	102,283	6,018	5.88
Trade financing	11,997	316	2.63	12,984	309	2.38	14,260	327	2.29
Other commercial	14,490	735	5.07	15,602	765	4.90	14,138	625	4.42
Lease financing ⁽⁴⁾	1,399	146	10.44	1,956	199	10.17	2,289	206	9.00
General purpose household ⁽⁵⁾	70,132	3,554	5.07	69,954	3,735	5.34	69,001	3,658	5.30
Mortgage	4,748	245	5.16	8,643	452	5.23	13,374	680	5.08
Credit cards ⁽²⁾	4,607	1,116	24.22	4,788	1,100	22.97	4,751	1,080	22.73
Total loans	204,860	11,877	5.80	214,132	12,725	5.94	220,096	12,594	5.72
Securities									
Trading	19,273	695	3.61	18,287	660	3.61	21,534	680	3.16
Investment ⁽⁶⁾	37,466	1,237	3.30	37,359	1,360	3.64	35,553	1,371	3.86
Total securities	56,739	1,932	3.41	55,646	2,020	3.63	57,087	2,051	3.59
Other	8,850	132	1.49	10,378	131	1.26	14,270	106	0.74
Total average interest earning assets	280,120	14,057	5.02	290,771	15,045	5.17	304,958	15,020	4.93
Total average non-interest earning assets	13,979			14,456			13,850		
Total average assets	294,099	14,057	4.78%	305,227	15,045	4.93%	318,808	15,020	4.71%

Table of Contents

	Year ended December 31,								
	Average Balance ⁽¹⁾	2010 Interest Expense	Average Cost	Average Balance ⁽¹⁾	2011 Interest Expense	Average Cost	Average Balance ⁽¹⁾	2012 Interest Expense	Average Cost
(in billions of Won, except percentages)									
Liabilities									
Interest-bearing liabilities									
Deposits due to customers:									
Demand deposits	7,407	20	0.27%	10,728	28	0.26%	12,836	36	0.28%
Time and savings deposits	150,317	4,320	2.87	160,952	4,835	3.00	167,503	5,013	2.99
Certificates of deposit	8,459	364	4.30	2,746	113	4.12	1,595	60	3.76
Other deposits ⁽⁷⁾	17,583	272	1.55	18,217	322	1.77	18,507	321	1.73
Total deposits	183,766	4,976	2.71	192,643	5,298	2.75	200,441	5,430	2.71
Borrowings	32,311	728	2.25	34,414	815	2.37	33,489	770	2.30
Debentures	33,523	1,808	5.39	30,433	1,551	5.10	28,581	1,424	4.98
Other	13,218	118	0.89	14,386	116	0.81	18,361	129	0.70
Total average interest-bearing liabilities	262,818	7,630	2.90	271,876	7,780	2.86	280,872	7,753	2.76
Total average non-interest-bearing liabilities	11,304			11,869			14,593		
Total average liabilities	274,122	7,630	2.78	283,745	7,780	2.74	295,465	7,753	2.62
Total average equity	19,977			21,482			23,343		
Total average liabilities and equity	294,099	7,630	2.59%	305,227	7,780	2.55%	318,808	7,753	2.43%

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

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

The following table provides an analysis of changes in interest income, interest expense and net interest income based on changes in volume and changes in rate for 2011 compared to 2010 and 2012 compared to 2011. Information is provided with respect to: (1) effects attributable to changes in volume (changes in volume multiplied by prior rate) and (2) effects attributable to changes in rate (changes in rate multiplied by prior volume). Changes attributable to the combined impact of changes in rate and volume have been allocated proportionately to the changes due to volume changes and changes due to rate changes.

	2011 vs. 2010 Increase/(decrease) due to changes in			2012 vs. 2011 Increase/(decrease) due to changes in		
	Volume	Rate	Total (in billions of Won)	Volume	Rate	Total
Interest-earning assets						
Due from banks	11	42	53	46	54	100
Loans ⁽¹⁾						
Commercial and industrial	161	239	400	128	(275)	(147)
Trade financing	26	(33)	(7)	30	(12)	18
Other commercial	56	(26)	30	(72)	(68)	(140)
Lease financing ⁽²⁾	58	(5)	53	34	(27)	7
General purpose household ⁽³⁾	(9)	190	181	(51)	(26)	(77)
Mortgage	201	6	207	247	(19)	228
Credit cards	44	(60)	(16)	(9)	(11)	(20)
Securities						
Trading	(36)	1	(35)	117	(97)	20
Investment ⁽⁴⁾	(4)	127	123	(66)	77	11
Other	23	(24)	(1)	49	(74)	(25)
Total interest income	531	457	988	453	(478)	(25)
Interest-bearing liabilities						
Deposits due to customers						
Demand deposits	9	(1)	8	6	2	8
Time and savings deposits	306	209	515	197	(19)	178
Certificate of deposit	(246)	(5)	(251)	(47)	(6)	(53)
Other deposits ⁽⁵⁾	10	40	50	5	(6)	(1)
Borrowings						
Debentures	(167)	(90)	(257)	(94)	(33)	(127)
Other	10	(12)	(2)	32	(19)	13
Total interest expense	(31)	181	150	77	(104)	(27)
Net interest income	562	276	838	376	(374)	2

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

(2) Includes automobile lease financing to consumer borrowers.

(3) Includes home equity loans.

(4) Includes available-for-sale financial assets and held-to-maturity financial assets.

(5) Includes foreign currency-denominated deposits, mutual installment deposits and funds deposited by securities brokerage customers of Woori Investment & Securities.

Table of Contents**Exchange Rates**

The table below sets forth, for the periods and dates indicated, information concerning the noon buying rate for Won, expressed in Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 31, 2012, which was 1,063.2 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 26, 2013, the noon buying rate was 1,111.1= US\$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	High	Average ⁽¹⁾	Period-End
2008	935.2	1,507.9	1,098.7	1,262.0
2009	1,149.0	1,570.1	1,274.6	1,163.7
2010	1,104.0	1,253.2	1,155.7	1,130.6
2011	1,049.2	1,197.5	1,106.9	1,158.5
2012	1,063.2	1,185.0	1,126.2	1,063.2
October	1,090.2	1,114.6	1,105.4	1,090.2
November	1,081.8	1,091.8	1,087.0	1,081.8
December	1,063.2	1,083.7	1,075.2	1,063.2
2013 (through April 26)	1,056.0	1,140.3	1,094.7	1,111.1
January	1,056.0	1,091.2	1,066.5	1,087.5
February	1,078.2	1,095.7	1,087.3	1,083.9
March	1,083.9	1,119.2	1,102.9	1,112.5
April (through April 26)	1,111.1	1,140.3	1,122.7	1,111.1

Source: Federal Reserve Bank of New York.

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

Item 3B. Capitalization and Indebtedness

Not Applicable

Item 3C. Reasons for the Offer and Use of Proceeds

Not Applicable

Item 3D. Risk Factors

Risks relating to our corporate credit portfolio

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

Our loans to small- and medium-sized enterprises amounted to 81,618 billion, or 40.6% of our total loans, as of December 31, 2010, 83,624 billion, or 39.4% of our total loans, as of December 31, 2011 and 80,506 billion, or 36.4% of our total loans, as of December 31, 2012. As of December 31, 2012, Won-denominated loans to small- and medium-sized enterprises that were classified as substandard or below were 1,838 billion, representing 2.3% of such loans to those enterprises. See Item 4B. Business Overview Corporate Banking Small and Medium-Sized Enterprise Banking. We recorded charge-offs of 821 billion in respect of our Won-denominated loans to small- and medium-sized enterprises in 2012, compared to charge-offs of 758 billion in 2011 and 614 billion in 2010. According to data compiled by the Financial Supervisory Service, the industry-wide delinquency ratios for Won-denominated loans to small- and medium-sized enterprises increased in 2011 but decreased in

2012. 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

Table of Contents

principal or interest payments are over due by one month or more to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such loans denominated in Won was 1.5% as of December 31, 2010, 1.6% as of December 31, 2011 and 1.3% as of December 31, 2012. Our delinquency ratio may increase in 2013 as a result of, among other things, adverse economic conditions in Korea and globally. See Other risks relating to our business Difficult conditions in the global financial markets could adversely affect our liquidity and performance. Accordingly, we may be required to take measures to decrease our exposures to these customers.

In light of the deteriorating financial condition and liquidity position of small- and medium-sized enterprises in Korea as a result of the global financial crisis commencing in the second half of 2008, the Korean government introduced measures intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise borrowers. For example, the Korean government requested Korean banks, including Woori Bank, Kyongnam Bank and Kwangju Bank, to establish a fast track program to provide liquidity assistance to small- and medium-sized enterprises on an expedited basis. Under the fast track programs established by Woori Bank, Kyongnam Bank and Kwangju Bank, which are currently expected to be effective through December 31, 2013, liquidity assistance is provided to small- and medium-sized enterprise borrowers applying for such assistance, in the form of new short term loans or maturity extensions or interest rate adjustments with respect to existing loans, after expedited credit review and approval by such banks. The overall prospects for the Korean economy in 2013 and beyond remain uncertain, and the Korean government may extend or renew existing or past policies and initiatives or introduce new policies or initiatives to encourage Korean banks to provide financial support to small- and medium-sized enterprises. We believe that, to date, our participation in such government-led initiatives (primarily through the fast track program) has not caused us to extend a material amount of credit that we would not have otherwise extended nor materially impacted our results of operations and financial condition in general. The aggregate amount of outstanding small- and medium-sized enterprise loans made by Woori Bank, Kyongnam Bank and Kwangju Bank under the fast track program was 290 billion as of December 31, 2012, which represented 0.4% of the total small- and medium-sized enterprise loan portfolio of such banks as of such date. Furthermore, loans made by us under the fast track program are partially guaranteed by the Korean government's public financial institutions, including the Korea Credit Guarantee Fund and the Korea Technology Finance Corporation. However, there can be no assurance that our future participation in such government-led initiatives would not lead us to extend credit to small- and medium-sized enterprise borrowers that we would not otherwise extend, or offer terms for such credit that we would not otherwise offer, in the absence of such initiatives. Furthermore, there is no guarantee that the financial condition and liquidity position of our small- and medium-sized enterprise borrowers benefiting from such initiatives will improve sufficiently for them to service their debt on a timely basis, or at all. Accordingly, increases in our exposure to small- and medium-sized enterprises resulting from such government-led initiatives may have a material adverse effect on our results of operations and financial condition.

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

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

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

Table of Contents

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

As of December 31, 2012, the total amount of loans provided by us to construction and shipbuilding companies in Korea amounted to 8,570 billion and 2,916 billion, or 3.9% and 1.3% of our total loans, respectively. We also have other exposures to Korean construction and shipbuilding companies, including in the form of guarantees extended for the benefit of such companies and debt and equity securities of such companies held by us. In the case of shipbuilding companies, such exposures include refund guarantees extended by us on behalf of shipbuilding companies to cover their obligation to return a portion of the ship order contract amount to customers in the event of performance delays or defaults under shipbuilding contracts. In the case of construction companies, we also have potential exposures in the form of guarantees provided to us by general contractors with respect to financing extended by us for residential and commercial real estate development projects, as well as commitments to purchase asset-backed securities secured by the assets of companies in the construction industry and other commitments we enter into relating to project financing for such real estate projects which may effectively function as guarantees.

The construction industry in Korea has experienced a downturn in recent years, due to excessive investment in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul, including as a result of the deterioration of the Korean economy commencing in the second half of 2008. In October 2008, the Korean government implemented a 9 trillion support package for the benefit of the Korean construction industry, including a program to buy unsold housing units and land from construction companies. The shipbuilding industry in Korea has also experienced a severe downturn in recent years due to a significant decrease in ship orders, primarily due to adverse conditions in the global economy and the resulting slowdown in global trade. In response to the deteriorating financial condition and liquidity position of borrowers in the construction and shipbuilding industries, which were disproportionately impacted by adverse economic developments in Korea and globally, the Korean government implemented a program in the first half of 2009 to promote expedited restructuring of such borrowers by their Korean creditor financial institutions, under the supervision of major commercial banks. In accordance with such program, 24 construction companies and five shipbuilding companies became subject to workout in 2009, following review by their creditor financial institutions (including 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 companies and three were shipbuilding companies. More recently, in July 2012, the Financial Services Commission and the Financial Supervisory Service announced the results of subsequent credit risk evaluations conducted by creditor financial institutions (including us) of companies in Korea, in which 36 companies with outstanding debt of 50 billion or more (17 of which were construction companies and one of which was a shipbuilding company) were selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership. 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 bad debt expenses, which could adversely impact our results of operations and financial condition. Furthermore, although a portion of our loans to construction and shipbuilding companies are secured by collateral, such collateral may not be sufficient to cover uncollectible amounts in respect of such loans.

We also have construction-related credit exposures under our project financing loans for real estate development projects in Korea. In light of the general deterioration in the asset quality of real estate project financing loans in Korea in recent years, Korean banks, including Woori Bank, Kyongnam Bank and Kwangju Bank, implemented a uniform set of guidelines regarding the evaluation of real estate development projects and

Table of Contents

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, 2012, 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 29,592 billion, or 7.6% of our total exposures. If the credit quality of our exposures to *chaebols* declines, we could incur additional bad debt expenses, which would hurt our results of operations and financial condition. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Exposure to Chaebols.

The 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, 2012, our 20 largest exposures to corporate borrowers totaled 47,345 billion, which represented 12.2% 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 8,622 billion and loans in Won of 3,280 billion, representing 3.0% of our total exposures in the aggregate. Aside from exposure to the Korean government and government-related agencies, our next largest exposure was to Hyundai Heavy Industries, to which we had outstanding exposure of 1,992 billion representing 0.5% 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 bad debt expenses required or the adoption of restructuring plans with which we do not agree.

As of December 31, 2012, our credit exposures to companies that were in workout or corporate restructuring amounted to 3,179 billion or 0.9% of our total credit exposures, of which 1,776 billion or 55.9% was classified as substandard or below and substantially all of which was classified as impaired. As of the same date, our allowance for credit losses on these credit exposures amounted to 708 billion, or 22.3% 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). Including such securities, our exposures as of December 31, 2012 to companies in workout or restructuring amounted to 3,340 billion, or 0.9% 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.

Table of Contents

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

Several member companies of the Woongjin Group, one of Korea's top-30 *chaebols*, have been experiencing financial difficulties, mainly as a result of the prolonged slowdown in the Korean real estate market since the global financial crisis commencing in the second half of 2008. In September 2012, Woongjin Holdings Co., Ltd., which is the holding company of the Woongjin Group, and its subsidiary Kukdong Engineering & Construction Co., Ltd., or Kukdong E&C, filed for court receivership with the Seoul Central District Court, and the court appointed new management for the two companies to begin an expedited restructuring process supervised by the court. Other member companies of the Woongjin Group may also file for court receivership, undergo out-of-court debt restructuring programs or otherwise default on their debt in the future as a result of financial or operational difficulties or otherwise. As of December 31, 2012, our aggregate credit exposures to the member companies of the Woongjin Group, consisting primarily of loans extended to such companies, amounted to 459 billion, including 165 billion of loans to Woongjin Holdings and Kukdong E&C. In 2012, we charged off 114 billion of loans extended to the member companies of the Woongjin Group (including 44 billion of loans to Kukdong E&C), and as of December 31, 2012, our allowance for credit losses with respect to our credit exposures to the Woongjin Group amounted to 10 billion (of which 1 billion were with respect to credit exposures to Woongjin Holdings and Kukdong E&C). We may set aside additional allowances in 2013 with respect to such exposures, which may have an adverse impact on our results of operations. Furthermore, such allowances may not be sufficient to cover all future losses arising from our exposures to these companies. In the event that the financial condition of these companies deteriorates further in the future, we may be required to record additional allowances for credit losses, as well as charge-offs and valuation or impairment losses, which may have a material adverse effect on our financial condition and results of operations.

Risks relating to our consumer credit portfolio

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

In recent years, consumer debt has increased rapidly in Korea. Our portfolio of consumer loans amounted to 66,758 billion as of December 31, 2010, 72,914 billion as of December 31, 2011 and 78,785 billion as of December 31, 2012. Our credit card portfolio amounted to 4,357 billion as of December 31, 2010, 4,592 billion as of December 31, 2011 and 4,505 billion as of December 31, 2012. As of December 31, 2012, our consumer loans and credit card receivables represented 35.7% and 2.0% 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 343 billion (or 0.5% of our consumer loan portfolio) as of December 31, 2010, 396 billion (or 0.5% of our consumer loan portfolio) as of December 31, 2011 and 441 billion (or 0.6% of our consumer loan portfolio) as of December 31, 2012. We charged off consumer loans amounting to 190 billion in 2012, as compared to 89 billion in 2011 and 106 billion in 2010, and recorded bad debt expenses in respect of consumer loans of 242 billion in 2012, as compared to 158 billion in 2011 and 130 billion in 2010. Within our consumer loan portfolio, the outstanding balance of general purpose household loans, which, unlike mortgage or home equity loans, are often unsecured and therefore tend to carry a higher credit risk, amounted to 26,645 billion, or 39.9% of our total outstanding consumer loans, as of December 31, 2010, 27,940 billion, or 38.3% of our total outstanding consumer loans, as of December 31, 2011 and 22,785 billion, or 28.9% of our total outstanding consumer loans, as of December 31, 2012.

In our credit card segment, outstanding balances overdue by 30 days or more amounted to 103 billion, or 2.4% of our credit card receivables, as of December 31, 2010, 92 billion, or 2.0% of our credit card receivables, as of December 31, 2011 and 87 billion, or 1.9% of our credit card receivables, as of December 31, 2012. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans. As of December 31, 2012, these restructured loans amounted to 74 billion, or 1.7% of our credit card balances. Because these restructured loans are not initially recorded as being delinquent, our delinquency ratios do not fully reflect all delinquent amounts relating to our credit card balances. Including all

Table of Contents

restructured loans, outstanding balances overdue by 30 days or more accounted for 3.4% of our credit card balances as of December 31, 2012. We charged off credit card balances amounting to 186 billion in 2012, as compared to 142 billion in 2011 and 128 billion in 2010, and recorded bad debt expenses in respect of credit card balances of 152 billion in 2012, as compared to 115 billion in 2011 and 47 billion in 2010. Delinquencies may increase in the future as a result of, among other things, adverse economic conditions in Korea, difficulties experienced by other credit card issuers that adversely affect our customers, additional government regulation or the inability of Korean consumers to manage increased household debt. In addition, as a part of our strategy to enhance our credit card operations and increase its synergies with our other businesses, in April 2013, we effected a horizontal spin-off of the credit card business of Woori Bank. As a result, the former credit card business of Woori Bank is operated by a newly established wholly-owned subsidiary of ours, Woori Card Co., Ltd. However, we may not be able to realize the anticipated benefits of this spin-off due to various factors, including increased expenses arising from the operation of a separate credit card company, unexpected business disruptions, difficulties in reorganizing personnel and administrative functions and potential loss of customers.

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

In light of adverse conditions in the Korean economy affecting consumers, in March 2009, the Financial Services Commission requested Korean banks, including Woori Bank, Kyongnam Bank and Kwangju Bank, to establish a pre-workout program, including a credit counseling and recovery service, for retail borrowers with outstanding short-term debt. The pre-workout program has been in operation since April 2009 and, following successive extensions by the Korean government, is expected to continue indefinitely. Under the pre-workout program, maturity extensions and/or interest reductions are provided for retail borrowers with total loans of less than 500 million who are in arrears on their payments for more than 30 days but less than 90 days. The aggregate amount of consumer credit (including credit card receivables) provided by Woori Bank, Kyongnam Bank and Kwangju Bank which became subject to the pre-workout program in 2012 was 44 billion. While we believe that our participation in such pre-workout program has not had a material impact on the overall credit quality of our consumer loan and credit card portfolio or on our results of operations and financial condition to date, our future participation in such government-led initiatives to provide financial support to retail borrowers may lead us to offer credit terms for such borrowers that we would not otherwise offer, in the absence of such initiatives, which may have an adverse effect on our results of operations and financial condition.

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

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

Table of Contents

We cannot guarantee that we will be able to realize the full value on our collateral as a result of, among other factors, delays in foreclosure proceedings and defects in the perfection of our security interest in collateral. Our failure to recover the expected value of collateral could expose us to potential losses.

Risks relating to our financial holding company structure and strategy

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

Our success under a financial holding company structure depends on our ability to take advantage of our large existing base of retail and corporate banking customers and to implement a strategy of developing and cross-selling diverse financial products and services to them. As part of this strategy, we continue to standardize and upgrade the risk management operations of our subsidiaries. We are also continuing our efforts to diversify our product offerings through, among other things, the expansion of our insurance business following the establishment of Woori Aviva Life Insurance in 2008 and increased marketing of insurance products through our bancassurance channels, as well as further expansion of our investment banking and investment trust operations. The implementation of these and other plans that we may pursue to take advantage of our integrated financial holding company structure may require additional investments of capital, infrastructure, human resources and management attention and entails certain risks, including the possibility that:

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

we may lack required capital resources;

we may fail to attract, develop and retain personnel with necessary expertise;

we may face competition from other financial holding companies and more specialized financial institutions in particular segments; and

we may fail to leverage our financial holding company structure to continue realizing operational efficiencies and to cross-sell new products and services.

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

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

Our success under a financial holding company structure depends on our ability to implement our reorganization and integration plan and to realize the anticipated synergies, growth opportunities and cost savings from coordinating and, in certain cases, combining the businesses of our various subsidiaries. As part of this plan, between December 2001 and February 2002 we merged the commercial banking business of Peace Bank of Korea into Woori Bank, converted Peace Bank of Korea into a credit card subsidiary, Woori Credit Card, and transferred the credit card business of Woori Bank to Woori Credit Card. We also transferred the credit card business of Kwangju Bank to Woori Credit Card in March 2003. In light of the deteriorating business performance of Woori Investment Bank and with the objective of restructuring the group platform, we merged Woori Investment Bank with Woori Bank in August 2003. In March 2004, in response to the liquidity problems of Woori Credit Card stemming from the deteriorating asset quality of its credit card portfolio, we merged Woori Credit Card with Woori Bank. Although we currently intend for our commercial banking subsidiaries to continue to operate as separate legal entities within our financial holding company structure and to maintain separate loan origination and other functions, we have standardized our subsidiaries' risk management operations (except with respect to operational risk), including with respect to credit risk management following systems upgrades completed in 2007. In October and December 2004, we also acquired a 27.3% voting interest in LGIS, a leading domestic securities firm. In March 2005, we merged Woori Securities into LGIS and renamed the surviving entity Woori Investment & Securities. See Item 4B. Business Overview Business Capital Markets Activities Securities Brokerage. In May 2005, we purchased a 90.0% direct ownership interest in LG Investment Trust Management, or

LGITM, from LGIS. We subsequently merged Woori Investment Trust

Table of Contents

Management, our wholly-owned asset management subsidiary, into LGITM and renamed the surviving entity Woori Asset Management, which remains a consolidated subsidiary. In July and September 2005, Woori Asset Management reacquired the remaining 10.0% interest from its minority shareholders. In May 2006, we transferred 30.0% of our interest in Woori Asset Management to Credit Suisse. Following this transfer, we renamed the entity Woori Credit Suisse Asset Management. In October 2009, we reacquired Credit Suisse's 30.0% interest in Woori Credit Suisse Asset Management and renamed the entity Woori Asset Management. Furthermore, we acquired a 51.4% interest in Hanmi Capital in September 2007, which was subsequently renamed Woori Financial, and acquired a 51.0% interest in LIG Life Insurance in April 2008, which was subsequently renamed Woori Aviva Life Insurance. Woori Financial became a consolidated subsidiary, while we account for Woori Aviva Life Insurance as part of our investments in jointly controlled entities and associates under IFRS. In addition, in April 2013, we spun off the credit card business of Woori Bank into a newly established wholly-owned subsidiary, Woori Card.

Separately, in April 2012, the Korean government, through the Public Funds Oversight Committee of the Financial Services Commission, announced its latest plan to privatize us through a sale of up to the entire 56.97% equity stake (and a minimum 30% equity stake) held by the Korean government through the Korea Deposit Insurance Corporation, or the KDIC, through a competitive bidding process from April to July 2012. The April 2012 plan was similar to previous privatization plans, including those announced in May 2011. However, following a preliminary bidding process in which no bid was submitted, the Public Funds Oversight Committee announced the suspension of such sale process in August 2012. The implementation of the Korean government's privatization plan may be further delayed or changed depending on a variety of factors, such as domestic and international economic conditions, and there can be no assurance that such privatization plan will be implemented as contemplated or at all.

In addition, we purchased certain assets and assumed certain liabilities of Samhwa Mutual Savings Bank in March 2011 and Solomon Savings Bank in September 2012 through our wholly-owned subsidiary, Woori FG Savings Bank Co., Ltd. In March 2013, we announced a plan to acquire a controlling interest in Kumho Investment Bank by purchasing unsubscribed shares of that entity issuable in a proposed rights offering, subject to the condition that we are able to become the largest shareholder of Kumho Investment Bank with an equity ownership of at least 30% by purchasing such unsubscribed shares. Such rights offering is expected to commence following the completion of a 3.3 to 1 reduction of capital of Kumho Investment Bank, which is currently in progress.

As part of our strategy, we also intend to continue to seek opportunities to expand our overseas operations, including potentially through acquisitions and investments in the U.S., Europe and Asia. The integration of our subsidiaries' separate businesses and operations, as well as those of any companies we may merge with or acquire in the future, could require a significant amount of time, financial resources and management attention, and may result in increased capital requirements and greater credit and other exposures. Moreover, the integration process could disrupt our operations (including our risk management operations) or information technology systems, reduce employee morale, produce unintended inconsistencies in our standards, controls, procedures or policies, and affect our relationships with customers and our ability to retain key personnel.

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

difficulties in integrating the diverse activities and operations of our subsidiaries or any companies we may merge with or acquire, including risk management operations and information technology systems, personnel, policies and procedures;

difficulties in reorganizing or reducing overlapping personnel, branches, networks and administrative functions;

Table of Contents

restrictions under the Financial Holding Company Act, the Financial Investment Services and Capital Markets Act and other regulations on transactions between our company and, or among, our subsidiaries;

unexpected business disruptions;

loss of customers; and

labor unrest.

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

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

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

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

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

In the case of dividend distributions, this depends on the financial condition and operating results of our subsidiaries. In the future, our subsidiaries may enter into agreements, such as credit agreements with lenders or indentures relating to high-yield or subordinated debt instruments, that impose restrictions on their ability to make distributions to us, and the terms of future obligations and the operation of Korean law could prevent our subsidiaries from making sufficient distributions to us to allow us to make payments on our outstanding obligations. See

As a holding company, we depend on receiving dividends from our subsidiaries to pay dividends on our common stock. Any delay in receipt of or shortfall in payments to us from our subsidiaries could result in our inability to meet our liquidity needs and regulatory requirements, including minimum liquidity and capital adequacy ratios, and may disrupt our operations at the holding company level.

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

Table of Contents

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

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

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

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

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

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

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

Risks relating to competition

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

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

In addition, we believe that regulatory reforms and the general modernization of business practices in Korea will lead to increased competition among financial institutions in Korea. We also believe that foreign financial institutions, many of which have greater experience and resources than we do, will seek to compete with us in

Table of Contents

providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the past decade, including the acquisition of Koram Bank by an affiliate of Citibank in 2004, the acquisition of Korea First Bank by Standard Chartered Bank in April 2005, Chohung Bank's merger with Shinhan Bank in April 2006 and Hana Financial Group's acquisition of a controlling interest in Korea Exchange Bank in February 2012. We expect that consolidation in the financial industry will continue. Other financial institutions may seek to acquire or merge with other entities, and the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability. Accordingly, our results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

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

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

Other risks relating to our business***Difficult conditions in the global financial markets could adversely affect our results of operations and financial condition.***

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 2013 and beyond remain uncertain. Starting in the second half of 2011, the global financial markets have experienced significant volatility as a result of, among other things, the financial difficulties affecting many governments worldwide, in particular in Cyprus, Greece, Spain, Italy and Portugal. In addition, recent political and social instability in various countries in the Middle East and Northern Africa, including in Egypt, Libya, Syria and Yemen, have resulted in volatility and uncertainty in the global energy markets. Any of these or other developments could potentially trigger another financial and economic crisis. Furthermore, in recent months, the Chinese economy has begun to show signs of a potential slowdown, including decreased gross domestic product growth rates in the first and second quarters of 2012 and falling real estate price levels in certain urban areas. In response, the Chinese government has implemented stimulus measures, including a decrease in the benchmark interest rate for deposits and loans as announced by the People's Bank of China in June 2012, but the overall impact of such stimulus measures remains uncertain. Although China's economy began to show signs of recovery in the fourth quarter of 2012, factors such as falling real estate price levels, excess liquidity and China's reliance on investment-driven growth may lead to an economic correction. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, financial condition and results of operations.

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

Table of Contents

including the stock prices of Korean and foreign companies in which we hold an interest. Such volatility has resulted in and may lead to further trading and valuation losses on our trading and investment securities portfolio as well as impairment losses on our investments in jointly controlled entities and associates.

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

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

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

Under the current terms of the memoranda of understanding entered into among us, Woori Bank, Kyongnam Bank, Kwangju Bank and the KDIC, we and our subsidiaries are required to meet certain financial and business targets on a semi-annual and/or quarterly basis until the end of 2013. See Item 4A. History and Development of the Company History Relationship with the Korean Government. As a result of deteriorating economic and financial market conditions in Korea and globally, both we and our subsidiaries have failed to meet certain of our respective targets in recent years. For example, in February and October 2010 and February 2011, the KDIC imposed institutional warnings on Woori Bank in connection with its failure to meet its financial targets with respect to operating income per employee as of September 30, 2009 and return on assets and non-performing loan ratio as of June 30 and September 30, 2010, respectively. In October 2010, the KDIC imposed an institutional warning on Kyongnam Bank, as well as reprimands and warnings on 10 current and former executive officers of Kyongnam Bank, in connection with certain fraudulent transactions undertaken on behalf of Kyongnam Bank by certain employees and their potential impact on Kyongnam Bank. See Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings Kyongnam Bank. In April 2011, the KDIC imposed another institutional warning on us and Woori Bank, as well as a warning on the former chief executive officer of Woori Bank, in connection with our and Woori Bank's failure to meet the financial targets with respect to our non-performing loan ratio and Woori Bank's return on assets as of December 31, 2010. In April 2013, the KDIC elected not to impose any penalties on us, Kwangju Bank or Kyongnam Bank regarding a failure to meet the financial targets for expense-to-revenue ratios, in the case of us and Kwangju Bank, and a failure to meet its financial target for return on assets, in the case of Kyongnam Bank, in each case as of December 31, 2012, in light of the strength of the overall performance by us, Kwangju Bank and Kyongnam Bank with respect to the other financial targets. We, Woori Bank, Kyongnam Bank and Kwangju Bank entered into a new business normalization plan with new restructuring measures and financial targets with the KDIC in April 2013.

If we or our subsidiaries fail to satisfy our obligations under the current or any new memoranda of understanding in the future, the Korean government, through the KDIC, may impose penalties on us or our subsidiaries. These penalties could include the replacement of our senior management, sale of our assets, restructuring of our organization, restrictions on our business, including a suspension or transfer of our business,

Table of Contents

and elimination or reduction of existing equity. Accordingly, our failure to meet the obligations in the memoranda of understanding may result in harm to our business, financial condition and results of operations.

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

We have provided certain assets as collateral for our secured borrowings in recent years. These secured borrowings often take the form of asset securitization transactions, where we nominally sell our assets to a securitization vehicle that issues securities backed by those assets, although the assets remain on our statements of financial position. These secured borrowings are intended to be fully repaid through recoveries on collateral. Some of these nominal asset sales were with recourse, which means that if delinquencies arise with respect to such assets, we will be required to either repay a proportionate amount of the related secured borrowing (by reversing the nominal sale and repurchasing such assets) or compensate the securitization vehicle for any net shortfalls in its recoveries on such assets. As of December 31, 2012, the aggregate amount of assets we had provided as collateral for our secured borrowings was 18,452 billion. As of that date, we had established allowances of 26 billion in respect of possible losses on those assets. If we are required to make payments on such assets, or to repay our secured borrowings on those assets and are unable to make sufficient recoveries on them, we may realize further losses on these assets to the extent those payments or recovery shortfalls exceed our allowances.

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

Interest rates in Korea have been subject to significant fluctuations in recent years. In late 2008 and early 2009, the Bank of Korea reduced its policy rate by a total of 325 basis points to support Korea's economy amid the global financial crisis, and left the key interest rate unchanged at 2.00% throughout 2009. In an effort to stem inflation amid improved growth prospects, the Bank of Korea increased its policy rate to 2.25% in July 2010, 2.50% in November 2010, 2.75% in January 2011, 3.00% in March 2011 and 3.25% in June 2011. The Bank of Korea reduced its policy rate to 3.00% in July 2012 and further reduced such rate to 2.75% in October 2012 to support Korea's economy in light of the recent slowdown in Korea's growth and uncertain global economic prospects. All else being equal, an increase in interest rates leads to a decline in the value of our portfolio of debt securities, which generally pay interest based on a fixed rate. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. Rising interest rates may therefore require us to re-balance our asset portfolio and our liabilities in order to minimize the risk of potential mismatches and maintain our profitability. See Item 11. Quantitative and Qualitative Disclosures About Market Risk. In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our corporate and consumer borrowers, including holders of our credit cards, which in turn may lead to a deterioration in our credit portfolio. In particular, since most of our consumer and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of our consumer and corporate borrowers and will adversely affect their ability to make payments on their outstanding loans.

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

Our banking subsidiaries meet a significant amount of their funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2012, approximately 96.4% of these deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of these customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In the event that a substantial number of these short-term deposit customers withdraw their funds or fail to roll over their deposits as higher-yielding investment opportunities emerge, our liquidity position could be adversely affected. Our banking subsidiaries may also be required to seek more expensive sources of short-term and long-term funding to finance their operations. See Item 5B. Liquidity and Capital Resources Financial Condition Liquidity.

Table of Contents

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

Most financial institutions in Korea, including our subsidiaries, have experienced periods of labor unrest. As part of our reorganization and integration plan, we have transferred or merged some of the businesses operations of our subsidiaries into one or more entities and implemented other forms of corporate and operational restructuring. We may decide to implement other organizational or operational changes, as well as acquisitions or dispositions, in the future. Such efforts have in the past been met with significant opposition from labor unions in Korea. Actual or threatened labor disputes may in the future disrupt the reorganization and integration process and our business operations, which in turn may hurt our financial condition and results of operations.

The secondary market for corporate bonds in Korea is not fully developed, and, as a result, we may not be able to realize the full marked-to-market value of debt securities we hold when we sell any of those securities.

As of December 31, 2012, our banking subsidiaries held debt securities issued by Korean companies and financial institutions (other than those issued by government-owned or-controlled enterprises or financial institutions, which include the KDIC, the Korea Electric Power Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea, among others) with a total book value of 9,326 billion in our trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require us to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on our consolidated statements of financial position is determined by references to suggested prices posted by Korean rating agencies, which measure prices based on observable market data. These valuations, however, may differ significantly from the actual value that we could realize in the event we elect to sell these securities. As a result, we may not be able to realize the full marked-to-market value at the time of any such sale of these securities and thus may incur additional losses.

We and our commercial banking subsidiaries may be required to raise additional capital 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, as a bank holding company, are required to maintain a minimum consolidated capital adequacy ratio, which is the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, of 8.0%. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy and Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy. In addition, each of our commercial banking subsidiaries is required to maintain a minimum combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated basis. In both cases, Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100% of Tier I capital. In addition, the current terms of the memoranda of understanding among us, our subsidiaries and the KDIC require us and our subsidiaries to meet specified capital adequacy ratio requirements. See Item 4A. History and Development of the Company History Relationship with the Korean Government. As of December 31, 2012, our capital ratio and the capital adequacy ratios of our subsidiaries exceeded the minimum levels required by both the Financial Services Commission and these memoranda. However, our capital base and capital adequacy ratio or those of our subsidiaries may deteriorate in the future if our or their results of operations or financial condition deteriorates for any reason, or if we or they are not able to deploy their funding into suitably low-risk assets. To the extent that our subsidiaries fail to maintain their capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on them ranging from a warning to suspension or revocation of their licenses.

In December 2009, the Basel Committee on Banking Supervision introduced a new set of measures to supplement the prior Basel Capital Accord, referred to as Basel II, which include, among others, a requirement for higher minimum capital, introduction of a leverage ratio as a supplementary measure to the capital adequacy

Table of Contents

ratio and flexible capital requirements for different phases of the economic cycle. Additional details regarding such new measures, including an additional capital conservation buffer and countercyclical capital buffer, liquidity coverage ratio and other supplemental measures, were announced by the Group of Governors and Heads of Supervision of the Basel Committee on Banking Supervision in September 2010. After further impact assessment and observation periods, the Basel Committee on Banking Supervision will begin phasing in the new set of measures, referred to as Basel III, starting from 2013. In September 2012, the Financial Services Commission announced its plans to implement a new set of regulations that will, among other things, require Korean banks to comply with stricter minimum capital ratio requirements beginning in 2013 and additional minimum capital conservation buffer requirements starting in 2016. Under the proposed regulations, Korean banks will be required to maintain a minimum ratio of Tier I common 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% in 2013, which minimum ratios are to increase to 4.0% and 5.5%, respectively, in 2014 and 4.5% and 6.0%, respectively, in 2015. Such requirements would be in addition to the 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 will remain unchanged. The proposed regulations also contemplate an additional capital conservation buffer of 0.625% starting in 2016, with such buffer to increase to 2.5% by 2019. However, in December 2012, the Financial Services Commission announced that the implementation of the proposed Basel III-related requirements in Korea will be delayed indefinitely pending the implementation of Basel III in the European Union, the United States and other countries. Accordingly, the timing and scope of implementation in Korea of the Basel III measures described above, as well as other Basel III measures such as introduction of a countercyclical buffer, leverage ratio and liquidity coverage ratio, remain uncertain. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including us. See Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.

We may be required to obtain additional capital in the future in order to remain in compliance with more stringent capital adequacy and other regulatory requirements and, as the financial holding company for our subsidiaries, we may be required to raise additional capital to contribute to our subsidiaries. However, we or our subsidiaries may not be able to obtain additional capital on favorable terms, or at all. The ability of our company and our subsidiaries to obtain additional capital at any time may be constrained to the extent that banks or other financial institutions in Korea or from other countries are seeking to raise capital at the same time. Depending on whether we or our subsidiaries are obtaining any necessary additional capital, and the terms and amount of any additional capital obtained, holders of our common stock or American depository shares, or ADSs, may experience a dilution of their interest, or we may experience a dilution of our interest in our subsidiaries.

We 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

Table of Contents

Reduction and Syria Human Rights Act of 2012, or ITRA, various Executive Orders, and the Iran Freedom and Counter-Proliferation Act of 2012, or IFCPA, (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 Jomhuri Islami, also referred to as the Central Bank of Iran or CBI, and certain other Iranian financial institutions designated on OFAC's list of specially designated nationals, or facilitate significant transactions for the purchase of Iranian petroleum and petroleum products. Additionally, under the ITRA and subsequent OFAC regulations, foreign financial institutions that conduct or facilitate significant financial transactions involving the National Iranian Oil Company or the National Iranian Tanker Company could be subject to the above-described U.S. correspondent account sanctions or CISADA sanctions. However, an important series of exceptions applies to transactions for the purchase of goods and services produced in or substantially transformed in Iran, including Iranian petroleum or petroleum products, and certain exports of goods and services of the importing country, in each case subject to a number of conditions. First, the country with primary jurisdiction over the financial institution involved in the transaction, or the home country, must have received a periodic determination from the U.S. President that it has significantly reduced its purchases of Iranian crude oil. Second, the exempt transactions are limited to bilateral trade between the home country and Iran, involving only the sale of goods and services produced in or substantially transformed in the home country and Iranian- origin goods and services. No payment may be provided to the Iranian parties or transferred outside the home country; instead, any funds attributable to purchases of Iranian origin goods and services (including petroleum products) must be deposited in restricted accounts at the home country financial institution. The funds in these accounts can be used only (a) for purchases by Iran of goods or services originating in the home country that are exported or sold directly to Iran, or for certain purchases of food and medical goods subject to a humanitarian exemption, or (b) for transfer to a restricted account at the same home country financial institution for later use for the same permitted purposes. Any payments from the restricted account must be made to an account in the home country of a person or entity exporting goods or services to Iran that is a citizen of, or organized under the laws of, the home country and is not owned or controlled by the government of Iran. The Iranian entities involved cannot withdraw funds directly from the restricted accounts or transfer them to accounts in a third country.

On June 12, 2012, the U.S. Department of State announced that Korea was one of several countries that has significantly reduced the volume of crude oil imports from Iran. On December 7, 2012, Korea was included again in the list of such countries, and Korean financial institutions will be eligible for the exception from the potential U.S. sanctions under the NDAA (subject to the conditions above) until June 5, 2013. Future renewals of the exception based on the significant reduction determination will depend on further reduction in Korean oil purchases from Iran and cannot be assured.

Table of Contents

Under the IFCPA, further sanctions and restrictions on the significant reduction exception will 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 will apply 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 will apply. For example, the sale of goods destined for the energy sector would not be eligible for the significant reduction exception to U.S. indirect sanctions even if all other conditions are met. Additionally, under the IFCPA, transactions for the sale, supply or transfer to or from Iran of natural gas would be 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 2012, we and our affiliates engaged in the following activities relating to Iran:

Woori Bank operates certain accounts for CBI, which were opened by CBI pursuant to a service agreement entered into by Woori Bank and CBI in September 2010 to facilitate trade between Korea and Iran. The accounts opened by CBI consist of Won-denominated accounts that are used for the settlement of exports of goods produced or substantially transformed in Korea to Iran by Korean exporters and Won, U.S. dollar, euro and Japanese Yen-denominated accounts (of which only the Won accounts are currently in use) that are used for the settlement of imports of oil and natural gas from Iran by Korean importers. By the terms of the service agreement (as amended) between Woori Bank and CBI, settlement of export and import transaction payments due from Iranian entities to Korean exporters or from Korean importers to Iranian entities through such accounts opened by CBI are effected by crediting or debiting the relevant amount to or from the applicable accounts while a corresponding payment of funds is made to or from an Iranian bank by CBI. Any funds deposited for the account of Iranian entities as a result of Korean imports of oil and gas may only be used by transferring them to the Won-denominated account and then making payment to accounts of Korean persons and entities opened at financial institutions in Korea in respect of Korean-origin exports to Iran. No transfers of funds may be made from these accounts to Iran, to Iranian accounts in any third country, or for any other use. Furthermore, the applicable laws and regulations and banking guidelines of Korea require that trade transactions between Korean and Iranian parties be subject to prior certification and clearance by relevant Korean governmental authorities (or organizations designated thereby) to ensure compliance with Korean economic sanctions and export controls against Iran, and the settlement of payments through the accounts opened by CBI at Woori Bank are not permitted without such prior certification and clearance. In 2012, total fee revenue from maintaining the CBI accounts amounted to approximately Won 55 million (which represented less than 0.001% of our total revenue). As there were no expenses direct 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 Won 55 million (which represented less than 0.01% of our total net income before tax). Woori Bank intends to continue

Table of Contents

maintaining the accounts opened by CBI within the current scope of services, to the extent such activity is permitted under, or otherwise exempted from, the indirect U.S. sanctions or other applicable sanctions.

Woori Bank also provides limited export-import financing services to Korean exporters and importers in connection with their trade transactions with Iran that are permitted under the relevant Korean sanctions and not subject to the indirect U.S. sanctions, primarily by discounting, advising on or issuing letters of credit, and to a lesser extent, issuing performance bonds on behalf of Korean contractors with respect to Iranian construction projects permitted under the relevant Korean sanctions and not subject to the indirect U.S. sanctions. All such transactions are settled through the accounts opened by CBI at Woori Bank as described above. In 2012, our total fee revenue from such export-import financing services amounted to approximately Won 21 billion (which represented approximately 0.12% 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 Won 8 billion (which represented approximately 0.3% of our total net income before tax). Woori Bank intends to continue providing the export-import financing services with its current scope, to the extent such activity is permitted under, or otherwise exempted from, the indirect U.S. sanctions or other applicable sanctions.

Woori Bank also maintains a limited number of deposit accounts in Korea for a certain Iranian financial institution which is currently on the list of specially designated nationals maintained by OFAC (with an IFSR designation). Under Korean customer protection requirements, we are unable to provide specific information identifying this Iranian financial institution or the volume of their deposits, which constitute less than 0.05% of the Woori Bank's total deposit base. These accounts were opened at Woori Bank before such Iranian financial institution was added to OFAC's list of specially designated nationals, and under Korean law, these financial institutions are generally unable to repatriate the amounts in these accounts from Korea without specific authorization of the Korean authorities. As a Korean bank is generally prohibited under Korean law from unilaterally terminating a deposit account without the consent of the depositor, Woori Bank does not currently have plans to terminate these deposit accounts. In 2012, total fee revenue from maintaining such deposit accounts amounted to approximately 1 million (which represented less than 0.00001% of our total revenue). As there were no expenses direct 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 1 million (which represented less than 0.0001% of our total net income before tax).

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 does renew the appropriate determinations that Korea has significantly reduced its purchases of Iranian crude oil, 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, and even if the determination is renewed 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, generally in the direction of becoming more restrictive, and future changes in law could also adversely affect us.

Our business and reputation could be adversely affected if the U.S. government were to determine that our activities relating to Iran violate OFAC sanctions or involve sanctionable activity under the indirect U.S. sanctions and we are unable to resolve the U.S. government's concerns (for example, through closing the accounts opened by CBI at Woori Bank), or if any other government were to determine that our activities relating to Iran violate applicable sanctions of other countries. Any prohibition or conditions placed on our use of U.S. correspondent accounts could effectively eliminate our access to the U.S. financial system, including U.S. dollar clearing transactions, which would adversely affect our business, and any other sanctions imposed could also adversely affect our business. If the U.S. government were to challenge the compatibility of our activities relating to Iran with the OFAC sanctions or the indirect U.S. sanctions, while no assurances can be given that any such

Table of Contents

measures would be successful, we intend to take all necessary measures to the extent possible to ensure that prohibitions or conditions are not placed on our use of U.S. correspondent accounts, including closing the accounts opened by CBI at Woori Bank, if required.

Investors may also be adversely affected if we are sanctioned pursuant to the indirect U.S. sanctions or OFAC sanctions (or otherwise), resulting in their investment in our securities being restricted. If we are sanctioned under the indirect U.S. sanctions relating to transactions with Iran's energy, shipping and military sectors, such sanctions could include, among other things, the blocking of any property in which we have an interest, which would effectively prohibit all U.S. persons from receiving any payments from us, including payments on our securities and from selling our securities.

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

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

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

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

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

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

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

Risks relating to government control

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

The Korean government, through the KDIC, currently owns 56.97% of our outstanding common stock. So long as the Korean government remains our controlling stockholder, it will have the ability to cause us to take

Table of Contents

actions or pursue policy objectives that may conflict with the interests of our other stockholders. For example, in order to further its public policy goals, the Korean government could request that we participate with respect to a takeover of a troubled financial institution or encourage us to provide financial support to particular entities or sectors. Such actions or others that are not consistent with maximizing our profits or the value of our common stock may have an adverse impact on our results of operations and financial condition and may cause the price of our common stock and ADSs to decline.

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

Risks relating to government regulation and policy

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

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

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

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

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

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

capital increases or reductions;

stock cancellations or consolidations;

Table of Contents

transfers of business;

sales of assets;

closures of branch offices;

mergers with other financial institutions; and

suspensions of a part or all of our business operations.

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

Risks relating to Korea

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

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

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. See **Other risks relating to our business** Difficult conditions in the global financial markets could adversely affect our results of operations and financial condition. Since the second half of 2008, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely. See **Item 3A. Selected Financial Data Exchange Rates**. 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, particularly in light of the financial difficulties affecting many governments worldwide, including Greece, Spain, Italy and Portugal. Future declines in the Korea Composite Stock Price Index, known as the KOSPI, and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

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

difficulties in the financial sector in Europe and elsewhere and increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;

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

continuing 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;

Table of Contents

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

social and labor unrest;

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

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

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

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

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

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

natural disasters that have a significant adverse economic or other impact on Korea or its major trading partners;

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

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

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

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

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

changes in financial regulations in Korea.

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

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, since the death of Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. Although Kim Jong-il's third son, Kim Jong-eun, 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

Table of Contents

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

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts 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 3.7% in 2010, decreased to 3.4% in 2011 and further decreased to 3.2% in 2012. Future increases in unemployment and any resulting labor unrest in the future could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of their securities. These developments would likely have an adverse effect on our financial condition and results of operations.

Risks relating to our common stock and ADSs

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

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

Table of Contents

In April 2012, the Korean government, through the Public Funds Oversight Committee of the Financial Services Commission, announced its latest plan to privatize us through a sale of up to the entire 56.97% equity stake (and a minimum 30% equity stake) held by the Korean government through the KDIC through a competitive bidding process from April to July 2012. The April 2012 plan was similar to previous privatization plans, including those announced in May 2011. However, following a preliminary bidding process in which no bid was submitted, the Public Funds Oversight Committee announced the suspension of such sale process in August 2012. The implementation of the Korean government's privatization plan may be further delayed or changed depending on market conditions and other factors. Furthermore, if such plan proceeds, our privatization may result in our merger with, or integration into, another financial institution. We do not know when, how or what percentage of our shares owned by the KDIC will be disposed of, or to whom such shares will be sold, or when, how and with whom we may be merged or integrated. As a result, we cannot predict the impact of any such transactions on us or our stock prices. Any future sales of our common stock or ADSs in the public market or otherwise by the KDIC, or any future merger or integration between us and another financial institution, or the possibility that such transactions may occur, could adversely affect the prevailing market prices of our common stock and ADSs.

Ownership of our common stock is restricted under Korean law.

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

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

In some limited circumstances, including the transfer of the whole or any significant part of our business and the merger or consolidation of us with another company, dissenting stockholders have the right to require us to purchase their shares under Korean law. However, if you hold our ADSs, you will not be able to exercise such dissent and appraisal rights if the depository refuses to do so on your behalf. Our deposit agreement does not require the depository 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

Table of Contents

relating to that withdrawal) and become our direct stockholder prior to the record date of the stockholders' meeting at which the relevant transaction is to be approved, in order to exercise dissent and appraisal rights.

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

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

You will not have preemptive rights in some circumstances.

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

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

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

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

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

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

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

Our common stock is listed on the KRX KOSPI Market and quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the ADSs will be paid to the depositary in Won and then converted by the depositary into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate

Table of Contents

between the Won and the U.S. dollar will affect, among other things, the amounts you will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds that you would receive upon sale in Korea of the shares of our common stock obtained upon surrender of ADSs and the secondary market price of ADSs. Such fluctuations will also affect the U.S. dollar value of dividends and sales proceeds received by holders of our common stock.

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

Our common stock is listed on the KRX KOSPI Market, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the KRX KOSPI Market. The KRX KOSPI Market has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the KRX KOSPI Market has prescribed a fixed range in which share prices are permitted to move on a daily basis. The KOSPI declined from 1,897.1 on December 31, 2007 to 938.8 on October 24, 2008. The KOSPI was 1,926.31 on April 22, 2013. 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.

Table of Contents

Item 4. INFORMATION ON THE COMPANY

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

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

four commercial banks (Hanvit Bank (since renamed Woori Bank), Kyongnam Bank, Kwangju Bank and Peace Bank of Korea (since renamed Woori Credit Card and merged with Woori Bank)),

one merchant bank (Hanaro Merchant Bank (since renamed Woori Investment Bank and merged with Woori Bank)), and

a number of other smaller financial institutions.

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

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

History

Establishment of Woori Finance Holdings

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

Despite the measures implemented by the government, however, the predecessor operations of substantially all of our subsidiaries recorded significant losses in 1999 and 2000, primarily as a result of high levels of non-performing credits and loan loss provisioning. Based on subsequent audits conducted by the Financial Supervisory Service of a number of Korean commercial and merchant banks, the Financial Services Commission announced in April 2000 that certain financial institutions had a high risk of insolvency and that substantial remedial measures were required.

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

Table of Contents

Merchant Banking Operations. On November 3, 2000, the KDIC established Hanaro Merchant Bank (which was renamed Woori Investment Bank and eventually merged with Woori Bank) to restructure substantially all of the assets and liabilities of four failed merchant banks (Yeungnam Merchant Banking Corporation, Central Banking Corporation, Korea Merchant Banking Corporation and H&S Investment Bank) that were transferred to it.

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

Relationship with the Korean Government

Our relationship with the Korean government is governed by a number of agreements, including in particular the agreements discussed below. In addition, the Korean government, through the KDIC, is our largest shareholder and accordingly has the ability to require us to take a number of actions beyond those specifically covered by these agreements. See Item 3D. Risk Factors Risks relating to government control and Risks relating to government regulation and policy.

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

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

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

Table of Contents

Since 2000, our subsidiaries have periodically entered into new business normalization plans with the KDIC, with new restructuring measures and financial targets. In February and October 2010 and February 2011, the KDIC imposed institutional warnings on Woori Bank in connection with its failure to meet its financial targets with respect to operating income per employee as of September 30, 2009 and return on assets and non-performing loan ratio as of June 30 and September 30, 2010, respectively. In October 2010, KDIC imposed an institutional warning on Kyongnam Bank, as well as reprimands and warnings on 10 current and former executive officers of Kyongnam Bank, in connection with certain fraudulent transactions ostensibly undertaken on behalf of Kyongnam Bank by certain employees and their potential impact on Kyongnam Bank. See Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings Kyongnam Bank. In April 2011, the KDIC imposed another institutional warning on Woori Bank, as well as a warning on the former chief executive officer of Woori Bank, in connection with Woori Bank's failure to meet its financial targets with respect to its return on assets and non-performing loan ratio as of December 31, 2010. Each of Woori Bank, Kyongnam Bank and Kwangju Bank entered into new successive one-year business normalization plans with new restructuring measures and financial targets with the KDIC in March 2011 and 2012. Each met all of its financial targets under the plan in 2011. In April 2013, the KDIC elected not to impose any penalties on Kwangju Bank or Kyongnam Bank regarding a failure to meet its financial target for expense-to-revenue ratio and for return on assets, respectively, in each case as of December 31, 2012, in light of the strength of their overall performance with respect to the other financial targets.

In April 2013, each of Woori Bank, Kyongnam Bank and Kwangju Bank entered into a new one-year business normalization plan with the KDIC. See Recent Developments with the KDIC.

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

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

Pursuant to the terms of this memorandum of understanding, we have 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 us in connection with our failure to meet our financial targets with respect to our non-performing loan ratio as of December 31, 2010. In March 2011 and 2012, we entered into successive new one-year business normalization plans with new restructuring measures and financial targets with the KDIC, under which we met all of our financial targets in 2011. In April 2013, the KDIC elected not to impose any penalties on us for our failure to meet our financial target for our expense-to-revenue ratios for 2012, in light of the strength of our overall performance with respect to the other financial targets. In April 2013, we entered into a new one-year business normalization plan with the KDIC. See Recent Developments with the KDIC.

Memoranda of Understanding with Our Subsidiaries. In July 2001, we entered into separate memoranda of understanding with each of Hanvit Bank, Kyongnam Bank, Kwangju Bank, Peace Bank of Korea and Hanaro Merchant Bank, each of which included financial targets and a business initiative plan. Under the terms of each memorandum of understanding, our role within the group includes supervising the implementation of overall

Table of Contents

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

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

The specified financial targets for 2013 that are to be met by Woori Bank, Kyongnam Bank and Kwangju Bank are identical to those imposed by the KDIC on those subsidiaries.

Recent Developments with the KDIC. In April 2013, we and Woori Bank, Kyongnam Bank and Kwangju Bank each entered into a new one-year business normalization plan with the KDIC that included new restructuring measures and financial targets. 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, operating income per employee and holding company expense ratio as of or for the year ending December 31, 2013 will be subject to an adjustment to negate the effect of any decrease in the net interest margin of Woori Bank, Kwangju Bank and Kyongnam Bank. 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 through increased synergy among the group members. The other terms of the previously agreed memoranda of understanding remain unchanged.

Our one-year business normalization plan sets forth six financial targets for fiscal year 2013 that we are required to meet, with semi-annual targets being set internally by us in accordance with the year-end targets. Our targets for fiscal year 2013 are set forth in the following table:

	As of or for the six months ending June 30, 2013	As of or for the year ending December 31, 2013
Capital adequacy ratio ⁽¹⁾	10.0%	10.0%
Return on total assets ⁽²⁾	0.05	0.47
Expense-to-revenue ratio ⁽³⁾	66.7	48.1
Operating income per employee (Won millions) ⁽⁴⁾	200	330
Non-performing loan ratio ⁽⁵⁾	2.2%	1.2%
Holding company expense ratio ⁽⁶⁾	0.90	0.60

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

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

(3) Represents the ratio of general and administrative expenses to adjusted operating income. Adjusted operating income represents operating income (i) before subtracting impairment 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.

(6) Represents the ratio of the holding company's expenses to adjusted operating income of its subsidiaries.

Each of Woori Bank, Kyongnam Bank and Kwangju Bank also submitted similar one-year business normalization plans that contain annual and quarterly financial targets each subsidiary is required to meet. We expect that we and these subsidiaries will be required to enter into new business normalization plans with the KDIC every year so long as the KDIC remains our largest shareholder.

Table of Contents

Reorganization and Integration Plan

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

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

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

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

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

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

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

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

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

Furthermore,

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

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

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

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

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

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

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

In April 2008, we acquired a 51.0% interest in LIG Life Insurance. In connection with this acquisition, we entered into a joint venture agreement with Aviva International Holdings Limited. Aviva International Holdings Limited (through its wholly-owned subsidiary Aviva Asia Holdings Private

Table of Contents

Limited) and we collectively hold a 98.9% interest in LIG Life Insurance, which was subsequently renamed Woori Aviva Life Insurance. Under IFRS, we account for Woori Aviva Life Insurance as part of our investments in jointly controlled entities and associates.

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

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

In September 2012, we acquired certain assets and assumed certain liabilities of Solomon Mutual Savings Bank through our wholly-owned subsidiary, Woori FG Savings Bank Co., Ltd.

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

In March 2013, we announced a plan to acquire a controlling interest in Kumho Investment Bank by purchasing unsubscribed shares of that entity issuable in a proposed rights offering, subject to the condition that we are able to become the largest shareholder of Kumho Investment Bank with an equity ownership of at least 30% by purchasing such unsubscribed shares. Such rights offering is expected to commence following the completion of a 3.3 to 1 reduction of capital of Kumho Investment Bank, which is currently in progress.

In April 2013, we spun off the credit card business of Woori Bank into a newly established wholly-owned subsidiary, Woori Card. In addition, we have implemented a group-wide, standardized risk management system (except with respect to operational risk), including the standardization of the credit risk management systems of our subsidiaries which was completed in 2007. With respect to credit risk management systems, we completed implementing standardized credit risk management systems based on Woori Bank's system in all of our banking subsidiaries in 2007. With respect to operational risk management systems, we completed implementation of various aspects of the operational risk management system (not including the business risk management system) at Kyongnam Bank, Kwangju Bank and Woori Finance Information System (which changed its name to Woori FIS in May 2011) in 2006, completed the implementation of such aspects of the operational risk management system at Woori Investment & Securities in 2008, and also implemented an advanced measurement approach for operational risk at Woori Bank in June 2009.

Item 4B. *Business Overview*
Business

We are Korea's first financial holding company, and our operations include one of the largest commercial banks in Korea, in terms of total assets (including loans). Our subsidiaries collectively engage in a broad range of businesses, including commercial banking, credit cards, capital markets activities, international banking, asset management and bancassurance. We provide a wide range of products and services to our customers, which mainly comprise individuals and small- and medium-sized enterprises, as well as some of Korea's largest corporations. As of December 31, 2012, we had consolidated total assets of 326 trillion, consolidated total deposits of 203 trillion and consolidated total equity of 23 trillion.

We were established as a financial holding company in March 2001, to consolidate the Korean government's interest in a number of distressed financial institutions in the wake of the financial crisis in Korea in the late 1990s. Since our establishment, we have succeeded in restructuring our operations by: securing a solid capital base for our banking subsidiaries; improving the quality of our exposure to and our relationships in the large corporate sector; refocusing our lending activities on individual and small-and medium-sized enterprise

Table of Contents

customers to take advantage of our network of approximately 1,308 branches nationwide; expanding our activities in the areas of credit cards, full service brokerage, asset management and bancassurance for our over 23 million retail customers; modernizing and strengthening our credit risk review and management capabilities; working to integrate and cross-sell our products and services; and striving to create a customer-and service-oriented culture that measures and rewards performance.

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

- (1) Woori Aviva Life Insurance, in which we acquired a 51.0% interest in April 2008 and in respect of which we entered into a joint venture agreement with Aviva International Holdings Limited, is accounted for as part of our investments in jointly controlled entities and associates under IFRS. We currently hold a 51.6% interest in Woori Aviva Life Insurance.
- (2) In April 2013, we spun off the credit card business of Woori Bank into a newly established wholly-owned subsidiary, Woori Card. As one of the leading financial services groups in Korea, we believe our core competitive strengths include the following:

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

allowing us to offer a more extensive range of financial products and services;

enabling us to share customer information, which is not permitted outside a financial holding company structure, thereby enhancing our risk management and cross-selling capabilities;

enhancing our ability to reduce costs in areas such as back-office processing and procurement; and

enabling us to raise and manage capital on a centralized basis.

Strong and long standing relationships with corporate customers. Historically the operations of Woori Bank, our largest subsidiary, concentrated on large corporate customers. As a result, we believe that we have strong relationships with many of Korea's leading corporate groups, and we are the main creditor bank to 11 of the 30 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, 2012, we had approximately 228,000 small- and medium-sized enterprise borrowers.

Large and loyal retail customer base. With respect to our consumer banking operations, we have one of the largest deposit bases of any Korean commercial bank, and over 23 million retail customers, representing about half of the Korean adult population. Of these customers, more than half are active customers, meaning that they have an account with us with a positive balance or have transacted business with us at least once during the last six months.

Extensive distribution and marketing network. We serve our customers primarily through one of the largest banking networks in Korea, comprising approximately 1,308 branches and over 9,000 ATMs and cash dispensers. Through Woori Bank, we also operate 11 dedicated corporate banking centers and approximately 95 general managers for our large corporate customers and approximately 884 relationship managers stationed at 776 branches (as well as 634 additional non-stationed employees who serve as relationship managers as needed)

Table of Contents

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, 2012, our consolidated equity totaled 23 trillion, and the combined capital adequacy ratio of our banking subsidiaries was 14.5%. Our management team at the holding company carefully coordinates the capital and dividend plans of each of our subsidiaries and for the consolidated group to ensure that we optimize our capital position. We believe our strong capital base and coordinated capital management enable us to support growth of our core businesses and to pursue franchise-enhancing initiatives such as selective investments and acquisitions.

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

Strategy

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

Further improve our asset quality and strengthen our risk management practices. We were one of the earliest and most aggressive banks in Korea to actively reduce non-performing loans through charge-offs and sales to third parties. Since 2002, we have taken various measures, including entering into joint venture arrangements with several financial institutions, to facilitate the disposal of our substandard or below loans. As a result of these and other initiatives, our ratio of non-performing loans to total loans has decreased significantly over the past decade and was 1.7% as of December 31, 2012.

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

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

Corporate Banking

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

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

	2010		As of December 31, 2011		2012	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in billions of Won, except percentages)						
Loans ⁽¹⁾ :						
Small-and medium-sized enterprise ⁽²⁾	81,618	40.6%	83,624	39.4%	80,506	34.5%
Large corporate ⁽³⁾	31,073	15.4	33,672	15.8	38,370	16.4
Others ⁽⁴⁾	17,430	8.7	17,690	8.3	18,718	8.0
Total	130,121	64.7%	134,986	63.5%	137,594	58.9%
Deposits:						
Small-and medium-sized enterprise	27,351	14.8%	30,977	15.8%	29,783	14.7%
Large corporate	61,598	33.2	61,561	31.4	66,269	32.7
Total	88,949	48.0%	92,538	47.2%	96,052	47.4%
Number of borrowers:						
Small-and medium-sized enterprise	257,143		225,791		228,084	
Large corporate	2,603		2,739		2,811	

(1) 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.

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

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

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

Corporate loans we provide consist principally of the following:

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

Table of Contents

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

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

Small-and Medium-Sized Enterprise Banking

We use the term *small-and medium-sized enterprises* as defined in the Small and Medium Industry Basic Act of Korea and related regulations. Under the Small and Medium Industry Basic Act of Korea and related regulations, in order to qualify as a small-and medium-sized enterprise, (i) the number of regular employees of the enterprise must be less than 1,000, (ii) the enterprise's total assets at the end of the immediately preceding fiscal year must be less than 500 billion, (iii) the enterprise's paid-in capital at the end of the immediately preceding fiscal year must be less than 100 billion, (iv) the enterprise's average sales revenues for the most recent three fiscal years must be less than 150 billion, (v) the enterprise must meet the standards prescribed by the Presidential Decree applicable to the type of its main business and (vi) the enterprise must meet the standards of management independence from ownership as prescribed by the Presidential Decree, including non-membership in a conglomerate as defined in the Monopoly Regulations and Fair Trade Act. Furthermore, non-profit enterprises with a number of regular employees not exceeding 300 and the sales revenue of less than 30 billion that satisfy certain requirements prescribed in the Small and Medium Industry Basic Act may qualify as a small-and medium-sized enterprise. The small-and medium-sized enterprise segment of the corporate banking market has grown significantly in recent years, including as a result of government measures to encourage lending to these enterprises. As of December 31, 2012, 32.9% of our small-and medium-sized enterprise loans were extended to borrowers in the manufacturing industry, 15.5% were extended to borrowers in the retail and wholesale industry and 6.2% were extended to borrowers in the construction industry.

We service our small-and medium-sized enterprise customers primarily through Woori Bank's network of branches and small-and medium-sized enterprise relationship managers, as well as through the branches and headquarters of Kyongnam Bank and Kwangju Bank. As of December 31, 2012, Woori Bank had stationed one or more relationship managers at 776 branches, of which 376 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, 2012, Woori Bank had a total of 884 small-and medium-sized enterprise relationship managers stationed at its branches (as well as 634 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-and medium-sized enterprises in, and develop products and marketing strategies for, these targeted industries. In addition, we operate customer loyalty programs at Woori Bank for our most profitable small-and medium-sized enterprise customers and provide them with benefits and services such as preferential rates, free seminars and workshops and complementary invitations to cultural events.

Lending Activities. We provide both working capital loans and facilities loans to our small-and medium-sized enterprise customers. As of December 31, 2012, working capital loans and facilities loans accounted for 62.0% and 30.9%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2012, we had approximately 228,000 small-and medium-sized enterprise borrowers.

As of December 31, 2012, secured loans and loans guaranteed by a third party accounted for 61.6% and 16.6%, respectively, of our small-and medium-sized enterprise loans. As of December 31, 2012, approximately

Table of Contents

75.0% of the secured loans were secured by real estate and 4.2% 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. At Woori Bank, lending rates are generally determined using our CREPIA system. Woori Bank uses its CREPIA system to manage its lending activities, and inputs data gathered from loan application forms, credit scores of borrowers and the appraisal value of collateral provided by external valuation experts into the CREPIA system and updates such information periodically to reflect changes in such information. At Kyongnam Bank and Kwangju Bank, we began to determine lending rates using similar credit evaluation systems from January 2008. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval. We measure transaction risk using factors such as the credit rating assigned to a particular borrower and the value and type of collateral. Our system also takes into account cost factors such as the current market interest rate, opportunity cost and cost of capital, as well as a spread calculated to achieve a target rate of return. Depending on the price and other terms set by competing banks for similar borrowers, we may reduce the interest rate we charge to compete more effectively with other banks. Loan officers have limited discretion in deciding what interest rates to offer, and significant variations require review at higher levels. As of December 31, 2012, approximately 74.2% 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 10 billion or more and are therefore subject to external audit under the External Audit Act of Korea. As a result of our history and development, particularly the history of Woori Bank, we remain the main creditor bank to many of Korea's largest corporate borrowers.

In terms of our outstanding loan balance, as of December 31, 2012, 39.7% of our large corporate loans were extended to borrowers in the manufacturing industry, 21.5% were extended to borrowers in the finance and insurance industry and 7.6% were extended to borrowers in the retail and wholesale industry.

We service our large corporate customers primarily through Woori Bank's network of dedicated corporate banking centers and general managers. Woori Bank operates 11 dedicated corporate banking centers, 10 of which are located in the Seoul metropolitan area. Each center is staffed with several general managers and headed by a senior general manager. Depending on the center, each such manager is responsible for large corporate customers that either are affiliates of a particular *chaebol* or operate in a particular industry or region. As of December 31, 2012, Woori Bank had a total of 95 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

Table of Contents

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, 2012, working capital loans and facilities loans accounted for 42.2% and 15.2%, 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, 2012, secured loans and loans guaranteed by a third party accounted for 18.2% and 7.3%, 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, 2012, approximately 70.4% of the secured loans were secured by real estate and approximately 3.5% 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. 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, 2012, a majority of these loans had interest rates that varied with reference to current market interest rates.

Consumer Banking

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

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

Kyongnam Bank and Kwangju Bank, both regional banks established in their respective regions in 1970 and 1968, are using region-focused strategies to attract customers, market products and create more intimate customer relationships, thereby differentiating themselves from nationwide banks in the same market. Kyongnam

Table of Contents

Bank is attempting to increase priority customer transaction volume by actively increasing its customer service and management and differentiating services for these customers. Kwangju Bank operates a customer management system that uses diverse strategies to market differentiated products and services to priority customers.

Lending Activities

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

	2010		As of December 31, 2011		2012	
	Amount ⁽¹⁾	% of Total Loans ⁽²⁾	Amount ⁽¹⁾	% of Total Loans ⁽²⁾	Amount ⁽¹⁾	% of Total Loans ⁽²⁾
	(in billions of Won, except percentage)					
General purpose household loans	33,737	16.8%	32,836	15.5%	31,952	14.5%
Mortgage loans	6,375	3.2	12,138	5.7	16,409	7.4
Home equity loans	26,645	13.2	27,940	13.1	30,424	13.8
Total	66,757	33.2%	72,914	34.3%	78,785	35.7%

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

(2) Total loans do not include due from banks and other receivables and are before the deduction of 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 60% of the collateral value (except in areas of high speculation designated by the government where we generally limit our lending to 40% to 60% of the appraised value of collateral) minus the value of any lien or other security interest that is prior to our security interest. In calculating the collateral value for real estate for such secured consumer loans (which principally consists of residential properties), we generally use the fair value of the collateral as appraised by Korea Investors Service which is collated in our CREPIA system and similar systems used by Kyongnam Bank and Kwangju Bank to manage lending activities and gather related information. We generally revalue collateral on a periodic basis. As of December 31, 2012, 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.

Table of Contents

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, 2012, approximately 20,518 billion, or 64.2% 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, 2012, this amount was approximately 3 billion.

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

Our interest rates also incorporate a margin based on, among other things, the type of collateral (if any), priority with respect to any security, our target loan-to-value ratio and loan duration. We also can adjust the applicable rate based on current or expected profit contribution of the customer. At Woori Bank, lending rates are generally determined by our CREPIA system, and we began to determine lending rates at Kyongnam Bank and Kwangju Bank using similar credit evaluation systems from January 2008. The applicable interest rate is determined at the time of the loan. We also charge a termination fee in the event a borrower repays the loan prior to maturity. As of December 31, 2012, approximately 68.5% of our general purpose household loans had floating interest rates.

Mortgage and Home Equity Lending

We provide customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans. The maximum term of our mortgage and home equity loans is typically 35 years for Woori Bank and Kwangju Bank and 30 years for Kyongnam Bank. Most of our mortgage and home equity loans have an interest-only payment period of 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 Woori Bank's CREPIA system and similar systems used by Kyongnam Bank and Kwangju Bank. See Item 11. Quantitative and Qualitative Disclosures about Market Risk - Credit Risk Management - Credit Evaluation and Approval. The eligibility of a borrower that is participating in a housing lottery will depend on proof that it has paid a deposit or can obtain a guarantee from a Korean government-related housing fund. We receive fee income related to the origination of loans, including fees relating to loan processing and collateral evaluation.

As of December 31, 2012, approximately 84.7% of our mortgage and home equity loans were secured by residential or other property, 9.1% of our mortgage and home equity loans were guaranteed by Korean government-related housing funds and 4.8% 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

Table of Contents

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, 2012, we had issued unsecured construction loans relating to housing where construction was not completed in the amount of 2,267 billion. For the year ended December 31, 2012, the average initial loan-to-value ratio of our mortgage loans and home equity loans was approximately 55.6% and 48.8%, respectively, compared to 54.4% and 50.3% for the year ended December 31, 2011. The average loan-to-value ratio of our mortgage loans and home equity loans as of December 31, 2012 was approximately 50.7% and 49.3%, respectively, compared to 49.1% and 48.2% as of December 31, 2011.

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, 2012, approximately 70.9% of our outstanding mortgage and home equity loans had floating interest rates.

Private Banking Operations

Our private banking operations within Woori Bank, Kyongnam Bank and Kwangju Bank aim to service our high net worth and mass affluent retail customers who individually maintain a deposit balance of at least 50 million with us. As of December 31, 2012, we had over 154,000 customers who qualified for private banking services, representing 0.7% of our total retail customer base. Of our total retail customer deposits of 69,428 billion as of December 31, 2012, high net worth and mass affluent customers accounted for 51.7%.

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

Woori Bank has 343 branches that offer private banking services. These branches are staffed by 350 private bankers and almost all of the branches are located in metropolitan areas, including Seoul. Kyongnam Bank and Kwangju Bank operate one and two dedicated private banking centers, respectively. Both banks also offer private banking services through a select number of branches. As of December 31, 2012, 68 private bankers were dispersed over 67 Kyongnam Bank branches and 14 private bankers were dispersed over 14 Kwangju Bank branches that provided private banking services.

We operate four financial products department stores in Seoul, which function as regular branches and through which we offer and market a variety of financial products and services, including credit cards, foreign currency products, bonds, stocks and insurance policies. These department stores employ specialists in the areas of tax, real estate and asset management, and are dedicated to offering comprehensive wealth management consulting services for high net worth customers. In addition, Woori Bank operates an advisory center in Seoul for its private banking clients, which employs 14 specialists advising on matters of law, tax, real estate, risk assessment and investments.

Deposit-Taking Activities

As of December 31, 2012, we were one of the largest deposit holders on a combined basis (not adjusted for overlap) among Korean banks, in large part due to our nation-wide branch network. The balance of our deposits from retail customers was 60,948 billion, 66,285 billion and 69,428 billion as of December 31, 2010, 2011 and 2012, respectively, which constituted 32.9%, 33.8% and 34.2%, respectively, of the balance of our total deposits.

Table of Contents

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

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

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

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

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

certificates of deposit, the maturities of which range from 30 days to 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, 2012:

Demand Deposits	Time Deposits	Savings Deposits	Installment Deposits	Certificates of Deposit
25.45%	62.55%	11.04%	0.04%	0.92%

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.

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.

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

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.

Table of Contents

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 fixed rates depending on the term. These deposit products target all segments of the population.

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

The Depositor Protection Act provides for a deposit insurance system where the KDIC guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of 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, 2012, our banking subsidiaries paid an aggregate of 260 billion of such premiums and contributions.

Branch Network and Other Distribution Channels

Our commercial banking subsidiaries had a total of 1,308 branches in Korea as of December 31, 2012, which on a combined basis was one of the most extensive networks of branches among Korean commercial banks. Recently, demand in Korea for mutual funds and other asset management products as well as bancassurance products has been rising. These products require an extensive sales force and customer interaction to sell, further emphasizing the need for a large branch network. As a result, an extensive branch network is important to attracting and maintaining retail customers, as they generally conduct a significant portion of their financial transactions through bank branches. We believe that our extensive branch network in Korea helps us to maintain our retail customer base, which in turn provides us with a stable and relatively low cost funding source.

The following table presents the geographical distribution of our branch network in Korea as of December 31, 2012:

Area	Woori Bank		Kyongnam Bank		Kwangju Bank		Total	
	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total
Seoul	467	47.0%	3	1.8%	8	5.2%	478	36.5%
Six largest cities (other than Seoul)	173	17.4	52	32.1	95	62.1	320	24.5
Other	353	35.6	107	66.0	50	32.7	510	39.0
Total	993	100.0%	162	100.0%	153	100.0%	1,308	100.0%

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

Table of Contents

In order to maximize access to our products and services, we have established an extensive network of ATMs and cash dispensers, which are located in branches as well as unmanned outlets. The following table presents the number of ATMs and cash dispensers we had as of December 31, 2012:

	ATMs	Cash Dispensers
Woori Bank	6,899	157
Kyongnam Bank	716	397
Kwangju Bank	599	255
Total	8,214	809

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

Woori Bank

	2010	For the year ended December 31,	
		2011	2012
ATMs⁽¹⁾:			
Number of transactions (millions)	429	433	389
Fee income (billions of Won)	46	55	44
Telephone banking:			
Number of users	6,103,894	6,265,585	6,389,640
Number of transactions (millions)	166	154	132
Fee income (billions of Won)	4	4	3
Internet banking:			
Number of users	9,408,592	10,284,922	11,369,531
Number of transactions (millions)	3,945	4,550	5,293
Fee income (billions of Won)	107	117	117

Kyongnam Bank

	2010	For the year ended December 31,	
		2011	2012
ATMs⁽¹⁾:			
Number of transactions (millions)	70	69	69
Fee income (billions of Won)	8	8	6
Telephone banking:			
Number of users	911,379	937,077	959,259
Number of transactions (millions)	27	27	26
Fee income (billions of Won)	1	1	1
Internet banking:			
Number of users	806,635	936,224	1,145,066
Number of transactions (millions)	137	144	152
Fee income (billions of Won)	1	1	1

Table of Contents*Kwangju Bank*

	For the year ended December 31,		
	2010	2011	2012
ATMs⁽¹⁾:			
Number of transactions (millions)	91	89	86
Fee income (billions of Won)	6	6	4
Telephone banking:			
Number of users	683,170	715,431	743,985
Number of transactions (millions)	26	30	44
Fee income (billions of Won)	1	1	1
Internet banking:			
Number of users	714,426	770,232	831,991
Number of transactions (millions)	142	145	140
Fee income (billions of Won)	1	1	1

⁽¹⁾ Includes cash dispensers.

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

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

Our Internet banking services include balance and transaction inquiries, money transfers, loan applications, bill payment and foreign exchange transactions. We seek to maintain and increase our Internet banking customer base by focusing largely on our younger customers and those that are able to access the Internet easily (such as office workers) as well as by developing additional Internet-based financial services and products. We also develop new products to target different types of customers with respect to our Internet banking services, and have developed a service that enables private banking customers to access their accounts on a website that provides specialized investment advice. We also offer 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, our banking subsidiaries launched new smart banking services which enable users of so-called smart phones to access a broad range of banking and credit card services through their mobile phones. The electronic bill presentation and payment system offered by Woori Bank and Kyongnam Bank provides their respective customers with the ability to pay taxes, maintenance fees and other public fees electronically.

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

Credit Cards

We offer credit card products and services mainly to consumers and corporate customers in Korea. In March 2004, we merged our credit card subsidiary, Woori Credit Card, with Woori Bank. As of December 31, 2012, Woori Bank's market share based on transaction volume was approximately 7.3%, which ranked Woori Bank as the sixth largest credit card issuer in Korea, according to BC Research, which is a quarterly report issued by BC Card. 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 the credit card business of Woori Bank. As a result, the former credit card business of Woori Bank is operated by a newly established wholly-owned subsidiary of ours, Woori Card.

Table of Contents

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

a BC Card brand offered by Kyongnam Bank;

a BC Card brand previously offered by Woori Bank; and

a Visa brand offered by Kwangju Bank.

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

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

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

cash advance services from ATMs and bank branches; and

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

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

Table of Contents

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

	As of or for the year ended December 31,								
	2010 Woori Card ⁽¹⁾	2010 Kyongnam Bank BC Card	2010 Kwangju Bank Visa Card	2011 Woori Card ⁽¹⁾	2011 Kyongnam Bank BC Card	2011 Kwangju Bank Visa Card	2011 Woori Card ⁽¹⁾	2012 Kyongnam Bank BC Card	2012 Kwangju Bank Visa Card
(in billions of Won, unless indicated otherwise)									
Number of credit card holders (at year end) (thousands of holders)									
General accounts	10,707	986	803	11,374	1,047	845	10,977	1,132	863
Corporate accounts	342	54	74	393	64	87	411	75	93
Total	11,049	1,040	877	11,768	1,111	932	11,388	1,208	956
Active ratio ⁽²⁾	57.00%	46.96%	55.87%	56.97%	46.35%	54.25%	49.53%	46.47%	55.96%
Credit card interest and fees									
Installment and cash advance interest									
	276	16	3	261	11	3	218	11	3
Annual membership fees	10	1		11	1		11	1	
Merchant fees	618	42	44	630	41	45	643	44	45
Other fees	117	5	2	129	5	2	168	2	2
Total	1,021	64	49	1,031	58	50	1,030	58	50
Charge volumes									
General purchase	25,697	1,785	1,619	29,429	2,009	1,909	33,599	2,288	2,048
Installment purchase	4,892	435	227	4,786	354	243	4,784	409	254
Cash advance	6,084	212	142	5,936	198	124	4,732	189	107
Card loan	568	7		696	12	3	593	15	3
Total	37,241	2,439	1,988	40,847	2,573	2,279	43,708	2,901	2,412
Outstanding balances (at year end)									
General purchase	1,827	138	107	2,019	117	119	2,112	117	106
Installment purchase	969	86	36	1,014	72	45	988	82	40
Cash advance	790	28	13	776	27	12	564	24	10
Card loan	358	5		383	6	2	449	9	1
Total	3,944	257	156	4,192	222	178	4,113	232	157
Average outstanding balances									
General purchase	1,906	153	112	2,091	145	129	2,178	129	129
Installment purchase	1,114	114	48	1,062	76	48	1,078	86	54
Cash advance	827	29	15	805	27	13	653	26	11
Card loan	285	5		385	5	1	399	7	1
Total	4,132	301	175	4,343	253	191	4,308	248	195
Delinquency ratios ⁽³⁾									
Less than 1 month	2.46	0.43	0.75	3.34	0.60	0.75	3.19	0.76	0.99
From 1 month to 3 months	1.20	0.67	0.61	1.10	0.69	0.57	0.92	0.75	0.73
From 3 months to 6 months	1.14	0.59	0.29	1.05	0.79	0.28	1.03	0.74	0.35
Over 6 months	0.12	0.41	0.24	0.03	0.42	0.13	0.02	0.45	0.16

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Total	4.92%	2.10%	1.89%	5.51%	2.50%	1.72%	5.16%	2.70%	2.23%
Non-performing loan ratio ⁽⁴⁾	1.16%	1.26%	0.95%	1.41%	2.37%	0.65%	1.48%	1.48%	0.82%
Charge-offs (gross)	131	5	4	133	5	3	176	6	4
Recoveries	61	3	1	31	1	0	31	2	1
Net charge-offs	70	2	3	102	4	3	145	4	3
Gross charge-off ratio ⁽⁵⁾	3.17%	1.66%	2.29%	3.07%	2.08%	1.69%	4.08%	2.29%	2.02%
Net charge-off ratio ⁽⁶⁾	1.69%	0.66%	1.71%	2.35%	1.58%	1.57%	3.35%	1.65%	1.63%

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

Table of Contents

- (2) Represents the ratio of accounts used at least once within the last 12 months to total accounts as of the end of the relevant year.
- (3) Our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding balances since a certain portion of delinquent credit card balances (defined as balances one day or more past due) were restructured into loans and were not treated as being delinquent at the time of conversion or for a period of time thereafter. Including all restructured loans, outstanding balances overdue by 30 days or more accounted for 3.4% of our credit card receivables as of December 31, 2012.
- (4) Represents the ratio of balances that are more than three months overdue to total outstanding balances as of the end of the relevant year. These ratios do not include the following amounts of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary as of December 31, 2010, 2011 and 2012:

	2010	As of December 31, 2011 (in billions of Won)	2012
Restructured loans	34	43	74

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

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

cards that offer additional benefits, such as frequent flyer miles and award program points that can be redeemed for services, products or cash;

gold cards, platinum cards and other preferential members cards that have higher credit limits and provide additional services;

corporate and affinity cards that are issued to employees or members of particular companies or organizations; and

revolving credit cards and cards that offer travel services and insurance.

In recent years, credit card issuers in Korea have agreed with selected cardholders to restructure their delinquent credit card account balances as loans that have more gradual repayment terms, in order to retain fundamentally sound customers who are experiencing temporary financial difficulties and to increase the likelihood of eventual recovery on those balances. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans. The general qualifications to restructure delinquent credit card balances as loans are that the delinquent amount be more than one month overdue and in excess of 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, 2012, the total amount of our restructured loans was 74 billion (which also included revolving loans and installment loans). Because restructured loans are not initially recorded as being delinquent, our delinquency ratios do not fully reflect all delinquent amounts relating to our outstanding credit card balances.

Payments and Charges

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

Each cardholder is allocated an aggregate credit limit in respect of all cards issued under his or her account and each month. We advise each cardholder of the credit limit relating to the cards in his or her monthly billing statement. Credit limits in respect of card loans are established separately. We conduct ongoing monitoring of all cardholders and accounts, and may reduce the credit limit or cancel an existing cardholder's card based on current economic conditions, receipt of new negative credit data from third party sources or the cardholder's

Table of Contents

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 20 million.

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

For cash advances, finance charges start accruing immediately following the cash withdrawal. We currently charge a periodic finance charge on the outstanding balance of cash advance of approximately 6.0% to 28.8% per annum. The periodic finance charge assessed on such balances is calculated by multiplying the daily installment balances for each day during the billing cycle by the applicable periodic finance charge rate, and aggregating the results for each day in the billing period. In addition to finance charges, cardholders using cash advance networks operated by companies that are not financial institutions (such as Hantnet and NICE) are charged a minimum commission of 600 and a maximum of 1,300 per withdrawal.

We also generally charge a basic annual membership fee of 1,000 to 15,000 for regular and gold cards and 10,000 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 Dadungyi Happiness Card and Woori Children Love Card, we will waive membership fees if customers charge above a certain amount.

Commencing in July 2006, we outsourced the management of merchants to BC Card. We charge merchant fees to merchants for processing transactions. Merchant fees vary depending on the type of merchant and the total transaction amounts generated by the merchant. As of December 31, 2012, we charged merchants an average of 2.05% of their respective total transaction amounts, in the case of Woori Bank, and 1.94% and 1.80%, respectively, in the case of Kyongnam Bank and Kwangju Bank. In addition to merchant fees, we receive nominal interchange fees for international card transactions.

Capital Markets Activities

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

We currently own a 37.9% voting interest in Woori Investment & Securities, which is a consolidated subsidiary under IFRS and conducts a significant portion of our capital markets activities. As of December 31, 2012, Woori Investment & Securities had consolidated total assets of 24,822 billion, consolidated total liabilities of 21,368 billion and consolidated total owners' equity of 3,444 billion. For the year ended December 31, 2012, Woori Investment & Securities generated consolidated revenues of 3,499 billion and consolidated net income of 123 billion.

Table of Contents***Securities Investment and Trading***

Through Woori Bank and Woori Investment & Securities and, to a lesser extent, Kyongnam Bank and Kwangju Bank, we invest in and trade securities for our own account, in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of December 31, 2012, our investment portfolio, which consists of held-to-maturity financial assets and available-for-sale financial assets, and our trading portfolio, which consists of financial assets held for trading and financial assets designated at fair value through profit or loss, had a combined total book value of 59,119 billion and represented 18.2% 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, 2012, we held debt securities with a total book value of 47,535 billion, of which:

held-to-maturity debt securities accounted for 18,685 billion, or 39.3%;

available-for-sale debt securities accounted for 13,648 billion, or 28.7%;

debt securities held for trading accounted for 14,812 billion, or 31.2%; and

debt securities designated at fair value through profit or loss accounted for 390 billion, or 0.8%

Of these amounts, as of December 31, 2012, debt securities issued by the Korean government and government agencies amounted to 7,665 billion, or 41.0% of our held-to-maturity debt securities, 2,681 billion, or 19.6% of our available-for-sale debt securities, and 2,267 billion, or 15.3% 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, 2012:

equity securities in our available-for-sale portfolio had a book value of 2,185 billion, or 11.6% of our available-for-sale securities portfolio;

equity securities held for trading accounted for 694 billion, or 3.4% of our held-for-trading securities portfolio; and

equity securities designated at fair value through profit or loss accounted for 12 billion, or 1.1% of our financial assets designated at fair value through profit or loss portfolio.

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

Table of Contents

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

	Amortized Cost	As of December 31, 2010 Gross Unrealized Gain Unrealized Loss (in billions of Won)		Fair Value
Available-for-sale financial assets:				
Debt securities				
Korean treasury and government agencies	2,684	37	(1)	2,720
Financial institutions	5,877	21	(1)	5,897
Corporate	2,671	20	(1)	2,690
Asset-backed securities	737	12		749
Foreign currency bonds	275	10	(1)	284
Subtotal	12,244	100	(4)	12,340
Equity securities				
Beneficiary certificates ⁽¹⁾	5,073	137	(14)	5,196
Others	1,223	5	(2)	1,226
Total available-for-sale financial assets	20,554	1,553	(109)	21,998

Held-to-maturity financial assets:				
Debt securities				
Korean treasury and government agencies	6,348	135	(6)	6,477
Financial institutions	7,832	57		7,889
Corporate	5,491	79	(3)	5,567
Foreign currency bonds	143			143
Securities loaned	71	1		72
Total held-to-maturity financial assets	19,885	272	(9)	20,148

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

Held-to-maturity financial assets:

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

Table of Contents

	Amortized Cost	As of December 31, 2012 Gross Unrealized		Fair Value
		Gain	Loss	
	(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				
Beneficiary certificates ⁽¹⁾	1,692	525	(32)	2,185
Others	203	15	(22)	2,835
Others	203		(1)	202
Total available-for-sale financial assets	18,331	634	(95)	18,870
Held-to-maturity financial assets:				
Debt securities				
Korean treasury and government agencies	7,665	176	(6)	7,835
Financial institutions	3,621	25		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

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

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

Derivatives Trading

We offer derivatives products and engage in derivatives trading, mostly for our corporate customers, primarily through Woori Bank. Our trading volume was 287,825 billion in 2010, 265,381 billion in 2011 and 226,970 billion in 2012, respectively. Our aggregate net trading revenue (loss) from derivatives for the years ended December 31, 2010, 2011 and 2012 was 82 billion, (160) billion and 195 billion in 2012, 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.

Table of Contents

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

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

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

	2010		As of December 31, 2011		2012	
	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	2,571	1,845	2,206	1,690	1,565	1,401
Interest rate derivatives	1,350	1,518	1,553	1,671	1,820	1,894
Equity derivatives	195	247	96	517	309	410
Credit derivatives ⁽¹⁾	16	4	18	22	28	17
Commodity derivatives	30	36	28	26	18	15
Total	4,162	3,650	3,901	3,926	3,740	3,737

⁽¹⁾ In connection with our credit derivatives outstanding, we accept credit exposure with respect to foreign currency-denominated corporate debt instruments held by counterparties by guaranteeing payments under such instruments, subject to our overall credit limits with respect to the applicable issuers. In August 2006, Woori Bank entered into an agreement with Macquarie Bank, an Australian investment bank, pursuant to which Macquarie Bank provides operational support and cooperation to Woori Bank in the area of commodity derivatives trading, in connection with Woori Bank's plans to develop its commodities derivatives business. Following a one-year extension, the agreement was terminated in August 2012 in accordance with its terms.

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

Asset Securitization Services

We are active in the Korean asset-backed securities market. Through Woori Bank and Woori Investment & Securities, we participate in asset securitization transactions in Korea by acting as arranger, trustee or liquidity provider. In 2012, we were involved in asset securitization transactions with an initial aggregate issue amount of 8,204 billion and generated total fee income of approximately 52 billion in connection with such transactions. The securities issued in asset securitization transactions are sold mainly to institutional investors buying through Korean securities firms.

Investment Banking

We engage in investment banking activities in Korea through Woori Bank and Woori Investment & Securities. Through Woori Investment & Securities, we underwrite equity and debt securities offerings in the Korean capital markets, either as lead manager or a member of an underwriting syndicate and provide mergers and acquisitions and financial advisory services. In 2012, Woori Investment & Securities generated investment banking revenue of approximately 40 billion, consisting primarily of underwriting fee income from securities

Table of Contents

offerings. In addition, through Woori Bank, we provide project finance and financial advisory services, in the area of social overhead capital projects such as highway, port, power and water and sewage projects, as well as structured finance, leveraged buy-out financing, equity and venture financing and mergers and acquisitions advisory services. In 2012, Woori Bank generated investment banking revenue of approximately 92 billion from gains on investment in foreign bonds and equity securities and fees from advisory and other services. Through Woori Investment Asia Pte., a wholly-owned subsidiary of Woori Investment & Securities, we also engage in investment banking activities in Southeast Asia.

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

Securities Brokerage

We provide securities brokerage services through Woori Investment & Securities. Our activities include brokerage services relating to stocks, futures, options and debt instruments (such as commercial paper). As of December 31, 2012, Woori Investment & Securities had 115 branches. We also provide securities brokerage services through the Internet and through our home trading system software platforms. In 2012, Woori Investment & Securities generated fee income of approximately 300 billion through its securities brokerage activities.

International Banking

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

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

	2010	As of December 31, 2011 (in millions of US\$)	2012
Total foreign currency assets	US\$ 19,618	US\$ 23,220	US\$ 32,083
Foreign currency borrowings			
Call money	1,085	1,058	306
Long-term borrowings	6,995	7,657	5,174
Short-term borrowings	6,247	7,438	8,981
Total foreign currency borrowings	US\$ 14,327	US\$ 16,153	US\$ 14,461

Table of Contents

The table below sets forth the overseas subsidiaries and branches of Woori Bank in operation as of December 31, 2012.

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

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

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

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\$1,007 million as of December 31, 2012 and net profit of US\$3 million in 2012.

In November 2007, Woori Bank established a local subsidiary in China, Woori Bank (China) Limited, which currently has branches (including one sub-branch) in Beijing, Shanghai, Shenzhen, Suzhou, Tianjin, Dalian and Chengdu. Woori Bank also established a local subsidiary in Russia, Zao Woori Bank, in January 2008 and it currently has one branch in St. Petersburg. In addition, we have in recent years entered into various memoranda of understanding and strategic alliances with 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 June 2012, P.T. Bank Woori Indonesia, our indirect consolidated subsidiary, entered into a securities purchase agreement to acquire a 33% equity interest in P.T. Bank Himpunan Saudara 1906 of Indonesia. P.T. Bank Himpunan Saudara 1906 is an Indonesian commercial bank with a network of approximately 104 branches, sub-branches and cash offices throughout Indonesia as of December 31, 2012. As of December 31, 2012, P.T. Bank Himpunan Saudara 1906 had total assets of approximately Indonesian Rupees 7,621 billion and

Table of Contents

shareholders' equity of Indonesian Rupees 537 billion. The completion of the proposed acquisition, upon which P.T. Bank Woori Indonesia is expected to become the second-largest shareholder of P.T. Bank Himpunan Saudara 1906, is subject to a number of conditions including receipt of all regulatory approvals in Indonesia and Korea.

Asset Management

Trust Management Services

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

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

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

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

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

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

We receive fees for our trust management services that are generally based upon a percentage, ranging between 0.01% and 2.0%, of the net asset value of the assets under management. We also receive penalty payments when customers terminate their trust deposit prior to the original contract maturity. Fees that we received for 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 \$59 billion in 2010, \$53 billion in 2011 and \$62 billion in 2012.

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 (including those of Woori Investment & Securities) by type as of the dates indicated. Under IFRS, we consolidate trust accounts for which we guarantee both the repayment of the principal amount and a fixed rate of interest, while we do not consolidate performance trusts on which we do not guarantee principal or interest or those trust accounts for which we guarantee only the repayment of the principal amount:

	2010	2011	2012
	(in billions of Won)		
Principal and interest guaranteed trusts	1	1	1
Principal guaranteed trusts	1,766	1,419	1,266
Performance trusts	18,096	24,819	30,166

Total	19,863	26,239	31,433
-------	--------	--------	--------

Table of Contents

The trust assets we manage consist principally of investment securities and loans made from the trusts. The investment securities consist of government-related debt securities, corporate debt securities, including bonds and commercial paper, equity securities and other securities. As of December 31, 2012, our money trusts (including those of Woori Investment & Securities) had invested in securities with an aggregate book value of 14,326 billion, which accounted for approximately 45.6% of our money trust assets. Debt securities accounted for 12,883 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, 2012, equity securities held by our money trusts (including those of Woori Investment & Securities) amounted to 1,443 billion, which accounted for approximately 4.6% of our money trust assets. Of this amount, 839 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, 2012, our money trusts (including those of Woori Investment & Securities) had made loans in the aggregate principal amount of 4,165 billion (excluding loans to our banking operations of 3,119 billion), which accounted for approximately 13.2% 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 2012.

Property Trusts. Through Woori Bank, Kyongnam Bank, Kwangju Bank and Woori Investment & Securities, 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 2012, our property trust fees generally ranged from 0.01% to 0.5% of total assets under management, depending on the type of trust account product. As of December 31, 2012, the balance of our property trusts totaled 14,618 billion.

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

Investment Trust Management

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

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

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

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

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

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

The investment trusts we manage are generally trusts with no fixed term that allow investors to share in the investment performance of the trust in proportion to the amount of their investment in the trust. We have

Table of Contents

investment discretion over all investment trusts. Investment trusts calculate the value of their assets each day, and any change in the overall valuation of their assets will be reflected in the price of their beneficiary certificates. To the extent such a trust does have a maturity date, at that time the trust will disburse principal and any return on investment based on the price of their beneficiary certificates. In addition to investment trust products, we provide our institutional clients with various investment advisory and discretionary asset investment services.

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

	2010	As of December 31, 2011 (in billions of Won)	2012
Equity funds	1,888	1,907	1,790
Fixed income funds	2,116	1,994	2,277
Hybrid funds	477	320	248
Money market funds	5,355	5,802	5,934
Alternative investment funds	3,484	3,147	3,390
Total	13,320	13,170	13,639

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

Fees from our investment trust management services amounted to 26 billion in 2010, 22 billion in 2011 and 22 billion in 2012.

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

Trustee and Custodian Services Relating to Securities Investment Trusts

Through Woori Bank, we act as a trustee for approximately 1,228 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, 2012, our fee income from such services was 8 billion.

Other Businesses***Merchant Banking***

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

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

commercial paper discounting, which entails purchasing at a discount notes that are issued, endorsed or guaranteed by companies to supply them with short-term working capital;

Table of Contents

factoring financing, which entails purchasing at a discount trade receivables held by companies to supply them with capital;

payment guarantees, which entail issuing guarantees in respect of notes in return for fees; and

cash management account (CMA) services, which offer accounts into which the accountholder may freely deposit or withdraw funds and for which returns from an investment portfolio purchased with such deposited funds are distributed as interest.

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

Management of National Housing Fund

In April 2008, we were selected to be the lead manager of the National Housing Fund. The National Housing Fund provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small- and medium-sized housing. As of December 31, 2012, outstanding housing loans from the National Housing Fund amounted to approximately 80 trillion, of which we originated approximately 46 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 142 billion for managing the National Housing Fund in 2012.

Bancassurance

The term bancassurance refers to the marketing and sale by commercial banks of insurance products manufactured within a group of affiliated companies or by third-party insurance companies. Through Woori Bank, Kyongnam Bank and Kwangju Bank, we market a wide range of bancassurance products. In 2012, we generated fee income of approximately 152 billion through the marketing of bancassurance products. We believe that we will be able to continue to develop an important new source of fee-based revenues by expanding our offering of these products. Woori Bank has entered into bancassurance marketing arrangements with 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 plans to enter into additional insurance product marketing arrangements with other leading insurance companies whose names and reputation are likely to be familiar to our customer base. Woori Bank has also entered into bancassurance marketing arrangements with Woori Aviva Life Insurance, in which we acquired a 51.0% interest in April 2008 and currently hold a 51.6% interest.

Private Equity

In October 2005, we established Woori Private Equity Co., Ltd. with the aim of strengthening our principal investment operations. Woori Private Equity seeks to make long-term and strategic investments in buyout target companies, as well as actively involving itself in their management. This involves identifying potential investees suffering from inefficient management and effecting financial restructuring and strategic reorientation in those

Table of Contents

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.

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

Consumer Finance

We provide consumer finance services through Woori Financial Co., Ltd. We acquired a 51.4% stake in Woori Financial (formerly known as Hanmi Capital Co., Ltd.) in September 2007 and further acquired an additional 2.4% stake in September 2009 following our exercise of certain call options. Following our participation in Woori Financial's paid-in capital increase in July 2012, we currently hold a 52.0% equity interest in Woori Financial. Woori Financial provides leases and loans for various products, including automobiles, heavy machineries and medical equipments, as well as microlending services. We expect Woori Financial to continue to expand our customer base by providing a variety of non-banking financial services to retail customers as well as synergies through coordinated business operations with our other subsidiaries, including Woori Bank.

Life Insurance

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

Competition

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

Competition in the Korean financial market has been and is likely to remain intense. In particular, in the area of our core banking operations, most Korean banks have been focusing on retail customers and small- and medium-sized enterprises in recent years, although they have begun to increase their exposure to large corporate borrowers, and have been focusing on developing fee income businesses, including bancassurance, as

Table of Contents

increasingly important sources of revenue. In the area of credit cards, Korean banks and credit card companies have in the past engaged in aggressive marketing activities and made significant investments, contributing to some extent to the lower profitability and asset quality problems previously experienced with respect to credit card receivables.

In addition, we believe regulatory reforms and the general modernization of business practices in Korea will lead to increased competition among financial institutions in Korea. We also believe that foreign financial institutions, many of which have greater experience and resources than we do, will seek to compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the past decade, including the acquisition of Koram Bank by an affiliate of Citibank in 2004, the acquisition of Korea First Bank by Standard Chartered Bank in April 2005, Chohung Bank's merger with Shinhan Bank in April 2006 and Hana Financial Group's acquisition of a controlling interest in Korea Exchange Bank in February 2012. We expect that consolidation in the financial industry will continue. 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. Except as otherwise indicated, (i) amounts as of and for the years ended December 31, 2010, 2011 and 2012 are presented on a consolidated basis under IFRS, and (ii) amounts as of and for the years ended December 31, 2008 and 2009 are presented on a consolidated basis under U.S. GAAP and are not comparable to information prepared in accordance with IFRS.

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

Loan Portfolio

As of December 31, 2012, the balance of our total loan portfolio was 220,883 billion, a 3.9% increase from 212,492 billion as of December 31, 2011. As of December 31, 2012, 87.8% of our total loans were Won-denominated loans and 12.2% of our total loans were denominated in other currencies. Of the 26,891 billion of foreign currency-denominated loans as of that date, approximately 25.9% represented foreign loans provided by Woori Bank to offshore entities and individuals. Woori Bank makes foreign loans primarily through its overseas branches to affiliates of large Korean manufacturing companies for trade financing and working capital.

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 (or, in case of amounts under U.S. GAAP, before deduction of allowance for loan losses) and present value discount or reflecting deferred origination costs, and all corporate loan amounts stated below include loans made to the Korean government and government-owned agencies and banks.

Table of Contents*Loan Types*

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

	2010	As of December 31,		2012
		2011	2012	(%)
		(in billions of Won)		
Domestic:				
Corporate ⁽¹⁾ :				
Commercial and industrial	98,195	101,738	105,105	47.6%
Lease financing	653	700	698	0.3
Trade financing	11,332	13,171	11,982	5.4
Other commercial	12,558	10,927	13,088	5.9
Total corporate	122,738	126,536	130,873	59.2
Consumer:				
General purpose household	32,992	32,709	31,698	14.4
Mortgage	6,375	12,138	16,409	7.4
Home equity	26,645	27,940	30,424	13.8
Total consumer	66,012	72,787	78,531	35.6
Credit cards	4,357	4,592	4,505	2.0
Total domestic	193,107	203,915	213,909	96.8
Foreign:				
Corporate ⁽²⁾ :				
Commercial and industrial	7,185	8,013	6,058	2.7%
Trade financing	129	165	141	0.1
Other commercial	69	272	522	0.2
Total corporate	7,383	8,450	6,721	3.0
Consumer	745	127	253	0.1
Total foreign	8,128	8,577	6,974	3.2
Total gross loans	201,235	212,492	220,883	100.0%
Total loans ⁽³⁾	201,235	212,492	220,883	
Less: present value discount	(16)	(31)	(25)	
Less: deferred origination costs (fees)	74	178	258	
Less: allowance for credit losses	(4,718)	(3,759)	(3,564)	
Total loans, net	196,575	208,880	217,552	

(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.

Table of Contents

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

	As of December 31, 2008 2009 (in billions of Won)	
Domestic:		
Corporate:		
Commercial and industrial	93,931	96,484
Lease financing	425	578
Trade financing	12,201	10,321
Other commercial	8,266	6,602
Total corporate	114,823	113,985
Consumer:		
General purpose household ⁽¹⁾	56,911	58,127
Mortgage	3,275	3,807
Total consumer	60,186	61,934
Credit cards	4,294	4,098
Total domestic	179,303	180,017
Foreign:		
Corporate:		
Commercial and industrial	9,015	7,393
Trade financing	185	92
Total corporate	9,200	7,485
Consumer	129	115
Total foreign	9,329	7,600
Total gross loans	188,632	187,617
Less: Unearned income	(51)	(98)
Total loans	188,581	187,519

⁽¹⁾ Includes home equity loans.

Loan Concentrations

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

Table of Contents*20 Largest Exposures by Borrower*

As of December 31, 2012, our exposures to our 20 largest borrowers or issuers totaled 47,345 billion and accounted for 12.2% of our total exposures. The following table sets forth our total exposures to those borrowers or issuers as of that date:

Company (Credit Rating) ⁽¹⁾	Loans						Collateral ⁽²⁾	Amounts Classified as substandard or below ⁽³⁾
	Won currency	Foreign currency	Equity securities	Debt securities	Guarantees and acceptances (in billions of Won)	Total exposures		
Bank of Korea (AAA)	3,280			8,622		11,902		
Government ⁽⁴⁾				11,486		11,486		
Korea Land & Housing Corporation (AA)	7			2,540		2,547		
Korea Development Bank (AA)	1,344			1,198		2,542		
Industrial Bank of Korea (A+)	866	21	1	1,533		2,421		
Korea Finance Corporation (AAA)				2,332		2,332		
Hyundai Heavy industries (AA)		88	12	309	1,583	1,992		
Samsung Heavy industries (A+)	100	60	3	10	1,466	1,639		
Korea Housing Finance Corporation (AAA)				1,315		1,315		
Korea Deposit Insurance Corporation (AA)				1,058		1,058		
Sung-Dong Ship Marin (C)	652				308	960	224	
SPP Shipbuilding (B-)	132	41			768	941	143	
Small and Medium Business Corporation (AAA)				887		887		
Daewoo International (A+)	133	345	2		386	866		
Hyundai Steel (A+)	310	224	2	210	68	814		
Kookmin Bank (AA)	582			227		809	335	
Shinhan Bank (AA)	101	18		652		771		
SH Corporation (AA)	6			736		742		
Hyosung (A+)	245	251	12		153	661	118	1
Daelim Industrial (A+)	218		1		441	660	36	
Total	7,976	1,048	33	33,115	5,173	47,345	856	1

(1) Credit ratings from one of the following domestic credit rating agencies in Korea as of December 31, 2012: 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, 2012, 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.

Table of Contents*Exposure to Chaebols*

As of December 31, 2012, 7.6% of our total exposure was to the 30 largest *chaebols* in Korea. The following table shows, as of December 31, 2012, our total exposures to the ten *chaebol* groups to which we have the largest exposure:

Chaebol	Loans					Total exposures	Collateral ⁽¹⁾	Amounts Classified as substandard or below ⁽²⁾
	Won currency	Foreign currency	Equity securities	Debt securities	Guarantees and acceptances			
	(in billions of Won)							
Samsung	1,066	974	97	121	2,209	4,467	57	1
Hyundai Motors	1,529	796	53	512	465	3,355	82	
Hyundai Heavy Industries	273	207	19	319	2,005	2,823		
STX	514	410		40	742	1,706	210	
SK	477	328	48	270	443	1,566	64	
Kumho Asiana	663	565	45	103	117	1,493	273	16
LG	625	476	37	210	134	1,482	26	
Doosan	695	211	23	31	430	1,390	83	2
Hyosung	640	292	12		162	1,106	211	38
Hanwha	598	175	25	30	132	960	266	14
Total	7,080	4,434	359	1,636	6,839	20,872	1,272	71

(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, 2012, the aggregate balance of our domestic and foreign corporate loans by industry concentration and as a percentage of our total corporate lending:

Industry	Aggregate corporate loan balance	Percentage of total corporate loan balance
	(in billions of Won)	
Manufacturing	43,529	31.6%
Retail and wholesale	16,348	11.9
Financial and insurance	15,282	11.1
Construction	8,570	6.2
Hotel, leisure or transportation	7,147	5.2
Government and government agencies	1,193	0.9
Other	45,524	33.1
Total	137,593	100.0%

Table of Contents*Maturity Analysis*

The following table sets out, as of December 31, 2012, 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 (in billions of Won)	Over 5 years	Total
Domestic				
Corporate ⁽¹⁾				
Commercial and industrial	75,783	22,054	7,268	105,105
Lease financing	123	574	1	698
Trade financing	11,965	17		11,982
Other commercial	10,002	1,752	1,334	13,088
Total corporate	97,873	24,397	8,603	130,873
Consumer				
General purpose household	16,318	7,200	8,180	31,698
Mortgage	3,600	3,942	8,867	16,409
Home equity	7,460	6,093	16,871	30,424
Total consumer	27,378	17,235	33,918	78,531
Credit cards	3,507	998		4,505
Total domestic	128,758	42,630	42,521	213,909
Foreign				
Corporate ⁽²⁾				
Commercial and industrial	4,140	1,084	833	6,057
Lease financing				
Trade financing	141			141
Other commercial	431	92		523
Total corporate	4,712	1,176	833	6,721
Consumer:				
Other consumer	36	17	200	253
Total foreign	4,748	1,193	1,033	6,974
Total loans	133,506	43,823	43,554	220,883

(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, in the case of Woori Bank, or ten years, in the case of Kyongnam Bank and Kwangju Bank. Those guidelines also allow us to generally extend consumer loans 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), in the case of Woori Bank, or ten years, in the case of Kyongnam Bank and Kwangju Bank.

Table of Contents*Interest Rates*

The following table shows, as of December 31, 2012, 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⁾	31,347	1,554	32,901
Variable or adjustable rates ⁽²⁾	53,804	672	54,476
Total loans	85,151	2,226	87,377

(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 (or, in case of amounts under U.S GAAP, before deduction of allowance for loan losses) and present value discount or reflecting deferred origination costs, and all corporate loan amounts stated below include loans made to the Korean government and government-owned agencies and banks.

Loan Classifications

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

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

Asset Classification**Characteristics**

Normal

Credits extended to customers that, based on our consideration of their business, financial position and future cash flows, do not raise concerns regarding their ability to repay the credits.

Precautionary

Credits extended to customers that:

based on our consideration of their business, financial position and future cash flows, show potential risks with respect to their ability to repay the credits, although showing no immediate default risk; or

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

Table of Contents

Asset Classification

Characteristics

Substandard

Either:

credits extended to customers that, based on our consideration of their business, financial position and future cash flows, are judged to have incurred considerable default risks as their ability to repay has deteriorated; or

the portion that we expect to collect of total loans (1) extended to customers that have been in arrears for three months or more, (2) extended to customers that have incurred serious default risks due to the occurrence of, among other things, final refusal to pay their debt instruments, entry into liquidation or bankruptcy proceedings, or closure of their businesses, or (3) extended to customers who have outstanding loans that are classified as doubtful or estimated loss.

Doubtful

Credits exceeding the amount we expect to collect of total credits to customers that:

based on our consideration of their business, financial position and future cash flows, have incurred serious default risks due to noticeable deterioration in their ability to repay; or

have been in arrears for three months or more but less than twelve months.

Estimated Loss

Credits exceeding the amount we expect to collect of total credits to customers that:

based on our consideration of their business, financial position and future cash flows, are judged to have to be accounted as a loss as the inability to repay became certain due to serious deterioration in their ability to repay;

have been in arrears for twelve months or more; or

have incurred serious risks of default in repayment due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings or closure of their business.

Loan Loss Provisioning Policy

Under IFRS, we establish 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

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

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

Table of Contents

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 bad debt expenses, which are included in impairment losses on credit loss and treated as charges against current income. Credit exposures that we deem to be uncollectible, including actual loan losses, net of recoveries of previously charged-off amounts, are charged directly against the 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; and

restructured loans.

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

⁽¹⁾ Applicable for credit card receivables for general purchases of products or services.

⁽²⁾ Applicable for cash advances, card loans and revolving loan receivables.

Under U.S. GAAP, we established our allowance for loan losses for corporate loans based on whether a particular loan was identified as impaired or not, using an incurred loss model (as we used a 12 month finite emergence period corroborated by historical data regarding such corporate loan portfolio). Once we identified a loan as impaired under U.S. GAAP, we generally measured the value of the loan based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan was collateral dependent. If the measured value was less than the book value of the loan, we established a specific allowance for the amount deemed uncollectible. Where the entire impaired loan or a portion of the impaired loan

was secured by collateral or a guarantee, we considered the fair value of the collateral or the guarantee payment in establishing the level of the allowance. Alternatively, for impaired loans that were considered collateral dependent, we determined the amount of impairment by reference to the fair value of the collateral. In addition, for certain foreign corporate loans that were considered impaired, we determined the fair value by reference to observable market prices, when available.

Table of Contents

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

The process to determine the 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 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 in a similar manner as we did with respect to non-accrual loans under U.S. GAAP. We generally place 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, we would have recorded gross interest income of 178 billion, 104 billion and 194 billion for 2010, 2011 and 2012, 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 2010, 2011 and 2012 was 103 billion, 87 billion and 82 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.

Table of Contents

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

	2010		As of December 31, 2011			2012		Total	
	Domestic	Foreign	Domestic	Foreign	Total	Domestic	Foreign		
(in billions of Won)									
Loans classified as problem loans ⁽¹⁾									
Corporate ⁽²⁾	2,831	19	2,850	2,580	132	2,712	3,002	22	3,024
Consumer ⁽³⁾	1,081		1,081	417		417	587	1	588
Sub-total	3,912	19	3,931	2,997	132	3,129	3,589	23	3,612
Accruing loans which are contractually past due 90 days or more as to principal or interest ⁽¹⁾									
Corporate ⁽²⁾	184	3	187	26	10	36	11		11
Consumer	24		24	5		5	4		4
Sub-total	208	3	211	31	10	41	15		15
Total	4,120	22	4,142	3,028	142	3,170	3,604	23	3,628

(1) 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.

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

(3) Includes credit card balances of 1 billion, 23 billion and as 19 billion of December 31, 2010, 2011 and 2012, respectively.

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

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

	2008		As of December 31, 2009		Total	
	Domestic	Foreign	Domestic	Foreign		
(in billions of Won)						
Loans accounted for on a non-accrual basis						
Corporate	2,011	1	2,012	2,298	42	2,340
Consumer ⁽¹⁾	2,166		2,166	1,263		1,263
Sub-total	4,177	1	4,178	3,561	42	3,603
Accruing loans which are contractually past due one day or more as to principal or interest ⁽²⁾						
Corporate	28		28	98	11	109
Consumer	47		47	26		26
Sub-total	75		75	124	11	135

Total	4,252	1	4,253	3,685	53	3,738
-------	-------	---	-------	-------	----	-------

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

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

Table of Contents*Loan Aging Schedule*

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

	As of December 31, 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	
	Amount	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount past due	%
(in billions of Won, except percentages)												
Domestic												
Corporate ⁽¹⁾												
Commercial and industrial	102,914	46.6%	434	0.2%	571	0.3%	458	0.2%	728	0.3%	105,105	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	11,639	5.3%	18	0.0%	98	0.0%	87	0.0%	1,246	0.6%	13,088	5.9%
Total corporate	127,090	57.5%	485	0.2%	708	0.3%	575	0.3%	2,015	0.9%	130,873	59.2%
Consumer												
General purpose household	31,022	14.0%	399	0.2%	83	0.0%	74	0.0%	120	0.1%	31,698	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	13.5%	359	0.2%	66	0.0%	57	0.0%	103	0.0%	30,424	13.7%
Total consumer	77,080	34.9%	895	0.4%	168	0.1%	148	0.1%	240	0.1%	78,531	35.6%
Credit cards	4,282	1.9%	135	0.1%	41	0.0%	45	0.0%	2	0.0%	4,505	2.0%
Total domestic	208,452	94.4%	1,515	0.7%	917	0.4%	768	0.3%	2,257	1.0%	213,909	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%	0	0.0%	2	0.0%	253	0.1%
Total foreign	6,927	3.1%	2	0.0%	5	0.0%	4	0.0%	36	0.0%	6,974	3.1%
Total loans⁽³⁾	215,379	97.5%	1,517	0.7%	922	0.4%	772	0.3%	2,293	1.0%	220,883	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.

Table of Contents

	As of December 31, 2011											
	Normal		Past due by 1 month or less		Past due by 1-3 months		Past due by 3-6 months		Past due by more than 6 months		Total	
	Amount	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount past due	%
(in billions of Won, except percentages)												
Domestic												
Corporate ⁽¹⁾												
Commercial and industrial	100,069	47.1%	352	0.2%	426	0.2%	232	0.1%	659	0.3%	101,738	47.9%
Lease financing	662	0.3%	16	0.0%	5	0.0%	6	0.0%	11	0.0%	700	0.3%
Trade financing	13,102	6.2%	23	0.0%	27	0.0%	6	0.0%	11	0.0%	13,171	6.2%
Other commercial	9,860	4.6%	25	0.0%	31	0.0%	8	0.0%	1,003	0.5%	10,927	5.1%
Total corporate	123,693	58.2%	416	0.2%	489	0.2%	254	0.1%	1,684	0.8%	126,536	59.5%
Consumer												
General purpose household	32,048	15.1%	391	0.2%	74	0.0%	61	0.0%	135	0.1%	32,709	15.4%
Mortgages	12,016	5.7%	93	0.0%	8	0.0%	7	0.0%	14	0.0%	12,138	5.7%
Home equity	27,399	12.9%	346	0.2%	54	0.0%	42	0.0%	99	0.0%	27,940	13.1%
Total consumer	71,463	33.6%	830	0.4%	136	0.1%	110	0.1%	248	0.1%	72,787	34.2%
Credit cards	4,329	2.0%	146	0.1%	48	0.0%	47	0.0%	2	0.0%	4,592	2.1%
Total domestic	199,505	93.9%	1,392	0.7%	673	0.3%	411	0.2%	1,934	0.9%	203,915	96.0%
Foreign												
Corporate ⁽²⁾												
Commercial and industrial	7,919	3.7%	5	0.0%	14	0.0%	58	0.0%	17	0.0%	8,013	3.7%
Lease financing		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
Trade financing	165	0.1%		0.0%		0.0%		0.0%		0.0%	165	0.1%
Other commercial	272	0.1%		0.0%		0.0%		0.0%		0.0%	272	0.1%
Total corporate	8,356	3.9%	5	0.0%	14	0.0%	58	0.0%	17	0.0%	8,450	3.9%
Consumer	124	0.1%	1	0.0%		0.0%		0.0%	2	0.0%	127	0.1%
Total foreign	8,480	4.0%	6	0.0%	14	0.0%	58	0.0%	19	0.0%	8,577	4.0%
Total loans⁽³⁾	207,985	97.9%	1,398	0.7%	687	0.3%	469	0.2%	1,953	0.9%	212,492	100.0%

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

(2) Including loans made to banks.

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

Table of Contents

	As of December 31, 2010											
	Normal		Past due by 1 month or less		Past due by 1-3 months		Past due by 3-6 months		Past due by more than 6 months		Total	
	Amount	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount past due	%
(in billions of Won, except percentages)												
Domestic												
Corporate ⁽¹⁾												
Commercial and industrial	96,420	47.9%	333	0.2%	297	0.1%	424	0.2%	721	0.4%	98,195	48.8%
Lease financing	618	0.3%	10	0.0%	10	0.0%	8	0.0%	7	0.0%	653	0.3%
Trade financing	10,922	5.4%	35	0.0%	43	0.0%	305	0.2%	27	0.0%	11,332	5.6%
Other commercial	11,810	5.9%	12	0.0%	33	0.0%	22	0.0%	681	0.3%	12,558	6.2%
Total corporate	119,770	59.5%	390	0.2%	383	0.2%	759	0.4%	1,436	0.7%	122,738	60.9%
Consumer												
General purpose household	32,505	16.2%	286	0.1%	56	0.0%	64	0.0%	81	0.0%	32,992	16.3%
Mortgages	6,310	3.1%	46	0.0%	7	0.0%	6	0.0%	6	0.0%	6,375	3.1%
Home equity	26,266	13.1%	248	0.1%	31	0.0%	42	0.0%	58	0.0%	26,645	13.2%
Total consumer	65,081	32.3%	580	0.3%	94	0.0%	112	0.1%	145	0.1%	66,012	32.6%
Credit cards	4,151	2.1%	103	0.1%	50	0.0%	47	0.0%	6	0.0%	4,357	2.2%
Total domestic	189,002	93.9%	1,073	0.5%	527	0.3%	918	0.5%	1,587	0.8%	193,107	96.0%
Foreign												
Corporate ⁽²⁾												
Commercial and industrial	7,157	3.6%	1	0.0%	12	0.0%	1	0.0%	14	0.0%	7,185	3.6%
Lease financing		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
Trade financing	129	0.1%		0.0%		0.0%		0.0%		0.0%	129	0.1%
Other commercial	69	0.0%		0.0%		0.0%		0.0%		0.0%	69	0.0%
Total corporate	7,355	3.7%	1	0.0%	12	0.0%	1	0.0%	14	0.0%	7,383	3.7%
Consumer	731	0.4%	5	0.0%	3	0.0%	2	0.0%	4	0.0%	745	0.4%
Total foreign	8,086	4.0%	6	0.0%	15	0.0%	3	0.0%	18	0.0%	8,128	4.0%
Total loans⁽³⁾	197,088	97.9%	1,079	0.5%	542	0.3%	921	0.5%	1,605	0.8%	201,235	100.0%

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

(2) Including loans made to banks.

(3) Not including due from banks and other receivables, and prior to deducting 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. Previously, workouts were regulated under the Corporate Restructuring Promotion Act, which was enacted in 2007 and expired on December 31, 2010. In April 2011, the National Assembly of Korea adopted a new Corporate Restructuring Promotion Act, or the New Corporate Restructuring Promotion Act, which became effective on May 19, 2011. Workouts that had been initiated under the Corporate Restructuring Promotion Act are also governed by the New Corporate Restructuring Promotion Act effective from May 19, 2011. Under the New Corporate Restructuring Promotion Act, which is similar to the Corporate Restructuring Promotion Act, all creditor financial institutions of a financially troubled borrower are required to participate in a creditors' committee which is authorized to prohibit such creditor financial institutions from exercising their rights against the borrower, commencing workout procedures or approving a reorganization plan prepared by the borrower. Any decision of the creditors' committee requires the approval of creditor financial institutions holding interests as creditor in 75% or more of the total debt outstanding of a borrower. An additional approval of creditor financial institutions holding interests as creditor in 75% or more of the secured debt is required with respect to the borrower's debt restructuring. Once approved, any decision made by the creditors' committee is binding on all the creditor financial institutions of the borrower. Creditor financial institutions that voted against commencement of workout, debt restructuring or granting of new credit have the right to request the creditor financial institutions that voted in favor of such matters to purchase their claims at a mutually agreed price. In the event that the

Table of Contents

parties are not able to agree on the terms of purchase, a coordination committee consisting of experts would determine the terms. The creditor financial institutions that oppose a decision made by the coordination committee may request a court to change such decision. The New Corporate Restructuring Promotion Act is scheduled to expire on December 31, 2013.

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, 2012, 2,695 billion, or 1.0%, of our total loans and debt securities were in workout, restructuring or rehabilitation. This included 1,410 billion of loans to and debt securities of large corporate borrowers in workout, restructuring or rehabilitation and 1,284 billion of loans to and debt securities of small- and medium-sized enterprises in workout, restructuring or rehabilitation, which represented 0.5% and 0.5% of our total loans and debt securities, respectively. Currently, a specialized unit in each of our banking subsidiaries manages their workout, restructured and rehabilitated loans. At Woori Bank, for example, the Corporate Restoration Department manages its workout, restructured and rehabilitated loans. Upon approval of a workout, restructuring or rehabilitation plan, a credit exposure is initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions. If a corporate borrower is in workout, restructuring or rehabilitation, we take the status of the borrower into account in valuing our loans to and collateral from that borrower for purposes of establishing our allowance for credit losses.

The following table shows, as of December 31, 2012, our ten largest exposures that were in workout, restructuring or rehabilitation:

Company (Credit Rating) ⁽¹⁾	Loans						Collateral ⁽²⁾	Amounts Classified as Substandard or Below ⁽³⁾	Allowance for Credit Loss
	Won Currency	Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances (in billions of Won)	Total Exposures			
Kumho Tire (B+)	322	100	30		14	466	104	17	35
Kumho Industrial (B+)	170		14	79	72	335	34		11
Shina SB (D)	2				205	207	101	2	1
Woongjin Holdings (D)	165			15		180	183		1
SPP Yulchon Energy (D)	136					136	13	136	16
Pungan Construction (B-)	129					129	9		19
Orient Shipyard (D)					105	105		105	14
Sekwang Shipbuilding (D)	2				103	105	41	74	12
Jeil Construction (B+)	94					94	90	93	10
Hankook Silicon (D)	93					93	90	93	10
Total	1,113	100	44	94	499	1,850	665	520	129

(1) Credit rating as of December 31, 2012, 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.

Table of Contents*Troubled Debt Restructurings*

The following table presents, as of the dates indicated, our loans that are troubled debt restructurings for which we for economic or legal reasons relating to the debtor's financial difficulties grant a concession to the debtor that we would not otherwise consider. These loans consist principally of corporate loans that are accruing interest at rates lower than the original contractual terms as a result of a variation of terms upon restructuring. The following table shows, as of the dates indicated, certain details of our loans not included in problem and past due loans under IFRS which are classified as troubled debt restructurings :

	2010		As of December 31, 2011		2012	
	Domestic	Foreign	Total	Domestic	Foreign	Total
Loans not included in problem and past due loans which are classified as troubled debt restructurings	2,791		2,791	3,233		3,233
					2,604	2,604

The following table shows, as of the dates indicated, certain details of our loans not included in non-accrual and past due loans under U.S. GAAP which are classified as troubled debt restructurings :

	2008		As of December 31, 2009		Total
	Domestic	Foreign	Total	Domestic	
Loans not included in non-accrual and past due loans which are classified as troubled debt restructurings			483	1,518	1,518

For 2012, interest income that we would have recorded under the original contract terms of restructured loans amounted to 98 billion, of which we reflected 47 billion as interest income for 2012.

Potential Problem Loans

As of December 31, 2012, we had 4,376 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 between December 31, 2011 and 2012:

	Amount (in billions of Won)
Balance of potential problem loans at December 31, 2011	4,496
Increase in the balance of potential problem loans to borrowers who became newly classified as borrowers with potential problem loans in 2012	1,504
Decrease in the balance of potential problem loans to borrowers to whom we had potential problem loans outstanding at December 31, 2011 but no longer have any potential problem loans outstanding at December 31, 2012	(1,370)
Net decrease in the balance of potential problem loans to existing borrowers to whom we had potential problems loans outstanding at December 31, 2011	(254)
Balance at December 31, 2012	4,376

Other Problematic Interest-Earning Assets

We have in the past received certain other interest-earning assets in connection with troubled debt restructurings that, if they were loans, would be required to be disclosed as part of the problem, past due or restructuring or potential problem loan disclosures provided above. However, as of December 31, 2012, we had no such assets.

Table of Contents*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 under IFRS:

	2010	As of December 31, 2011	2012
	(in billions of Won, except percentages)		
Total non-performing loans	6,550 ⁽¹⁾	3,780 ⁽²⁾	3,766 ⁽³⁾
As a percentage of total loans	3.3%	1.8%	1.7%

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

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

(3) Excludes 59 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.

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

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

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

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

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

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

Table of Contents

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

	2010		As of December 31, 2011		2012	
	Amount	%	Amount	%	Amount	%
Domestic						
Corporate						
Commercial and industrial	5,317	81.2%	2,846	75.3%	2,652	70.4%
Lease financing	3	0.1	6	0.1	6	0.2
Trade financing	245	3.7	98	2.6	183	4.9
Other commercial	526	8.0	281	7.4	377	10.0
Total corporate	6,091	93.0	3,231	85.4	3,218	85.4
Consumer						
General purpose household ⁽¹⁾	294	4.4	378	10.0	411	10.9
Mortgage	12	0.2	18	0.5	26	0.7
Total consumer	306	4.6	396	10.5	437	11.6
Credit cards	51	0.8	63	1.7	65	1.7
Total domestic	6,448	98.4	3,690	97.6	3,720	98.8
Foreign						
Corporate						
Commercial and industrial	65	1.0	90	2.4	42	1.1
Lease financing						
Trade financing						
Other commercial						
Total corporate	65	1.0	90	2.4	42	1.1
Consumer						
	37	0.6		0.0	4	0.1
Total foreign	102	1.6	90	2.4	46	1.2
Total non-performing loans	6,550	100.0%	3,780	100.0%	3,766	100.0%

⁽¹⁾ Includes home equity loans.

Table of Contents

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

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

⁽¹⁾ Includes home equity loans.

The following table presents an analysis of the changes in our non-performing loans under IFRS for 2012:

	2012
	(in billions of Won)
Non-performing loans as of January 1, 2012	3,780
Additions to non-performing loans	
Loans transferred into non-performing loans	4,368
Reductions in non-performing loans	
Loans transferred to the held-for-sale investment portfolio	
Loans sold	(1,269)
Loans modified and returned to performing loans	(235)
Loans paid down or paid off	(541)
Loans charged-off	(2,178)

Others	(159)
Total net additions to non-performing loans	(14)
Total non-performing loans as of December 31, 2012	3,766

Table of Contents

Top 20 Non-Performing Loans. As of December 31, 2012, our 20 largest non-performing loans accounted for 31.2% 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	136	16	12	Manufacturing
Borrower B	130	13	130	Shipbuilding
Borrower C	93	10	87	Manufacturing
Borrower D	75	24	0	Real estate
Borrower E	72	8	72	Manufacturing
Borrower F	66	2	49	Construction
Borrower G	67	43	0	Construction
Borrower H	60	0	60	Real estate
Borrower I	59	14	53	Manufacturing
Borrower J	49	32	0	Construction
Borrower K	47	1	45	Retail and wholesale
Borrower L	43	0	7	Construction
Borrower M	41	19	41	Manufacturing
Borrower N	38	0	43	Real estate
Borrower O	38	30	0	Construction
Borrower P	36	36	0	Financial and insurance
Borrower Q	35	2	0	Construction
Borrower R	31	16	0	Construction
Borrower S	30	14	26	Shipbuilding
Borrower T	29	1	29	Real estate
Total	1,175	281	654	

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

Non-Performing Loan Strategy

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

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

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

identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;

Table of Contents

identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and

on a limited basis, identifying corporate loans subject to normalization efforts based on the cash-flow situation of the borrower. Once we have confirmed the details of a non-performing loan, we make efforts to recover amounts owed to us. Methods for resolving non-performing loans include the following:

commencing collection proceedings;

commencing legal actions to seize collateral;

writing off these amounts, transferring them to specific subsidiaries in charge of collections and authorizing those subsidiaries to recover what they can with respect to these amounts or to sell these loans to third parties; and

with respect to large corporations, commencing or participating in voluntary workouts or restructurings mandated by Korean courts. In addition to making efforts to collect on our non-performing loans, we also undertake measures to reduce the overall level of our non-performing loans. These measures include:

selling our non-performing loans to special purpose companies established in connection with our joint ventures with several financial institutions; and

selling our non-performing loans to third parties, including KAMCO and United Asset Management Corp. See Sales of Non-Performing Loans. We generally expect to suffer a partial loss on loans that we sell or securitize, to the extent such sales and securitizations are recognized as such under IFRS.

Foreclosure and Collateral. We generally foreclose on mortgages or exercise our security interests in respect of other collateral if a collateralized obligation becomes overdue for more than three months. At that time, we will petition a court to foreclose on collateral and to sell that collateral through a court-supervised auction. Under Korean law, that petition must be filed with a court that has jurisdiction over the mortgaged property, and must be filed together with a copy of the mortgage agreement and an extract of the court registry regarding the subject property. The court will then issue an order to commence the foreclosure auction, which will be registered in the court registry of the subject property. If no bidder bids at least the minimum amount set by the court on the first auction date, the court will set another date for a subsequent auction approximately one month later. Each time a new auction date is set, the minimum auction price will be lowered by approximately 20%. Unlike laws relating to foreclosure in the United States, Korean law does not provide for non-judicial foreclosure. During 2010, 2011 and 2012, we foreclosed on collateral we obtained with respect to loan balances representing approximately 0.2%, 0.2% and 0.5%, 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

Table of Contents

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 special purpose companies as further described below.

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

Purchaser	Year Ended December 31,								
	2010			2011			2012		
	Principal Amount Sold	Sale Price	Gain (loss)	Principal Amount Sold	Sale Price	Gain (loss)	Principal Amount Sold	Sale Price	Gain (loss)
	(in billions of Won)								
KAMCO	346	187	(87)	179	56	(27)	42	34	(4)
Special purpose companies	763	663	25	281	247	13	786	622	(33)
UAMCO ⁽¹⁾	256	172	(19)	829	526	(105)	299	252	(13)
Others		4	4	354	132	(35)	142	111	(13)
Total	1,365	1,026	(77)	1,643	961	(154)	1,269	1,019	(63)

⁽¹⁾ For the years ended December 31, 2011 and 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, in March 2009, the Korean government announced its plans to provide support to financial institutions and companies in the project finance industry by purchasing, through KAMCO, up to 4.7 trillion of project finance loans designated by the Financial Supervisory Service as endangered.

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

the underlying documentation of the loan is incomplete;

there is a flaw in the perfection of any security interest underlying the loan; or

certain litigation regarding the loan is pending.

In addition, we may be required to repurchase any loan relating to a borrower that has applied to a court for reorganization or that is the subject of reorganization proceedings at the time the loan was sold to KAMCO if a court rejects the application for reorganization, disapproves the reorganization plan or fails to approve the reorganization plan within two years of the sale. We may also be required to repurchase a loan if a court determines that the borrower cannot meet the terms of the repayment schedule developed in the reorganization proceeding. The ability of KAMCO to exercise its right to require us to repurchase loans sold is without limit. As of December 31, 2012, we did not have any loans subject to these repurchase rights.

Special Purpose Companies. Sales of our non-performing loans to joint venture special purpose companies include sales to (i) special purposes companies in which Woori F&I, our wholly-owned subsidiary, holds an equity interest not exceeding 50% and does not have effective control

and (ii) special purpose companies in which we have no involvement (other than as a seller of loans). Woori AMC Co, Ltd., our indirect wholly owned subsidiary, manages the substandard or below loans purchased from us by such special purpose companies and receives asset management fees from such special purpose companies, as well as a performance fee based on a percentage of asset resolutions.

Table of Contents

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

Pursuant to a memorandum of understanding among the Financial Supervisory Service and seven banks, including Woori Bank, a private equity fund was established in June 2011 to acquire approximately 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.

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

Table of Contents*Allocation and Analysis of Allowances for Credit Losses under IFRS*

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

	2010		As of December 31, 2011		2012	
	(in billions of Won, except percentages)					
Domestic						
Corporate						
Commercial and industrial	3,459	73.3%	2,690	71.6%	2,591	72.6%
Lease financing	5	0.1	5	0.1	4	0.1
Trade financing	268	5.7	187	5.0	205	5.8
Other commercial	479	10.1	348	9.3	249	7.0
Total corporate	4,211	89.3	3,230	85.9	3,049	85.5
Consumer						
General purpose household ⁽¹⁾	208	4.4	249	6.6	307	8.6
Mortgage	5	0.1	8	0.2	20	0.6
Total consumer	213	4.5	257	6.8	327	9.2
Credit cards	126	2.7	132	3.5	128	3.6
Total domestic	4,550	96.4	3,619	96.3	3,504	98.3
Foreign						
Corporate						
Commercial and industrial	150	3.2	139	3.7	57	1.6
Lease financing						
Trade financing					1	0.0
Other commercial	0	0.0	1	0.0	2	0.1
Total corporate	150	3.2	140	3.7	60	1.7
Consumer	18	0.4	0	0.0	0	0.0
Total foreign	168	3.6	140	3.7	60	1.7
Total allowance for credit losses	4,718	100.0%	3,759	100.0%	3,564	100.0%

⁽¹⁾ Includes home equity loans.

Table of Contents

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

	2010	Year ended December 31, 2011 (in billions of Won)	2012
Balance at the beginning of the period	3,508	4,718	3,759
Bad debt expenses for the period	3,025	2,085	2,106
Increase on repurchases of non-performing loans	10	4	0
Gross charge-offs			
Domestic			
Corporate			
Commercial and industrial	(1,031)	(1,577)	(1,545)
Lease financing	(5)	(4)	(10)
Trade financing	(100)	(238)	(108)
Other commercial	(63)	(304)	(117)
Total corporate	(1,199)	(2,123)	(1,780)
Consumer			
General purpose household ⁽¹⁾	(86)	(75)	(188)
Mortgage	(20)	(14)	(2)
Total consumer	(106)	(89)	(190)
Credit cards	(140)	(142)	(186)
Total domestic	(1,445)	(2,354)	(2,156)
Foreign	(61)	(15)	(60)
Allowances relating to loans sold	(268)	(538)	(163)
Total gross charge-offs	(1,774)	(2,907)	(2,379)
Recoveries:			
Domestic			
Corporate			
Commercial and industrial	65	33	152
Lease financing	1	1	1
Trade financing	10	10	17
Other commercial	9	10	14
Total corporate	85	54	184
Consumer			
General purpose household ⁽¹⁾	11	8	46
Mortgage	1	9	8
Total consumer	12	17	54
Credit cards	65	33	34
Total domestic	162	104	272
Foreign	7		3
Total recoveries	169	104	275
Net charge-offs	(1,605)	(2,803)	(2,104)
Foreign exchange translation effects	(2)	34	(2)
Others ⁽²⁾	(218)	(279)	(195)
Balance at the end of the period	4,718	3,759	3,564

Ratio of net charge-offs during the period to average loans outstanding during the period	0.8%	1.3%	1.0%
---	------	------	------

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

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

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

	2008	As of December 31,		2009
	(in billions of Won, except percentages)			
Domestic				
Corporate				
Commercial and industrial	1,936	65.8%	2,653	74.6%
Lease financing	4	0.1	11	0.3
Trade financing	187	6.4	279	7.8
Other commercial	217	7.4	166	4.7
Total corporate	2,344	79.7	3,109	87.4
Consumer				
General purpose household ⁽¹⁾	320	10.9	182	5.1
Mortgage	16	0.5	11	0.3
Total consumer	336	11.4	193	5.4
Credit cards	97	3.3	78	2.2
Total domestic	2,777	94.4	3,380	95.0
Foreign				
Corporate				
Commercial and industrial	161	5.5	175	4.9
Lease financing				
Trade financing	3	0.1	2	0.1
Other commercial				
Total corporate	164	5.6	177	5.0
Consumer				
Total foreign	164	5.6	177	5.0
Total allowance for loan losses	2,942	100.0%	3,557	100.0%

⁽¹⁾ Includes home equity loans.

Table of Contents

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

	Year ended December 31,	
	2008	2009
	(in billions of Won)	
Balance at the beginning of the period	1,736	2,942
Provision for credit losses	1,608	2,408
Allowance relating to credit-related commitments transferred to loans	13	47
Allowance relating to loans acquired in connection with acquisitions of Woori Securities, Kyongnam Bank, Kwangju Bank and Peace Bank of Korea		
Gross charge-offs		
Domestic		
Corporate		
Commercial and industrial	(186)	(757)
Lease financing	(1)	(9)
Trade financing	(24)	(81)
Other commercial	(16)	(47)
Total corporate	(227)	(894)
Consumer		
General purpose household ⁽¹⁾	(113)	(456)
Mortgage	(6)	(30)
Total consumer	(119)	(486)
Credit cards	(113)	(203)
Total domestic	(459)	(1,583)
Foreign	(19)	(60)
Allowance relating to loans sold	(40)	(317)
Total gross charge-offs	(518)	(1,960)
Recoveries:		
Domestic		
Corporate		
Commercial and industrial	14	44
Lease financing		1
Trade financing	2	5
Other commercial	1	3
Total corporate	17	53
Consumer		
General purpose household	8	27
Mortgage and home equity	1	2
Total consumer	9	29
Credit cards	61	59
Total domestic	87	141
Foreign	1	3
Total recoveries	88	144
Net charge-offs	(430)	(1,816)
Foreign exchange translation effects	15	(24)

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Balance at the end of the period	2,942	3,557
Ratio of net charge-offs during the period to average loans outstanding during the period ⁽²⁾	0.23%	0.97%

(1) Includes home equity loans.

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

Table of Contents

Loan Charge-Offs

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

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

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

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

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

With respect to unsecured consumer loans and credit card balances, we follow a different process to determine which unsecured consumer loans and credit card balances should be charged-off, based on the length of time those loans or balances are past due. We charge off unsecured consumer loans which are 12 months overdue and credit card balances which have been overdue for more than four payment cycles and have been classified as 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. In the case of Woori Bank, these loans are then transferred to a wholly-owned subsidiary, Woori Credit Information, that is in charge of collections. It will attempt to recover amounts owed or to sell these loans to third parties.

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

Table of Contents*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 loans (including credit card receivables) of Woori Bank, Kwangju Bank and Kyongnam Bank which became subject to such individual work-out programs in 2012 was 34 billion. In 2012, Woori Bank, Kwangju Bank and Kyongnam Bank recovered 8 billion in the aggregate with respect to their loans subject to such individual work-out programs.

On April 1, 2006, the Korean Debtor Recovery and Bankruptcy Law took effect and replaced the Individual Debtor Rehabilitation Law. Under the Korean Debtor Recovery and Bankruptcy Law, a qualified individual debtor with outstanding debts in an aggregate amount not exceeding threshold amounts of 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 loans (including credit card receivables) of Woori Bank, Kwangju Bank and Kyongnam Bank which became subject to such court-supervised debt restructuring in 2012 was 157 billion. In 2012, Woori Bank, Kwangju Bank and Kyongnam Bank recovered 31 billion in the aggregate with respect to their loans subject to such court-supervised debt restructuring.

On September 2, 2008, to support consumer borrowers with low credit scores, the Financial Services Commission established the Credit Rehabilitation Fund to purchase from creditors the loans of such borrowers that are in default and to provide guarantees so that such loans may be refinanced at lower rates. The Credit Rehabilitation Fund provides support to (i) individuals with low credit scores who are in default on loans not exceeding 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 Woori Bank, Kyongnam Bank and Kwangju Bank, to establish a pre-workout program, including a credit counseling and recovery service, for retail borrowers with outstanding short-term debt. The pre-workout program has been in operation since April 2009 and, following successive extensions by the Korean government, is expected to continue indefinitely. Under the pre-workout program, maturity extensions and/or interest rate adjustments 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 loans (including credit card receivables) made by Woori Bank, Kyongnam Bank and Kwangju Bank which became subject to the pre-workout program in 2012 was 44 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.

On March 29, 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 is expected to provide 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 are in arrears for a period of six months or more as of

Table of Contents

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 are 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 40 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 have not been in default during the prior six months before February 28, 2013.

To date, over 3,800 Korean financial institutions and private lenders, including our banking subsidiaries, Woori FG Savings Bank and Woori Financial, have 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 are subject to further negotiations between the National Happiness Fund and such financial institutions and lenders. The National Happiness Fund plans to accept applications from individual borrowers to participate in such relief programs until October 2013.

Securities Investment Portfolio

Investment Policy

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

maintain asset stability and diversification;

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

supplement income from core lending activities.

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

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

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

Table of Contents

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

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

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

Category	Classification	Accounting Treatment
Financial assets held for trading	Financial assets that are acquired principally for sale in the near term; form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profits; or are derivatives without a qualifying hedge relationship.	Recognized at fair value with transaction costs being recognized in net income and subsequently measured at fair value. Gains and losses are recognized in net income as they arise.
Financial assets designated as at fair value through profit and loss	Financial assets for which such designation eliminates or significantly reduces a measurement or recognition inconsistency; applies to a group of financial assets, financial liabilities or both, which are managed and the performance of which is evaluated on a fair value basis; or financial assets related to a contract containing one or more embedded derivatives that would be required to be separated from the host contract.	Recognized at fair value with transaction costs being recognized in net income and subsequently measured at fair value. Gains and losses are recognized in net income as they arise.
Available-for-sale financial assets	Non-derivative financial assets that are not classified as held-to-maturity, held-for-trading, designated as at fair value through profit and loss or loans and receivables. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost and classified as available-for-sale financial assets.	Initially recognized at fair value plus directly related transaction costs and subsequently measured at fair value. Impairment losses in monetary and non-monetary available-for-sale financial assets and dividends on non-monetary financial assets are recognized in net income. Interest revenue on monetary financial assets is calculated using the effective interest method. Other changes in the fair value of available-for-sale financial assets and any related tax are reported in a separate component of owners equity until disposal, when the cumulative gain or loss is recognized in net income.

Table of Contents

Category	Classification	Accounting Treatment
Held-to-maturity financial assets	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that we have the positive intent and ability to hold to maturity.	Initially recognized at fair value plus directly related transaction costs and subsequently measured at amortized cost using the effective interest method less any impairment losses.
Investments in jointly controlled entities and associates	Investments in jointly controlled entities refer to equity investments in entities with respect to which we have contractual arrangements with other parties to undertake economic activities subject to joint control.	Valued using the equity method, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> .
	Investments in associates refer to equity investments in entities over which we have significant influence but do not have direct or indirect control.	Any excess of the cost of acquisition over our share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity or associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of our share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the acquisition cost is recognized immediately in net income.
See Item 5A. Operating Results Critical Accounting Policies Valuation of Financial Assets and Liabilities.		

Table of Contents

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

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

Table of Contents

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

Table of Contents*Book Value and Fair Value*

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

	2010		As of December 31, 2011		2012	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
Financial assets at fair value through profit and loss						
Financial assets held for trading						
Equity securities	672	672	608	608	694	694
Beneficiary certificates	229	229	325	325	697	697
CMA securities	1,619	1,619	2,466	2,466	1,937	1,937
Others	656	656	1,651	1,651	2,371	2,371
Debt securities						
Korean treasury and government agencies	3,495	3,495	1,194	1,194	2,267	2,267
Financial institutions	3,622	3,622	5,194	5,194	3,887	3,887
Corporate	2,813	2,813	5,395	5,395	5,526	5,526
Commercial paper	3,395	3,395	2,973	2,973	3,132	3,132
Total Financial assets held for trading	16,501	16,501	19,806	19,806	20,511	20,511
Financial assets designated at FVTPL						
Equity-linked securities	302	302	654	654	651	651
Asset backed securities	400	400	410	410	385	385
Debt securities						
Equity securities	10	10	12	12	12	12
Structured deposit					11	11
Total Financial assets at designated FVTPL	712	712	1,076	1,076	1,064	1,064
Available-for-sale financial assets						
Equity securities	3,236	3,236	2,752	2,752	2,185	2,185
Beneficiary certificates	5,196	5,196	3,789	3,789	2,835	2,835
Others	1,226	1,226	219	219	202	202
Debt securities						
Korean treasury and government agencies	2,720	2,720	2,787	2,787	2,681	2,681
Financial institutions	5,897	5,897	5,210	5,210	6,050	6,050
Corporate	2,690	2,690	4,183	4,183	4,321	4,321
Asset backed securities	749	749	599	599	383	383
Foreign currency bonds	284	284	133	133	213	213
Total Available-for-sale financial assets	21,998	21,998	19,672	19,672	18,870	18,870
Held-to-maturity financial assets						
Debt securities						
Korean treasury and government agencies	6,348	6,477	7,235	7,432	7,665	7,835
Financial institutions	7,832	7,889	5,859	5,880	3,621	3,646
Corporate	5,491	5,567	6,828	6,898	7,352	7,485
Foreign government bonds	143	143	103	103	36	36
Securities loaned	71	72	11	11	11	11
Total Held-to-maturity	19,885	20,148	20,036	20,324	18,685	19,013

Total securities	59,096	59,359	60,590	60,878	59,130	59,458
------------------	--------	--------	--------	--------	--------	--------

Table of Contents*Maturity Analysis*

The following table categorizes our securities by maturity and weighted average yield as of December 31, 2012:

	As of December 31, 2012									
	Within 1 year		Over 1 but Within 5 years		Over 5 but Within 10 years		Over 10 years		Total	
	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⁾
(in billions of Won, except percentages)										
Financial assets at fair value through profit or loss:										
Financial assets held for trading										
Korean treasury and government agencies										
	101	2.86%	1,788	3.49%	267	3.84%	111	4.00%	2,267	3.52%
Financial institutions										
	3,531	3.64	346	3.30	10	3.64			3,887	3.61
Corporate										
	3,237	3.63	1,791	5.45	371	4.03	127	3.19	5,526	4.23
Commercial paper										
	3,092	3.15	40	3.79					3,132	3.16
Total	9,961	3.48%	3,965	4.36%	648	3.94%	238	3.57%	14,812	3.73%
Financial assets designated at fair value through profit or loss										
Corporate										
	1		4	2.69					5	1.99
Asset backed securities										
	47	1.93%					338	4.85	385	4.49%
Total	48	1.88%	4	2.69%			338	4.85%	390	4.46%
Available-for-sale financial assets										
Korean treasury and government agencies										
	948	4.48%	1,364	3.78%	332	3.61%	37	3.30%	2,681	4.00%
Financial institutions										
	3,901	3.59	2,147	3.40	1	3.10			6,049	3.52
Corporate										
	1,444	4.02	2,700	3.71	177	3.46			4,321	3.80
Asset backed securities										
	173	5.87	210	5.65					383	5.75
Foreign currency bonds										
	89	2.18	112	1.44	7	6.04	6	3.31	214	1.94
Total	6,555	3.85%	6,533	3.64%	517	3.59%	43	3.30%	13,648	3.74%
Held-to-maturity financial assets										
Korean treasury and government agencies										
	1,569	5.36%	5,991	3.97%	105	5.01%			7,665	4.27%
Financial institutions										
	2,662	3.20	904	3.83	20	5.08	35	7.33	3,621	3.40
Corporate										
	1,530	4.26	5,180	4.10	83	4.10	559	4.61	7,352	4.18
Foreign currency bonds										
	23	7.18	12	13.04			1	8.96	36	9.27
Securities loaned										
	11	4.24							11	4.24
Total	5,795	4.08%	12,087	4.03%	208	4.66%	595	4.78%	18,685	4.08%

⁽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).

Table of Contents*Risk Concentrations*

As of December 31, 2012, 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, 2012, our owners' equity was 18,666 billion.

Name of issuer:	As of December 31, 2012	
	Book Value	Market Value
	(in billions of Won)	
Korean government	11,486	11,609
The Bank of Korea	8,622	8,624
Total	20,108	20,233

The Bank of Korea is a Korean government entity.

Funding

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

Customer deposits are our principal funding source. Customer deposits accounted for 73.0% of our total funding as of December 31, 2010, 73.7% of our total funding as of December 31, 2011 and 76.6% of our total funding as of December 31, 2012.

We also acquire funding through the following sources:

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

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

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

As of December 31, 2012, approximately 89.9% of our total funding was denominated in Won.

Deposits

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

	For the year ended December 31,		
	2010	2011	2012

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

	Average Balance ⁽¹⁾	Average Rate Paid	Average Balance ⁽¹⁾	Average Rate Paid	Average Balance ⁽¹⁾	Average Rate Paid
	(in billions of Won, except percentages)					
Demand deposits	7,407	0.27%	10,728	0.26%	12,836	0.28%
Time deposits and savings deposits	150,317	2.87	160,952	3.00	167,503	2.99
Certificates of deposit	8,459	4.30	2,746	4.12	1,595	3.76
Other deposits ⁽²⁾	17,583	1.55	18,217	1.77	18,507	1.73
Average total deposits	183,766	2.71%	192,643	2.75%	200,441	2.71%

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

Table of Contents

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

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, 2012, 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, 2012			
	Certificates of Deposit	Other Time Deposits	Mutual Installment Deposits	Total
	(in billions of Won)			
Maturing within three months	1,196	39,159	1	40,355
After three but within six months	311	19,980		20,292
After six but within 12 months	229	38,124		38,354
After 12 months	55	1,999	4	2,058
Total	1,791	99,262	5	101,059

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, 2012 was as follows:

	Amount (in billions of Won)
Due in 2013	12,087
Due in 2014	8,334
Due in 2015	6,976
Due in 2016	2,663
Due in 2017	2,690
Thereafter	3,810
Gross long-term debt	36,560
Less: discount	(54)
Total long-term debt, net	36,506

Table of Contents*Short-Term Borrowings*

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

	As of and for the year ended December 31,		
	2010	2011	2012
	(in billions of Won, except percentages)		
Call money			
Year-end balance	6,073	4,393	5,784
Average balance ⁽¹⁾	4,908	4,825	3,486
Maximum balance	7,869	5,815	5,784
Average interest rate ⁽²⁾	2.60%	2.50%	1.60%
Year-end interest rate	0.07~6.20%	0.05~6.20%	0.05~4.35%
Borrowings from the Bank of Korea⁽³⁾			
Year-end balance	1,223	1,089	958
Average balance ⁽¹⁾	1,407	1,151	923
Maximum balance	1,706	1,286	1,089
Average interest rate ⁽²⁾	1.30%	1.50%	1.30%
Year-end interest rate	1.25%	1.50%	1.50%
Other short-term borrowings⁽⁴⁾			
Year-end balance	12,160	14,282	18,191
Average balance ⁽¹⁾	12,506	14,433	18,080
Maximum balance	14,368	15,664	19,808
Average interest rate ⁽²⁾	1.69%	1.12%	1.56%
Year-end interest rate	0.51~6.80%	0.10~13.50%	0.55~8.72%

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

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

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

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

Supervision and Regulation*Principal Regulations Applicable to Financial Holding Companies**General*

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

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

approves the establishment of financial holding companies;

issues regulations on the capital adequacy of financial holding companies and their subsidiaries; and

drafts regulations relating to the supervision of financial holding companies. Following the instructions and directives of the Financial Services Commission, the Financial Supervisory Service supervises and examines financial holding companies and their subsidiaries. In particular, the Financial Supervisory Service sets requirements relating to Korean financial holding companies liquidity and capital

Table of Contents

adequacy ratios and establishes reporting requirements within the authority delegated under the Financial Services Commission regulations. Financial holding companies must submit quarterly reports to the Financial Supervisory Service discussing business performance, financial status and other matters identified in the Enforcement Decree of the Financial Holding Company Act.

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

controlling the management of its subsidiaries;

financially supporting its direct and indirect subsidiaries;

raising capital necessary for investment in its subsidiaries or providing financial support to its direct and indirect subsidiaries;

supporting the business of its direct and indirect subsidiaries for the joint development and marketing of new products;

supporting the operations of its direct and indirect subsidiaries by providing access to data processing, legal and accounting resources; and

any other businesses exempted from authorization, permission or approval under the applicable laws and regulations.

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

Capital Adequacy

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

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

Table of Contents

Liquidity

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

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

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

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

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

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

Financial Exposure to Any Individual Customer and Major Shareholder

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

Net aggregate equity capital is defined as the sum of:

- (1) in case of a financial holding company, the capital amount as defined in Article 24-3(7), Item 2 of the Enforcement Decree of the Financial Holding Company Act;
- (2) in case of a bank, the capital amount as defined in Article 2(1), Item 5 of the Bank Act;
- (3) in case of a merchant bank, the capital amount as defined in Article 342(1) of the Financial Investment Services and Capital Markets Act;
- (4) in case of a financial investment company, the capital amount as defined in Article 37(3) of the Enforcement Decree of the Financial Investment Services and Capital Markets Act;
- (5) in case of an insurance company, the capital amount as defined in Article 2, Item 15 of the Insurance Business Act;
- (6) in case of a savings bank, the capital amount as defined in Article 2, Item 4 of the Mutual Savings Bank Act; and
- (7) in case of a specialized credit financial business company, the capital amount as defined in Article 2, Item 19 of the Specialized Credit Financial Business Act;

Table of Contents

less the sum of:

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

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

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

Major shareholder is defined as:

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

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

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

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

Generally, a direct or indirect subsidiary of a financial holding company may not extend credits (excluding the amount of corporate credit card payments issued by a direct or indirect subsidiary of a financial holding

Table of Contents

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

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

- (1) transfers to a special purpose company, or entrustment with a trust company, for an asset-backed securitization transaction;
- (2) transfers to a mortgage-backed securities issuance company for a mortgage securitization transaction;
- (3) transfers or in-kind contributions to a corporate restructuring vehicle under the Corporate Restructuring Investment Companies Act; and
- (4) transfers to a corporate restructuring company under the Industry Promotion Act.

Disclosure of Management Performance

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

- (1) financial condition and profit and loss of the financial holding company and its direct and indirect subsidiaries;
- (2) fund raising by the financial holding company and its direct and indirect subsidiaries and the appropriation of such funds;
- (3) any sanctions levied on the financial holding company and its direct and indirect subsidiaries under the Financial Holding Company Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry; and
- (4) occurrence of any non-performing assets or financial incident that may have a material adverse effect, or any other event as prescribed in the applicable regulations.

Restrictions on Shareholdings in Other Companies

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

Restrictions on Shareholdings by Direct and Indirect Subsidiaries

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

financial institutions established in foreign jurisdictions;

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

Table of Contents

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

certain financial institutions whose business is related to the financial business as prescribed by the regulations of the Ministry of Strategy and Finance; and

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

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

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

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

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

Restriction on Ownership of a Financial Holding Company

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

Non-financial business group companies are required to obtain approval from the Financial Services Commission in order to (i) become the largest shareholder of a bank holding company or (ii) acquire 4% or more of the issued and outstanding shares of voting stock of a bank holding company and participate in the management of such company in the manner prescribed in the Enforcement Decree of the Financial Holding

Table of Contents

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

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

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

- (1) any same shareholder group where the aggregate net assets of all non-financial business companies belonging to that group equals or exceeds 25% of the aggregate net assets of all members of that group;
- (2) any same shareholder group where the aggregate assets of all non-financial business companies belonging to that group equals or exceeds 2 trillion; or
- (3) any mutual fund where a same shareholder group identified in (1) or (2) above owns more than 9% of the total issued and outstanding shares of that mutual fund.

Sharing of Customer Information among Financial Holding Company and its Subsidiaries

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

Principal Regulations Applicable to Banks*Capital Adequacy*

The Bank Act requires nationwide banks, such as Woori Bank, to maintain a minimum paid-in capital of 100 billion and regional banks, such as Kyongnam Bank and Kwangju Bank, 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 Bank Act, the capital of a bank is divided into two categories, Tier I and Tier II capital. Tier I capital (core capital) consists of, among others, owners' equity, capital surplus, retained earnings, hybrid Tier I capital instruments, and gains or losses on foreign exchange as a part of accumulated other comprehensive gains and losses. Tier II capital (supplementary capital) consists of, among others, revaluation reserves, gains on

Table of Contents

valuation of investment securities (up to certain limits), allowances for credit losses set aside for loans classified as normal or precautionary (up to certain limits), perpetual subordinated debt, cumulative preferred shares (with redemption rights after the fifth anniversary of their date of issuance) and certain other subordinated debt.

All banks must meet minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with Financial Services Commission requirements that have been formulated based on BIS standards. These standards were adopted and became effective in 1996, and were amended effective January 1, 2008 upon the implementation by the Financial Supervisory Service of Basel II. All domestic banks and foreign bank branches must meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%. In September 2012, the Financial Services Commission announced its plans to implement a new set of regulations that will, among other things, require Korean banks to comply with stricter minimum capital ratio requirements beginning in 2013 and additional minimum capital conservation buffer requirements starting in 2016. Under the proposed regulations, Korean banks will be required to maintain a minimum ratio of Tier I common 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% in 2013, which minimum ratios are to increase to 4% and 5.5%, respectively, in 2014 and 4.5% and 6%, respectively, in 2015. Such requirements would be in addition to the existing requirement of a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%, which will remain unchanged. The proposed regulations also contemplate an additional capital conservation buffer of 0.625% starting in 2016, with such buffer to increase to 2.5% by 2019. However, in December 2012, the Financial Services Commission announced that the implementation of the proposed Basel III-related requirements in Korea will be delayed indefinitely pending the implementation of Basel III in the European Union, the United States and other countries.

In November 2002, the Financial Services Commission amended the Enforcement Detailed Rules on the Supervision of the Banking Business to include a more conservative risk-weighting system for certain newly extended home mortgage loans, which set the risk-weighted ratios of Korean banks in respect of home mortgage loans between 50% and 70% depending on the borrower's debt ratio and whether the home mortgage loans are overdue. In June 2007 and February 2012, the Financial Services Commission further amended the Enforcement Detailed Rules on the Supervision of the Banking Business and, as a result, the following risk-weight ratios must be applied by Korean banks in respect of home mortgage loans from January 1, 2008:

- (1) for those banks which adopted a standardized approach for calculating credit risk capital requirements, a risk-weight ratio of 35% and, with respect to certain high-risk home mortgage loans (such as bullet loans or amortized loans with grace periods), 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 Enforcement Detailed Rules on the Supervision of the Banking Business.

Liquidity

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

maintain a Won liquidity ratio (defined as Won assets due within one month, including marketable securities, divided by Won liabilities due within one month) of not less than 100% and to make monthly reports to the Financial Supervisory Service;

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

Table of Contents

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

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

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

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

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

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

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

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

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

Financial Exposure to Any Individual Customer and Major Shareholder

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

Table of Contents

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

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

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

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

Interest Rates

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

Lending to Small- and Medium-Sized Enterprises

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

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

lower the bank's credit limit.

Disclosure of Management Performance

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

financial condition and profit and loss of the bank and its direct and indirect subsidiaries;

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

Table of Contents

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

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

- (i) loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to that borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits), unless the loan exposure to that group is not more than 4 billion;
- (ii) the occurrence of any financial incident involving embezzlement, malfeasance or misappropriation of funds in an amount exceeding 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions), unless the bank has lost or expects to lose not more than 1 billion as a result of that financial incident, or the governor of the Financial Supervisory Service has made a public announcement regarding the incident; and
- (iii) any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month, unless the loss is not more than 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 petty loans of up to 20 million in the case of a general loan, 50 million in the case of a general loan plus a housing loan or 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.

Recent Regulations Relating to Retail Household Loans

The Financial Services Commission implemented a number of changes in recent years to the mechanisms by which a bank evaluates and reports its retail household loan balances and has proposed implementing further changes. Due to a rapid increase in the number of loans secured by homes and other forms of housing, the Financial Services Commission and the Financial Supervisory Service have implemented regulations designed to curtail extension of new or refinanced loans secured by housing, including the following:

as to loans secured by collateral of housing (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 Korean government, (i) the loan-to-value ratio for loans with a maturity of not more than three years should not exceed 50% and (ii) the loan-to-value ratio for loans with a maturity of more than three years should not exceed 60%;

Table of Contents

as to loans secured by apartments located in areas of high speculation as designated by the Korean government,

- (i) the loan-to-value ratio for loans with a maturity of not more than ten years should not exceed 40%; and
- (ii) the loan-to-value ratio for loans with a maturity of more than ten years should not exceed (a) 40%, if the price of such apartment is over 600 million, and (b) 60%, if the price of such apartment is 600 million or lower;

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

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

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

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

See Item 3D. Risk Factors Risks relating to our consumer credit portfolio Government regulation of consumer lending, particularly mortgage and home equity lending, has recently become more stringent, which may hurt our consumer banking operations.

Restrictions on Investments in Property

A bank may not invest in securities set forth below in excess of 60% of the sum of the bank's Tier I and Tier II capital (less any capital deductions):

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

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

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

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

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

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

Table of Contents

Restrictions on Shareholdings in Other Companies

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

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

the acquisition is necessary for the corporate restructuring of the corporation and is approved by the Financial Services Commission. In the above exceptional cases, the total investment in corporations in which the bank owns more than 15% of the outstanding shares with voting rights may not exceed 15% of the sum of Tier I and Tier II capital (less any capital deductions), or 30% of the sum of Tier I and Tier II capital (less any capital deductions) if the bank meets certain management conditions as set forth in the applicable rules adopted by the Financial Services Commission.

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

Restrictions on Bank Ownership

Under the Bank Act, a single shareholder and persons who have a special relationship with that shareholder generally may acquire beneficial ownership of no more than 10% of a nationwide bank's total issued and outstanding shares with voting rights and no more than 15% of a regional bank's total issued and outstanding shares with voting rights. The Korean government, the KDIC and bank holding companies qualifying under the Financial Holding Company Act are not subject to this limit. However, non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 9% of that bank's outstanding voting shares, unless they obtain the approval of the Financial Services Commission and agree not to exercise voting rights in respect of shares in excess of the 9% limit, in which case they may acquire beneficial ownership of up to 10% of a nationwide bank's outstanding voting shares. Non-financial business group companies are required to obtain approval from the Financial Services Commission in order to (i) become the largest shareholder of a bank or (ii) acquire 4% or more of the issued and outstanding shares of voting stock of a bank and participate in the management of a bank in the manner prescribed in the Enforcement Decree of the Bank Act. If non-financial business group companies hold voting stock of a bank in excess of the foregoing limits as a result of unavoidable circumstances, such as sales by other stockholders of their shareholding, such non-financial business group companies are required to obtain approval from the Financial Services Commission to hold the portion of shares of the bank that exceeds the limit, dispose of such portion or take measures so that they no longer fall under the definition of non-financial business group companies under the Bank Act. Non-compliance with such requirement will prohibit non-financial business group companies from exercising their voting rights of the shares that exceed the limit and prompt the issuance of an order by the Financial Services Commission directing such non-financial business group companies to dispose of their shares that exceed the limit. In addition, if a foreign investor, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a nationwide bank's outstanding voting shares, non-financial business group companies may acquire beneficial ownership of up to 10% of that bank's outstanding voting shares, and in excess of 10%, 25% or 33% of that bank's outstanding voting shares with the approval of the Financial Services Commission in each instance, up to the number of shares owned by the foreign investor. Any other person (whether a Korean national or a foreign investor), with the exception of non-financial business group companies described above, may acquire no more than 10% of a nationwide bank's total voting shares issued and outstanding, unless they obtain approval from the Financial Services Commission in each instance where the total holding will exceed 10% (or 15% in the case of regional banks), 25% or 33% of the bank's total voting shares issued and outstanding provided that, in addition to the foregoing threshold shareholding ratios, the Financial Services Commission may, at its discretion, designate a separate and additional threshold shareholding ratio.

Table of Contents

Deposit Insurance System

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act are required to pay an insurance premium to the KDIC on a quarterly basis. The rate is determined under the Enforcement Decree to the Depositor Protection Act, and may not exceed 0.5% of the bank's insurable deposits in any given year. The current insurance premium is 0.02% of insurable deposits for each quarter. If the KDIC makes a payment on an insured amount, it will acquire the depositors' claims with respect to that payment amount. The KDIC insures a maximum of 50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits. Certain banks governed by the Bank Act, including our commercial banking subsidiaries, are also required by the Deposit Insurance Act to pay a special contribution of 0.025% of average deposits for each quarter as repayment of the governmental funding provided to such banks in the wake of the financial crisis in Korea in the late 1990s. The Depositor Protection Act requires such special contribution to be paid until 2027.

Laws and Regulations Governing Other Business Activities

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

Trust Business

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

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

depositors and other general creditors cannot obtain the assets comprising the trust accounts if the bank is liquidated or wound-up. The bank must make a special reserve of 25% or more of fees and commissions from each unspecified money trust account for which a bank guarantees the principal amount and a minimum yield until the total reserve for that account equals 5% of the trust amount. Since January 1999, the Korean government has prohibited Korean banks from offering new guaranteed fixed rate trust account products whose principal and interest are guaranteed.

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

Credit Card Business

General

In order to enter the credit card business, a 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 June 1, 2012, 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.

Table of Contents

Disclosure and Reports

Pursuant to the Specialized Credit Financial Business Act, 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.

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.

Restrictions on Funding

Pursuant to the Specialized Credit Finance Business Act and 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 losses arising from the unauthorized use of credit cards or debit cards after it has received notice from the cardholder of the loss or theft of the card, and is also liable for any unauthorized use during the period beginning 60 days before it receives notice of the loss or theft from the cardholder.

However, if the credit card company has entered into agreements which allow it to transfer all or part of its burden of liability for loss or theft of credit cards to holders of the credit cards, then the company may transfer the liability to those holders of the credit cards in accordance with the terms and conditions of the agreements. Even in such case, the risk of liability cannot be transferred to the holders of the credit cards if there was no willful misconduct or negligence attributable to the holders of the credit cards, such as in the case where the cardholder's password was disclosed under irresistible force or threat to the cardholder's or his/her relative's life or health.

A credit card company is also liable for any loss arising from the use of forged or altered credit cards, debit cards or pre-paid cards. However, if the company has entered into an agreement allowing it to transfer all or part of its burden of liability for loss or theft of the credit card, debit card, or pre-paid card to the holder of the credit card, debit card, or pre-paid card, and it has proved willful misconduct or gross negligence of the holder of the credit card, debit card, or pre-paid card, then the credit card company may transfer the liability to such holder of the credit card, debit card, or pre-paid card in accordance with the terms and conditions of the agreement. For these purposes, willful misconduct or gross negligence means either disclosure of the cardholder's password, or the transfer of the credit card or debit card, or providing such credit card or debit card as security, all through willful misconduct or gross negligence.

Any agreement between a credit card company and a cardholder allowing the transfer of burden of liability for the loss, theft, forgery or alteration of credit cards, debit cards, or pre-paid cards, as applicable, will be effective only if it is in writing, and an act of gross negligence by the cardholder will be acknowledged as such only if it is expressly provided as falling under such act in the agreement.

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

Table of Contents

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 Specialized Credit Financial Business Act and the Enforcement Decree thereto.

Issuance of New Cards and Solicitation of New Card Holders

The Enforcement Decree to the Specialized Credit Financial Business Act establishes the conditions under which a 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 20 years old when they apply for a credit card;

persons whose capability to pay bills as they come due has been verified using standards established by the registered bank engaging in the credit card business; and

in the case of minors who are at least 18 years and younger than 20 years, persons who submit 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;

Table of Contents

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

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

Regulations on Class Actions Regarding Securities

The Law on Class Actions Regarding Securities was enacted as of January 20, 2004 and last amended on March 31, 2010. The Law on Class Actions Regarding Securities governs class actions suits instituted by one or more representative plaintiff(s) on behalf of 50 or more persons who claim to have been damaged in a capital markets transaction involving securities issued by a listed company in Korea.

Applicable causes of action with respect to such suits include:

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

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

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

claims instituted against auditors for damages caused by accounting irregularities.

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

Principal Regulations Applicable to Financial Investment Companies with a Dealing and/or Brokerage License

General

Beginning in February 2009, the Financial Investment Services and Capital Markets Act regulates and governs the financial investment business, including the brokerage business. The entities that regulate and supervise financial investment companies with a dealing and/or brokerage license are the Financial Services Commission, the Financial Supervisory Service and the Securities and Futures Commission.

Under the Financial Investment Services and Capital Markets Act, a company must obtain a license from the Financial Services Commission to commence a financial investment business such as a brokerage business, a dealing business or an underwriting business. A financial investment company with a dealing and/or brokerage license may also engage in certain businesses ancillary to that business without obtaining any separate license and certain other businesses if it obtains separate licenses from the Financial Services Commission. A financial investment company must also obtain approval from the Financial Services Commission to merge with any other entity or transfer all or a part of its business.

If the Financial Services Commission deems a financial investment company's financial condition to be unsound or if a financial investment company fails to meet the applicable net operating equity ratio (as defined below), the Financial Services Commission may order the financial investment company to:

increase or reduce its capital;

cancel or consolidate its stock;

transfer all or part of its business;

close branch offices;

merge with another financial institution;

suspend a part or all of its business operations; or

assign contractual rights and obligations relating to its financial transactions.

Table of Contents

Regulations on Financial Soundness

The Financial Services Commission regulations require that the financial soundness of a financial investment company be assessed in accordance with its net operating equity ratio, which is calculated as follows and expressed as a percentage:

Net operating equity ratio = (net operating equity/total risk) x 100

The terms net operating equity and total risk for the purpose of the above formula are defined in the Financial Services Commission's regulations. Generally, the net operating equity and the total risk are calculated according to the following formulas:

Net operating equity = net assets (total assets - total liabilities) - total deductible items + total creditable items

Total risk = market risk + credit risk + operational risk

The regulations require that financial investment companies maintain their net operating equity ratio at a level equal to or higher than 150%.

Other Provisions on Financial Soundness

The Financial Investment Services and Capital Markets Act, the Enforcement Decree of the Financial Investment Services and Capital Markets Act and Financial Services Commission regulations also include provisions designed to regulate certain types of activities relating to the management of the assets of a financial investment company. These provisions include:

restrictions on the holdings by a financial investment company with a dealing and/or brokerage license of securities issued by another company which is the largest shareholder or the major shareholder (each as defined under the Financial Investment Services and Capital Markets Act) of that financial investment company;

restrictions on providing money or credit to the largest shareholder, major shareholder, officers and related persons of the financial investment company; and

special provisions concerning payment guarantees by a financial investment company with a dealing and/or brokerage license. For instance, a financial investment company with a dealing and/or brokerage license may not provide payment guarantees for major shareholders (as defined in the Financial Investment Services and Capital Markets Act) other than its overseas subsidiaries or provide new guarantees for corporate bonds, other than, subject to certain restrictions, roll-over guarantees in connection with the repayment of bonds previously guaranteed by it.

Business Conduct Rules

Pursuant to the Financial Investment Services and Capital Markets Act, financial investment companies are required to comply with certain business conduct rules. These rules impose greater responsibilities on financial investment companies, strictly banning certain unfair practices and ensuring that the potential investors solicited by financial investment companies are suitable.

Disclosure and Reports

Pursuant to the Financial Investment Services and Capital Markets Act, a financial investment company with a dealing and/or brokerage license is required to disclose certain material matters, including:

its financial condition, including profit and loss;

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

any sanctions levied on it under the Financial Investment Services and Capital Markets Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry; and

the occurrence of any matters which may have a material adverse effect on its operation or management.

Table of Contents

A financial investment company must submit a report on its financial results to the Financial Services Commission within 45 days from the end of each quarter.

Financial Investment Services and Capital Markets Act

General

In July 2007, the National Assembly of Korea passed the Financial Investment Services and Capital Markets Act, a new law intended to enhance the integration of the Korean capital markets and financial investment products industry. The Financial Investment Services and Capital Markets Act became effective as of February 4, 2009

Consolidation of Capital Markets-Related Laws

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

dealing, trading and underwriting of financial investment products (as defined below);

brokerage of financial investment products;

establishment of collective investment schemes and the management thereof;

investment advice;

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.

Table of Contents*New License System and the Conversion of Existing Licenses*

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

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

Expanded Business Scope of Financial Investment Companies

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

Improvement in Investor Protection Mechanism

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

Table of Contents

investors, the Financial Investment Services and Capital Markets Act expressly requires (i) disclosure of any conflict of interest to investors and (ii) mitigation of conflicts of interest to a comfortable level or abstention from the relevant transaction.

Other Changes to Securities / Fund Regulations

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

Item 4C. Organizational Structure

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

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

(2) In April 2013, we spun off the credit card business of Woori Bank into a newly established wholly-owned subsidiary, Woori Card.

Our largest subsidiary is Woori Bank, the assets of which represented approximately 71.3% of our total assets as of December 31, 2012. The following table identifies each of our major subsidiaries and their contributions to our total assets and net income as of and for the year ended December 31, 2011 (after allocating eliminations for consolidation, inter-segment transactions and certain differences in classification under our management reporting system for assets and net income in proportion to total assets and absolute net income, respectively):

Subsidiary	As of or for the year ended December 31, 2012		
	Total Assets ⁽¹⁾		Net
	Amount	% of Total	Income ⁽²⁾
	(in billions of Won, except percentages)		
Woori Bank ⁽³⁾	232,136	71.3%	1,107
Kyongnam Bank	27,135	8.3	136
Kwangju Bank	17,479	5.4	104
Others	48,956	15.0	451
Total	325,706	100.0%	1,798

Table of Contents

- (1) After allocating eliminations of 21,204 billion representing consolidation, inter-segment transactions and certain differences in classification under our management reporting system. This amount has been allocated in proportion to the ratio of segment assets before eliminations to total assets before eliminations. See Note 5 of the notes to our consolidated financial statements.
- (2) After allocating a loss of 556 billion representing inter-segment transactions and certain differences in classification under our management reporting system. This amount has been allocated in proportion to the ratio of absolute segment net income to the sum of the absolute net income of all segments.
- (3) Prior to the spin-off of its credit card business into Woori Card, which was effected in April 2013.

The following is a summary of the activities of our principal subsidiaries:

Woori Bank

Established in December 1998, Woori Bank (formerly known as Hanvit Bank) was formed as a result of the merger of two nationwide commercial banks, the Commercial Bank of Korea (established in 1899) and Hanil Bank (established in 1932). Woori Bank provides a wide range of banking and other financial services to large corporations, small- and medium-sized enterprises and individuals in Korea. As of December 31, 2012, Woori Bank was the second-largest commercial bank in Korea based upon total assets (including loans) and deposits. As of December 31, 2012, Woori Bank had approximately 18 million customers, with 993 branches nationwide.

Kyongnam Bank

Established in April 1970, Kyongnam Bank is a regional commercial bank that provides financial services in Changwon and Ulsan and other parts of the South Kyongsang province in southeastern Korea. Kyongnam Bank concentrates on consumer banking, as well as corporate banking for small- and medium-sized enterprises and, to a lesser extent, large corporate customers. As of December 31, 2012, Kyongnam Bank had approximately two million customers, with 162 branches throughout southeastern Korea and Seoul.

Kwangju Bank

Established in September 1968, Kwangju Bank is a regional commercial bank that provides financial services in Kwangju and southwestern Korea. Kwangju Bank concentrates on the consumer and small- and medium-sized enterprise banking sectors, offering various deposit and loan products to customers in those sectors and, to a lesser extent, large corporate customers. As of December 31, 2012, Kwangju Bank had approximately three million customers, with 153 branches throughout southwestern Korea and Seoul.

Other Subsidiaries

The following table provides summary information regarding our other significant consolidated subsidiaries (other than special purpose companies) as of or for the year ended December 31, 2012:

Subsidiary	Percentage of Ownership ⁽¹⁾	Total Assets	Stockholders Equity	Operating Revenue	Net Income
			(in millions of Won)		
Woori Asset Management Co., Ltd.	100.0%	80,095	63,827	31,845	979
Woori Private Equity Co., Ltd.	100.0%	1,559,318	55,873	213,360	(17,940)
Woori F&I Co., Ltd.	100.0%	1,748,298	279,625	154,367	45,923
Woori FG Savings Bank	100.0%	1,598,619	156,244	82,742	(19,772)
Woori FIS Co., Ltd	100.0%	334,878	41,266	308,325	(4,458)
Woori Financial Co., Ltd.	52.0%	3,537,592	372,070	347,411	53,073
Woori Finance Research Institute Co., Ltd	100.0%	4,156	2,593		(407)
Woori Investment & Securities Co., Ltd.	37.9%	24,821,505	3,453,508	3,498,567	121,671

(1) Including both direct and indirect ownership.

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

Table of Contents**Item 4D. Property, Plants and Equipment**

Our registered office and corporate headquarters, with a total area of approximately 97,222 square meters, are located at 203, 1-ga, Hoehyon-dong, Chung-Gu, Seoul, Korea. Information regarding certain of our properties in Korea is presented in the following table:

Type of Facility/Building	Location	Area (square meters)
Woori Finance Holdings and Woori Bank registered office and corporate headquarters	203 Hoehyon-dong, 1-ga, Chung-gu, Seoul, Korea 100-792	97,222
Kyongnam Bank registered office and corporate headquarters	246-1 Seockcheon-dong, MasanHoiwon-gu, Changwon City, Kyongnam Province, Korea 630-010	29,457
Kwangju Bank registered office and corporate headquarters	7-12 Daein-dong, Dong-gu, Kwangju, Korea 501-030	47,007
Woori Investment & Securities registered office and corporate headquarters	23-4 Yeouido-dong, Yeongdeungpo-gu, Seoul, Korea 150-725	45,499
Woori FIS registered office and corporate headquarters	1585 Sangam-dong, Mapo-gu, Seoul, Korea 121-835	40,737

As of December 31, 2012, we had a network of 1,308 banking branches in Korea. With respect to Woori Bank, approximately 261 of its branches are housed in buildings owned by us, while the remaining branches are leased properties. Lease terms are generally from two to three years and seldom exceed five years. We also have subsidiaries in the United States, China, Hong Kong, Russia, Indonesia 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, 2012 was 3,186 billion.

Item 4.A. UNRESOLVED STAFF COMMENTS

We do not have any unresolved comments from the Securities and Exchange Commission staff regarding our periodic reports under the Securities Exchange Act of 1934.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**Item 5A. Operating Results Overview**

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

Trends in the Korean Economy

Our financial position and results of operations have been and will continue to be significantly affected by financial and economic conditions in Korea. Substantial growth in lending in Korea to small- and medium-sized enterprises in recent years, and financial difficulties experienced by such enterprises as a result of, among other things, adverse economic conditions in Korea and globally from the second half of 2008, have generally led to increasing delinquencies and a deterioration in overall asset quality in the credit exposures of Korean banks to

Table of Contents

small- and medium-sized enterprises. In 2012, we recorded charge-offs of ₩821 billion in respect of our Won-denominated loans to small- and medium-sized enterprises, compared to charge-offs of ₩758 billion in 2011. In light of the difficult financial condition and liquidity position of small- and medium-sized enterprises in Korea since the second half of 2008, the Korean government introduced measures intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise borrowers. See Item 3D. Risk Factors Risks relating to our corporate credit portfolio The largest portion of our exposure is to small- and medium-sized enterprises, and financial difficulties experienced by companies in this segment may result in a deterioration of our asset quality and have an adverse impact on us.

In recent years, commercial banks, consumer finance companies and other financial institutions in Korea have also made significant investments and engaged in aggressive marketing in consumer lending (including mortgage and home equity loans), leading to substantially increased competition in this segment. The rapid growth in consumer loans, together with adverse economic conditions since the second half of 2008, have generally led to increasing delinquencies and a deterioration in asset quality. In 2012, we recorded charge-offs of ₩190 billion and bad debt expenses of ₩242 billion in respect of our consumer loan portfolio, compared to charge-offs of ₩89 billion and bad debt expenses of ₩158 billion in 2011. In June 2011, the Korean government announced a set of policy objectives to curtail the rapid growth of consumer lending by commercial banks, consumer finance companies and other financial institutions, as well as measures to encourage the increased use of fixed interest rates in consumer lending and to strengthen the protection of retail borrowers. See Item 3D. Risk Factors Risks relating to our consumer credit portfolio.

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 2013 and beyond remain uncertain. Starting in the second half of 2011, the global financial markets have experienced significant volatility as a result of, among other things, the financial difficulties affecting many governments worldwide, in particular in Cyprus, Greece, Spain, Italy and Portugal. In addition, recent political and social instability in various countries in the Middle East and Northern Africa, including in Egypt, Libya, Syria and Yemen, have resulted in volatility and uncertainty in the global energy markets. Any of these or other developments could potentially trigger another financial and economic crisis. Furthermore, in recent months, the Chinese economy has begun to show signs of a potential slowdown, including decreased gross domestic product growth rates in the first and second quarters of 2012 and falling real estate price levels in certain urban areas. In response, the Chinese government has implemented stimulus measures, including a decrease in the benchmark interest rate for deposits and loans as announced by the People's Bank of China in June 2012, but the overall impact of such stimulus measures remains uncertain. Although China's economy began to show signs of recovery in the fourth quarter of 2012, factors such as falling real estate price levels, excess liquidity and China's reliance on investment-driven growth may lead to an economic correction. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, financial condition and results of operations.

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

Table of Contents

As a result of volatile conditions and weakness in the Korean and global economies, as well as factors such as the uncertainty surrounding the global financial markets, fluctuations in oil and commodity prices, interest and exchange rate fluctuations, higher unemployment, lower consumer confidence, increases in inflation rates, potential tightening of fiscal and monetary policies and continued tensions with North Korea, the economic outlook for the financial services sector in Korea in 2013 and for the foreseeable future remains uncertain.

Acquisitions

We acquired certain assets and assumed certain liabilities of Samhwa Mutual Savings Bank in March 2011 and Solomon Savings Bank in September 2012 through our wholly owned subsidiary Woori FG Savings Bank, and injected 110 billion of new capital in March 2011 and an additional 100 billion of new capital in September 2012 into Woori FG Savings Bank.

Basel III

In December 2009, the Basel Committee on Banking Supervision introduced a new set of measures to supplement Basel II, which include, among others, a requirement for higher minimum capital, introduction of a leverage ratio as a supplementary measure to the capital adequacy ratio and flexible capital requirements for different phases of the economic cycle. Additional details regarding such new measures, including an additional capital conservation buffer and countercyclical capital buffer, liquidity coverage ratio and other supplemental measures, were announced by the Group of Governors and Heads of Supervision of the Basel Committee on Banking Supervision in September 2010. After further impact assessment and observation periods, the Basel Committee on Banking Supervision will begin phasing in the new set of measures, referred to as Basel III, from 2013. In September 2012, the Financial Services Commission announced its plans to implement a new set of regulations that will, among other things, require Korean banks to comply with stricter minimum capital ratio requirements beginning in 2013 and additional minimum capital conservation buffer requirements from 2016. Under the proposed regulations, Korean banks will be required to maintain a minimum ratio of Tier I common 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 2013, with such minimum ratios being increased to 4.0% and 5.5%, respectively, from 2014 and 4.5% and 6.0%, respectively, from 2015. Such requirements would be in addition to the existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital reductions) to risk-weighted assets of 8.0%, which will remain unchanged. The proposed regulations also contemplate an additional capital conservation buffer of 0.625% starting in 2016, with such buffer to increase to 2.5% by 2019. However, in December 2012, the Financial Services Commission announced that the implementation of the proposed Basel III-related requirements in Korea will be delayed indefinitely pending the implementation of Basel III in the European Union, the United States and other countries. Accordingly, the timing and scope of implementation of the Basel III measures described above in Korea, as well as other Basel III measures such as introduction of a countercyclical buffer, leverage ratio and liquidity coverage ratio, remain uncertain. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including us. See Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.

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, 2008	Dec. 31, 2008	June 30, 2009	Dec. 31, 2009	June 30, 2010	Dec. 31, 2010	June 30, 2011	Dec. 31, 2011	June 30, 2012	Dec. 31, 2012 ⁽⁴⁾
KOSPI	1,674.92	1,124.47	1,390.07	1,682.77	1,698.29	2,051.0	2,100.69	1,825.12	1,854.01	1,997.05
/US\$ exchange rates ⁽¹⁾	1,046.8	1,262.00	1,273.5	1,163.7	1,273.5	1,163.7	1,066.3	1,158.5	1,141.17	1,063.24
Corporate bond rates ⁽²⁾	6.9%	8.1%	5.6%	5.7%	5.0%	4.3%	4.5%	4.2%	3.9%	3.4%
Treasury bond rates ⁽³⁾	5.9%	3.4%	4.2%	4.4%	3.9%	3.4%	3.8%	3.3%	3.3%	2.8%

Table of Contents

- (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.
- (4) As of December 28, 2012, the last day of trading for the KRX KOSPI Market in 2012.

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 allowances for credit losses, which are available to absorb probable losses that have been incurred in our loans and receivables portfolio as of the date of the statement of financial position. If we believe that additions or changes to the allowance for credit losses are required, we record bad debt expenses (as part of our impairment loss for credit loss), which are treated as charges against current income. Loan exposures that we deem to be uncollectible, including actual loan losses, net of recoveries of previously written-off amounts, are charged directly against the 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, 2012 included a total allowance for credit losses of ₩ 3,871 billion as of that date. Our total loan charge-offs, net of recoveries, amounted to ₩ 1,948 billion and we recorded bad debt expenses of ₩ 2,132 billion in 2012.

Table of Contents

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 take additional bad debt expenses which, if significant, could have a material impact on our profit. Our assumptions about estimated losses require significant judgment because actual losses have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Valuation of Financial Assets and Liabilities

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

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

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

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

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

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

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

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

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

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

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

Our consolidated financial statements for the year ended December 31, 2012 included financial assets measured at fair value using a valuation technique of 39,095 billion, representing 86.3% of total financial assets measured at fair value, and financial liabilities measured at fair value using a valuation technique of

Table of Contents

10,225 billion, representing 92.8% 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-(22) and 3-(2) of the notes to our consolidated financial statements.

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

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

Our consolidated financial statements for the year ended December 31, 2012 included deferred tax assets and liabilities of 155 billion and 125 billion, respectively, as of that date.

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

Goodwill

Our accounting policy for goodwill is described in Notes 2-(13), 3-(1) and 15-(3) of the notes to our consolidated financial statements.

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

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

Table of Contents

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

The future cash flows of the cash generating units, or CGUs, are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they necessarily and appropriately reflect our management's view of future business prospects at the time of the assessment. See Note 15 of the notes to our consolidated financial statements for a list of our CGUs for impairment testing.

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, 2012 included the value of goodwill of 132 billion as of that date, including the value of goodwill of 63 billion, 64 billion and 5 billion, related to Woori Financial, Woori FG Savings Bank and others, respectively. Also, during 2012, 1 billion of impairment of goodwill, primarily relating to Woori Investment & Securities, was identified.

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

Table of Contents**Results of Operations****Net Interest Income**

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

	2010	Year ended December 31,		Percentage change	
		2011	2012	2011/2010	2012/2011
	(in billions of Won)			(%)	
Interest income					
Due from banks	116	169	269	45.7%	59.2%
Loans	11,877	12,725	12,594	7.1	(1.0)
Financial assets at fair value through profit or loss	695	660	680	(5.0)	3.0
Investment financial assets ⁽¹⁾	1,237	1,360	1,371	9.9	0.8
Other assets	132	131	106	(0.8)	(19.1)
Total interest income	14,057	15,045	15,020	7.0	(0.2)
Interest expense					
Deposits	4,976	5,298	5,430	6.5	2.5
Borrowings	728	815	770	12.0	(5.5)
Debentures	1,808	1,551	1,424	(14.2)	(8.2)
Others	118	116	129	(1.7)	11.2
Total interest expense	7,630	7,780	7,753	2.0	(0.3)
Net interest income	6,427	7,264	7,267	13.0	0.0
Net interest margin⁽²⁾	2.29%	2.50%	2.38%		

(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 2012 to 2011

Interest income. Interest income decreased 0.2% from 15,045 billion in 2011 to 15,020 billion in 2012 primarily as a result of a 1.0% decrease in interest on loans, which was largely offset by a 59.2% increase in interest on amounts due from banks. The average balance of our interest-earning assets increased 4.9% from 290,771 billion in 2011 to 304,958 billion in 2012, principally due to the growth in our loan portfolio. The effect of this increase was more than offset by a 24 basis point decrease in average yields on our interest-earning assets from 5.17% in 2011 to 4.93% in 2012, which reflected a decrease in the general level of interest rates in Korea in 2012.

The 1.0% decrease in interest on loans from 12,725 billion in 2011 to 12,594 billion in 2012 was primarily due to:

a 27 basis point decrease in average yields on commercial and industrial loans from 6.15% in 2011 to 5.88% in 2012, which was partially offset by a 2.1% increase in the average volume of such loans from 100,205 billion in 2011 to 102,283 billion in 2012;

a 9.4% decrease in the average volume of other commercial loans from 15,602 billion in 2011 to 14,138 billion in 2012, which was enhanced by a 48 basis point decrease in average yields on such loans from 4.90% in 2011 to 4.42% in 2012; and

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

a 1.4% decrease in the average volume of general purpose household loans (including home equity loans) from 69,954 billion in 2011 to 69,001 billion in 2012, which was enhanced by a 4 basis point decrease in average yields on such loans from 5.34% in 2011 to 5.30% in 2012.

The effect of the above decreases was partially offset by a 54.7% increase in the volume of the mortgage loans from 8,643 billion in 2011 to 13,374 billion in 2012, which in turn was partially offset by a 15 basis point decrease in the average yields on such loans from 5.23% in 2011 to 5.08% in 2012.

Table of Contents

The average yields for commercial and industrial loans, other commercial loans, general purpose household loans (including home equity loans) and mortgage loans decreased mainly as a result of the decrease in the general level of interest rates in Korea in 2012. 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 other commercial loans reflected a decrease in our purchases of privately placed bonds and bonds bought under repurchase agreements, which was primarily due to a decrease in demand for such loans 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 2012, as well as a temporary increase in demand for such loans in the fourth quarter of 2012 in connection with the scheduled expiration of a temporary tax exemption on housing purchases in 2012 (which exemption was subsequently extended until June 30, 2013 in March 2013).

Overall, the average volume of our loans increased 2.8% from 214,132 billion in 2011 to 220,096 billion in 2012, and the average yields on our loans decreased 22 basis points, from 5.94% in 2011 to 5.72% in 2012.

The 59.2% increase in amounts due from banks was primarily due to a 40 basis point increase in the average yield on such amounts from 1.59% in 2011 to 1.99% in 2012, which was primarily due to an increase in the proportion of time deposits and deposits with Bank of Korea's monetary stabilization accounts in our amounts due from banks, which typically offer higher yields compared to other types of amounts due from banks. The effect of such increase was enhanced by a 27.2% increase in the volume of such amounts from 10,615 billion in 2011 to 13,505 billion in 2012, which reflected an increase in our deposits with the Bank of Korea's monetary stabilization accounts in accordance with the Korean government's policy guidelines to manage excess market liquidity.

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.

Interest on financial assets at fair value through profit or loss increased 3.0% from 660 billion in 2011 to 680 billion in 2012, mainly as a result of a 17.8% increase in the average balance of such assets from 18,287 billion in 2011 to 21,534 billion in 2012, which was substantially offset by a 45 basis point decrease in average yields on such assets from 3.61% in 2011 to 3.16% in 2012. The increase in the volume of financial assets at fair value through profit or loss mainly reflected an increase in our purchase of debt securities issued by the Korean government. The decrease in average yields on financial assets at fair value through profit or loss was primarily due to an increase in the proportion of such 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 increased 0.8% from 1,360 billion in 2011 to 1,371 billion in 2012, mainly as a result of a 22 basis point increase in average yields on such assets from 3.64% in 2011 to 3.86% in 2012, which was substantially offset by a 4.8% decrease in the average balance of such assets from 37,359 billion in 2011 to 35,553 billion in 2012. The increase in average yields on investment financial assets was primarily due to an increase in the proportion of corporate bonds we held as available-for-sale financial assets, which typically offer higher yields compared to other types of such assets held by us, in our investment financial assets portfolio. The decrease in the volume of investment financial assets mainly reflected a decrease in the volume of debt securities issued by the Korean government we held as held-to-maturity financial assets due primarily to the maturity of such securities.

Interest expense. Interest expense decreased 0.3% from 7,780 billion in 2011 to 7,753 billion in 2012, primarily due to an 8.2% decrease in interest expense on debentures. Such decrease was offset in part by a 2.5%

Table of Contents

increase in interest expense on deposits. The average balance of interest-bearing liabilities increased 3.3% from 271,876 billion in 2011 to 280,872 billion in 2012, principally due to an increase in the average balance of deposits. The effect of this increase was partially offset by a decrease of 10 basis points in the average cost of interest-bearing liabilities from 2.86% in 2011 to 2.76% in 2012, which was driven mainly by a decrease in the average cost of debentures and other interest-bearing liabilities.

The 8.2% decrease in interest expense on debentures from 1,551 billion in 2011 to 1,424 billion in 2012 mainly resulted from a 6.1% decrease in the average balance of debentures from 30,433 billion in 2011 to 28,581 billion in 2012. The effect of such decrease was enhanced by a 12 basis point decrease in the average cost of debentures from 5.10% in 2011 to 4.98% in 2012. The decrease in the average volume of debentures mainly reflected a decrease in debentures in local currency due to the maturity in 2012 of a large amount of such previously issued debentures, while the decrease in the average cost of debentures was primarily attributable to the maturity and repayment of higher interest rate debentures previously issued by us.

The 2.5% increase in interest expense on deposits from 5,298 billion in 2011 to 5,430 billion in 2012 was primarily due to a 3.7% increase in interest expense on time and savings deposits from 4,835 billion in 2011 to 5,013 billion in 2012, the effect of which was partially offset by a 46.9% decrease in interest expense on certificates of deposit from 113 billion in 2011 to 60 billion in 2012.

The increase in interest expense on time and savings deposits resulted from a 4.1% increase in the average balance of such deposits from 160,952 billion in 2011 to 167,503 billion in 2012, while the average cost of such deposits remained relatively stable at 2.99% in 2012 compared to 3.00% in 2011. The increase in the average balance of time and savings deposits was attributable mainly to customers' continuing preference for low-risk financial products and institutions in Korea in light of the continuing uncertainty in financial markets.

The decrease in interest expense on certificates of deposit resulted from a 41.9% decrease in the average balance of such deposits from 2,746 billion in 2011 to 1,595 billion in 2012, the effect of which was enhanced by a 36 basis point decrease in the average cost of such deposits from 4.12% in 2011 to 3.76% in 2012. The decrease in the average balance of certificates of deposits was principally due to our continuing efforts to convert our certificates of deposit into other deposits in order to comply with new loan-to-deposit ratio requirements set by the Financial Supervisory Service, which exclude certificates of deposit from the calculation of total deposits for purposes of determining compliance with such ratio requirements. The decrease in the average cost of certificates of deposit was mainly due to the decrease in the general level of interest rates in Korea in 2012.

Overall, the average volume of our deposits increased by 4.0% from 192,643 billion in 2011 to 200,441 billion in 2012, while the average cost of our deposits decreased by 4 basis points from 2.75% in 2011 to 2.71% in 2012.

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 2.50% in 2011 to 2.38% in 2012, as our net interest income remained stable at 7,267 billion in 2012 compared to 7,264 billion in 2011, while the average balance of our interest-earning assets increased 4.9% from 290,771 billion in 2011 to 304,958 billion in 2012. The growth in average interest-earning assets outpaced a 3.3% increase in average interest-bearing liabilities from 271,876 billion in 2011 to 280,872 billion in 2012, while the decrease in interest income was offset by the decrease in interest expense, resulting in a 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 2.31% in 2011 to 2.19% in 2012. 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 2011 to 2012, 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 2012.

Table of Contents*Comparison of 2011 to 2010*

Interest income. Interest income increased 7.0% from 14,057 billion in 2010 to 15,045 billion in 2011, primarily as a result of a 7.1% increase in interest on loans and a 9.9% increase in interest on investment financial assets. The average balance of our interest-earning assets increased 3.8% from 280,120 billion in 2010 to 290,771 billion in 2011, principally due to the growth in our loan portfolio. The effect of this increase was enhanced by a 15 basis point increase in average yields on our interest-earning assets from 5.02% in 2010 to 5.17% in 2011, which reflected an increase in the general level of interest rates in Korea in 2011.

The 7.1% increase in interest on loans from 11,877 billion in 2010 to 12,725 billion in 2011 was primarily due to:

a 24 basis point increase in average yields on commercial and industrial loans from 5.91% in 2010 to 6.15% in 2011, which was enhanced by a 2.8% increase in the average volume of such loans from 97,487 billion in 2010 to 100,205 billion in 2011;

an 82.0% increase in the average volume of mortgage loans from 4,748 billion in 2010 to 8,643 billion in 2011, which was enhanced by a 7 basis point increase in average yields on such loans from 5.16% in 2010 to 5.23% in 2011; and

a 27 basis point increase in average yields on general purpose household loans (including home equity loans) from 5.07% in 2010 to 5.34% in 2011, which was partially offset by a 0.3% decrease in the average volume of such loans from 70,132 billion in 2010 to 69,954 billion in 2011.

The average yields for commercial and industrial loans, mortgage loans and general purpose household loans (including home equity loans) increased mainly as a result of the increase in the general level of interest rates in Korea applicable to such loans from 2010 to 2011. The increase in the average volume of commercial and industrial loans was primarily due to an increase in demand for facility loans, reflecting increased capital expenditures by Korean businesses in 2011. The increase in the average volume of mortgage loans reflected increased demand for such loans from customers, including to finance home rentals in light of a significant increase in rent levels (particularly key money deposit levels under the *jeonsae* system) in the Korean housing market in 2011. The decrease in the average volume of general purpose household loans (including home equity loans) mainly reflected decreased demand for foreign currency general purpose household loans by Korean consumers in the face of greater foreign exchange volatility in 2011.

Overall, the average volume of our loans increased 4.5% from 204,860 billion in 2010 to 214,132 billion in 2011, and the average yields on our loans also increased 14 basis points, from 5.80% in 2010 to 5.94% in 2011.

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

The 9.9% increase in interest on investment financial assets from 1,237 billion in 2010 to 1,360 billion in 2011 was mainly the result of a 34 basis point increase in average yields on such assets from 3.30% in 2010 to 3.64% in 2011, as the average balance of such assets remained relatively steady at 37,359 billion in 2011 compared to 37,466 billion in 2010. The increase in average yields on investment financial assets was primarily due to an increase in the proportion of corporate bonds we held as held-to-maturity financial assets, which typically feature relatively higher yields compared to other types of held-to-maturity financial assets held by us, in our investment financial assets portfolio.

Interest Expense. Interest expense increased 2.0% from 7,630 billion in 2010 to 7,780 billion in 2011, primarily due to a 6.5% increase in interest expense on deposits. Such increase was offset in part by a 14.2% decrease in interest expense on debentures. The average balance of interest-bearing liabilities increased 3.4% from 262,818 billion in 2010 to 271,876 billion in 2011, principally due to an increase in the average balance of deposits. The effect of this increase was partially offset by a decrease of 4 basis points in the average cost of interest-bearing liabilities from 2.90% in 2010 to 2.86% in 2011, which was driven mainly by a decrease in the average cost of debentures.

Table of Contents

The 6.5% increase in interest expense on deposits from 4,976 billion in 2010 to 5,298 in 2011 was primarily due to an 11.9% increase in interest expense on time and savings deposits from 4,320 billion in 2010 to 4,835 billion in 2011, the effect of which was partially offset by a 69.0% decrease in interest expense on certificates of deposit from 364 billion in 2010 to 113 billion in 2011.

The increase in interest expense on time and savings deposits resulted from a 7.1% increase in the average balance of such deposits from 150,317 billion in 2010 to 160,952 billion in 2011 as well as a 13 basis point increase in the average cost of such deposits from 2.87% in 2010 to 3.00% in 2011. The increase in the average balance of time and savings deposits was attributable mainly to customers' continuing preference for low-risk financial products and institutions in Korea in light of the volatility in financial markets. The increase in the average cost of time and savings deposits was due to the increase in the general level of interest rates in Korea in 2011.

The decrease in interest expense on certificates of deposit resulted from a 67.5% decrease in the average balance of such deposits from 8,459 billion in 2010 to 2,746 billion in 2011, the effect of which was enhanced by an 18 basis point decrease in the average cost of such deposits from 4.30% in 2010 to 4.12% in 2011. The decrease in the average balance of certificates of deposits was principally due to our continuing efforts to convert our certificates of deposit into other deposits in order to comply with new loan-to-deposit ratio requirements set by the Financial Supervisory Service, which exclude certificates of deposit from the calculation of total deposits for purposes of determining compliance with such ratio requirements. The decrease in the average cost of certificates of deposit was mainly due to an increase in the relative proportion of short-term certificates of deposit, which have lower interest rates compared to longer-term certificates of deposit, reflecting customer's preference for such short-term products in light of the volatility in financial markets.

Overall, the average volume of our deposits increased by 4.8% from 183,766 billion in 2010 to 192,643 billion in 2011, and the average cost of our deposits increased by 4 basis points from 2.71% in 2010 to 2.75% in 2011.

The 14.2% decrease in interest expense on debentures from 1,808 billion in 2010 to 1,551 billion in 2011 mainly resulted from an 9.2% decrease in the average balance of debentures from 33,523 billion in 2010 to 30,433 billion in 2011. The effect of such decrease was enhanced by a 29 basis point decrease in the average cost of debentures from 5.39% in 2010 to 5.10% in 2011. The decrease in the average volume of debentures mainly reflected a decrease in debentures in local currency due to the maturity in 2011 of a large amount of such previously issued debentures, while the decrease in the average cost of debentures was primarily attributable to the maturity and repayment of higher interest rate debentures previously issued by us.

Net interest margin. Our overall net interest margin increased from 2.29% in 2010 to 2.50% in 2011, as a 13.0% increase in our net interest income from 6,427 billion in 2010 to 7,264 billion in 2011 outpaced a 3.8% increase in the average balance of our interest-earning assets from 280,120 billion in 2010 to 290,771 billion in 2011. The growth in average interest-earning assets outpaced a 3.4% increase in average interest-bearing liabilities from 262,818 billion in 2010 to 271,876 billion in 2011, while the increase in interest income more than offset the increase in interest expense, resulting in an increase in net interest income. The magnitude of this increase was enhanced by an increase in our net interest spread from 2.12% in 2010 to 2.31% in 2011. The increase in our net interest spread reflected an increase in the average yield of our interest-earning assets coupled with a decrease in the average cost of our interest-bearing liabilities from 2010 to 2011.

Impairment Losses on Credit Loss

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

Comparison of 2012 to 2011

Our impairment losses on credit loss decreased by 6.5% from 2,269 billion in 2011 to 2,121 billion in 2012, primarily due to a change in net provisions for guarantees from net provisions of 140 billion in 2011 to a

Table of Contents

net reversal of provisions of 35 billion in 2012. Such change reflected a 70.1% decrease in provisions for guarantees from 157 billion in 2011 to 47 billion in 2012, which was mainly attributable to a decrease in the demand for guarantees, including from our corporate customers in the Korean shipbuilding industry.

Our bad debt expenses, net of reversal of allowance for credit losses, decreased 1.4% from 2,163 billion in 2011 to 2,132 billion in 2012, mainly as a result of a decrease in our credit exposure to real estate project financing loans in 2012 compared 2011.

Our loan charge-offs, net of recoveries, decreased 14.0% from 2,264 billion in 2011 to 1,948 billion in 2012, primarily due to smaller charge-offs of loans to small- and medium-sized enterprise borrowers.

Comparison of 2011 to 2010

Our impairment losses on credit loss decreased by 21.0% from 2,873 billion in 2010 to 2,269 billion in 2011, primarily due to a decrease in bad debt expenses. Our bad debt expenses, net of reversal of allowance for credit losses, decreased 24.6% from 2,869 billion in 2010 to 2,162 billion in 2011, as higher bad debt expenses resulting from increased loan loss provisioning by us in connection with the restructuring (in the form of workout, liquidation or court receivership) in 2010 of 65 companies selected by various Korean financial institutions, including us, were not repeated in 2011. See Item 3D. Risk Factors Risks relating to our corporate credit portfolio We have exposure to Korean construction and shipbuilding companies, and financial difficulties of these companies may adversely impact us.

Our loan charge-offs, net of recoveries, increased 69.3% from 1,338 billion in 2010 to 2,264 billion in 2011, primarily due to greater charge-offs of loans to small- and medium-sized enterprise borrowers.

Our provisions for guarantees, net of reversal of such provisions, increased 258.1% from 39 billion in 2010 to 140 billion in 2011, due primarily to an 89.9% decrease in reversal of such provisions from 168 billion in 2010 to 17 billion in 2011, mainly as a result of significantly increased reclassifications in 2010 of our provisions for guarantees to bad debt expenses, including in connection with the restructuring (in the form of workout, liquidation or court receivership) in 2010 of 65 companies selected by us and various other Korean financial institutions, which were not repeated in 2011.

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 under IFRS.

Corporate Loans.

The following table shows, for the periods indicated, certain information regarding our impaired corporate loans:

	As of December 31,		
	2010	2011	2012
Impaired corporate loans as a percentage of total corporate loans ⁽¹⁾	5.4%	3.3%	3.6%
Allowance for credit losses for corporate loans as a percentage of total corporate loans	3.4	2.5	2.3
Allowance for credit losses for corporate loans as a percentage of impaired corporate loans ⁽¹⁾	61.9	76.0	62.6
Net charge-offs as a percentage of total corporate loans	0.9	1.5	1.2

⁽¹⁾ Impaired corporate loans include loans that have been securitized and are held by Woori F&I, our wholly-owned subsidiary.

During 2012, impaired corporate loans as a percentage of total corporate loans increased due to a deterioration in the overall credit quality of our corporate loans. However, allowance for credit losses for corporate loans as a percentage of total corporate loans and as a percentage of impaired corporate loans

Table of Contents

decreased during 2012 as the degree of overall impairment of our impaired corporate loans was not as severe in 2012 compared to 2011, resulting in a decrease in the level of our allowance for credit losses for corporate loans.

During 2011, impaired corporate loans and allowance for credit losses for corporate loans, each as a percentage of total corporate loans, decreased due to an improvement in the overall credit quality of our corporate loans through increased sales and charge-offs of impaired loans. However, allowance for credit losses for corporate loans as a percentage of impaired corporate loans increased during 2011 as the decrease in impaired corporate loans, reflecting such improvement in the overall credit quality of our corporate loans in 2011, outpaced the decrease in the level of our allowance for credit losses.

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,		
	2010	2011	2012
Impaired consumer loans as a percentage of total consumer loans	0.4%	0.6%	0.6%
Allowance for credit losses for consumer loans as a percentage of total consumer loans	0.3	0.4	0.4
Allowance for credit losses for consumer loans as a percentage of impaired consumer loans	79.0	63.2	67.4
Net charge-offs of consumer loans as a percentage of total consumer loans	0.1	0.1	0.2

During 2012, impaired consumer loans and allowance for credit losses for consumer loans as a percentage of total consumer loans remained stable. 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 2012 compared to 2011, resulting in an increase in the amount of our allowance for credit losses for consumer loans.

During 2011, impaired consumer loans and allowance for credit losses for consumer loans, each as a percentage of total consumer loans increased as a result of an overall deterioration in the asset quality of our consumer loans. However, allowance for credit losses for consumer loans as a percentage of impaired consumer loans decreased, as the increase in our provisioning for consumer loans in 2011 was outpaced by the increase in our impaired consumer loans (particularly general purpose household loans).

The following table shows, for the periods indicated, certain information regarding our impaired credit card balances:

	As of December 31,		
	2010	2011	2012
Impaired credit card balances as a percentage of total credit card balances ⁽¹⁾	1.3%	1.6%	1.6%
Allowance for credit losses for credit card balances as a percentage of total credit card balances ⁽¹⁾	2.9	2.9	2.8
Allowance for credit losses for credit card balances as a percentage of impaired credit card balances ⁽¹⁾	217.2	178.4	177.8
Net charge-offs as a percentage of total credit card balances ⁽¹⁾	1.7	2.4	3.4

⁽¹⁾ Includes corporate credit card balances.

During 2012, impaired credit card balances as a percentage of total credit card balances remained stable. However, allowance for credit losses for credit card balances as a percentage of impaired credit card balances and as a percentage of total credit card balances decreased slightly, as the degree of overall impairment of our impaired credit card balances was not as severe in 2012 compared to 2011, resulting in a slight decrease in the amount of our provisioning for credit card balances.

During 2011, impaired credit card balances as a percentage of total credit card balances increased due to an overall deterioration in the asset quality of our credit card portfolio. However, allowance for credit losses for

Table of Contents

credit card balances as a percentage of impaired credit card balances decreased, as the effect of the growth in the amount of our impaired credit card balances, reflecting such deterioration in the asset quality of our credit card portfolio as well as the growth of our overall credit card balances, outpaced the increase in the amount of our provisioning for credit card balances.

Net Fees and Commissions Income

The following table shows, for the periods indicated, the components of our net fees and commissions income:

	Year ended December 31,			Percentage change	
	2010	2011	2012	2011/2010	2012/2011
	(in billions of Won)			(%)	
Fees and commissions income	1,688	1,774	1,667	5.1%	(6.0)%
Fees and commissions expense	572	579	664	1.2	14.7
Total fees and commissions income, net	1,116	1,195	1,003	7.1	(16.1)

Comparison of 2012 to 2011

Our net fees and commissions income decreased 16.1% from 1,195 billion in 2011 to 1,003 billion in 2012, as the effect of a 6.0% decrease in fees and commissions income from 1,774 billion in 2011 to 1,667 billion in 2012 was enhanced by a 14.7% increase in fees and commissions expense from 579 billion in 2011 to 664 billion in 2012. The 6.0% decrease in fees and commissions income was mainly the result of a 27.1% decrease in brokerage fees from 650 billion in 2011 to 474 billion in 2012, which reflected a decrease in the volume of fee-earning transactions brokered by Woori Investment & Securities, as the volume of such transactions decreased generally in Korea in 2012. The 14.6% increase in fees and commissions expense was primarily due to a 14.0% increase in credit card commissions paid from 385 billion in 2011 to 439 billion in 2012, which mainly reflected an increase in the volume of credit card transactions as well as an increase in credit card issuances, as well as a 12.4% increase in fees paid from 121 billion in 2011 to 136 billion in 2012, which was mainly attributable to an increase in fees paid to legal and other outside service providers, and a 23.0% increase in brokerage commissions paid from 61 billion in 2011 to 75 billion in 2012 as a temporary waiver of such commissions by the Korea Securities Depository and the Korea Financial Investment Association in 2011 was not repeated in 2012.

Comparison of 2011 to 2010

Our net fees and commissions income increased 7.1% from 1,116 billion in 2010 to 1,195 billion in 2011, as a 5.1% increase in fees and commissions income from 1,688 billion in 2010 to 1,774 billion in 2011 outpaced a 1.2% increase in fees and commissions expense from 572 billion in 2010 to 579 billion in 2011. The 5.1% increase in fees and commissions income was mainly the result of an 8.7% increase in banking fees from 750 billion in 2010 to 815 billion in 2011, which reflected increased fees we received in local currency, particularly agency commissions from our bancassurance activities. The 1.2% increase in fees and commissions expense was primarily due to a 4.6% increase in credit card commissions paid from 368 billion in 2010 to 385 billion in 2011, which mainly reflected an increase in credit card issuances, as well as a 13.1% increase in fees paid from 107 billion in 2010 to 121 billion in 2011, which was mainly attributable to an increase in fees paid to legal, accounting and other advisory service providers. The effect of such increases was partially offset by a 32.2% decrease in brokerage commissions paid from 90 billion in 2010 to 61 billion in 2011, reflecting a temporary waiver of such commissions by the Korea Securities Depository and the Korea Financial Investment Association in 2011.

Table of Contents**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	
	2010	2011	2012	2011/2010	2012/2011
	(in billions of Won)			(%)	
Gain (loss) on financial assets at fair value through profit or loss, net	39	119	(293)	205.1%	N/M ⁽¹⁾
Gain (loss) on available-for-sale financial assets, net ⁽²⁾	1,073	1,073	566		(47.3)%
Gain (loss) on held-to-maturity financial assets, net	0	0	0	N/M ⁽¹⁾	N/M ⁽¹⁾
Total net gain (loss) on financial assets	1,112	1,192	273	7.2	(77.1)

⁽¹⁾ N/M = not meaningful.

⁽²⁾ Includes impairment losses on available-for-sale financial assets of 38 billion in 2010, 266 billion in 2011 and 147 billion in 2012.

Comparison of 2012 to 2011

Our net gain on financial assets decreased 77.1% from 1,192 billion in 2011 to 273 billion in 2012, primarily as a result of a 47.3% decrease in net gain on available-for-sale financial assets from 1,073 billion in 2011 to 566 billion in 2012, the effect of which was enhanced by a change in net gain (loss) on financial assets at fair value through profit or loss from a net gain of 119 billion in 2011 to a net loss of 293 billion in 2012.

The 47.3% decrease in net gain on available-for-sale financial assets was principally due to a 46.8% decrease in net gain on transaction of available-for-sale securities from 1,339 billion in 2011 to 713 billion in 2012, as gains of 961 realized by us upon our disposal of equity securities of Hyundai Engineering & Construction in 2011 were not repeated in 2012. Such decrease was partially offset by a 44.7% decrease in impairment loss on available-for-sale securities from 266 billion in 2011 to 147 billion in 2012. The decrease in impairment loss on available-for-sale securities was attributable mainly to a decrease in impairment losses recognized on our holdings of equity securities in 2012 in light of lower market volatility. For further information regarding our net gain on available-for-sale financial assets, see Note 37 of the notes to our consolidated financial statements included elsewhere in this annual report.

The change in our net gain (loss) on financial assets at fair value through profit or loss was principally due to a change in net gain (loss) on valuation and redemption of financial assets designated at fair value through profit or loss, from a net gain of 235 billion in 2011 to a net loss of 703 billion in 2012, which was offset in part by a change in net gain (loss) on financial assets held for trading from a net loss of 115 billion in 2011 to a net gain of 410 billion in 2012. The change in net gain (loss) on valuation and redemption of financial assets designated at fair value through profit or loss resulted mainly from a change in net gain (loss) on valuation of other financial assets designated at fair value through profit or loss from a net gain of 409 billion in 2011 to a net loss of 572 billion in 2012, as well as a 141.5% increase in net loss on transaction of such other financial assets from 118 billion in 2011 to 285 billion in 2012. The change in net gain (loss) on financial assets held for trading was primarily due to a change in net gain (loss) on valuation of derivatives held for trading from a net loss of 152 billion in 2011 to a net gain of 212 billion in 2012, driven mainly by a change in net gain (loss) on valuation of equity derivatives from a net loss of 223 billion in 2011 to a net gain of 386 billion in 2012. The effect of this change was enhanced by an increase in net gain on valuation and disposal of securities held for trading from 26 billion in 2011 to 208 billion in 2012, driven mainly by a change in net gain (loss) on transaction of such securities from a net loss of 28 billion in 2011 to a net gain of 169 billion in 2012. For further information regarding our net gain (loss) on financial assets at fair value through profit or loss, see Note 36 of the notes to our consolidated financial statements included elsewhere in this annual report.

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 2012, we recognized a net loss on valuation of available-for-sale financial assets of 350 billion as part of other comprehensive income (loss) net of tax, principally as a result of decreases in valuation gains on equity securities of SK Hynix, which reflected our disposal of such securities in 2012.

Table of Contents*Comparison of 2011 to 2010*

Our net gain on financial assets increased 7.2% from 1,112 billion in 2010 to 1,192 billion in 2011, primarily as a result of a 205.1% increase in net gain on financial assets at fair value through profit or loss from 39 billion in 2010 to 119 billion in 2011. Such increase was principally due to a change in net gain (loss) on financial assets designated at fair value through profit or loss, from a net loss of 402 billion in 2010 to a net gain of 235 billion in 2011, which was offset in part by a change in net gain (loss) on financial assets held for trading from a net gain of 441 billion in 2010 to a net loss of 115 billion in 2011. The change in net gain (loss) on financial assets designated at fair value through profit or loss resulted mainly from a change in net gain (loss) on valuation of other financial assets designated at fair value through profit or loss from a net loss of 183 billion in 2010 to a net gain of 409 billion in 2011, as well as a decrease in net loss on transaction of such other financial assets from 337 billion in 2010 to 118 billion in 2011. The change in net gain (loss) on financial assets held for trading was primarily due to a change in net gain (loss) on valuation of derivatives held for trading from a net gain of 99 billion in 2010 to a net loss of 152 billion in 2011, driven mainly by a change in net gain (loss) on valuation of stock equity derivatives from a net gain of 118 billion in 2010 to a net loss of 223 billion in 2011, and a decrease in net gain on valuation and disposal of securities held for trading from 314 billion in 2010 to 26 billion in 2011, driven mainly by a change in net gain (loss) on transaction of such securities from a net gain of 245 billion in 2010 to a net loss of 28 billion in 2011. For further information regarding our net gain (loss) on financial assets at fair value through profit or loss, see Note 36 of the notes to our consolidated financial statements included elsewhere in this annual report.

Net gain (loss) on available-for-sale financial assets remained relatively constant at 1,073 billion in 2010 and 2011, as an increase in net gain on transaction of available-for-sale securities from 1,103 billion in 2010 to 1,339 billion in 2011 was substantially offset by an increase in impairment losses on such securities from 38 billion in 2010 to 266 billion in 2011. Such increase in impairment losses was attributable mainly to impairment losses recognized on our holdings of equity securities (including common stock of POSCO) in 2011 in light of continuing market volatility.

Unrealized gains and losses (other than impairment losses) on available-for-sale financial assets are recorded in our statement of financial position as part of accumulated other comprehensive income, under other equity. In 2011, we recognized a net loss on valuation of available-for-sale financial assets of 375 billion as part of other comprehensive income (loss) net of tax, principally as a result of decreases in valuation gains on equity securities of Hyundai Engineering & Construction, which reflected our disposal of such securities in 2011.

Net Other Operating Expenses

In 2012, we reclassified certain items which had previously been a part of our other operating income and expenses into other non-operating income and expenses. Such reclassifications have also been reflected retroactively in our consolidated statements of comprehensive income for the years ended December 31, 2010 and 2011. As a result of these reclassifications, other net operating expenses decreased by 79,383 million (with a corresponding increase in other non-operating expenses) in 2010 and increased by 74,965 million (with a corresponding increase in other non-operating income) in 2011, as compared to the amounts previously reported. These reclassifications did not have an impact on our consolidated net assets and net income.

The following table shows, for the periods indicated, the components of our net other operating expenses:

	Year ended December 31,			Percentage change	
	2010	2011 (in billions of Won)	2012	2011/2010	2012/2011
				(%)	(%)
Other operating income	8,027	8,626	2,977	7.5%	(65.5)%
Other operating expenses	(11,862)	(13,127)	(7,334)	10.7	(44.1)
Total net other operating expenses	(3,835)	(4,501)	(4,357)	17.4	(3.2)

Table of Contents*Comparison of 2012 to 2011*

Our net other operating expenses decreased 3.2% from 4,501 billion in 2011 to 4,357 billion in 2012, as the effect of a 44.1% decrease in other operating expenses from 13,127 billion in 2011 to 7,334 billion in 2012 was partially offset by a 65.5% decrease in other operating income from 8,626 billion in 2011 to 2,977 billion in 2012.

Other operating income includes principally gain on transaction of foreign exchange, gain on loan sales, gain on valuation of hedging derivatives, gain on fair value of hedged items, gain on transaction of hedging derivatives, gain on translation of foreign exchange, reversal of other provisions and other income. The 65.5% decrease in other operating income was attributable mainly to a 69.9% decrease in gain on transaction of foreign exchange from 8,293 billion in 2011 to 2,499 billion in 2012. This decrease, which was principally due to lower exchange rate volatility during 2012, was more than offset by a corresponding decrease 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 increased 170.4% from 108 billion in 2011 to 292 billion in 2012.

Other operating expenses include principally loss on transaction of foreign exchange, administrative expenses (which in turn mainly include short term employee benefits, fringe benefits, rent, and depreciation and amortization, among others), contributions to miscellaneous funds, deposit insurance premiums, loss on loan sales and other expenses. The 44.1% decrease in other operating expenses was primarily the result of a 73.0% decrease in loss on transaction of foreign exchange from 8,185 billion in 2011 to 2,207 billion in 2012, which reflected lower exchange rate volatility during 2012. This decrease was partially offset by a corresponding decrease in gain 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 also partially offset by a 4.8% increase in administrative expenses from 3,776 billion in 2011 to 3,956 billion in 2012, which was attributable mainly to a 34.2% increase in retirement benefit service costs from 158 billion in 2011 to 212 billion in 2012, principally reflecting an increase in the present value of our retirement benefit obligations in light of the decrease in the general level of interest rates in Korea in 2012.

Comparison of 2011 to 2010

Our net other operating expenses increased 17.4% from 3,835 billion in 2010 to 4,501 billion in 2011, as the effect of a 10.7% increase in other operating expenses from 11,862 billion in 2010 to 13,127 billion in the 2011 was partially offset by a 7.5% increase in other operating income from 8,027 billion in 2010 to 8,626 billion in 2011.

The 7.5% increase in other operating income was attributable mainly to a 9.3% increase in gain on transaction of foreign exchange from 7,585 billion in 2010 to 8,293 billion in 2011. This increase, which was principally due to higher exchange rate volatility, was more than offset by a corresponding 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 59.1% from 264 billion in 2010 to 108 billion in 2011.

The 10.7% increase in other operating expenses was primarily the result of an 11.8% increase in loss on transaction of foreign exchange from 7,321 billion in 2010 to 8,185 billion in 2011, which reflected higher exchange rate volatility. This increase was partially offset by a corresponding increase in gain on transaction of foreign exchange, which is recorded as part of other operating income as discussed above. The increase in loss on transaction of foreign exchange was enhanced by a 14.0% increase in administrative expenses from 3,312 billion in 2010 to 3,776 billion in 2011, which was attributable mainly to a 16.3% increase in short term employee benefits from 1,394 billion in 2010 to 1,621 billion in 2011, principally reflecting increased salaries and other short term compensation paid to our employees.

Table of Contents**Other Non-operating Income (Expenses)**

The following table shows, for the periods indicated, the components of our other non-operating income (expenses):

	Year ended December 31,			Percentage change	
	2010	2011	2012	2011/2010	2012/2011
	(in billions of Won)			(%)	
Other non-operating income	78	229	176	193.6%	(23.1)%
Other non-operating expenses	(157)	(154)	(182)	(1.9)	18.1
Total net other non-operating income (expenses)	(79)	75	(6)	N/M ⁽¹⁾	N/M ⁽¹⁾

⁽¹⁾ N/M = not meaningful.

Comparison of 2012 to 2011

Our net other non-operating income changed from net income of 75 billion in 2011 to net expenses of 6 billion in 2012, as the effect of a 21.3% decrease in other non-operating income from 229 billion in 2011 to 176 billion in 2012 was enhanced by an 18.1% increase in other non-operating expenses from 154 billion in 2011 to 182 billion in 2012.

Other non-operating income includes principally rental income, gain on disposal of investment in jointly controlled entities and associates, gain on disposal of premises and equipment and other assets, reversal of impairment loss on premises and equipment and other assets and others. The 21.3% decrease in other non-operating income was attributable mainly to a 93.1% decrease in gain on disposal of premises and equipment and other assets from 72 billion in 2011 to 5 billion in 2012. This decrease was principally due to the disposal of our interest in BC Card in 2011 (which had been accounted for as part of our other assets), which was not repeated in 2012.

Other non-operating expenses include principally expenses on investment properties, loss on disposal of investment in jointly controlled entities and associates, loss on disposal of premises and equipment and other assets, impairment loss on premises and equipment and other assets, donations and others. The 18.1% increase in other non-operating expenses was attributable mainly to a 50.0% increase in donations from 62 billion in 2011 to 93 billion in 2012.

Comparison of 2011 to 2010

Our net other non-operating income changed from net expenses of 79 billion in 2010 to net income of 75 billion in 2011, as the effect of a 193.6% increase in other non-operating income from 78 billion in 2010 to 229 billion in 2011 was enhanced by a 1.9% decrease in other non-operating expenses from 157 billion in 2010 to 154 billion in 2011.

The 193.6% increase in other non-operating income was attributable mainly to an increase in gain on disposal of premises and equipment and other assets from less than 1 billion in 2010 to 72 billion in 2011. This increase was principally due to the disposal of our interest in BC Card in 2011 (which had been accounted for as part of our other assets).

The 1.9% decrease in other non-operating expenses was attributable mainly to a 48.7% decrease in donations from 81 billion in 2010 to 62 billion in 2011.

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.

Table of Contents*Comparison of 2012 to 2011*

Income tax expense decreased 33.7% from 744 billion in 2011 to 493 billion in 2012, mainly as a result of a decrease in our net income before income tax expense. The statutory tax rate was 24.2% in 2011 and 2012. Our effective tax rate was 23.4% in 2011 and 21.5% in 2012. See Note 41 of the notes to our consolidated financial statements included elsewhere in this annual report.

Comparison of 2011 to 2010

Income tax expense increased 49.4% from 498 billion in 2010 to 744 billion in 2011, mainly as a result of an increase in our net income before income tax expense. The statutory tax rate was 24.2% in 2010 and 2011. Our effective tax rate was 23.7% in 2010 and 23.4% in 2011. See Note 41 of the notes to our consolidated financial statements included elsewhere in this annual report.

Net Income

Due to the factors described above, our net income was 1,798 billion in 2012, compared to 2,433 billion in 2011 and 1,601 billion in 2010.

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. Under IFRS as issued by the IASB, we have five operational business segments: Woori Bank, Kyongnam Bank, Kwangju Bank, Woori Investment & Securities and other operations. Historical segment information appearing below for each of Woori Bank, Kyongnam Bank and Kwangju Bank includes their respective credit card operations. In April 2013, we spun off the credit card business of Woori Bank into a newly established wholly-owned subsidiary, Woori Card.

In 2012, we reclassified certain items which had previously been a part of our other operating income and expenses into other non-operating income and expenses. Such reclassifications have also been reflected retroactively in our consolidated statements of comprehensive income for the years ended December 31, 2010 and 2011. As a result of these reclassifications, the operating income of each of our business segments in 2010 and 2011 changed (with corresponding changes in non-operating income (expenses)), as compared to the amounts previously reported. These reclassifications did not have an impact on the net income of our business segments.

The following table shows, for the periods indicated, our results of operations by segment:

	Net income ⁽¹⁾			Total operating income ⁽²⁾		
	Year ended December 31,			Year ended December 31,		
	2010	2011	2012	2010	2011	2012
	(in billions of Won)					
Woori Bank	1,262	2,069	1,449	1,552	2,593	1,699
Kyongnam Bank	183	196	178	245	263	235
Kwangju Bank	124	136	136	171	182	184
Woori Investment & Securities	238	198	122	313	215	174
Other	244	339	469	(136)	(146)	(81)
Total ⁽³⁾	2,051	2,938	2,354	2,145	3,107	2,211

(1) After reflecting the share of profits of jointly controlled entities and associates and income tax expense.

(2) Comprises net interest income, net non-interest income, administrative expenses and impairment losses on credit losses.

(3) Before adjustments for consolidation, inter-segment transactions and certain differences in classification under our management reporting system.

Table of Contents**Woori Bank**

Woori Bank provides a wide range of banking and other financial services to large corporations, small- and medium-sized enterprises and individuals in Korea.

	Year ended December 31,			Percentage change	
	2010	2011	2012	2011/2010	2012/2011
	(in billions of Won)			(%)	
Income statement data					
Interest income	10,981	11,659	11,436	6.2%	(1.9)%
Interest expense	5,951	5,931	5,825	(0.3)	(1.8)
Net interest income	5,030	5,728	5,612	13.9	(2.0)
Non-interest income	16,191	16,433	9,903	1.5	(39.7)
Non-interest expense	14,850	15,055	9,261	1.4	(38.5)
Net non-interest income	1,341	1,378	643	2.8	(53.3)
Administrative expenses	2,260	2,549	2,728	12.8	7.0
Impairment losses on credit loss and others ⁽¹⁾	2,560	1,964	1,828	(23.3)	(6.9)
Total other expenses	4,820	4,513	4,556	(6.4)	1.0
Operating income	1,552	2,593	1,699	67.2	(34.5)
Share of profits of jointly controlled entities and associates	39	(24)	28	N/M ⁽²⁾	N/M ⁽²⁾
Net non-operating income (expenses)	(53)	90	49	N/M ⁽²⁾	(45.6)
Net income before tax	1,537	2,659	1,776	73.0	(33.2)
Income tax expense (benefit)	275	590	327	114.6	(44.6)
Net income	1,262	2,069	1,449	64.0	(30.0)
Controlling interest	1,261	2,068	1,448	64.0	(30.0)
Non-controlling interest	1	1	1		

⁽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 2012 to 2011

Our net income before tax for this segment decreased 33.2% from 2,659 billion in 2011 to 1,776 billion in 2012. Net income after tax also decreased 30.0% from 2,069 billion in 2011 to 1,449 billion in 2012.

Interest income from our Woori Bank operations decreased 1.9% from 11,659 billion in 2011 to 11,436 billion in 2012, primarily due to a decrease in average yields on interest-earning assets, which was partially offset by an overall increase in the average balance of interest-earning assets. The decrease in average yields on interest-earning assets was attributable mainly to the lower interest rate environment in Korea. The average volume of Woori Bank's loans on a consolidated basis increased 1.2% from 177,102 billion in 2011 to 179,267 billion in 2012, primarily as a result of an increase in Woori Bank's lending to consumers and large corporate borrowers.

Interest expense decreased 1.8% from 5,931 billion in 2011 to 5,825 billion in 2012. The decrease in interest expense was primarily due to a decrease in the average cost of interest-bearing liabilities, resulting mainly from the lower interest rate environment in Korea as well as the

maturity and repayment of higher interest rate debentures previously issued by Woori Bank. This decrease was partially offset by a 2.4% increase in the average volume of interest-bearing liabilities from 214,668 billion in 2011 to 219,808 billion in 2012, which was mainly attributable to an increase in the average volume of time and savings deposits, reflecting customers' continuing preference for low-risk financial products and institutions in light of the continuing uncertainty in financial markets in 2012.

Table of Contents

Impairment losses on credit loss and others decreased 6.9% from 1,964 billion in 2011 to 1,828 billion in 2012. The decrease was primarily due to a change in net provisions for guarantees from net provisions of 142 billion in 2011 to a net reversal of provisions of 25 billion in 2012. Such change reflected a decrease in provisions for guarantees, which was mainly attributable to a decrease in the demand for such guarantees, including from corporate customers in the Korean shipbuilding industry.

Non-interest income decreased 39.7% from 16,433 billion in 2011 to 9,903 billion in 2012, primarily due to a decrease in gains on transaction of foreign exchange, which mainly reflected decreased exchange rate volatility.

Non-interest expense decreased 38.5% from 15,055 billion in 2011 to 9,261 billion in 2012, primarily as a result of a decrease in losses on transaction of foreign exchange, which mainly reflected decreased exchange rate volatility.

Administrative expenses increased 7.0% from 2,549 billion in 2011 to 2,728 billion in 2012, primarily due to an increase in retirement benefit service costs.

Comparison of 2011 to 2010

Our net income before tax for this segment increased 73.0% from 1,537 billion in 2010 to 2,659 billion in 2011. Net income after tax also increased 64.0% from 1,262 billion in 2010 to 2,069 billion in 2011.

Interest income from our Woori Bank operations increased 6.2% from 10,981 billion in 2010 to 11,659 billion in 2011, primarily due to an increase in average yields on interest-earning assets, which was enhanced by an overall increase in the average balance of interest-earning assets. The increase in average yields on interest-earning assets was attributable mainly to the higher interest rate environment in Korea. The average volume of Woori Bank's loans on a consolidated basis increased 2.6% from 172,530 billion in 2010 to 177,102 billion in 2011, primarily as a result of an increase in Woori Bank's lending to consumers and large corporate borrowers.

Interest expense decreased 0.3% from 5,951 billion in 2010 to 5,931 billion in 2011. The decrease in interest expense was primarily due to a decrease in the average cost of interest-bearing liabilities, resulting mainly from the maturity and repayment of higher interest rate debentures previously issued by Woori Bank. This decrease was partially offset by a 2.3% increase in the average volume of interest-bearing liabilities from 209,873 billion in 2010 to 214,668 billion in 2011, which was mainly attributable to an increase in the average volume of time and savings deposits, reflecting customers' continuing preference for low-risk financial products and institutions in light of the volatility in financial markets in 2011.

Impairment losses on credit loss and others decreased 23.3% from 2,560 billion in 2010 to 1,964 billion in 2011. The decrease was primarily due to higher bad debt expenses resulting from increased loan loss provisioning by Woori Bank in connection with the restructuring (in the form of workout, liquidation or court receivership) in 2010 of 65 companies selected by it and various other Korean financial institutions, which were not repeated in 2011.

Non-interest income increased 1.5% from 16,191 billion in 2010 to 16,433 billion in 2011, primarily due to an increase in gains on transaction of foreign exchange, which mainly reflected increased volatility.

Non-interest expense increased 1.4% from 14,850 billion in 2010 to 15,055 billion in 2011, primarily as a result of an increase in losses on transaction of foreign exchange, which mainly reflected increased volatility.

Administrative expenses increased 12.8% from 2,260 billion in 2010 to 2,549 billion in 2011, primarily due to an increase in short term employee benefits.

Table of Contents**Kyongnam Bank**

Kyongnam Bank is a regional commercial bank that provides financial services in Changwon and Ulsan and other parts of the South Kyongsang province in southeastern Korea. Kyongnam Bank concentrates on consumer banking, as well as corporate banking for small- and medium-sized enterprises.

	Year ended December 31,			Percentage change	
	2010	2011	2012	2011/2010	2012/2011
	(in billions of Won)			(%)	
Income statement data					
Interest income	1,168	1,295	1,391	10.9%	7.4%
Interest expense	541	612	703	13.1	14.9
Net interest income	627	683	688	8.9	0.6
Non-interest income	514	416	375	(19.1)	(9.9)
Non-interest expense	456	409	389	(10.3)	(4.9)
Net non-interest income	(58)	7	(14)	N/M ⁽¹⁾	N/M ⁽¹⁾
Administrative expenses	236	274	296	16.1	8.0
Impairment losses on credit loss and others ⁽²⁾	204	153	142	(25.0)	(7.2)
Total other expenses	440	427	438	(3.0)	2.6
Operating income	245	263	235	7.4	(10.7)
Share of profits of jointly controlled entities and associates					
Net non-operating income (expenses)	(4)	(8)	(11)	100.0	37.5
Net income before tax	241	255	224	5.8	(12.2)
Income tax expense (benefit)	58	59	46	1.7	(22.0)
Net income	183	196	178	7.1	(9.2)
Controlling interest	183	196	178	7.1	(9.2)
Non-controlling interest					

⁽¹⁾ N/M = not meaningful.

⁽²⁾ Consist of impairment losses on credit loss, gain (loss) on loan sales and provisions (reversal of provisions).

Comparison of 2012 to 2011

Our net income before tax for this segment decreased 12.2% from 255 billion in 2011 to 224 billion in 2012. Net income after tax also decreased 9.2% from 196 billion in 2011 to 178 billion in 2012.

Interest income from our Kyongnam Bank operations increased 7.4% from 1,295 billion in 2011 to 1,391 billion in 2012, primarily due to an increase in average lending volumes, which was partially offset by an overall decrease in average yields on interest-earning assets resulting from the general decrease in market interest rates. The average volume of Kyongnam Bank's loans increased 13.2% from 17,912 billion in 2011 to 20,687 billion in 2012, primarily due to an increase in the average volume of general purpose household loans, which reflected an increase in demand for such loans in the southeastern part of Korea.

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Interest expense increased 14.9% from 612 billion in 2011 to 703 billion in 2012. The increase in interest expense resulted principally from a 17.0% increase in the average volume of deposits from 16,486 billion in 2011 to 19,295 billion in 2012, which mainly reflected increased demand for deposit products as well as Kyongnam Bank's focus on the marketing of its deposit products, particularly its time and saving deposit products. This increase was enhanced by an increase in the average cost of interest-bearing liabilities, mainly due to the increase in the average cost of time and savings deposits, reflecting Kyongnam Bank's increased marketing efforts to attract such deposits.

Table of Contents

Impairment losses on credit loss and others decreased 7.2% from 153 billion in 2011 to 142 billion in 2012, primarily as a result of a decrease in provisions for guarantees, which was mainly attributable to a decrease in the demand for such guarantees from corporate customers.

Non-interest income decreased 9.9% from 416 billion in 2011 to 375 billion in 2012, primarily due to a decrease in gains on transaction of foreign exchange.

Non-interest expense decreased 4.9% from 409 billion in 2011 to 389 billion in 2012, mainly reflecting a decrease in losses on transaction of foreign exchange.

Administrative expenses increased 8.0% from 274 billion in 2011 to 296 billion in 2012, primarily due to an increase in short term employee benefits.

Comparison of 2011 to 2010

Our net income before tax for this segment increased 5.8% from 241 billion in 2010 to 255 billion in 2011. Net income after tax also increased 7.1% from 183 billion in 2010 to 196 billion in 2011.

Interest income from our Kyongnam Bank operations increased 10.9% from 1,168 billion in 2010 to 1,295 billion in 2011, primarily due to an increase in average lending volumes, which was enhanced by an overall increase in average yields on interest-earning assets, resulting from the general increase in market interest rates. The average volume of Kyongnam Bank's loans increased 11.5% from 16,061 billion in 2010 to 17,912 billion in 2011, primarily due to an increase in the average volume of mortgage loans, which reflected a rising real estate market in certain parts of South Kyongsang province, and loans to small- and medium-sized enterprises, reflecting increased demand for such loans in the southeastern part of Korea.

Interest expense increased 13.1% from 541 billion in 2010 to 612 billion in 2011. The increase in interest expense resulted principally from a 12.8% increase in the average volume of deposits from 14,611 billion in 2010 to 16,486 billion in 2011, primarily as a result of increased demand for deposit products as well as Kyongnam Bank's focus on the marketing of its deposit products. This increase was enhanced by an increase in the average cost of interest-bearing liabilities due to the higher interest rate environment.

Impairment losses on credit loss and others decreased 25.0% from 204 billion in 2010 to 153 billion in 2011 as higher bad debt expenses resulting from increased loan loss provisioning by Kyongnam Bank in connection with the restructuring (in the form of workout, liquidation or court receivership) in 2010 of 65 companies selected by it and various other Korean financial institutions were not repeated in 2011.

Non-interest income decreased 19.1% from 514 billion in 2010 to 416 billion in 2011, primarily due to a decrease in gains on transaction of foreign exchange.

Non-interest expense decreased 10.3% from 456 billion in 2010 to 409 billion in 2011, primarily due to a decrease in other provisions (particularly provisions for litigation) in 2011 compared to 2010.

Administrative expenses increased 16.1% from 236 billion in 2010 to 274 billion in 2011, primarily due to an increase in short term employee benefits.

Table of Contents**Kwangju Bank**

Kwangju Bank is a regional bank that provides financial services in Kwangju and southwestern Korea. Kwangju Bank concentrates on the consumer and small- and medium-sized enterprise banking sectors, offering deposit and loan products to customers in those sectors and, to a lesser extent, large corporate customers.

	Year ended December 31,			Percentage change	
	2010	2011	2012	2011/2010	2012/2011
	(in billions of Won)			(%)	
Income statement data					
Interest income	907	950	980	4.6%	3.2%
Interest expense	438	449	487	2.5	8.5
Net interest income	469	500	493	6.6	(1.4)
Non-interest income	249	161	165	(35.3)	2.5
Non-interest expense	224	148	160	(33.9)	8.1
Net non-interest income	25	13	5	(48.0)	(61.5)
Administrative expenses	195	224	231	14.9	3.1
Impairment losses on credit loss and others ⁽¹⁾	128	108	83	(16.4)	(23.3)
Total other expenses	323	331	314	(2.5)	(5.1)
Operating income	171	182	184	6.4	1.1
Share of profits of jointly controlled entities and associates					
Net non-operating income (expenses)	(6)	(6)	(7)	0.0	16.7
Net income before tax	165	176	177	6.7	0.6
Income tax expense (benefit)	41	40	41	(2.4)	2.5
Net income	124	136	136	9.7	0.0
Controlling interest	124	136	136	9.7	0.0
Non-controlling interest					

⁽¹⁾ Consist of impairment losses on credit loss, gain (loss) on loan sales and provisions (reversal of provisions).

Comparison of 2012 to 2011

Our net income before tax for this segment remained relatively constant at 177 billion in 2012, compared to 176 billion in 2011. Net income after tax also remained constant at 136 billion in both 2011 and 2012.

Interest income from our Kwangju Bank operations increased 3.2% from 950 billion in 2011 to 980 billion in 2012, primarily due to an increase in average lending volumes. The average volume of Kwangju Bank's loans increased 10.7% from 11,740 billion in 2011 to 12,994 billion in 2012, primarily due to an increase in the average volume of loans to small- and medium-sized enterprises and consumers, reflecting increased demand for such loans in the southwestern part of Korea.

Interest expense increased 8.5% from 449 billion in 2011 to 487 billion in 2012. The increase in interest expense resulted principally from an 8.9% increase in the average volume of deposits from 11,773 billion in 2011 to 12,817 billion in 2012, primarily as a result of increased demand for deposit products as well as Kwangju Bank's continuing marketing efforts for such products, particularly time and savings deposit products.

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

This increase was enhanced by an increase in the average cost of interest-bearing liabilities, mainly due to the increase in the average cost of time and savings deposits, reflecting Kwangju Bank's increased marketing efforts to attract such deposits.

Impairment losses on credit loss and others decreased 23.3% from 108 billion in 2011 to 83 billion in 2012, mainly as a result of the reversal of provisions relating to the completion of the litigation case brought against Kwangju Bank by the Export-Import Bank of Korea following the final decision rendered by the Supreme Court of Korea in 2012. See Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings Kwangju Bank.

Table of Contents

Non-interest income increased 2.5% from 161 billion in 2011 to 165 billion in 2012, primarily due to an increase in gain on transaction of Won-denominated debt securities held by Kwangju Bank.

Non-interest expense increased 8.1% from 148 billion in 2011 to 160 billion in 2012, primarily due to an increase in other operating expenses, which mainly reflected an increase in credit card commissions paid and deposit insurance premiums.

Administrative expenses increased 3.1% from 224 billion in 2011 to 231 billion in 2012, primarily due to an increase in short term employee benefits.

Comparison of 2011 to 2010

Our net income before tax for this segment increased 6.7% from 165 billion in 2010 to 176 billion in 2011. Net income after tax also increased 9.7% from 124 billion in 2010 to 136 billion in 2011.

Interest income from our Kwangju Bank operations increased 4.6% from 907 billion in 2010 to 949 billion in 2011, primarily due to an increase in average lending volumes. The average volume of Kwangju Bank's loans increased 5.0% from 11,180 billion in 2010 to 11,740 billion in 2011, primarily due to an increase in the average volume of loans to small- and medium-sized enterprises, reflecting increased demand for such loans.

Interest expense increased 2.5% from 438 billion in 2010 to 449 billion in 2011. The increase in interest expense resulted principally from a 3.3% increase in the average volume of deposits from 11,392 billion in 2010 to 11,773 billion in 2011, primarily as a result of increased demand for deposit products as well as Kwangju Bank's continuing marketing efforts for such products. This increase was partially offset by a decrease in the average cost of interest-bearing liabilities, mainly due to the combined effect of an increase in the proportion of relatively lower-cost borrowings and a decrease in the proportion of relatively higher-cost certificates of deposit and debentures in Kwangju Bank's portfolio of interest-bearing liabilities.

Impairment losses on credit loss and others decreased 16.4% from 128 billion in 2010 to 108 billion in 2011 as higher bad debt expenses resulting from increased loan loss provisioning by Kwangju Bank in connection with the restructuring (in the form of workout, liquidation or court receivership) in 2010 of 65 companies selected by it and various other Korean financial institutions were not repeated in 2011.

Non-interest income decreased 35.3% from 249 billion in 2010 to 161 billion in 2011, primarily due to a decrease in gains on transaction of foreign exchange.

Non-interest expense decreased 33.9% from 224 billion in 2010 to 148 billion in 2011, primarily due to a decrease in losses on transaction and valuation of derivatives held for trading.

Administrative expenses increased 14.9% from 195 billion in 2010 to 224 billion in 2011, primarily due to an increase in short term employee benefits.

Table of Contents**Woori Investment & Securities**

Woori Investment & Securities is engaged in securities brokerage, investment banking, securities investment and trading and other capital markets activities. We currently hold a 37.9% voting interest in Woori Investment & Securities. Woori Investment & Securities is accounted for as a consolidated subsidiary under IFRS as issued by the IASB.

	Year ended December 31,			Percentage change	
	2010	2011	2012	2011/2010	2012/2011
	(in billions of Won)			(%)	
Income statement data					
Interest income	620	662	718	6.8%	8.5%
Interest expense	269	329	332	22.3	0.9
Net interest income	351	333	387	(5.1)	16.2
Non-interest income	3,157	3,213	2,777	1.8	(13.6)
Non-interest expense	2,667	2,754	2,443	3.3	(11.3)
Net non-interest income	490	459	334	(6.3)	(27.2)
Administrative expenses	530	570	541	7.6	(5.1)
Impairment losses on credit loss and others ⁽¹⁾	(2)	7	6	N/M ⁽²⁾	(14.3)
Total other expenses	528	577	547	9.3	(5.2)
Operating income	313	215	174	(31.3)	(19.1)
Share of profits of jointly controlled entities and associates	(10)	43	5	N/M ⁽²⁾	(88.4)
Net non-operating income (expenses)	2	(2)	(24)	N/M ⁽²⁾	1,100.0
Net income before tax	305	256	155	(16.1)	(39.5)
Income tax expense (benefit)	67	58	33	(13.4)	(43.1)
Net income	238	198	122	(16.8)	(38.4)
Controlling interest	250	165	123	(34.0)	(25.5)
Non-controlling interest	(12)	33	(1)	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 2012 to 2011

Our net income before tax for this segment decreased 39.5% from 256 billion in 2011 to 155 billion in 2012. Net income after tax also decreased 38.4% from 198 billion in 2011 to 122 billion in 2012.

Interest income for this segment increased 8.5% from 662 billion in 2011 to 718 billion in 2012, principally as a result of an increase in interest income from due from banks, which mainly reflected the holding of a significant portion of the proceeds from the capital increase of Woori Investment & Securities in December 2011 being held as time deposits in other banks in 2012.

Interest expense increased 0.9% from 329 billion in 2011 to 332 billion in 2012, primarily as a result of an increase in the average cost of other interest-bearing liabilities, which was attributable mainly to an increase in the interest rates applicable to funds deposited by securities brokerage customers of Woori Investment & Securities.

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Impairment losses on credit loss and others for this segment decreased 14.3% from 7 billion in 2011 to 6 billion in 2012, primarily as a result of a decrease in bad debt expenses, reflecting a decrease in the average volume of loans made by Woori Investment & Securities.

Table of Contents

Non-interest income, which includes commission income from Woori Investment & Securities' brokerage operations, decreased 13.6% from 3,213 billion in 2011 to 2,777 billion in 2012, mainly due to a decrease in brokerage fees, which reflected a decrease in the volume of fee-earning transactions brokered by Woori Investment & Securities.

Non-interest expense decreased 11.3% from 2,754 billion in 2011 to 2,443 billion in 2012, primarily as a result of a decrease in loss on transaction of available-for-sale financial assets.

Administrative expenses decreased 5.1% from 570 billion in 2011 to 541 billion in 2012, primarily due to a decrease in short term employee benefits, mainly reflecting a decrease in performance-based compensation.

Comparison of 2011 to 2010

Our net income before tax for this segment decreased 16.1% from 305 billion in 2010 to 256 billion in 2011. Net income after tax also decreased 16.8% from 238 billion in 2010 to 198 billion in 2011.

Interest income for this segment increased 6.8% from 620 billion in 2010 to 662 billion in 2011, principally as a result of an increase in interest income from brokerage transactions on credit and an increase in the average volume of securities purchased under resale agreements.

Interest expense increased 22.3% from 269 billion in 2010 to 329 billion in 2011, primarily as a result of an increase in the average volume of borrowings in local currency to fund brokerage transactions on credit.

Impairment losses on credit loss and others for this segment was 7 billion in 2011 compared to a net reversal of such impairment loss of 2 billion in 2010, primarily as a result of an increase in write-offs of Woori Investment & Securities' holdings of debt securities in 2011.

Non-interest income, which included commission income from Woori Investment & Securities' brokerage operations, increased 1.8% from 3,157 billion in 2010 to 3,213 billion in 2011, mainly due to an increase in gain on valuation of derivatives held for trading, which reflected increased interest rate volatility in 2011.

Non-interest expense increased 3.3% from 2,667 billion in 2010 to 2,754 billion in 2011, primarily as a result of an increase in loss on transaction and valuation of derivatives held for trading, which mainly reflected increased foreign exchange and interest rate volatility.

Administrative expenses increased 7.6% from 530 billion in 2010 to 570 billion in 2011, primarily due to an increase in fees paid to various outside service providers.

Table of Contents**Other Operations**

Other operations include the operations of Woori Finance Holdings and all of our subsidiaries that were consolidated under IFRS as issued by the IASB as of December 31, 2012 except Woori Bank, Kyongnam Bank and Kwangju Bank and Woori Investment & Securities, including principally Woori FIS, Woori F&I, Woori Asset Management, Woori Private Equity, Woori Financial, Woori FG Savings Bank (which was established to acquire certain assets and assume certain liabilities of Samhwa Mutual Savings Bank in March 2011 and subsequently also acquired certain assets and assumed certain liabilities of Solomon Savings Bank in September 2012), and a number of other smaller subsidiaries, none of which constituted a separate reportable segment.

	Year ended December 31,			Percentage change	
	2010	2011	2012	2011/2010	2012/2011
	(in billions of Won)			(%)	
Income statement data					
Interest income	418	512	566	22.5%	10.6%
Interest expense	499	507	489	1.6	(3.6)
Net interest income	(81)	5	77	N/M ⁽²⁾	1,440.0
Non-interest income	612	769	656	25.7	(14.7)
Non-interest expense	167	265	226	58.7	(14.7)
Net non-interest income	445	504	430	13.3	(14.7)
Administrative expenses	375	448	470	19.5	4.9
Impairment losses on credit loss and others ⁽¹⁾	125	207	118	65.6	(43.0)
Total other expenses	500	655	588	31.0	(10.2)
Operating income	(136)	(146)	(81)	7.4	(44.5)
Share of profits of jointly controlled entities and associates	2	(24)	18	N/M ⁽²⁾	N/M ⁽²⁾
Net non-operating income (expenses)	396	533	566	34.6	6.2
Net income before tax	262	363	503	38.6	38.6
Income tax expense (benefit)	18	24	34	33.3	41.7
Net income	244	339	469	38.9	38.4
Controlling interest	265	368	490	38.9	33.2
Non-controlling interest	(21)	(29)	(21)	38.1	(27.6)

⁽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 2012 to 2011

Our net income before tax for this segment increased 38.6% from 363 billion in 2011 to 503 billion in 2012. Net income after tax also increased 38.4% from 339 billion in 2011 to 469 billion in 2012.

Interest income for this segment increased 10.6% from 512 billion in 2011 to 566 billion in 2012, mainly as the result of the inclusion of Woori FG Savings Bank's full-year results of operations in this segment commencing in 2012.

Interest expense decreased 3.6% from 507 billion in 2011 to 489 billion in 2012, primarily due to a decrease in the average cost of debentures issued by Woori Finance Holdings, which was partially offset by the inclusion of Woori FG Savings Bank's full-year results of operations in this

segment commencing in 2012.

Impairment losses on credit loss and others decreased 43.0% from 207 billion in 2011 to 118 billion in 2012. This decrease was primarily the result of a decrease in bad debt expense of Woori Private Equity.

Non-interest income decreased 14.7% from 769 billion in 2011 to 656 billion in 2012, mainly due to a decrease in gains on transaction of foreign exchange by Woori Private Equity.

Table of Contents

Non-interest expense decreased 14.7% from 265 billion in 2011 to 226 billion in 2012, primarily as a result of a decrease in losses on transaction of foreign exchange by Woori Private Equity.

Administrative expenses increased 4.9% from 448 billion in 2011 to 470 billion in 2012, primarily due to an increase in depreciation and amortization expense of Woori FIS.

Net non-operating income increased 6.2% from 533 billion in 2011 to 566 billion in 2012, mainly due to an increase in the dividend income received by Woori Finance Holdings from its consolidated subsidiaries (which is eliminated in its entirety, as an intersegment transaction adjustment, in our consolidated financial statements).

Comparison of 2011 to 2010

Our net income before tax for this segment increased 38.6 % from 262 billion in 2010 to 363 billion in 2011. Net income after tax also increased 38.9% from 244 billion in 2010 to 339 billion in 2011.

Interest income for this segment increased 22.5% from 418 billion in 2010 to 512 billion in 2011, principally due to the addition of Woori FG Savings Bank as our consolidated subsidiary in March 2011 and an increase in the average volume of loans by Woori Financial, which were partially offset by a decrease in average yields on corporate loans by Woori Financial resulting from a deterioration in the asset quality of Woori Financial's loan portfolio.

Interest expense increased 1.6% from 499 billion in 2010 to 507 billion in 2011, primarily due to the addition of Woori FG Savings Bank as our consolidated subsidiary in March 2011 and an increase in the average volume of debentures issued by Woori Financial, which were partially offset by a decrease in the average cost of such debentures.

Impairment losses on credit loss and others increased 65.6% from 125 billion in 2010 to 207 billion in 2011. This increase was primarily as a result of the addition of Woori FG Savings Bank as our consolidated subsidiary in March 2011.

Non-interest income increased 25.7% from 612 billion in 2010 to 769 billion in 2011, mainly due to an increase in gain on transaction of derivatives held for trading by Woori Private Equity and dividends we received from our consolidated subsidiaries, which dividends are eliminated in our consolidated statement of comprehensive income.

Non-interest expense increased 58.7% from 167 billion in 2010 to 265 billion in 2011, primarily as a result of an increase in loss on transaction of derivatives held for trading by Woori Private Equity.

Administrative expenses increased 19.5% from 375 billion in 2010 to 448 billion in 2011, primarily due to an increase in short term employee benefits.

Net non-operating income increased 34.6% from 396 billion in 2010 to 533 billion in 2011, mainly due to an increase in the dividend income received by Woori Finance Holdings from its consolidated subsidiaries (which is eliminated in its entirety, as an intersegment transaction adjustment, in our consolidated financial statements).

Table of Contents**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:

	2010	As of December 31, 2011 (in billions of Won)	2012	Percentage change 2011/2010 2012/2011 (%)	
Cash and cash equivalents	4,871	6,417	5,778	31.7%	(10.0)%
Financial assets at fair value through profit or loss	22,184	25,600	26,147	15.4	2.1
Available-for-sale financial assets	21,998	19,672	18,870	(10.6)	(4.1)
Held-to-maturity financial assets	19,886	20,036	18,685	0.8	(6.7)
Loans and receivables:					
Due from banks	11,894	15,348	14,377	29.0	(6.3)
Loans in local currency	160,380	171,590	178,414	7.0	4.0
Loans in foreign currencies	13,459	13,243	10,454	(1.6)	(21.1)
Domestic bank's letter of credit	4,339	5,423	5,241	25.0	(3.4)
Credit card accounts	4,357	4,592	4,501	5.4	(2.0)
Bills bought in local currency	424	661	888	55.9	34.3
Bills bought in foreign currencies	5,148	5,672	4,663	10.2	(17.8)
Factoring receivables	114	276	187	142.1	(32.2)
Advances for customers on guarantees	306	42	128	(86.3)	204.8
Privately placed bonds	2,621	1,738	1,428	(33.7)	(17.8)
Loans to be converted to equity securities	2	2	2		
Finance leases	632	662	640	4.7	(3.3)
Loans for installment	1,130	1,535	1,811	35.8	18.0
Securitized loans	1,230	1,614	1,531	31.2	(5.1)
Loans secured by securities	1,207	1,181	1,231	(2.2)	4.2
Call loans	3,717	3,432	5,380	(7.7)	56.8
Bonds purchased under resale agreements	2,005	749	4,314	(62.6)	476.0
Other loans	221	226	303	2.3	34.1
Other receivables	8,523	11,211	18,483	31.5	64.9
	221,709	239,198	253,976	7.9	6.2
Less:					
Allowance for credit losses	4,917	4,038	3,871	(17.9)	(4.1)
Total loans and receivables, net	216,792	235,160	250,106	8.5	6.4
Premises and equipment, net	3,097	3,135	3,186	1.2	1.6
Other assets ⁽¹⁾	2,350	2,772	2,935	18.0	5.9
Total assets	291,177	312,792	325,706	7.4%	4.1%

⁽¹⁾ Includes investments in jointly controlled entities 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 2012 to 2011

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Our total assets increased 4.1% from 312,792 billion as of December 31, 2011 to 325,706 billion as of December 31, 2012, principally due to a 64.9% increase in other receivables from 11,211 billion as of December 31, 2011 to 18,483 billion as of December 31, 2012, a 4.0% increase in loans in local currency from 171,590 billion as of December 31, 2011 to 178,414 billion as of December 31, 2012 and a 476.0% increase in bonds purchased under resale agreements from 749 billion as of December 31, 2011 to 4,314 billion as of

Table of Contents

December 31, 2012. The effect of these increases was partially offset by a 21.1% decrease in loans in foreign currencies from 13,243 billion as of December 31, 2011 to 10,454 billion as of December 31, 2012, a 6.7% decrease in held-to-maturity financial assets from 20,036 billion as of December 31, 2011 to 18,685 billion as of December 31, 2012 and a 17.8% decrease in bills bought in foreign currencies from 5,672 billion as of December 31, 2011 to 4,663 billion as of December 31, 2012.

Comparison of 2011 to 2010

Our total assets increased 7.4% from 291,177 billion as of December 31, 2010 to 312,792 billion as of December 31, 2011, principally due to a 7.0% increase in loans in local currency from 160,380 billion as of December 31, 2010 to 171,590 billion as of December 31, 2011, a 29.0% increase in due from banks from 11,894 billion as of December 31, 2010 to 15,348 billion as of December 31, 2011 and a 15.4% increase in financial assets at fair value through profit and loss from 22,184 billion as of December 31, 2010 to 25,600 billion as of December 31, 2011. The effect of these increases was partially offset by a 10.6% decrease in available-for-sale financial assets from 21,998 billion as of December 31, 2010 to 19,672 billion as of December 31, 2011 and a 62.6% decrease in bonds purchased under resale agreements from 2,005 billion as of December 31, 2010 to 749 billion as of December 31, 2011.

Liabilities and Equity

The following table sets forth, as of the dates indicated, the principal components of our liabilities and our equity:

	2010	As of December 31, 2011 (in billions of Won)	2012	Percentage change	
				2011/2010	2012/2011
				(%)	
Liabilities:					
Financial liabilities at fair value through profit or loss	8,838	9,622	10,986	8.9%	14.2%
Deposits due to customers	185,428	195,930	202,920	5.7	3.6
Borrowings	34,266	34,667	33,479	1.2	(3.4)
Debentures	29,111	29,266	27,960	0.5	(4.5)
Provisions	761	892	864	17.2	(3.2)
Other financial liabilities	11,648	19,084	25,480	63.8	33.5
Other liabilities ⁽¹⁾	861	1,258	1,016	46.1	(19.2)
Total liabilities	270,913	290,718	302,703	7.3	4.1
Equity:					
Capital stock	4,030	4,030	4,030		
Hybrid securities		309	498	N/M ⁽²⁾	61.2
Capital surplus	180	176	174	(2.4)	(1.1)
Other equity	1,002	586	186	(41.5)	(68.3)
Retained earnings	10,489	12,423	13,777	18.4	10.9
Controlling interests	15,702	17,524	18,666	11.6	6.5
Non-controlling interests	4,563	4,549	4,337	(0.3)	(4.7)
Total equity	20,265	22,074	23,003	8.9	4.2
Total liabilities and equity	291,177	312,792	325,706	7.4%	4.1%

⁽¹⁾ Includes retirement benefit obligations, current tax liabilities, deferred tax liabilities, derivative liabilities and other liabilities.

⁽²⁾ N/M = not meaningful.

For further information on our liabilities, see Item 4B. Business Overview Assets and Liabilities.

Table of Contents*Comparison of 2012 to 2011*

Our total liabilities increased 4.1% from 290,718 billion as of December 31, 2011 to 302,703 billion as of December 31, 2012. The increase was primarily due to increases in deposits due to customers and other financial liabilities. Our deposits due to customers increased 3.6% from 195,930 billion as of December 31, 2011 to 202,920 billion as of December 31, 2012, mainly as a result of an increase in time deposits in local currency. Our other financial liabilities increased 33.5% from 19,084 billion as of December 31, 2011 to 25,480 billion as of December 31, 2012, principally due to a 105.5% increase in accounts payable from 7,431 billion as of December 31, 2011 to 14,060 billion as of December 31, 2012.

Our total equity increased by 4.2% from 22,074 billion as of December 31, 2011 to 23,003 billion as of December 31, 2012. This increase resulted principally from an increase in our retained earnings, which was attributable to the net income we generated in 2012.

Comparison of 2011 to 2010

Our total liabilities increased 7.3% from 270,913 billion as of December 31, 2010 to 290,718 billion as of December 31, 2011. The increase was primarily due to increases in deposits due to customers and other financial liabilities. Our deposits due to customers increased 5.7% from 185,428 billion as of December 31, 2010 to 195,930 billion as of December 31, 2011, mainly as a result of an increase in time deposits in local currency. Our other financial liabilities increased 63.8% from 11,648 billion as of December 31, 2010 to 19,084 billion as of December 31, 2011, principally due to a 105.5% increase in accounts payable from 3,616 billion as of December 31, 2010 to 7,431 billion as of December 31, 2011.

Our total equity increased by 8.9% from 20,265 billion as of December 31, 2010 to 22,074 billion as of December 31, 2011. This increase resulted principally from an increase in our retained earnings, which was attributable to the net income we generated in 2011.

Liquidity

Our primary source of funding has historically been and continues to be customer deposits, particularly lower-cost retail deposits. Deposits amounted to 185,428 billion, 195,930 billion and 202,920 billion as of December 31, 2010, 2011 and 2012, which represented approximately 73.0%, 73.7% and 76.6% of our total funding, respectively. We have been able to use increases in customer deposits in recent years 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.

We also obtain funding through borrowings and debentures to meet our liquidity needs. Borrowings represented 14.9%, 15.1% and 12.6% of our total funding as of December 31, 2010, 2011 and 2012, respectively. Debentures represented 12.1%, 11.1% and 10.6% of our total funding as of December 31, 2010, 2011 and 2012, 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

Table of Contents

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.

We are a financial holding company, and substantially all of our operations are in our subsidiaries. Accordingly, we rely on distributions from our subsidiaries, direct borrowings and issuances of debt and equity securities to fund our liquidity obligations at the holding company level. We received aggregate dividends of 407 billion, 516 billion and 562 billion from our subsidiaries in 2010, 2011 and 2012, respectively. See Item 3D. Risk Factors Risks relating to our financial holding company structure and strategy.

Contractual Obligations and Off-Balance Sheet Arrangements

The following table sets forth our contractual obligations as of December 31, 2012:

	Total	Payments due by period			More than 5 years
		Less than 1 year	1-3 years (in billions of Won)	3-5 years	
Contractual obligations					
Borrowing obligations ⁽¹⁾	34,619	28,455	3,377	1,676	1,110
Debtenture obligations ⁽¹⁾	32,307	10,096	14,567	4,563	3,081
Deposits ⁽²⁾⁽³⁾	128,726	122,059	4,727	505	1,435
Capital (finance) lease obligations	68	25	36	7	
Operating lease obligations	508	200	135	104	69
Purchase obligations	333	63	108	108	54
Employee severance plan obligations	2,672	2	6	54	2,610
Total	199,233	160,900	22,956	7,017	8,359

(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, 2012. In order to calculate future interest payments on debts with floating rates, we used contractual interest rates as of December 31, 2012.

(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 2012 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 special purpose entities and variable interest entities, including through the purchase of their subordinated debt and the provision of credit facilities to them.

Table of Contents

The following table sets forth our off-balance sheet guarantees and commitments as of the dates indicated:

	2010	As of December 31, 2011 (in billions of Won)	2012
Confirmed guarantees	10,246	11,571	9,770
Guarantees for debenture issuances	42	0	
Guarantees for loans	177	291	172
Acceptances	771	840	622
Letters of guarantee	133	142	124
Other confirmed guarantees	9,123	10,298	8,851
Unconfirmed guarantees	10,146	8,973	9,017
Local letters of credit	963	1,003	853
Import letters of credit	5,505	4,837	5,795
Other unconfirmed guarantees	3,679	3,133	2,369
Commercial paper purchase commitments and others	4,617	6,158	4,948
Loan commitments and others	93,248	98,436	98,029
Loans	82,941	88,401	91,363
Others	10,307	10,035	6,666

We analyze our off-balance sheet legally binding credit-related commitments for possible losses associated with such commitments. We review the ability of the counterparties of the underlying credit-related commitments to perform their obligations under the commitments and, if we determine that a loss is probable and estimable, we establish allowances for possible losses in a manner similar to allowances that we would establish with respect to a loan granted under the terms of the applicable commitment. These allowances are reflected as provisions in our statement of financial position. As of December 31, 2012, we had established provisions for possible losses of 580 billion with respect to our credit-related commitments.

Capital Adequacy

Our subsidiaries Woori Bank, Kyongnam Bank and Kwangju Bank are subject to the capital adequacy requirements of the Financial Services Commission. The requirements applicable commencing in 2008 were formulated based on, and are consistent in all material respects with, the International Convergence of Capital Measurement and Capital Standards, a Revised Framework, also known as Basel II, first published by the Basel Committee on Banking Supervision, Bank for International Settlements in 2004. These subsidiaries are required to maintain a minimum ratio of total capital (Tier I and Tier II capital, less any capital deductions) to risk-weighted assets, as determined by a specified formula, of 8.0%. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Capital Adequacy and Allowances.

Tier I capital is core capital, which consists of paid-in capital, capital surplus, retained earnings, non-controlling interests in consolidated subsidiaries and unpaid share dividends minus deductions. Tier II capital is supplemental capital, which includes allowances for certain loan losses up to 1.25% of total risk-weighted assets, subordinated debts with an initial maturity of at least five years and revaluation surplus. Risk-weighted assets are calculated as the sum of credit risk-weighted assets, market risk-weighted assets and operational risk-weighted assets, in each case as provided in the Financial Services Commission's guidelines.

Table of Contents

The following tables set forth a summary of the capital and capital adequacy ratios of Woori Bank, our principal banking subsidiary, and the capital adequacy ratios of Kyongnam Bank and Kwangju Bank, as of December 31, 2011 and 2012 based on IFRS as issued by the IASB and regulatory reporting standards:

	As of December 31,	
	2011	2012
	(in billions of Won)	
Woori Bank		
Tier I capital		
Paid-in capital	3,830	3,830
Hybrid	1,682	1,682
Capital reserves	812	812
Retained earnings	9,403	10,010
Minority interests in consolidated subsidiaries	8	8
Consolidated adjustment credit/debit		
Others	(673)	(502)
Total Tier I capital	15,062	15,840
Tier II capital		
Revaluation reserves	550	550
Allowance for credit loss ⁽¹⁾	1,139	1,106
Subordinated debt ⁽²⁾	2,432	2,986
Valuation gain on investment financial assets	161	34
Others	(14)	(12)
Total Tier II capital	4,268	4,664
Investment in jointly controlled entities and associates and other deduction items ⁽³⁾		
Total core and supplementary capital	19,330	20,504
Risk-weighted assets		
Credit risk-weighted assets	130,992	128,679
Market risk-weighted assets	1,374	2,236
Operational risk-weighted assets	7,924	8,618
Total risk-weighted assets	140,290	139,533
Risk-weighted assets for required capital adjustment ⁽⁴⁾		
Total adjusted risk-weighted assets	140,290	139,533
Tier I capital ratio	10.74%	11.35%
Tier II capital ratio	3.04%	3.35%
Capital adequacy ratio	13.78%	14.70%

(1) Allowance for credit losses in respect of credits classified as normal or precautionary are used to calculate Tier II capital only to the extent such allowances represent up to 1.25% of risk-weighted assets.

(2) Subordinated debt representing up to 50% of Tier I capital is used in the calculation of Tier II capital.

(3) Equity method investees engaged in banking and financial activities of which Woori Bank owned more than 15% are deducted from Tier I and Tier II capital pursuant to the guidelines of the Financial Services Commission.

(4) Represents adjustments to total risk-weighted assets pursuant to Financial Supervisory Service guidelines that require banks that apply an internal ratings-based approach or advanced measurement approach in calculating capital requirements to adjust their total risk-weighted assets when calculating capital ratios in certain circumstances.

Table of Contents

	As of December 31,	
	2011	2012
Kyongnam Bank		
Tier I capital ratio	9.17%	8.70%
Tier II capital ratio	4.11	4.64
Capital adequacy ratio	13.28	13.34

Kwangju Bank		
Tier I capital ratio	8.68%	9.65%
Tier II capital ratio	5.12	4.65
Capital adequacy ratio	13.80	14.30

The following tables set forth a summary of the capital and capital adequacy ratios of Woori Bank and the capital adequacy ratios of Kyongnam Bank and Kwangju Bank, as of December 31, 2010 based on generally accepted accounting principles in Korea and regulatory reporting standards:

	As of December 31, 2010 (in billions of Won)
Woori Bank	
Tier I capital	
Paid-in capital	3,830
Hybrid	2,394
Capital reserves	812
Retained earnings	8,713
Minority interests in consolidated subsidiaries	7
Consolidated adjustment credit/debit	
Others	(705)
Total Tier I capital	15,051
Tier II capital	
Revaluation reserves	
Allowance for credit loss ⁽¹⁾	820
Subordinated debt ⁽²⁾	3,241
Valuation gain on investment financial assets	324
Others	(98)
Total Tier II capital	4,287
Investment in jointly controlled entities and associates and other deduction items ⁽³⁾	
Total core and supplementary capital	19,338
Risk-weighted assets	
Credit risk-weighted assets	123,370
Market risk-weighted assets	1,257
Operational risk-weighted assets	7,371
Total risk-weighted assets	131,998
Risk-weighted assets for required capital adjustment ⁽⁴⁾	
Total adjusted risk-weighted assets	131,998
Tier I capital ratio	11.40%
Tier II capital ratio	3.25%
Capital adequacy ratio	14.65%

- (1) Allowance for credit losses in respect of credits classified as normal or precautionary are used to calculate Tier II capital only to the extent such allowances represent up to 1.25% of risk-weighted assets.

Table of Contents

- (2) Subordinated debt representing up to 50% of Tier I capital is used in the calculation of Tier II capital.
- (3) Equity method investees engaged in banking and financial activities of which Woori Bank owned more than 15% are deducted from Tier I and Tier II capital pursuant to the guidelines of the Financial Services Commission.
- (4) Represents adjustments to total risk-weighted assets pursuant to Financial Supervisory Service guidelines that require banks that apply an internal ratings-based approach or advanced measurement approach in calculating capital requirements to adjust their total risk-weighted assets when calculating capital ratios in certain circumstances.

	Kyongnam Bank	Kwangju Bank
As of December 31, 2010		
Tier I capital ratio	9.73%	9.03%
Tier II capital ratio	4.36	4.19
Capital adequacy ratio	14.09	13.22

Basel II, which builds upon the initial Basel Capital Accord of 1988, focuses its attention on risk assessment and credit risk in particular. Basel II instituted new measures that require our commercial banking subsidiaries to:

take into account individual borrower credit when calculating their risk-weighted assets, unlike in the past; and

quantify their operational risk to include explicit capital requirements in their financial statements.

In addition, under Basel II, banks are permitted to follow either a standardized approach or an internal ratings-based approach with respect to calculating capital requirements. Woori Bank has voluntarily chosen to establish and follow an internal ratings-based approach, which is more stringent in terms of calculating risk sensitivity with respect to its capital requirements. Kyongnam Bank has also begun following an internal ratings-based approach from September 2011, while Kwangju Bank plans to do the same in the near future. For regulatory reporting purposes, from September 30, 2008, Woori Bank has implemented its internal ratings-based approach for credit risk, beginning with its credit risk with respect to retail, small- and medium-size enterprises and large corporate loans and asset-backed securities portfolios, and plans to further implement its internal ratings-based approach to its specialized lending portfolio upon approval by the Financial Supervisory Service. A standardized approach will be used in measuring credit risk for those classes of exposure for which Woori Bank's internal ratings-based approach has not yet been implemented, as well as for certain classes of exposure (including those to the Korean government, public institutions and other banks) for which the internal ratings-based approach will not be applied. Woori Bank plans to implement an advanced internal ratings-based approach for credit risk in the near future. Woori Bank also implemented a standardized approach for operational risk beginning on January 1, 2008, and implemented an advanced measurement approach for operational risk in June 2009. While we believe that Woori Bank's implementation of an internal ratings-based approach in 2008 has increased its capital adequacy ratio and led to a decrease in its credit risk-related capital requirements as compared to those under its previous approach under the initial Basel Capital Accord of 1988, there can be no assurance that such internal ratings-based approach under Basel II will not require an increase in Woori Bank's credit risk capital requirements in the future, which may require it to either improve its asset quality or raise additional capital.

In December 2009, the Basel Committee on Banking Supervision introduced a new set of measures to supplement Basel II, which include, among others, a requirement for higher minimum capital, introduction of a leverage ratio as a supplementary measure to the capital adequacy ratio and flexible capital requirements for different phases of the economic cycle. Additional details regarding such new measures, including an additional capital conservation buffer and countercyclical capital buffer, liquidity coverage ratio and other supplemental measures, were announced by the Group of Governors and Heads of Supervision of the Basel Committee on Banking Supervision in September 2010. After further impact assessment and observation periods, the Basel Committee on Banking Supervision will begin phasing in the new set of measures, referred to as Basel III, from 2013. In September 2012, the Financial Services Commission announced its plans to implement a new set of regulations that will, among other things, require Koreans banks to comply with stricter minimum capital ratio requirements beginning in 2013 and additional minimum capital conservation buffer requirements from 2016. Under the proposed regulations, Korean banks will be required to maintain a minimum ratio of Tier I common capital (which principally includes equity capital, capital surplus and retained earnings less reserve for credit

Table of Contents

losses) to risk-weighted assets of 3.5% and Tier I capital to risk-weighted assets of 4.5% from 2013, with such minimum ratios being increased to 4.0% and 5.5%, respectively, from 2014 and 4.5% and 6.0%, respectively, from 2015. Such requirements would be in addition to the existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital reductions) to risk-weighted assets of 8.0%, which will remain unchanged. The proposed regulations also contemplate an additional capital conservation buffer of 0.625% starting in 2016, with such buffer to increase to 2.5% by 2019. However, in December 2012, the Financial Services Commission announced that the implementation of the proposed Basel III-related requirements in Korea will be delayed indefinitely pending the implementation of Basel III in the European Union, the United States and other countries. Accordingly, the timing and scope of implementation of the Basel III measures described above in Korea, as well as other Basel III measures such as introduction of a countercyclical buffer, leverage ratio and liquidity coverage ratio, remain uncertain. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including us. See Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.

In addition, we, as a bank holding company, are required to maintain a minimum consolidated capital adequacy ratio of 8.0%. Consolidated capital adequacy ratio is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with Financial Services Commission requirements that have been formulated based on Bank of International Settlements standards.

Equity capital, as applicable to bank holding companies, is defined as the sum of Tier I capital, Tier II capital and Tier III capital less any deductible items, each as defined under the Regulation on the Supervision of Financial Holding Companies). Risk-weighted assets is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

The following table sets forth a summary of our consolidated capital adequacy ratio as of December 31, 2011 and 2012, based on applicable IFRS and regulatory reporting standards:

	As of December 31,	
	2011	2012
	(in billions of Won)	
Risk-weighted assets	208,069	210,397
Risk-adjusted capital	25,669	26,990
Consolidated risk-based capital adequacy ratio	12.34%	12.83%

Recent Accounting Pronouncements

See Note 2.(1)-1) of the notes to our consolidated financial statements for a description of recent accounting pronouncements under IFRS as issued by the IASB that have been issued and adopted by us, and Note 2.(1)-2) of the notes to our consolidated financial statements for a description of recent accounting pronouncements under IFRS as issued by the IASB that have been issued but are not yet effective.

Item 5C. Research and Development, Patents and Licenses, etc.
Not Applicable

Item 5D. Trend Information

These matters are discussed under Item 5A and Item 5B above where relevant.

Item 5E. Off-Balance Sheet Arrangements

See Item 5B. Liquidity and Capital Resources Financial Condition Contractual Obligations and Off-Balance Sheet Arrangements.

Item 5F. Tabular Disclosure of Contractual Obligations

See Item 5B. Liquidity and Capital Resources Financial Condition Contractual Obligations and Off-Balance Sheet Arrangements.

Table of Contents**Item 5.G. Safe Harbor**

See Forward-Looking Statements.

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**Item 6A. Directors and Senior Management
Board of Directors**

Our board of directors has the ultimate responsibility for managing our affairs. The board currently comprises one standing director and seven outside directors. Standing directors are directors who are full-time executive officers of Woori Finance Holdings, while outside directors are directors who are not full-time executive officers.

Our articles of incorporation provide that the board can have no more than 15 directors. Standing directors must comprise less than 50% of the total number of directors and there must be at least three outside directors. Each standing director may be elected for a term of office not exceeding three years, as determined at the general meeting of shareholders, and may be re-elected. Each outside director may be elected for a term of office not exceeding two years, and may be re-elected for successive one-year terms, provided that the outside director may not serve in such office for more than five consecutive years. In addition, with respect to both standing and outside directors, such term of office is extended until or reduced to, as the case may be, the close of the annual general meeting of stockholders convened in respect of the last fiscal year of the director's term of office. These terms are subject to the Korean Commercial Code, the Financial Holding Company Act and related regulations. Each director may be re-elected, subject to these laws and regulations.

Our board of directors meets regularly on a quarterly basis to discuss and resolve various corporate matters. The board may also convene for additional extraordinary meetings at the request of any of the directors.

The names and positions of our directors are set forth below. The business address of all of the directors is our registered office at 203 Hoehyon-dong, 1-ga, Chung-gu, Seoul, Korea.

Standing Director

Our standing director is as follows:

Name	Age	Position	Director Since
Pal Seung Lee	69	Chairman and Chief Executive Officer	June 27, 2008

Our standing director is not involved in any significant business activities outside Woori Finance Holdings and our subsidiaries.

Pal Seung Lee was elected standing director in June 2008. Prior to that, he was the representative director of the Seoul Philharmonic Orchestra, chief executive officer of Woori Securities and executive managing director of Hanil Bank. Mr. Lee holds a Bachelor of Law from Korea University.

In April 2013, Mr. Lee announced his intention to resign from his positions as our standing director, the chairman of our board of directors and our chief executive officer. We are currently in the process of establishing a chief executive officer recommendation committee in order to select candidates for his successor. Mr. Lee will continue to serve in his current positions until his successor has been duly appointed.

Outside Directors

Our outside directors are selected based on their experience and knowledge in diverse areas, which include law, finance, economics, management and accounting. We currently have seven outside directors. All were nominated by the Outside Director Candidate Recommendation Committee and approved by our shareholders.

Table of Contents

Our outside directors are as follows:

Name	Age	Position	Director Since	Year Term Ends ⁽¹⁾
Hee-Yul Chai	53	Outside Director	March 22, 2013	2015
Young-Soo Park	61	Outside Director	March 22, 2013	2015
Hyung-Goo Lee	51	Outside Director	March 30, 2012	2014
Yong-Man Rhee	80	Outside Director	March 25, 2011	2014
John Ji Whan Park	45	Outside Director	March 25, 2011	2014
Doo-Hee Lee	56	Outside Director	March 27, 2009	2014
Hun Lee	52	Outside Director	March 27, 2009	2014

⁽¹⁾ The date on which each term will end will be the date of the general stockholders' meeting in the relevant year.

Hee-Yul Chai was elected an outside director in March 2013. He is currently a professor of economics at Kyonggi University, and was formerly a non-standing commissioner of the Financial Services Commission. He received a Bachelor of Arts in Economics from Seoul National University and a Ph.D. in Economics from University of Paris X.

Young-Soo Park was elected an outside director in March 2013. He is currently the representative attorney of Law Firm Gangnam, and was formerly the chief prosecutor at the Central Investigation Department of the Supreme Prosecutor's Office of Korea. He received a Bachelor of Liberal Arts and Sciences degree from Seoul National University and a Ph.D. Economic Law from Dankook University.

Hyung-Goo Lee was elected an outside director in March 2012. He is currently the director of the savings bank support department at the KDIC. He received a Bachelor of Law from Daegu University.

Yong-Man Rhee was elected as an outside director in March 2011. He is currently a member of the National Elders Committee of Korea, and was formerly the governor of the Bank Supervisory Service and the Minister of Finance of Korea. He received a Bachelor of Public Administration from Korea University and a Master of Public Administration from Seoul National University.

John Ji Whan Park was elected an outside director in March 2011. He is currently the representative director of Asia Evolution, and was formerly an executive director at Goldman Sachs. He received a Bachelor of Arts in Economics from Brown University and a Master of Business Administration from Harvard University.

Doo-Hee Lee was elected an outside director in March 2009. He is currently the dean and a professor of the College of Business Administration at Korea University and the honorary president of Asia-Pacific Association for International Education. He received a Bachelor of Business Administration from Korea University and a Master of and Ph.D. in Business Administration from Michigan State University.

Hun Lee was elected an outside director in March 2009. He is currently the co-head of The Lawyers for Citizens and a partner at Hongik Law Firm, and was formerly a director at the Korea Bar Association. He received a Bachelor of Law from Chung-Ang University.

If any director wishes to enter into a transaction with us in his or her personal capacity, he or she must obtain the prior approval of our board of directors. The director having an interest in the transaction may not vote at the meeting during which the board approves the transaction.

Table of Contents**Executive Officers**

In addition to the standing director who is also our executive officer, we currently have the following seven executive officers.

Name	Age	Position
Byoung Yoon Jeon	58	Executive Vice President
Joon Ho Kim	58	Executive Vice President
Jong Oun Kim	55	Executive Vice President
Seung Nam Choi	57	Executive Vice President
Seong Kook Jo	59	Senior Managing Director
Chang Young Choi	56	Managing Director
Dong Young Park	57	Managing Director

Byoung Yoon Jeon serves as an executive vice president in charge of our management support department. Prior to that, he was the head of operations of Seoul Philharmonic Orchestra. He holds a Bachelor of Arts in English Literature from Sogang University.

Joon Ho Kim serves as an executive vice president in charge of our risk management department. Prior to that, he was an internal auditor of the Industrial Bank of Korea. He holds a Bachelor of Business Administration from Korea University and a Master of Business Administration from Georgia State University.

Jong Oun Kim serves as an executive vice president in charge of our synergy promotion division. Prior to that, he was an executive vice president of Woori Bank. He holds a Bachelor of Science in Food Science and Technology from Chung-ang University, a Master of Business Administration from Pepperdine University and a Ph.D. in Business Administration from Chung-ang University.

Seung Nam Choi serves as an executive vice president in charge of management planning and financial planning. Prior to that, he was an executive vice president of Woori Bank. He holds a Bachelor of Economics from Korea University.

Seong Kook Jo serves as a managing director in charge of audit and management inspection. Prior to that, he was a senior general manager of Woori Bank. He holds a Bachelor of Science in Agricultural Chemistry from Korea University.

Chang Young Choi serves as a managing director in charge of compliance. Prior to that, he was a regional sales center head of Woori Bank. He holds a Bachelor of Law from Yonsei University.

Dong Young Park serves as a managing director in charge of future strategy, strategic planning and global business. Prior to that, he served as a deputy director with us and a senior general manager of Woori Bank. He holds a Bachelor of Arts in Persian Language from Hankuk University of Foreign Studies.

None of the executive officers is involved in any significant business activities outside Woori Finance Holdings and our subsidiaries.

Item 6B. Compensation

The aggregate remuneration and benefits-in-kind we paid in 2012 to our chairman and chief executive officer, our outside directors and our other executive officers was 2,714 million. In 2012, we recorded additional provisions of 418 million for allowances for severance and retirement benefits for those directors and officers. We do not have service contracts with any of these directors or officers that provide for benefits if employment with us is terminated.

In 2012, we did not grant any stock options and, accordingly, did not recognize any compensation expense for stock options granted under our stock option plan. As of the date of this annual report, we do not have any stock options outstanding.

Table of Contents

Item 6C. *Board Practices*

See Item 6A. Directors and Senior Management Board of Directors and Item 6B. Compensation for information concerning the terms of office and contractual employment arrangements with our directors and executive officers.

Committees of the Board of Directors

We currently have nine committees that serve under the board:

the Management Committee;

the Business Development and Compensation Committee;

the Risk Management Committee;

the Audit Committee;

the Standing Directors Committee;

the Ethics Committee;

the Outside Directors Recommendation Committee;

the MOU Evaluation Committee; and

the Audit Committee Member Candidate Recommendation Committee.

The board appoints each member of these committees except for members of the Audit Committee, who are elected by our stockholders at the annual general meeting.

Management Committee

This committee consists of one standing director and four outside directors who serve as chairmen of other committees under the board of directors: Pal Seung Lee, Yong-Man Rhee, Doo-Hee Lee, Young-Soo Park and Hun Lee. The chairman is Pal Seung Lee. This committee, which functions as a steering committee, enables broad management oversight of our operations. It is responsible for the following:

setting rules and procedures for operations of our board and its various committees;

resolving issues relating to critical management-related matters like restructuring;

formulating management strategies and policies; and

determining policies to enhance our corporate governance structure.

This committee holds regular meetings every six months.

Business Development and Compensation Committee

This committee consists of four outside directors: Young-Soo Park, Hee-Yul Chai, Doo-Hee Lee and Hun Lee. The chairman is Young-Soo Park. It is responsible for all matters relating to the following:

management's performance in developing our business;

setting goals and targets with respect to and evaluating executive performance; and

fixing executive compensation, including incentives and bonuses.

This committee holds regular meetings every six months.

Risk Management Committee

This committee consists of one standing director and four outside directors: Pal Seung Lee, Hyung-Goo Lee, Hee-Yul Chai, Hun Lee and John Ji Whan Park. The chairman is Hun Lee. It oversees and makes determinations

Table of Contents

on all issues relating to our group-wide, standardized risk management system. It implements policies regarding, monitors and has ultimate responsibility for managing credit, market and liquidity risk and asset and liability management. The major roles of the Group Risk Management Committee include:

determining and amending risk management policies, guidelines and limits in conformity with the strategy established by the board of directors;

determining the appropriate level of risks that we should be willing to undertake, including in connection with key business activities such as acquisitions, investments or entering into new business areas, prior to a decision by the board of directors on such matters;

allocating risk capital to each subsidiary and setting our subsidiaries' risk limits;

reviewing our group-wide risk profile, including the level of risks we are exposed to and the status of our risk management operations; and

monitoring our subsidiaries' compliance with our risk policies.

The Group Risk Management Committee regularly receives reports from the Group Risk Management Council as well as the Group Risk Management Department, which in turn receives reports from the subsidiary level risk management committees and units. See Item 11. Quantitative and Qualitative Disclosures about Market Risk. The committee holds regular meetings every three months.

Audit Committee

This committee consists of five outside directors: Yong-Man Rhee, Hyung-Goo Lee, Hun Lee, Young-Soo Park and Doo-Hee Lee. The chairman is Doo-Hee Lee. It reviews all audit and compliance-related matters and makes recommendations to our board. This committee also is responsible for the following:

formulating, executing, evaluating and managing internal audit plans (including the financial and operational audits);

approving the appointment and dismissal of the head of the audit team;

approving the appointment of external auditors and evaluating the activities carried out by external auditors;

formulating appropriate measures to correct problems identified from internal audits;

overseeing the reporting systems within our holding company structure and all disclosure rules and requirements to ensure compliance with applicable regulations; and

examining internal procedures or making decisions on material matters that are related to audits as determined by the regulatory authorities, our board or other committees.

This committee also makes recommendations on regulatory issues to the Financial Supervisory Service, if and when deemed necessary. In addition, in connection with general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors to each general meeting of stockholders. The internal and external auditors report directly to the Audit Committee chairman. Our external auditor is invited to attend meetings of this committee when needed or when matters pertaining to the audit are discussed. The subsidiary-level Audit Committees, which review subsidiary-level internal practices, report to the Audit Council that in turn reports to this committee.

The committee holds regular meetings every three months.

Standing Directors Committee

This committee currently consists of our standing director, Pal Seung Lee, who is the chairman. This committee is an operational committee that oversees decisions with respect to our operational and management matters. The committee holds meetings whenever it is deemed necessary.

Table of Contents

Ethics Committee

This committee consists of one standing director and four outside directors: Pal Seung Lee, Yong-Man Rhee, Hyung-Goo Lee, Hee-Yul Chai and John Ji Whan Park. The chairman is Yong-Man Rhee. It is responsible for the following:

implementing our code of ethics and amending it when necessary;

managing our ethics policies, including developing procedures and standards of conduct to ensure compliance; and

evaluating our performance under our code of ethics.

This committee holds regular meetings every year.

Outside Directors Recommendation Committee

This committee consists of one standing director and five outside directors: Pal Seung Lee, Hyung-Goo Lee, John Ji Whan Park, Doo-Hee Lee, Young-Soo Park and Hee-Yul Chai. The chairman is Young-Soo Park. It is responsible for the following:

searching for potential outside director candidates; and

reviewing and nominating outside director candidates.

This committee holds meetings when an outside director needs to be appointed.

MOU Evaluation Committee

This committee consists of the entire board of directors: Pal Seung Lee, Yong-Man Rhee, Hyung-Goo Lee, John Ji Whan Park, Doo-Hee Lee, Hun-Lee, Hee-Yul Chai and Young-Soo Park. The chairman is Pal Seung Lee. It is responsible for the following:

evaluating MOU target attainment performances of us and our subsidiaries; and

overseeing and managing the MOU steering committee.

This committee holds regular meetings every three months.

Audit Committee Member Candidate Recommendation Committee

This committee, which was first formed in January 2008, consists of seven outside directors: Yong-Man Rhee, Hyung-Goo Lee, John Ji Whan Park, Doo-Hee Lee, Hun Lee, Hee-Yul Chai and Young-Soo Park. The chairman is Young-Soo Park. This committee holds meetings when an audit committee member needs to be appointed.

Item 6D. *Employees*

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

As of December 31, 2012, we had a total of 162 full-time employees, including nine officers, at our financial holding company. The following table sets forth information regarding our employees at both our financial holding company and our subsidiaries as of the dates indicated:

	As of December 31,		
	2010	2011	2012
Full-time employees	21,483	22,163	22,811
Contractual employees	4,255	4,983	5,293
Total	25,738	27,146	28,104

At the holding company level, our employees do not currently have a union and none of such employees are members of an outside labor union. At each of our subsidiaries, our employees have a labor union, and approximately 64.5% of the employees of our subsidiaries are members of the Korea Financial Industry Union or

Table of Contents

other labor unions. Since we were established in April 2001, neither we nor any of our subsidiaries has had any significant labor disputes, although we have made certain concessions to our labor unions. See Item 3D. Risk Factors Other risks relating to our business Labor union unrest may disrupt our operations and hinder our ability to continue to reorganize and integrate our operations. We have placed a high priority on our relationship with our employees and on maintaining an atmosphere of trust and cooperation between our labor and management.

At the holding company level, our salary system with respect to our employees is based on a combination of the agreed-upon base salary and bonuses reflecting the work productivity of each employee. We believe that the salaries we pay to our employees and management are similar to those of other large financial institutions in Korea. We evaluate employees twice a year (usually in January and July), based on our business performance and evaluations provided by co-workers and superiors. With respect to our compensation program, we do not provide housing leases or loans to our employees.

We have introduced a wage peak system as a result of an agreement reached with our employees in 2005. Under the system, an employee's wages reach a certain peak and then are gradually reduced as the employee reaches retirement age. This will allow the retirement age to be extended by two years to age 60 under the new system, while our employees' wages would be cut incrementally from age 55. We believe that this system is beneficial both for us and our employees as it will encourage early retirements and reduce costs, while allowing employees to defer their retirement by two years. We are also planning to extend a performance-based pay system to all of our employees, as it currently applies only to those who are in the position of vice chief of a department or higher as well as certain departments (such as the Investment Finance department).

We have an employee stock ownership association, which purchases our shares at the request of our employees using their own funds. We do not provide any compensation benefits to employees through such purchases, although the association is entitled to certain pre-emptive rights. See Item 10B. Memorandum and Articles of Association Pre-emptive Rights and Issuances of Additional Shares.

At our subsidiaries, employee compensation is based on a combination of the agreed-upon base salary and bonuses. The bonus system is based on individual performance and business unit performance. We believe that our compensation package for our subsidiaries is similar to those institutions in the same industries. We provide a wide range of benefits to our employees, including medical insurance, employment insurance, workers compensation, life insurance, financial aid for children's tuition, low-interest housing loans and pension plans.

In accordance with the National Pension Act, we contribute an amount equal to 4.5% of employee wages, and each employee contributes 4.5% of his or her wages, into each employee's personal pension account. In addition, in accordance with the Guarantee of Worker's Retirement Benefits Act, we have adopted a retirement pension plan for our employees. Contributions under the retirement pension plan are deposited annually into a selected financial institution, and an employee may elect to receive a monthly pension or a lump-sum amount upon retirement. Our retirement pension plan is in the form of a defined benefit plan, which guarantees a certain payout at retirement according to a fixed formula based on the employee's average salary and the number of years for which the employee has been a plan member. Under Korean law, we may not terminate the employment of full-time employees except under certain limited circumstances.

In 2010, 2011 and 2012, we paid 14 billion, 35 billion and 58 billion, respectively, for the training of our employees in specialist areas by local and foreign training institutes.

Table of Contents**Item 6E. Share Ownership
Common Stock**

As of April 22, 2013, the persons who are currently our directors or executive officers, as a group, held an aggregate of 71,500 shares of our common stock. None of these persons individually held more than 1% of our outstanding common stock as of such date. The following table presents information regarding our directors and executive officers who beneficially owned our shares as of April 22, 2013.

Name of Executive Officer or Director	Number of Shares of Common Stock
Pal Seung Lee	71,500
Total	71,500

Stock Options

As of December 31, 2012, our directors and executive officers did not hold any stock options. As of the date of this annual report, we do not have any stock options outstanding.

Item 7. MAJOR STOCKHOLDERS AND RELATED PARTY TRANSACTIONS**Item 7A. Major Stockholders**

The following table presents information regarding the beneficial ownership of our shares at April 22, 2013 by each person or entity known to us to own beneficially more than 5% of our outstanding shares:

Except as otherwise indicated, each stockholder identified by name has:

sole voting and investment power with respect to its shares; and

record and beneficial ownership with respect to its shares.

Beneficial Owner	Number of Shares of Common Stock	Percentage of Total Shares of Common Stock	Percentage of Total Shares on a Fully Diluted Basis
KDIC	459,198,609	56.97	56.97
National Pension Service	40,340,108	5.00	5.00

As of April 22, 2013, our chairman and chief executive officer owned 71,500 shares of our common stock. None of our executive officers (excluding our chairman and chief executive officer) and our outside directors owned any shares of our common stock.

Other than as set forth above, no other person or entity known by us to be acting in concert, directly or indirectly, jointly or separately, owned 5.0% or more of the outstanding shares of our common stock or exercised control or could exercise control over us as of April 22, 2013.

Item 7B. Related Party Transactions

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

We regularly engage in transactions with entities affiliated with the government, which as of April 22, 2013 owned 56.97% of our shares through the KDIC. Generally, these transactions include the extension of loans, the purchase of debt securities and other ordinary course activities relating to our banking business. For a description of such transactions, see Item 4B. Business Overview Assets and Liabilities.

We and our subsidiaries have entered into memoranda of understanding with the KDIC, under which we and our subsidiaries must meet business normalization targets or specific financial targets, or the KDIC has the right to impose sanctions on our directors or employees or to require us or our subsidiaries to take certain actions. See Item 4A. History and Development of the Company History Relationship with the Korean Government. In addition, as of December 31, 2012, we owned 1,059 billion of debentures issued by the KDIC, representing 1.8% of our investment securities.

Table of Contents

In 2008, we entered into three loan agreements with Woori Financial, our subsidiary, to lend an aggregate of 170 billion. As of April 22, 2013, 1 billion of such loans remained outstanding to Woori Financial.

As of December 31, 2012, we had loans outstanding to our executive officers and directors in the aggregate amount of 736 million.

All of these loans were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present other unfavorable features.

None of our directors or officers have or had any interest in any transactions effected by us that are or were unusual in their nature or conditions or significant to our business which were effected during the current or immediately preceding year or were effected during an earlier year and remain in any respect outstanding or unperformed.

Item 7C. *Interest of Experts and Counsel*
Not Applicable

Item 8. FINANCIAL INFORMATION

Item 8A. *Consolidated Statements and Other Financial Information*
See Item 18. Financial Statements and pages F-1 through F-109.

Legal Proceedings

As a financial institution with diverse operations, we are subject to legal proceedings and regulatory actions in the ordinary course of our business.

Woori Bank

Commencing in 2005, Woori Bank marketed and sold investment fund products known as the Woori Power Income Funds, created and managed by Woori Asset Management, to customers in Korea. The funds have experienced significant declines in value, principally as a result of investments made in securities and derivative instruments of troubled financial institutions in the U.S. and elsewhere. In November 2008, in response to complaints filed by customers who suffered losses as a result of their investment in these products, the Financial Supervisory Service ruled that Woori Bank should compensate such customers for 30% to 50% of the investment losses they suffered due to its failure to adequately disclose the risks associated with an investment in the products. However, certain customers who invested in these products through Woori Bank have opted to instead file lawsuits against Woori Bank based on its alleged failure to adequately disclose such risks, in order to obtain higher levels of compensation. As of April 1, 2013, eight such lawsuits were pending and the aggregate amount claimed against Woori Bank in such lawsuits was approximately 6 billion. In one of such lawsuits, which was pending before the appellate court following appeals by both the plaintiffs and Woori Bank, the trial court ruled that Woori Bank was liable for damages equal to approximately 20% to 40% of the losses suffered by the plaintiffs. As of the same date, three of such lawsuits were pending before the Supreme Court of Korea, two of which were appealed by the plaintiffs after the appellate courts held that the defendants (including Woori Bank) were jointly liable for damages equal to approximately 10% to 40% of the losses suffered by the plaintiffs, while one was appealed by the defendants after the appellate court held that the defendants (including Woori Bank) were liable for damages equal to approximately 70% of the losses suffered by the plaintiffs. The other four lawsuits were still pending in the trial court as of the same date. Through April 1, 2013, the aggregate amount of compensation payments made to customers by Woori Bank in relation to such products, including payments made in accordance with the Financial Supervisory Service's ruling as well as lawsuits filed by customers, was 23 billion. In addition, certain of Woori Bank's customers have filed lawsuits against it in connection with certain other investment fund products created and managed by Woori Asset Management and sold by Woori Bank to customers in Korea, including those which had invested in certain equity-linked securities

Table of Contents

issued by Lehman Brothers and incurred significant losses following the Lehman Brothers bankruptcy. See Woori Asset Management. As of April 1, 2013, five such lawsuits were pending and the aggregate amount claimed against Woori Bank in such lawsuits was approximately 17 billion. The trial court ruled for Woori Bank in one such lawsuit, which was appealed by the plaintiffs, while the other four lawsuits were still pending in the trial court. Additional lawsuits may be filed against Woori Bank with respect to its sales of such products, and the final outcome of such litigation remains uncertain.

In 2008, certain of Woori Bank's customers filed lawsuits against it in connection with its sales of foreign currency derivatives products known as KIKO (which stands for knock-in knock-out), which are intended to operate as hedging instruments against fluctuations in the exchange rate between the Won and the U.S. dollar. Due to the significant depreciation of the Won against the U.S. dollar in 2008 and 2009, customers who purchased KIKO products from Woori Bank were required to make large payments to it. Seven companies have filed lawsuits against Woori Bank alleging that the contracts under which the relevant KIKO products were sold by Woori Bank should be nullified and that Woori Bank should return payments received thereunder. As of April 1, 2013, five such suits were pending, two of which were in the appellate court following appeals by the plaintiffs, after a trial court decision in favor of Woori Bank in one such lawsuit and a trial court ruling that Woori Bank was liable for damages equal to approximately 20% of the losses suffered by the plaintiffs in the other. As of the same date, two such lawsuits were pending at the Supreme Court of Korea following appeal by the plaintiffs after both the trial courts and the appellate courts ruled in favor of Woori Bank, while one was pending before the trial court. The aggregate amount of such claims, as of April 1, 2013, was approximately 46 billion, and such amount may increase as the lawsuits progress or in the event of further depreciation of the Won against the U.S. dollar. Additional lawsuits may be filed against Woori Bank with respect to KIKO products, and the final outcome of such litigation remains uncertain.

In January 2008, the Korea Fair Trade Commission instituted certain amendments to standard loan policy conditions for mortgage loan agreements to require banks to be responsible for the payment of mortgage registration expenses when issuing mortgage loans. Subsequently, the Korea Federation of Banks and 16 banks (including Woori Bank, Kwangju Bank and Kyongnam Bank) filed a lawsuit against the Korea Fair Trade Commission to prevent the implementation of such amendments. In August 2010, the Supreme Court of Korea ruled in favor of the Korea Fair Trade Commission. Since such ruling in August 2010, certain of Woori Bank's customers have filed 117 lawsuits against Woori Bank, alleging that it should return the mortgage registration expenses paid by such customers under mortgage loan agreements that did not reflect the amendments instituted by the Korea Fair Trade Commission in January 2008. As of April 1, 2013, eight such lawsuits had been ruled in favor of Woori Bank by the trial court, of which three had been appealed and remain pending in the appellate court. The remaining 109 lawsuits are currently pending in the relevant trial courts. The aggregate amount claimed in the 117 lawsuits is approximately 11 billion. Additional lawsuits may be filed against Woori Bank with respect to its mortgage loans, and the final outcome of such litigation remains uncertain.

Kwangju Bank

On October 24, 2001, The Export-Import Bank of Korea filed a lawsuit in Seoul District Court against Kwangju Bank with respect to its obligations relating to a certificate of guarantee to be issued on behalf of Daewoo Corporation in favor of The Export-Import Bank of Korea in the amount of US\$100 million, of which Kwangju Bank's exposure amounts to US\$41 million. In December 2003, the Seoul District Court ruled against Kwangju Bank and required it to issue a certificate of guarantee on behalf of Daewoo Corporation in favor of The Export-Import Bank of Korea. Kwangju Bank appealed this decision to the Seoul High Court, which dismissed the appeal in December 2005. Kwangju Bank appealed the decision of the appellate court to the Supreme Court of Korea in January 2006, and the Supreme Court dismissed such appeal in July 2006. Subsequently, The Export-Import Bank of Korea filed an additional lawsuit in the Seoul District Court in December 2006 requesting monetary damages in satisfaction of Kwangju Bank's obligations relating to the certificate of guarantee. Following a decision by the trial court in August 2008 ordering Kwangju Bank to pay US\$41 million of monetary damages to The Export-Import Bank of Korea and Kwangju Bank's subsequent appeal of the trial court decision, the appellate court ruled in favor of The Export-Import Bank of Korea in December 2009 but reduced the amount of monetary damages payable by Kwangju Bank to US\$35 million. Such

Table of Contents

appellate court decision was appealed by both The Export-Import Bank of Korea and Kwangju Bank to the Supreme Court of Korea in January 2010. In April 2012, the Supreme Court of Korea rendered its final decision to uphold the appellate court decision ordering Kwangju Bank to pay US\$35 million of monetary damages to The Export-Import Bank of Korea.

Following the above-described decision in August 2010 by the Supreme Court of Korea in favor of the Korea Fair Trade Commission in the lawsuit brought by the Korean Federation of Banks and 16 banks (including Woori Bank, Kwangju Bank and Kyongnam Bank) to prevent the implementation of certain amendments to standard loan policy conditions for mortgage loan agreements, certain of Kwangju Bank's customers have filed lawsuits alleging claims that are substantially similar to those made against Woori Bank as described above. See *Woori Bank*. As of April 1, 2013, 11 such lawsuits were pending in the relevant trial courts, and the aggregate amount claimed in such lawsuits was approximately 0.1 billion. Additional lawsuits may be filed against Kwangju Bank with respect to its mortgage loans, and the final outcome of such litigation remains uncertain.

Kyongnam Bank

From December 2008 to April 2010, certain employees of Kyongnam Bank colluded with several other parties to engage in various fraudulent transactions ostensibly on behalf of Kyongnam Bank, including providing to certain banks and companies commitments to purchase loans, guarantees for trusts and other payment guarantees. Based on our investigation, we believe that our total potential exposure under such fraudulent transactions is approximately 356 billion. A number of the counterparties to such fraudulent transactions have demanded that Kyongnam Bank fulfill its alleged obligations under such transactions but Kyongnam Bank has refused to accede to such demands. As of April 1, 2013, 24 counterparties had filed lawsuits against Kyongnam Bank with respect to such transactions, and the aggregate amount claimed in such lawsuits was 322 billion. As of the same date, 22 of such lawsuits were pending before appellate courts following appeals by both the plaintiffs and Kyongnam Bank after the trial courts' decisions holding that Kyongnam Bank was liable for damages of approximately 50% to 90% of the losses suffered by the plaintiffs. In addition, as of the same date, one such lawsuit was pending before the Supreme Court of Korea following an appeal by the plaintiffs after the appellate court ruling in favor of Kyongnam Bank to overturn the trial court's decision in favor of the plaintiffs, while another lawsuit was pending before the trial court. Additional lawsuits may be filed against Kyongnam Bank with respect to such transactions, and the final outcome of such litigation remains uncertain. In addition, in October 2010, as a result of such fraudulent transactions and their potential impact on Kyongnam Bank, the KDIC imposed an institutional warning on Kyongnam Bank, as well as reprimands and warnings on ten former and current executive officers of Kyongnam Bank. Furthermore, in October 2010, the Financial Services Commission suspended Kyongnam Bank from accepting new specified money trust accounts for three months and imposed reprimands and warnings on 22 executive officers and employees of Kyongnam Bank in connection with the same incident, as well as ordering the dismissal of three employees who were principally involved in the incident. See *Item 3D. Risk Factors Other risks relating to our business* Our failure to meet the financial and other business targets set forth in current terms of the memoranda of understanding among us, our subsidiaries and the KDIC may result in substantial harm to us or our subsidiaries and *Item 3D. Risk Factors Risks relating to government regulation and policy* The Financial Services Commission may impose burdensome measures on us if it deems us or one of our subsidiaries to be financially unsound.

Following the above-described decision in August 2010 by the Supreme Court of Korea in favor of the Korea Fair Trade Commission in the lawsuit brought by the Korean Federation of Banks and 16 banks (including Woori Bank, Kwangju Bank and Kyongnam Bank) to prevent the implementation of certain amendments to standard loan policy conditions for mortgage loan agreements, certain of Kyongnam Bank's customers have filed lawsuits alleging claims that are substantially similar to those made against Woori Bank as described above. See *Woori Bank*. As of April 1, 2013, 20 such lawsuits were pending in the relevant trial courts, and the aggregate amount claimed in such lawsuits was approximately 0.5 billion. Additional lawsuits may be filed against Kyongnam Bank with respect to its mortgage loans, and the final outcome of such litigation remains uncertain.

Table of Contents*Woori Asset Management*

Commencing in 2008, certain of Woori Asset Management's customers have filed lawsuits against it in connection with certain investment fund products created and managed by Woori Asset Management and sold to customers in Korea, including those which had invested in certain equity-linked securities issued by Lehman Brothers and incurred significant losses following the Lehman Brothers bankruptcy. Woori Bank, which sold some of such products, was also named as a defendant in certain of those lawsuits. See Woori Bank. As of April 1, 2013, there were eight such lawsuits pending. The trial courts ruled in favor of the plaintiffs in three of the eight pending suits, two of which remain pending before the appellate court while the other has been appealed to the Supreme Court by Woori Asset Management after a ruling in favor of the plaintiffs by the appellate court. Five other lawsuits are currently pending before the trial courts. The aggregate amount of such claims, as of April 1, 2013 was 37 billion. Additional lawsuits may be filed against Woori Asset Management with respect to its management of such products, and the final outcome of such litigation remains uncertain.

In addition, in connection with the Woori Power Income Funds investment fund products created and managed by Woori Asset Management and marketed and sold by Woori Bank and other financial institutions to customers in Korea, certain such customers have filed lawsuits against Woori Asset Management and, in certain of those cases, against Woori Bank as well. See Woori Bank. As of April 1, 2013, eight such lawsuits were pending against Woori Asset Management, and the aggregate amount claimed against Woori Asset Management in such lawsuits was approximately 7 billion. Three of such lawsuits were pending before the Supreme Court, two of which were appealed by the plaintiffs after the appellate courts held that the defendants (including Woori Asset Management) were jointly liable for damages equal to 10% to 40% of the losses suffered by the plaintiffs, while one was appealed by the defendants after the appellate court held that the defendants (including Woori Asset Management) were liable for damages equal to 70% of the losses suffered by the plaintiffs. As of the same date, another such suit was pending before the appellate court following an appeal by the plaintiffs after the trial court held that the defendants (including Woori Asset Management) were jointly liable for damages equal to 20% to 40% of the losses suffered by the plaintiffs. In addition, there were four other lawsuits pending before trial courts. Additional lawsuits may be filed against Woori Asset Management with respect to its management of such products, and the final outcome of such litigation remains uncertain.

Other than the legal proceedings discussed above, we and our subsidiaries are not a party to any legal or administrative proceedings and no proceedings are known by us to be contemplated by governmental authorities or third parties, which, if adversely determined, may have a material adverse effect on our financial condition or results of operations.

Dividends

We declare our dividend annually at the annual general meeting of stockholders. We generally hold this meeting within three months after the end of each fiscal year. We must pay the annual dividend to the stockholders of record as of the end of the preceding fiscal year within one month after that meeting. We can distribute the annual dividend either in cash or in stock. Cash dividends may be paid out of retained earnings that have not been appropriated to statutory reserves. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

The table below sets forth the dividend per share of common stock and the total amount of dividends declared by us in respect of the years ended December 31, 2010, 2011 and 2012. The dividends set forth below with respect to each year were declared, paid and recorded in the following year.

Fiscal year	Dividends Per Common Share	Dividends Per Preferred Share	Total Amount Of Cash Dividends Paid
	(in Won)		(in millions of Won)
2010	250		201,503
2011	250		201,503
2012	250		201,503

Table of Contents

Future dividends will depend upon our revenues, cash flow, financial condition and other factors. As an owner of ADSs, you will be entitled to receive dividends payable in respect of the shares of common stock represented by such ADSs.

For a description of the tax consequences of dividends paid to our shareholders, see Item 10E. Taxation United States Taxation Dividends and Korean Taxation Taxation Dividends.

Item 8B. Significant Changes
Not Applicable

Item 9. THE OFFER AND LISTING

Item 9A. Offering and Listing Details
Market Price Information

The principal trading market for our common stock is the KRX KOSPI Market. Our common stock, which is in registered form and has a par value of 5,000 per share of common stock, has been listed on the KRX KOSPI Market since June 24, 2002 under the identifying code 053000. As of the date of this annual report, we have 806,013,340 shares of common stock outstanding. Our ADSs have been listed on the New York Stock Exchange and are identified by the symbol WF since September 29, 2003 under the CUSIP number 981063100.

The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the KRX KOSPI Market for our common stock, and their high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs.

	KRX KOSPI Market			New York Stock Exchange ⁽¹⁾		
	Closing Price Per Common Stock		Average Daily Trading Volume	Closing Price Per ADS		Average Daily Trading Volume
	High	Low	(in thousands of shares)	High	Low	(in shares)
2007	25,800	16,500	3,320	83.79	51.71	11,033
2008	20,950	5,050	5,368	62.04	8.72	12,759
2009						
First Quarter	8,770	5,770	10,051	19.29	10.56	14,764
Second Quarter	12,850	7,160	11,311	29.90	16.75	18,437
Third Quarter	16,950	10,700	5,708	43.29	25.10	7,702
Fourth Quarter	16,900	13,300	4,561	43.78	35.00	10,589
2010						
First Quarter	16,800	12,950	3,680	44.10	33.05	9,320
Second Quarter	18,300	14,600	6,719	49.68	35.02	6,327
Third Quarter	15,400	13,150	3,938	38.79	33.19	4,872
Fourth Quarter	15,700	13,300	4,716	42.50	34.34	18,390
2011						
First Quarter	15,900	13,450	4,498	42.9	36.3	17,911
Second Quarter	15,400	12,400	3,800	42.4	34.4	19,227
Third Quarter	14,500	8,500	3,450	41.1	22.2	10,252
Fourth Quarter	11,200	9,100	2,927	30.5	23.0	12,492
2012						
First Quarter	13,000	9,330	2,729	35.74	23.92	16,282
Second Quarter	13,600	9,900	2,328	36.18	25.47	18,852
Third Quarter	12,350	10,300	2,103	32.93	27.23	14,427

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Fourth Quarter	11,850	9,740	1,647	33.35	27.05	10,016
2013 (through April 22)						
January	12,950	11,350	2,064	35.9	32.37	10,519
February	13,150	12,100	1,379	36.12	33.47	6,511
March	13,050	11,800	1,554	36.31	31.64	7,810
April (through April 22)	12,800	11,250	1,887	34.24	30.08	9,575

Source: KRX KOSPI Market; New York Stock Exchange.

(1) Each ADS represents the right to receive three shares of our common stock. Trading of our ADSs on the New York Stock Exchange commenced on September 29, 2003.

Table of Contents

Item 9B. *Plan of Distribution*
Not Applicable

Item 9C. *Markets*

The KRX KOSPI Market, formerly known as the Stock Market Division of the Korea Exchange, began its operations in 1956. Currently it is the only stock exchange in Korea. It has a single trading floor located in Seoul. The KRX KOSPI Market is a membership organization consisting of most of the Korean securities companies and some Korean branches of foreign securities companies.

As of December 31, 2012, the aggregate market value of equity securities listed on the KRX KOSPI Market was approximately 1,154 trillion. The average daily trading volume of equity securities for 2012 was approximately 486 million shares with an average transaction value of 4,824 billion.

The KRX KOSPI Market has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security pursuant to the Listing Regulation of the KRX KOSPI Market. The KRX KOSPI Market also restricts share price movements. All listed companies are required to file accounting reports annually, semiannually and quarterly and to release immediately all information that may affect trading in a security.

The KRX KOSPI Market publishes the KOSPI, which is an index of all equity securities listed on the KRX KOSPI Market, every ten seconds. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Table of Contents

The following table sets out movements in KOSPI:

	Opening	High	Low	Closing
1982	123.60	134.48	105.99	128.99
1983	122.52	134.46	115.59	121.21
1984	115.25	142.46	115.25	142.46
1985	139.53	163.37	131.40	163.37
1986	161.40	279.67	153.85	272.61
1987	264.82	525.11	264.82	525.11
1988	532.04	922.56	527.89	907.20
1989	919.61	1,007.77	844.75	909.72
1990	908.59	928.82	566.27	696.11
1991	679.75	763.10	586.51	610.92
1992	624.23	691.48	459.07	678.44
1993	697.41	874.10	605.93	866.18
1994	879.32	1,138.75	855.37	1,027.37
1995	1,013.57	1,016.77	847.09	882.94
1996	888.85	986.84	651.22	651.22
1997	653.79	792.29	350.68	376.31
1998	385.49	579.86	280.00	562.46
1999	587.57	1,028.07	498.42	1,028.07
2000	1,059.04	1,059.04	500.60	504.62
2001	520.95	704.50	468.76	693.70
2002	724.95	937.61	584.04	627.55
2003	635.17	822.16	515.24	810.71
2004	821.26	936.06	719.59	895.92
2005	893.71	1,379.37	870.84	1,379.37
2006	1,389.27	1,464.70	1,203.86	1,434.46
2007	1,435.26	2,064.85	1,355.79	1,897.13
2008	1,853.45	1,888.88	938.75	1,124.47
2009	1,157.40	1,718.88	1,018.81	1,682.77
2010	1,696.14	2,051.00	1,552.79	2,051.00
2011	2,070.08	2,228.96	1,652.71	1,825.74
2012	1,826.37	2,049.28	1,769.31	1,997.05
2013 (through April 22)	2,031.10	2,031.10	1,900.06	1,926.31

Source: The KRX KOSPI Market

Shares are quoted ex-dividend on the first trading day of the relevant company's accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the KRX KOSPI Market to 15% of the previous day's closing price of the shares, rounded down as set out below:

Previous Day's Closing Price (Won)	Rounded Down To Won
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

Table of Contents

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the KRX KOSPI Market by financial investment companies with a dealing and/or brokerage license. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. See Item 3D. Risk Factors Risks relating to our common stock and ADSs. An agriculture and fishery special surtax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the KRX KOSPI Market. See Item 10E. Taxation Korean Taxation.

The number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

Year	Market Capitalization on the Last Day of Each Period			Average Daily Trading Volume, Value		
	Number of Listed Companies	(billions of)	(millions of US\$) ⁽¹⁾	(thousands of Shares)	(millions of)	(thousands of US\$) ⁽¹⁾
1982	334	3,001	US\$ 4,279	9,704	6,667	US\$ 9,507
1983	328	3,490	4,666	9,325	5,941	7,944
1984	336	5,149	6,434	14,847	10,642	13,301
1985	342	6,570	7,921	18,925	12,315	14,846
1986	355	11,994	13,439	31,755	32,870	36,830
1987	389	26,172	30,250	20,353	70,185	81,120
1988	502	64,544	81,177	10,367	198,364	249,483
1989	626	95,477	138,997	11,757	280,967	409,037
1990	669	79,020	115,610	10,866	183,692	268,753
1991	686	73,118	101,623	14,022	214,263	297,795
1992	688	84,712	110,691	24,028	308,246	402,779
1993	693	112,665	142,668	35,130	574,048	726,919
1994	699	151,217	185,657	36,862	776,257	953,047
1995	721	141,151	178,266	26,130	487,762	616,016
1996	760	117,370	151,289	26,571	486,834	627,525
1997	776	70,989	82,786	41,525	555,759	648,115
1998	748	137,799	81,297	97,716	660,429	389,634
1999	725	349,504	294,319	278,551	3,481,620	2,931,891
2000	704	188,042	166,703	306,163	2,602,211	2,306,925
2001	689	255,850	200,039	473,241	1,997,420	1,561,705
2002	683	258,681	217,379	857,245	3,041,598	2,308,789
2003	684	355,363	298,123	542,010	2,216,636	1,859,594
2004	683	412,588	398,597	372,895	2,232,108	2,156,418
2005	702	655,075	648,589	467,629	3,157,662	3,126,398
2006	731	704,588	757,621	279,096	3,435,180	3,693,742
2007	745	951,900	1,017,205	363,741	5,539,653	5,919,698
2008	763	576,888	457,122	355,205	5,189,644	4,112,238
2009	770	887,935	763,027	485,657	5,795,426	4,980,172
2010	777	1,141,885	981,254	380,859	5,619,768	4,829,224
2011	791	1,041,999	899,438	353,759	6,863,146	5,924,166
2012	784	1,154,294	1,085,679	486,480	4,823,643	4,536,740
2013 (through April 22)	775	1,117,661	998,348	401,002	4,086,080	3,649,883

Source: The KRX KOSPI Market

⁽¹⁾ Converted at the noon buying rate of the Federal Reserve Bank of New York on the last business day of the period indicated.

Table of Contents

The Korean securities markets are principally regulated by the Financial Services Commission and the Financial Investment Services and Capital Markets Act, which replaced the Korean Securities and Exchange Act in February 2009. The Financial Investment Services and Capital Markets Act imposes restrictions on insider trading, price manipulation and deceptive action (including unfair trading), requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for stockholders holding substantial interests.

Protection of Customer's Interest in Case of Insolvency of Financial Investment Companies with a Brokerage License

Under Korean law, the relationship between a customer and a financial investment company with a brokerage license in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the financial investment company with a brokerage license) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a financial investment company with a brokerage license, the customer of such financial investment company is entitled to the proceeds of the securities sold by such financial investment company.

When a customer places a sell order with a financial investment company with a brokerage license which is not a member of the KRX KOSPI Market, and such financial investment company places a sell order with another financial investment company with a brokerage license, which is a member of the KRX KOSPI Market, the customer is still entitled to the proceeds of the securities sold and received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Under the Financial Investment Services and Capital Markets Act, the KRX KOSPI Market is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a financial investment company with a brokerage license that is a member of the KRX KOSPI Market breaches its obligation in connection with a buy order, the KRX KOSPI Market is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with a financial investment company with a brokerage license is regarded as belonging to such financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from such financial investment company if a bankruptcy or reorganization procedure is instituted against such financial investment company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the KDIC will, upon the request of the investors, pay investors an amount equal to the full amount of cash deposited with a securities company prior to August 1, 1998 in case of the securities company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. However, this indemnification was available only until the end of 2000. From 2001, the maximum amount to be paid to each customer is limited to 50 million. Pursuant to the Financial Investment Services and Capital Markets Act, as amended, financial investment companies with a dealing and/or brokerage license are required to deposit the cash received from its customers to the extent the amount is not covered by the insurance with the Korea Securities Finance Corporation, a special entity established pursuant to the Financial Investment Services and Capital Markets Act. Set-off or attachment of cash deposits by such financial investment companies is prohibited. The premiums related to this insurance are paid by such financial investment companies.

Table of Contents**Reporting Requirements for Holders of Substantial Interests**

Any person who directly or beneficially owns shares of our common stock that have voting rights, whether in the form of shares, ADSs, certificates representing the rights to subscribe for shares or equity-related debt securities (including convertible bonds and bonds with warrants) (which we refer to collectively as Equity Securities) that, when taken together with the Equity Securities beneficially owned by specified related persons or by any person acting in concert with that person, account for 5% or more of our total issued and outstanding shares (plus the Equity Securities other than the shares held by such persons) must report that holding to the Financial Services Commission and the KRX KOSPI Market no more than five business days after reaching 5%. That person must also report any subsequent change in the ownership interest of 1% or more of our total outstanding shares (plus the Equity Securities other than the shares held by such persons) to the same entities no more than five business days after the change.

Anyone violating these reporting requirements may suffer criminal sanctions, including fines, imprisonment and/or a loss of voting rights with respect to the ownership of Equity Securities exceeding 5% of the total issued and outstanding Equity Securities with respect to which the reporting requirements were violated. Furthermore, the Financial Services Commission may order that person to dispose of the unreported Equity Securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our stock accounts for 10% or more of the total issued and outstanding stock (which we refer to as a major stockholder) must report the status of its shareholding to the Korea Securities Futures Commission and the KRX KOSPI Market within five days after it becomes a major stockholder. In addition, the major stockholder must report any subsequent change in its ownership interest to those same entities within the 5th day of the occurrence of the change. A major stockholder that violates these reporting requirements may suffer criminal sanctions, including fines or imprisonment.

Pursuant to the Financial Holding Company Act, any single stockholder (together with any person considered to be a related party to that stockholder) that acquires more than 10% of the voting stock of a Korean financial holding company will be subject to approval requirements. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restriction on Ownership of a Financial Holding Company.

Restrictions Applicable to ADSs

An investor does not need Korean governmental approval to sell or purchase our ADSs in the secondary market outside Korea or to withdraw shares of our common stock from our ADS deposit facility or deliver those withdrawn shares in Korea. However, a foreign investor who intends to acquire shares must obtain an investment registration card from the Financial Supervisory Service as described below. Either the foreign investor or its standing proxy in Korea must immediately report its acquisition of the shares to the governor of the Financial Supervisory Service.

Persons who acquire shares of our common stock by withdrawing those shares from our ADS deposit facility may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further Korean governmental approval.

Restriction Applicable to Shares

As a result of amendments to the Foreign Exchange Transaction Laws and Financial Services Commission regulations (which we refer to collectively as the Investment Rules) adopted since January 1992 in connection with the opening and operation of Korea's stock market, foreign investors may generally invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the KRX KOSPI Market or registered on the KRX KOSDAQ Market. Foreign investors may trade shares listed on the KRX KOSPI Market or registered on the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, except in limited circumstances. These circumstances include:

odd-lot share trading;

Table of Contents

acquiring shares (which we refer to as **Converted Shares**) by exercising warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depositary receipts issued outside of Korea by a Korean company;

acquiring shares through inheritance, donation, bequest or exercise of stockholders' rights, including pre-emptive rights or rights to participate in free distributions and receive dividends;

subject to certain exceptions, over-the-counter transactions between foreign investors of a class of shares for which the limit on aggregate acquisition by foreign investors, as explained below, has been reached or exceeded; and

sale and purchase of shares at fair value between foreigners who are part of an investor group comprised of foreign companies investing under the control of a common investment manager pursuant to applicable laws or contract.

For over-the-counter transactions between foreign investors outside the KRX KOSPI Market or the KRX KOSDAQ Market involving a class of shares for which the limit on aggregate acquisition by foreign investors has been reached or exceeded, a financial investment company with a brokerage license in Korea must act as an intermediary. Odd-lot trading of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market must involve a financial investment company with a dealing license in Korea as the other party. Foreign investors may not engage in margin transactions by borrowing shares from financial investment companies with a dealing and/or brokerage license with respect to shares that are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the KRX KOSPI Market or the KRX KOSDAQ Market (including **Converted Shares** and shares being issued for initial listing on the KRX KOSPI Market or registration on the KRX KOSDAQ Market) to register with the Financial Supervisory Service before making an investment. This registration requirement does not apply to foreign investors who acquire **Converted Shares** with the intention of selling the **Converted Shares** within three months from the acquisition date. The Financial Supervisory Service will issue an investment registration card to each registering foreign investor. This card must be presented each time the foreign investor opens a brokerage account with a financial investment company with a brokerage license. Foreign investors eligible to obtain an investment registration card include:

foreign nationals who have not been residing in Korea for a consecutive period of six months or more;

foreign governments;

foreign municipal authorities;

foreign public institutions;

international financial institutions or similar international organizations;

corporations incorporated under foreign laws; and

any person in any additional category designated by decree of the Ministry of Strategy and Finance under the Financial Investment Services and Capital Markets Act.

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

All Korean offices of a foreign corporation (as a group) are treated as a separate foreign investor from the offices of the corporation outside Korea for these purposes. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances identified in the relevant regulations.

When a foreign investor purchases shares through the KRX KOSPI Market or the KRX KOSDAQ Market, it need not make a separate report because the investment registration card system is designed to control and oversee foreign investment through a computer system. If, however, a foreign investor acquires or sells shares outside the KRX KOSPI Market or the KRX KOSDAQ Market, that investor or its standing proxy must report that transaction to the governor of the Financial Supervisory Service at that time. In addition, if a foreign investor acquires or sells its shares in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, that investor or its standing

Table of Contents

proxy must ensure that the financial investment company engaged to facilitate the transaction reports the transaction to the governor of the Financial Supervisory Service. Also, sale and purchase of shares at fair value between foreigners who are part of an investor group comprised of foreign companies investing under the common control of a common investment manager pursuant to applicable laws or contract are required to be reported to the governor of the Financial Supervisory Service. A foreign investor may appoint a standing proxy to exercise stockholders' rights or perform any matters related to the foregoing activities if that investor does not perform these activities itself. A foreign investor may be exempted from complying with the standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed unavoidable by reason of conflict between laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in the custody of an eligible custodian in Korea. The same entities eligible to act as a standing proxy are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that its custodian deposits its shares with the Korea Securities Depository. A foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the foreign investors' home country.

Under the Investment Rules, with certain limitations, foreign investors may acquire shares of a Korean company without being subject to any foreign investment limit. Under one of these limitations, foreign investors may acquire no more than 40% of the outstanding share capital of designated public corporations. Designated public corporations may set a limit on the acquisition of shares by a single person in their articles of incorporation. Currently, the Korea Electric Power Corporation is the only designated public corporation that has set this limit. If a foreign investor acquires 10% or more of the outstanding shares with voting rights of a Korean company, that investment constitutes a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to a foreign exchange bank or the Korea Trade Investment Promotion Agency. The acquisition of a Korean company's shares by a foreign investor may be subject to certain foreign or other shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company. For a description of the restrictions applicable to Korean financial holding companies, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. Approval is not required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a financial investment company with a dealing and/or brokerage license. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. Korean governmental approval is not required for foreign investors to receive dividends on, or the Won proceeds from the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's financial investment company with a dealing and/or brokerage license or in its own Won account. Funds in a foreign investor's Won account may be transferred to its foreign currency account or withdrawn for local living expenses up to certain limits. These funds may also be used to make future investments in shares or to pay the subscription price of new shares obtained through the exercise of pre-emptive rights.

Financial investment companies with a dealing or brokerage license may open foreign currency accounts with foreign exchange banks exclusively to accommodate foreign investors' stock investments in Korea. Through these accounts, financial investment companies with a dealing or brokerage license may enter into limited foreign exchange transactions, such as converting foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

Table of Contents

Item 9D. *Selling Shareholders*
Not Applicable

Item 9E. *Dilution*
Not Applicable

Item 9F. *Expenses of the Issuer*
Not Applicable

Item 10. **ADDITIONAL INFORMATION**

Item 10A. *Share Capital*
Not Applicable

Item 10B. *Memorandum and Articles of Association*
Description of Capital Stock

We have set forth below information relating to our capital stock, including brief summaries of some of the provisions of our articles of incorporation, the Korean Commercial Code, Financial Investment Services and Capital Markets Act, and other related laws of Korea. These summaries do not purport to be complete and are subject to our articles of incorporation, and the applicable provisions of the Financial Investment Services and Capital Markets Act, the Korean Commercial Code and those related laws.

Our authorized share capital is 2,400,000,000 shares. Our articles of incorporation authorize us to issue:

shares of common stock, par value 5,000 per share;

class shares , par value 5,000 per share.

Subject to applicable laws and regulations, our articles of incorporation authorize us to issue a number of class shares equal to as much as one-half of all of the issued and outstanding shares.

As of the date of this annual report, 806,015,340 shares of common stock were issued and 806,013,340 shares of common stock were outstanding. Pursuant to our articles of incorporation, which was last amended on March 22, 2013, we are authorized to issue various types of class shares , which include shares of voting and non-voting preferred stock, convertible stock, redeemable preferred stock and hybrid securities comprising one or more elements of the foregoing types of shares. There are no class shares currently outstanding. All of the issued and outstanding shares are fully paid and non-assessable and are in registered form. As of the date of this annual report, our authorized but unissued share capital was 1,593,984,660 shares. We may issue the unissued shares without further stockholder approval, but these issuances are subject to a board resolution as provided in the articles of incorporation. See Pre-emptive Rights and Issuances of Additional Shares and Dividends and Other Distributions Distribution of Free Shares. For a discussion of the history of our share capital, see Note 27 of the notes to our consolidated financial statements and Item 4A. History and Development of the Company History Establishment of Woori Finance Holdings.

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Our articles of incorporation allow our stockholders, by special resolution, to grant to our officers, directors and employees stock options exercisable for up to 15% of the total number of our issued and outstanding shares. Our board of directors may also grant stock options exercisable for up to 1% of our issued and outstanding shares. However, any grant by our board of directors must be approved by our stockholders at their next general meeting convened immediately after the grant date. As of December 31, 2012, our officers, directors and employees did not hold any options to purchase shares of common stock. See Item 6E. Share Ownership.

We issue share certificates in denominations of one, five, ten, 50, 100, 500, 1,000 and 10,000 shares.

Table of Contents

Organization and Register

We are a financial holding company established under the Financial Holding Company Act. We were incorporated under the laws of Korea on March 27, 2001 and commenced operations on April 2, 2001. We are registered with the commercial registry office of Seoul District Court. We maintain the register of our stockholders at our principal office in Seoul, Korea. We register transfers of shares on the register of stockholders upon presentation of the share certificates.

Interests of Directors

Our articles of incorporation provide that any director who has a material interest in the subject matter of a resolution to be taken by the board of directors cannot vote on such resolution. Our articles of incorporation also provide that the remuneration of our directors is to be determined by the resolution of the general meeting of shareholders.

Our articles of incorporation do not contain any special provisions with respect to the borrowing powers exercisable by directors, their retirement age or a requirement to hold any shares of our capital stock.

See Item 6A. Board Practices for more information on our directors.

Limitation on Liability of Directors

Our articles of incorporation provide that we may, upon the resolution of the general meeting of shareholders, limit the liability of our directors (in their capacity as such) to an amount not less than six times (or three times in case of outside directors) the aggregate amount of the remuneration we paid to such directors during the most recent one-year period, provided that such limitation shall not apply with regard to any liability arising from such directors' gross negligence, willful misconduct or violation of their duties regarding self-dealing or corporate opportunity.

Dividends and Other Distributions

Dividends. We distribute dividends to stockholders in proportion to the number of shares of the relevant class of capital stock they own. Subject to the requirements of the Korean Commercial Code and other applicable laws and regulations, we expect to pay full annual dividends on newly issued stock for the year in which it is issued.

We declare our dividend annually at the annual general meeting of stockholders. We generally hold this meeting within three months after the end of each fiscal year. We must pay the annual dividend to the stockholders of record as of the end of the preceding fiscal year within one month after that meeting. We can distribute the annual dividend in (i) cash, (ii) shares, provided that such shares must be distributed at par value and, if the market price of the shares is less than their par value, dividends in shares may not exceed one-half of the total annual dividend (including dividends in shares) or (iii) other forms of consideration. In addition, we may declare, and distribute in cash, interim dividends once a year pursuant to a board resolution.

Under the Korean Commercial Code and our articles of incorporation, we do not have an obligation to pay any annual or interim dividend unclaimed for five years from the payment date.

The Financial Holding Company Act and related regulations require that each time a Korean financial holding company pays an annual dividend, it must set aside in its legal reserve to stated capital an amount equal to at least one-tenth of its net income after tax until the amount set aside reaches at least the aggregate amount of its stated capital. Unless it sets aside this amount, a Korean financial holding company may not pay an annual dividend. We intend to set aside the regulatory reserve for credit losses and reserves for severance pay in addition to this legal reserve.

For information regarding taxation of dividends, see Item 10E. Taxation United States Taxation Dividends and Korean Taxation Taxation of Dividends.

Table of Contents

Distribution of Free Shares. The Korean Commercial Code permits us to pay dividends in the form of shares out of retained or current earnings. It also permits us to distribute to our stockholders, in the form of free shares, an amount transferred from the capital surplus or legal reserve. We would be required to distribute those free shares pro rata to all stockholders.

Pre-emptive Rights and Issuances of Additional Shares

We may issue authorized but unissued shares as our board of directors may determine, unless otherwise provided in the Korean Commercial Code. We must, however, offer any new shares on uniform terms to all stockholders who have preemptive rights and are listed on our stockholders' register as of the applicable record date. Those stockholders are entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. Our articles of incorporation provide, however, that we may issue new shares to persons other than existing stockholders if those shares are:

publicly offered pursuant to Article 165-6 of the Financial Investment Services and Capital Markets Act (where the number of shares so offered may not exceed 50% of our total number of issued shares);

issued to directors or employees as a result of the exercise of stock options we granted to them pursuant to Article 542-3 of the Korean Commercial Code;

issued to the members of our employee stock ownership association pursuant to Article 165-7 of the Financial Investment Services and Capital Markets Act;

issued to specified foreign investors or foreign or domestic financial institutions for managerial needs, strategic technology alliances, emergency financing or debt-to-equity swaps by those financial institutions (where the number of shares so offered may not exceed 50% of our total number of issued shares); or

issued to a depository for the purpose of issuing depository receipts pursuant to Financial Investment Services and Capital Markets Act (where the number of shares so offered may not exceed 50% of our total number of issued shares).

We must give public notice of pre-emptive rights for new shares and their transferability not less than two weeks before the record date (excluding the period during which the stockholders' register is closed). We will notify the stockholders who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If a stockholder fails to subscribe on or before the deadline, its pre-emptive rights will lapse. Our board of directors may determine how to distribute shares in respect of which preemptive rights have not been exercised or where fractions of shares occur.

Under the Financial Investment Services and Capital Markets Act, each member of our employee stock ownership association, whether or not they are stockholders, has a preemptive right, subject to certain exceptions, to subscribe for up to 20% of any shares we publicly offer. This right is exercisable only so long as the total number of shares so acquired and held by the member does not exceed 20% of the total number of shares then outstanding. As of December 31, 2012, none of our employees owned any shares of our common stock through the employee stock ownership association.

In addition, our articles of incorporation permit us to issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of 2 trillion, to persons other than existing stockholders. Under the Korean Commercial Code, we are permitted to distribute convertible bonds or bonds with warrants to persons other than existing stockholders only when we deem that this distribution is necessary for managerial purposes, such as obtaining new technology or improving our financial condition. In the event we issue new shares, the foregoing provision would be applicable notwithstanding any provision in the articles of incorporation allowing issuance of new shares to persons other than existing stockholders. As of December 31, 2012, we had no convertible bonds or bonds with warrants outstanding.

Table of Contents

Voting Rights

Each outstanding share of our common stock is entitled to one vote. However, voting rights may not be exercised for shares that we hold or shares that a corporate stockholder holds, if we directly or indirectly own more than one-tenth of the outstanding capital stock of that stockholder. Our articles of incorporation do not prohibit cumulative voting. Accordingly, the Korean Commercial Code permits holders of an aggregate of 1% or more of our outstanding shares with voting rights to request cumulative voting when electing two or more directors.

The Korean Commercial Code and our articles of incorporation provide that an ordinary resolution may be adopted if the holders of at least a majority of those shares of common stock present or represented at a meeting approve the resolution and the majority also represents at least one-fourth of the total of our issued and outstanding shares of common stock. Holders of non-voting shares (other than enfranchised non-voting shares) are not entitled to vote on any resolution or to receive notice of any general meeting of stockholders, unless the meeting agenda includes considering a resolution on which they are entitled to vote. If our annual general meeting resolves not to pay to holders of any class shares the annual dividend determined by the board of directors when we issued those shares, those holders will be entitled to exercise voting rights from the general meeting following the meeting adopting that resolution until the end of a meeting where a resolution is passed declaring payment of a dividend on such class shares. Holders of the enfranchised class shares will have the same rights as holders of common stock to request, receive notice of, attend and vote at a general meeting of stockholders.

The Korean Commercial Code provides that the holders of at least two-thirds of those shares present or represented at a meeting must approve the adoption of a special resolution, and the special majority must represent at least one-third of the total issued and outstanding shares with voting rights of the company. Special resolutions are required to:

amend the articles of incorporation;

change the authorized share capital of the company;

remove a director;

dissolve, merge or consolidate us;

transfer of the whole or a significant part of our business;

acquire all of the business of another company;

acquire a part of the business of another company that has a material effect on our business of the company; and

issue new shares at a price lower than their par value.

In addition, the holders of each outstanding class of our class shares must adopt a separate resolution in connection with an amendment to our articles of incorporation, any merger or consolidation or in certain other cases where their rights or interests are adversely affected. With respect to each class, holders of at least two-thirds of the class shares present or represented at a meeting must approve the adoption of that resolution, and those holders must hold class shares representing at least one-third of our total issued and outstanding class shares of the same class.

A stockholder may exercise its voting rights by proxy given to another person. The proxy must present the power of attorney before the start of the meeting.

Liquidation Rights

If we are liquidated, the assets remaining after the payment of all our debts, liquidation expenses and taxes will be distributed to stockholders in proportion to the number of shares they hold. Holders of class shares have no preferences in liquidation.

Table of Contents

General Meetings of Stockholders

There are two types of general meetings of stockholders: annual general meetings and extraordinary general meetings. We are required to convene our annual general meeting within three months after the end of each fiscal year. Subject to a board resolution or court approval, an extraordinary general meeting of stockholders may be held:

when we deem one necessary;

at the request of the holders of an aggregate of 3% or more of our outstanding shares;

at the request of the holders of an aggregate of 1.5% or more of our outstanding shares with voting rights who have held those shares for at least six months; or

at the request of our audit committee.

Holders of non-voting shares are entitled to request a general meeting only if their non-voting shares have become enfranchised. Meeting agendas will be determined by our board of directors or proposed by holders of an aggregate of 3% or more of our outstanding shares with voting rights or by holders of an aggregate of 0.25% or more of those shares who have held those shares for at least six months by way of a written proposal to our board of directors at least six weeks before the meeting. We must give stockholders written notices or e-mail notices stating the date, place and agenda of the meeting at least two weeks before the date of the meeting. However, we may give notice to holders of 1% or less of the total number of issued and outstanding shares that are entitled to vote by placing at least two public notices at least two weeks in advance of the meeting in at least two daily newspapers. Stockholders who are not on the stockholders' register as of the record date will not be entitled to receive notice of the general meeting of stockholders or to attend or vote at the meeting. Unless their non-voting shares have been enfranchised, holders of non-voting shares are not entitled to receive notice of or vote at general meetings of stockholders. Holders of enfranchised non-voting shares who are on the stockholders' register as of the record date will be entitled to receive notice of the general meeting of stockholders and to attend and vote at the meeting.

We will generally hold our general meeting of stockholders at our head office, which is our registered head office. If necessary, we may hold the meeting anywhere in the vicinity of our head office.

Rights of Dissenting Stockholders

Pursuant to the Financial Investment Services and Capital Markets Act and the Law on the Improvement of the Structure of the Financial Industry, in certain limited circumstances dissenting holders of shares of our common stock and our class shares will have the right to require us to purchase their shares. These circumstances include:

if we transfer all or any significant part of our business;

if we acquire a part of the business of any other company and the acquisition has a material effect on our business; or

if we merge or consolidate with another company.

To exercise this right, stockholders must submit to us a written notice of their intention to dissent prior to the general meeting of stockholders called to approve the transaction in question. Within 20 days (or ten days, in the case of a merger or consolidation under the Law on Improvement of the Structure of the Financial Industry) after the date on which stockholders pass the relevant resolution at the general meeting, the dissenting stockholders must request in writing that we purchase their shares. We must purchase those shares within one month after the end of the request period (within two months after the receipt of the request in the case of a merger or consolidation under the Law on Improvement

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

of the Structure of Financial Industry) at a negotiated price. If we cannot agree with the stockholder on a purchase price through negotiations, the price will be the arithmetic mean of the weighted average of the daily stock prices on the KRX KOSPI Market for:

the two-month period prior to the date the relevant board of directors' resolution was adopted;

Table of Contents

the one-month period prior to the date the relevant board of directors' resolution was adopted; and

the one-week period prior to the date the relevant board of directors' resolution was adopted.

Pursuant to the Financial Investment Services and Capital Markets Act, if we or the dissenting stockholders do not accept the purchase price, either party may bring a claim in court.

In the case of a merger or consolidation pursuant to the Law on the Improvement of the Structure of Financial Industry where the Korean government or the KDIC provides financial support, procedures different from those in the case of a merger or consolidation pursuant to the Financial Investment Services and Capital Markets Act will apply. For example, if the relevant parties cannot agree on a purchase price, the price will be determined by an accounting expert and not by the Financial Services Commission. However, a court may adjust this price if we or holders of at least 30% of the shares we must purchase do not accept the purchase price determined by the accounting expert and request an adjustment no later than 30 days from the date of the determination of the purchase price.

Required Disclosure of Ownership

Under Korean and U.S. law, stockholders who beneficially hold more than a certain percentage of our common stock, or who are related to or are acting in concert with other holders of certain percentages of our common stock or our other equity securities, must report their holdings to various governmental authorities. For a description of the required disclosure of ownership, see Item 9C. Markets Reporting Requirements for Holders of Substantial Interests and Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restriction on Ownership of a Financial Holding Company.

Other Provisions

Record Date. The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, we may close the register of our stockholders for the period from January 1 until January 31. Further, the Korean Commercial Code and our articles of incorporation permit us, upon at least two weeks' public notice, to set a record date and/or close the register of stockholders for not more than three months for the purpose of determining the stockholders entitled to certain rights pertaining to the shares. The trading of shares and the related delivery of share certificates may continue while the register of stockholders is closed.

Annual and Interim Reports. At least one week before the annual general meeting of stockholders, we must make our annual report and audited financial statements available for inspection at our head office and at all of our branch offices. We must make copies of our annual reports, our audited financial statements and any resolutions adopted at the general meeting of stockholders available to our stockholders.

Under the Financial Investment Services and Capital Markets Act, we must file with the Financial Services Commission and the KRX KOSPI Market:

an annual report within 90 days after the end of each fiscal year;

a half-year report within 45 days after the end of the first six months of each fiscal year; and

quarterly reports within 45 days after the end of the first three months and nine months of each fiscal year.

Copies of these reports will be available for public inspection at the Financial Services Commission and the KRX KOSPI Market.

Transfer of Shares. Under the Korean Commercial Code, share transfers are effected by the delivery of share certificates. The Financial Investment Services and Capital Markets Act provides, however, that in case of a company listed on the KRX KOSPI Market (like us), share transfers can be effected using a book-entry system. The transferee must have its name and address registered on our register of stockholders in order to assert its stockholder's rights. For this purpose, stockholders must file their name, address and seal with us. Non-resident

Table of Contents

stockholders must tell us the name of their proxy in Korea to which we can send notices. Under current Korean regulations, the following entities may act as agents and provide related services for foreign stockholders:

the Korea Securities Depository;

internationally recognized foreign custodians;

financial investment companies with a dealing license (including domestic branches of foreign financial investment companies with such license);

financial investment companies with a brokerage license (including domestic branches of foreign financial investment companies with such license);

foreign exchange banks (including domestic branches of foreign banks); and

financial investment companies with a collective investment license (including domestic branches of foreign financial investment companies with such license).

Foreign stockholders may appoint a standing proxy from the foregoing and generally may not allow any person other than the standing proxy to exercise rights to the acquired shares or perform any tasks related thereto on their behalf.

Foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Koreans. See Item 9C. Markets.

Except as provided in the Financial Holding Company Act, the maximum aggregate shareholdings of a single stockholder or a person in a special relationship with any stockholder is 10% of our issued and outstanding voting shares. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restriction on Ownership of a Financial Holding Company.

Our Acquisition of Our Shares. Under the Korean Commercial Code, we may acquire shares of our own capital stock under our name and for our own account upon a resolution of the general meeting of stockholders by either (i) purchasing such shares on the applicable stock exchange with respect to marketable securities traded on such stock exchange or (ii) purchasing shares, other than any redeemable shares as defined in Article 345, Paragraph (1) of the Korean Commercial Code, from each shareholder in proportion to their existing shareholding ratio through the methods set forth in the Presidential Decree under Article 345, Paragraph (1) of the Korean Commercial Code, provided that the total purchase price may not exceed the amount of our profit that may be distributed as dividends for the immediately preceding fiscal year.

In addition, pursuant to the Financial Investment Services and Capital Markets Act and after submission of certain reports to the Financial Services Commission, we may purchase our own capital stock on the KRX KOSPI Market or through a tender offer. We may also acquire interests in our capital stock through agreements with trust companies, securities investment companies or investment trust management companies. The aggregate purchase price of our capital stock may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year.

In general, subsidiaries of which we own 50% or more are not permitted to acquire our capital stock.

Item 10C. Material Contracts

In connection with the receipt of public funds by us and our subsidiaries, we entered into memoranda of understanding with the KDIC. Under the current terms of the memoranda of understanding entered into among us, Woori Bank, Kyongnam Bank, Kwangju Bank and the KDIC, we and our subsidiaries are required to meet financial and business targets and recapitalization goals on a semi-annual and/or quarterly basis until

the end of 2013. See Item 4A. History and Development of the Company History Relationship with the Korean Government.

Table of Contents**Item 10D. Exchange Controls**
General

The Foreign Exchange Transaction Act of Korea and the Presidential Decree and regulations under that Act and Decree regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. We collectively refer to these laws and regulations as the Foreign Exchange Transaction Laws. Non-residents may invest in Korean securities only to the extent specifically allowed by the Foreign Exchange Transaction Laws or otherwise permitted by the Ministry of Strategy and Finance. The Financial Services Commission has also adopted regulations that restrict foreign investment in Korean securities and regulate the issuance of securities outside Korea by Korean companies, pursuant to its authority under the Financial Investment Services and Capital Markets Act.

Under the Foreign Exchange Transaction Laws, if the Korean government deems that:

the need to do so is inevitable due to the outbreak of natural calamities, wars, conflict of arms or grave and sudden changes in domestic or foreign economic circumstances or other similar situations, the Ministry of Strategy and Finance may temporarily suspend payment, receipt or the whole or part of transactions to which the Foreign Exchange Transaction Laws apply, or impose an obligation to safe-keep, deposit or sell means of payment in or to certain Korean governmental agencies or financial institutions; and

international balance of payments and international finance are confronted or are likely to be confronted with serious difficulty or the movement of capital between Korea and abroad brings or is likely to bring about serious obstacles in carrying out its currency policies, exchange rate policies and other macroeconomic policies, the Ministry of Strategy and Finance may take measures to require any person who intends to perform capital transactions to obtain permission or to require any person who performs capital transactions to deposit part of the payments received in these transactions at certain Korean governmental agencies or financial institutions.

Both of these actions are subject to limitations specified by the Foreign Exchange Transaction Laws.

Restrictions Applicable to Shares

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. Approval is not required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a financial investment company with a dealing and/or brokerage license. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. Korean governmental approval is not required for foreign investors to receive dividends on, or the Won proceeds from the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's financial investment company with a dealing and/or brokerage license or in its own Won account. Funds in a foreign investor's Won account may be transferred to its foreign currency account or withdrawn for local living expenses up to certain limits. These funds may also be used to make future investments in shares or to pay the subscription price of new shares obtained through the exercise of pre-emptive rights.

Financial investment companies with a dealing and/or brokerage license may open foreign currency accounts with foreign exchange banks exclusively to accommodate foreign investors' stock investments in Korea. Through these accounts, such financial investment companies may enter into limited foreign exchange transactions, such as converting foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

Table of Contents

Item 10E. Taxation
United States Taxation

This summary describes certain material U.S. federal income tax consequences for a U.S. holder (as defined below) of acquiring, owning, and disposing of common shares or ADSs. This summary applies to you only if you hold the common shares or ADSs as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

a dealer in securities or currencies;

a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;

a bank;

a life insurance company;

a tax-exempt organization;

a person that holds common shares or ADSs that are a hedge or that are hedged against interest rate or currency risks;

a person that holds common shares or ADSs as part of a straddle or conversion transaction for tax purposes;

a person whose functional currency for tax purposes is not the U.S. dollar; or

a person that owns or is deemed to own 10% or more of any class of our stock.

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations promulgated thereunder, and published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

Please consult your own tax advisers concerning the U.S. federal, state, local, and other tax consequences of purchasing, owning, and disposing of common shares or ADSs in your particular circumstances.

For purposes of this summary, you are a U.S. holder if you are the beneficial owner of a common share or an ADS and are:

a citizen or resident of the United States;

a U.S. domestic corporation; or

otherwise subject to U.S. federal income tax on a net income basis with respect to income from the common share or ADS.

In general, if you are the beneficial owner of ADSs, you will be treated as the beneficial owner of the common shares represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the common share represented by that ADS.

Dividends

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income and will not be eligible for the dividends received deduction. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date that you receive the dividend (or the depository receives the dividend, in the case of ADSs), regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual with respect to the ADSs will be subject to taxation at reduced rates if the dividends are

Table of Contents

qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company as defined for U.S. federal income tax purposes (PFIC). The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements, we believe that we were not a PFIC in our 2011 or 2012 taxable year. In addition, based on our audited financial statements and current expectations regarding our income, assets and activities, we do not anticipate becoming a PFIC for our 2013 taxable year.

Distributions of additional shares in respect of common shares or ADSs that are made as part of a pro-rata distribution to all of our stockholders generally will not be subject to U.S. federal income tax.

Sale or Other Disposition

For U.S. federal income tax purposes, gain or loss you realize on a sale or other disposition of common shares or ADSs generally will be treated as U.S. source capital gain or loss, and will be long-term capital gain or loss if the common shares or ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at reduced rates.

Foreign Tax Credit Considerations

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from dividends on the common shares or ADSs at the rate provided for under the income tax treaty between the United States and Korea, so long as you have owned the common shares or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, if you so elect, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law. Korean taxes withheld from a distribution of additional shares that is not subject to U.S. tax may be treated for U.S. federal income tax purposes as imposed on general category income. Such treatment could affect your ability to utilize any available foreign tax credit in respect of such taxes.

Any Korean securities transaction tax or agriculture and fishery special surtax that you pay will not be creditable for foreign tax credit purposes.

Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder's expected economic profit is insubstantial.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder's particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

U.S. Information Reporting and Backup Withholding Rules

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient and demonstrates this when required or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

Table of Contents**Korean Taxation**

The following summary of Korean tax considerations applies to you so long as you are not:

a resident of Korea;

a corporation with its head office, principal place of business or place of effective management in Korea; or

engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

Taxation of Dividends on Common Shares or ADSs

We will deduct Korean withholding tax from dividends paid to you (whether payable in cash or in shares) at a rate of 22.0% (inclusive of local income surtax). If you are a beneficial owner of the dividends in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See *Tax Treaties* below for a discussion on treaty benefits. If we distribute to you shares representing a transfer of earning surplus or certain capital reserves into paid-in capital, that distribution may be subject to Korean withholding tax.

Taxation of Capital Gains From Transfer of Common Shares or ADSs

As a general rule, capital gains earned by non-residents upon transfer of our common shares or ADSs are subject to Korean withholding tax at the lower of (1) 11% (inclusive of local income surtax) of the gross proceeds realized or (2) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the common shares or ADSs, 22.0% (inclusive of local income surtax) of the net realized gain, unless exempt from Korean income taxation under the applicable Korean tax treaty with the non-resident's country of tax residence. See *Tax Treaties* below for a discussion on treaty benefits. Even if you do not qualify for an exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you qualify under the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

In regard to the transfer of our common shares through the Korea Exchange, you will not be subject to the withholding tax on capital gains (as described in the preceding paragraph) if you (1) have no permanent establishment in Korea and (2) did not own or have not owned (together with any shares owned by any entity with which you have a certain special relationship) 25% or more of our total issued and outstanding shares, which may include the common shares represented by the ADSs, at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

Under Korean tax law, ADSs are viewed as shares of common stock for capital gains tax purposes. Accordingly, capital gains from the sale or disposition of ADSs are taxed (if such sale or disposition constitutes a taxable event) as if such gains are from the sale or disposition of the underlying common shares. Capital gains that you earn (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside of Korea will generally be exempt from Korean income taxation by virtue of the Special Tax Treatment Control Law of Korea, or the STTCL, provided that the issuance of the ADSs is deemed to be an overseas issuance under the STTCL. However, if you transfer ADSs after having converted the underlying common shares, such exemption under the STTCL will not apply and you will be required to file a corporate income tax return and pay tax in Korea with respect to any capital gains derived from such transfer unless the purchaser or a financial investment company with a brokerage license, as applicable, withholds and pays such tax.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of common shares you acquired as a result of a withdrawal, the purchaser or, in the case of the sale of common shares on the Korea Exchange or through a financial investment company with a brokerage license in Korea, the financial investment company, is required to withhold Korean tax from the sales price in an amount equal to the lower of (1) 11% (inclusive of local income surtax) of the gross realization proceeds or (2) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the common shares or ADSs, 22.0% (inclusive of local income surtax) of the net realized gain, and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law. To

Table of Contents

obtain the benefit of an exemption from tax pursuant to an applicable tax treaty, you must submit to the purchaser or the financial investment company, or through the ADR depository, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty benefits. See the discussion under **Tax Treaties** below for an additional explanation on claiming treaty benefits.

Tax Treaties

Korea has entered into a number of income tax treaties with other countries (including the United States), which would reduce or exempt Korean withholding tax on dividends on, and capital gains on transfer of, the common shares or ADSs. For example, under the Korea-United States income tax treaty, reduced rates of Korean withholding tax of 16.5% or 11.0% (depending on your shareholding ratio and inclusive of local income surtax) on dividends and an exemption from Korean withholding tax on capital gains are available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains, subject to certain exceptions. However, under Article 17 (Investment or Holding Companies) of the Korea-United States income tax treaty, such reduced rates and exemption do not apply if (i) you are a United States corporation, (ii) by reason of any special measures, the tax imposed on you by the United States with respect to such dividend income or capital gains is substantially less than the tax generally imposed by the United States on corporate profits and (iii) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-United States income tax treaty, the exemption on capital gains does not apply if you are an individual and (a) you maintain a fixed base in Korea for an aggregate of 183 days or more during a given taxable year and your ADSs or common shares giving rise to capital gains are effectively connected with such fixed base or (b) you are present in Korea for an aggregate of 183 days or more during a given taxable year.

You should inquire for yourself whether you are entitled to the benefit of a tax treaty between Korea and the country where you are a resident. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser or the financial investment company, as applicable, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser or the financial investment company, as applicable, must withhold tax at the normal rates. Furthermore, in order for you to obtain the benefit of a tax exemption on certain Korean source income (such as dividends or capital gains) under an applicable tax treaty, Korean tax law requires you (or your agent) to submit an application for tax exemption along with a certificate of your tax residency issued by a competent authority of your country of tax residence, subject to certain exceptions. Such application should be submitted to the relevant district tax office by the ninth day of the month following the date of the first payment of such income. In addition, in order to obtain a reduced rate of withholding tax on dividends, you (as a beneficial owner of the dividends) must submit an application for entitlement to reduced tax rate to the withholding agent prior to the dividend payment date. Subject to certain exceptions, an overseas investment vehicle must submit a report of overseas investment vehicle and a schedule of beneficial owners to the withholding agent prior to the dividend payment date.

Inheritance Tax and Gift Tax

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the common shares underlying the ADSs. If the tax authority interprets depository receipts as the underlying share certificates, you may be treated as the owner of the common shares and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10% to 50%, provided that the value of the ADSs or common shares is greater than a specified amount.

If you die while holding a common share or donate a common share, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

Table of Contents***Securities Transaction Tax***

If you transfer our common shares on the Korea Exchange, you will be subject to securities transaction tax at the rate of 0.3% (including an agriculture and fishery special surtax) of the sale price of the common shares. If your transfer of the common shares is not made on the Korea Exchange, subject to certain exceptions, you will be subject to securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

Under the Securities Transaction Tax Law of Korea, depositary receipts (such as American depositary receipts evidencing the ADSs) constitute share certificates subject to the securities transaction tax. However, the transfer of depositary receipts listed on the New York Stock Exchange, the Nasdaq Global Market, or other qualified foreign exchanges is exempt from the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by the transferor of the common shares or ADSs. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay the tax to the tax authorities. When such transfer is made through a financial investment company only, such financial investment company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a financial investment company, the transferee is required to withhold the securities transaction tax.

Non-reporting or under-reporting of securities transaction tax will generally result in penalties equal to 20% to 40% of the non-reported tax amount or 10% to 40% of under-reported tax amount. Also, a failure to timely pay securities transaction tax due will result in penalties of 10.95% per annum of the due but unpaid tax amount. The penalties are imposed on the party responsible for paying the securities transaction tax or, if such tax is required to be withheld, on the party that has the obligation to withhold.

Item 10F. *Dividends and Paying Agents***Not Applicable****Item 10G. *Statements by Experts*****Not Applicable****Item 10H. *Documents on Display***

We are subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended, and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are also required to make filings with the Commission by electronic means. Any filings we make electronically will be available to the public over the Internet at the Commission's web site at <http://www.sec.gov>.

Item 10I. *Subsidiary Information***Not Applicable****Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Overview**

Our lending and trading businesses, our deposit taking activities and our operating environment expose us to various risks. Our risk management goal is to understand, measure and monitor these risks and to ensure that our

Table of Contents

employees strictly adhere to the policies and procedures that we establish. We seek to take a conservative approach to risk management in order to better insulate our operations from adverse events. Risks we face include:

credit risk;

market risk (primarily interest rate risk, equity risk, foreign exchange risk and commodity risk);

liquidity risk; and

operational and business risk (including legal risk).

In 2004, we completed the implementation of a group-wide, standardized risk management system (except with respect to credit risk management and operational and business risk management). This system has enhanced our risk management capabilities by enabling us to exchange information among our and our subsidiaries' risk management operations. With respect to credit risk management systems, we have completed implementing standardized credit risk management systems based on Woori Bank's system in all of our banking subsidiaries in 2007. With respect to operational risk management systems, we completed implementation of various aspects of the operational risk management system (not including the business risk management system) at Kyongnam Bank, Kwangju Bank and Woori Finance Information System (which changed its name to Woori FIS in May 2011) in 2006, and also completed the implementation of such aspects of the operational risk management system at Woori Investment & Securities by the end of 2008. Furthermore, following the global financial crisis, we undertook a group-wide review of our credit risk management procedures with outside consultants in 2009, as well as undertaking further group-wide reviews of our risk management infrastructure and systems in 2009 and 2010, in order to develop and implement various measures to further standardize and improve our risk management procedures and systems. We also undertook additional steps to further strengthen our risk management systems, including (i) using Tier I capital as available capital for purposes of our risk capital allocation beginning in 2012 in anticipation of Basel III requirements, and (ii) including stressed VaR to our market risk capital calculations beginning in 2012 in accordance with the guidance of the Financial Supervisory Service. We use our risk management systems to manage our risks within acceptable limits and to otherwise ensure the soundness of our assets and the stability of our operations.

Standardization Strategy

We began the process of implementing a group-wide, standardized risk management system in connection with the establishment of our financial holding company structure in 2001. At that time, with the assistance of a third-party consultant, we established a task force to review and evaluate the risk management systems that our subsidiaries were using. Following this review, we determined our basic structure of risk management governance and established basic risk management policies and guidelines for our group. This required us to establish a new risk management system, including a centralized risk control system, in order to better measure and address the risks we face and to anticipate potential risks more precisely. In 2007, we completed the implementation of a group-wide, standardized risk management system (except with respect to operational risk), which we further refined and updated through our group-wide review of risk management procedures, infrastructure and systems undertaken in 2009 and 2010 in the wake of the global financial crisis.

We allocate our total risk capital in accordance with the guidelines set by our Group Risk Management Committee. As described in more detail below, the committee allocates:

risk capital with respect to credit risk, market risk, interest rate risk and operational and business risk with respect to each of our banking subsidiaries;

risk capital with respect to credit risk, market risk, operational and business risk with respect to Woori Investment & Securities;

risk capital with respect to insurance risk with respect to Woori Aviva Life Insurance; and

operational and business risk with respect to our asset management subsidiaries.

Table of Contents

Through our group-wide, standardized risk management system we allocate our risk capital:

with respect to credit risk on the basis of our banking subsidiaries' standardized credit risk management systems, which are based on Woori Bank's CREPIA system as well as other portfolio credit models developed by third party vendors;

with respect to our market risk based on a market value at risk, or VaR, system and, beginning in 2012, including stressed VaR; and

with respect to our interest rate risk based on a historical simulation method, which simulates the current portfolio's net present value at a 99.9% confidence level for a one-year holding period.

We allocate our risk capital with respect to operational risk through a standardized approach in accordance with Basel II. We also apply business risk when allocating such risk capital which is based on earnings at risk (a measurement of the relativity of our total earnings).

Our risk capital allocation as a percentage of available capital, on a non-consolidated basis, with respect to 2013 is as follows:

	Available capital ⁽¹⁾	Risk capital	Risk appetite	Credit	Market	Interest rate	Operational	Insurance	Business	Correlation Effect	Buffer
	(in billions of Won, except percentages)										
Woori Finance Holdings	19,385	16,713	86.2%	66.4%	11.9%	4.1%	6.6%		4.4%	7.2%	13.8%
Woori Bank	15,840	12,370	78.1	64.1	7.1	3.6	5.8		3.2	5.7	21.9
Kwangju Bank	1,179	1,033	87.6	78.9	2.5	1.7	7.6		2.5	5.8	12.4
Kyongnam Bank	1,677	1,363	81.3	68.6	6.0	3.6	7.2		2.4	6.4	18.7
Woori Investment & Securities	3,474	2,533	72.9	24.1	43.3	1.4	3.2		6.2	5.4	27.1
Woori Asset Management	64	34	53.3	14.1			7.8		34.5	3.1	46.7
Woori Financial	347	316	91.1	86.5		1.7	8.9			6.1	8.9
Woori Aviva Life Insurance	193	165	85.5	32.7		54.4	1.0	18.1		20.7	14.5
Woori FG Savings Bank	118	91	77.2	59.4		18.7	5.1			5.9	22.8

⁽¹⁾ Based on Tier I capital.

Organization

We have a multi-tiered risk management governance structure. Our Group Risk Management Committee is ultimately responsible for group-wide risk management, and directs the various subordinate risk management entities. The Group Risk Management Council answers directly to the Group Risk Management Committee and coordinates the execution of these directives with the risk management units of our subsidiaries. Each Subsidiary Risk Management Committee, based on the Group Risk Management Committee's directives, determines risk management strategies and implements risk management policies and guidelines for the relevant subsidiary, sets the subsidiary's operational and business risk management policies and guidelines and directs the subsidiary's risk management units with support from the applicable Subsidiary Risk Management Council, but must keep within the group's risk guidelines. The Subsidiary Risk Management Committees generally receive input from their respective Subsidiary Risk Management Councils and subsidiary risk management units, which also report directly to the Group Risk Management Council.

Table of Contents

The following chart sets out our risk management governance structure as of the date of this annual report:

From July 2004, we instituted a double report system with respect to our risk management procedures. Each of our subsidiary risk management units is required to submit risk management reports directly to the Group Risk Management Department. Through this internal reporting system, we are able to better ascertain and strengthen the monitoring of our subsidiaries' risk management and are able to quickly address any deviation from our group-wide risk policies. From March 2010, following a group-wide review of our enterprise risk management procedures with outside consultants in 2009, we further supplemented our double report system by strengthening the role and independence of chief risk officers in our subsidiaries (including the appointment of dedicated chief risk officers in all of our subsidiaries) and expanding the role of subsidiary risk management units. Each subsidiary risk management unit is required to report directly to such subsidiary's chief risk officer on all material risk management issues as well as following the procedures under the double report system.

The Group Risk Management Committee, the Group Risk Management Council, the Subsidiary Risk Management Committees and the Subsidiary Risk Management Councils are responsible for managing risks relating to credit, markets, asset and liability management and liquidity. A number of other entities are responsible for managing our operational risks, including the following:

the Audit Council, which reports to our board-level Audit Committee, coordinates the execution of our operational and business risk management policy, particularly with regard to internal subsidiary practices;

the Legal and Compliance Department monitors compliance risk and makes suggestions regarding regulatory issues to the Financial Supervisory Service; and

each Subsidiary Risk Management Committee manages operational risks at the relevant subsidiary.

Table of Contents

Group Risk Management Committee

The Group Risk Management Committee is our highest decision-making body with respect to our risk management operations. Our board of directors has delegated to it the authority and responsibility for ensuring effective executive-level management of the risks we face. The committee's major activities include:

determining and amending risk management strategies, policies, guidelines and limits in conformity with the strategy established by our board of directors;

determining the appropriate level of risks that we should be willing to undertake, including in connection with key business activities such as acquisitions, investments or entering into new business areas, prior to a decision by the board of directors on such matters;

allocating risk capital to each subsidiary and approving our subsidiaries' risk limit requests;

reviewing our group-wide risk profile, including the level of risks we are exposed to and the status of our risk management operations; and

monitoring our subsidiaries' compliance with our risk policies;

The Group Risk Management Committee is comprised of our chief executive officer, our chief financial officer and four outside directors. It operates independently from all business units and individual board members, and reports directly to our board of directors. Since 2012, we require the chairperson of the Group Risk Management Committee to be chosen from among the outside directors in order to enhance the independence and experience level of such chairperson. In addition, since our chief executive officer is a member of the committee, he is kept aware of risk-related issues. Our Group Risk Management Committee convenes at least quarterly, and makes decisions by majority vote of the attending members. At least a majority of the committee members must attend to constitute a quorum.

Group Risk Management Council

Our Group Risk Management Council is responsible for coordinating with the risk management units of our subsidiaries to ensure that they execute the policies, guidelines and limits established by the Group Risk Management Committee. The council's major activities include:

analyzing our risk status using information provided by our subsidiary-level risk management units;

adjusting the integrated risk-adjusted capital allocation plan and risk limits for each of our subsidiaries;

reviewing the key decisions of each Subsidiary Risk Management Committee, and discussing and resolving any risk management issues raised by those committees;

coordinating issues relating to the integration of our risk management functions; and

performing any other duties delegated by the Group Risk Management Committee.

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

The Group Risk Management Council is comprised of our chief risk management officer and the head of our risk management department and the managing directors of the risk management units of all of our operating subsidiaries. It operates independently from all business units, and reports directly to the Group Risk Management Committee. Our Group Risk Management Council convenes on a monthly basis.

Our subsidiaries, in most cases through their respective risk management units, provide a variety of information to the Group Risk Management Council, including:

reports regarding the status of overall risk management, the status of limit compliance, and analysis and results of quarterly credit reviews, stress testing and back testing; and

reports regarding asset and liability management matters, including changes in risk-weighted assets and the status of our credit portfolio on a periodic basis.

Table of Contents

Subsidiary Risk Management Committees

Each of our subsidiaries has delegated risk management authority to its Subsidiary Risk Management Committee. Each Subsidiary Risk Management Committee measures and monitors the various risks faced by the relevant subsidiary and reports to that subsidiary's board of directors regarding decisions that it makes on risk management issues. It also makes strategic decisions regarding the operations of the relevant subsidiary, such as allocating credit risk limits, setting total exposure limits and market risk-related limits and determining which market risk derivatives instruments the subsidiary can trade. The major activities of each Subsidiary Risk Management Committee include:

determining and monitoring risk policies, guidelines, limits and tolerance levels and the level of subsidiary risk in accordance with group policy;

reviewing and analyzing the subsidiary's risk profile;

setting limits for and adjusting the risk-adjusted capital allocation plan and risk levels for each business unit within the subsidiary; and

monitoring compliance with our group-wide risk management policies and practices at the business unit and subsidiary level.

Each Subsidiary Risk Management Committee is comprised of the subsidiary's chief executive officer, the non-standing members of its board of directors and the director of its risk management unit.

Subsidiary Risk Management Council

Our subsidiaries generally have a Subsidiary Risk Management Council, which is responsible for supporting the relevant Subsidiary Risk Management Committee in the implementation of its risk management policies and guidelines for such subsidiary, including by reviewing and reporting on agenda items to be discussed at meetings of the relevant Subsidiary Risk Management Committee, reviewing reports from the relevant subsidiary risk management units and performing any other duties delegated by the relevant Subsidiary Risk Management Committee.

Each Subsidiary Risk Management Council is generally comprised of the subsidiary's chief risk management officer, the head of its risk management unit and other executive officers responsible for such subsidiary's risk management-related functions. It operates independently from all business units, and reports directly to the Subsidiary Risk Management Committee.

Woori Bank, Kyongnam Bank and Kwangju Bank have each established a similar multi-tiered risk management governance structure for its own operations. For example, Woori Bank's Subsidiary Risk Management Committee is ultimately responsible for risk management for that subsidiary. It provides subsidiary board-level direction regarding risk management strategies and policies to the risk management bodies that are subordinate to it. Woori Bank's Executive Risk Management Committee, which reports directly to Woori Bank's Subsidiary Risk Management Committee and chief executive officer, implements the execution of these strategies and policies. The Executive Risk Management Committee works with various Woori Bank business units, including its risk management unit and its individual business units. The risk management unit directly implements and ensures compliance with Woori Bank's risk policies and guidelines at an operational level. It monitors market risk and liquidity risk on a daily basis and credit risk and interest rate repricing gap risk on a monthly basis and makes quarterly reports to the Subsidiary Risk Management Committee and to the Group Risk Management Council.

Our non-banking subsidiaries generally have more simplified risk management governance structures.

Credit Risk Management

Our credit risk management policy objectives are to improve our asset quality, reduce our non-performing loans and minimize our concentration risk through a diversified, balanced and risk-weighted loan portfolio. Through our subsidiaries, we manage credit risk and continually monitor and improve our credit risk-related

Table of Contents

policies and guidelines to reflect changing risks in our business and the industries and sectors in which our customers operate.

We believe that an essential part of achieving our credit risk management objectives is utilizing a group-wide, standardized risk management system so that we can identify and manage the risks generated by our businesses using a standardized system. Each of Woori Bank, Kyongnam Bank and Kwangju Bank is currently using a standardized credit risk management system based on Woori Bank's centralized credit risk management system called the CREPIA system. Woori Bank, together with several external consultants, completed the development and implementation of the CREPIA system in September 2004. CREPIA is a credit risk management system which combines credit risk management and the credit approval process on a transactional level with respect to individual borrowers and approval with respect to each individual loan or credit. Following upgrades to the CREPIA system completed in 2007, including the implementation of a credit risk measurement engine, the system quantifies credit risk with respect to corporate borrowers using a mark-to-market methodology, which reflects both the likelihood of a default by a borrower as well as the likelihood of a change in such borrower's credit rating, and quantifies credit risk with respect to retail borrowers using a default mode methodology, which reflects the likelihood of a default by a borrower. We believe that CREPIA is a systematic and efficient credit evaluation system and that our banking subsidiaries have expedited their loan review process and improved their ability to monitor and evaluate its overall risk profile by using this system. The main characteristics of CREPIA are as follows:

automation of credit risk management system, which allows us to centralize and automate many tasks relating to our credit risk management system;

automatic recognition and processing of different forms of credit, which allows us to process and approve different types of credit, such as new applicants, renewing applicants and changes in the condition of the loan or credit approved;

incorporation of credit risk management prior to approval of credit, which allows us to consider individualized characteristics of a borrower and enables us to calculate a more accurate price with respect to the loan or credit approved;

automatic credit risk monitoring after approval of credit, which allows us to evaluate and re-rate the loan or credit on a real-time basis as a result of any change in the characteristics of the borrower (including the condition of the underlying collateral, change in borrowing limit and early warning characteristics); and

automatic verification of internal procedures and regulations with respect to approval of credit, which reduces our operational risk and ensures that there are no material deviations from our loan and credit policies.

From 2004, we also established a credit risk limit for each of our banking subsidiaries with respect to large exposures. We aim to avoid concentrations of exposure with respect to any single corporate borrower or affiliated group of corporate borrowers. Accordingly, we have established aggregate exposure limits based on each of our banking subsidiaries' capital adequacy levels and, with respect to individual corporate borrowers, established limits by dividing the expected loss with respect to companies affiliated with such corporate borrower with the unexpected loss (a measurement of credit risk) of such borrower and converting that into an exposure amount. We use this as the basis for our large exposure limits with respect to such corporate borrower. In early 2012, we established similar large exposure limits for Woori FG Savings Bank.

From 2005, we also established a similar credit risk limit for each of our banking subsidiaries, Woori Investment & Securities and Woori Private Equity with respect to investment in private equity funds. Much like large exposure limits with respect to corporate borrowers, we aim to avoid concentrations of exposure with respect to any single private equity fund or affiliated group of funds. Accordingly, we have established aggregate investment limits based on the capital adequacy levels of each of our banking subsidiaries, Woori Investment & Securities and Woori Private Equity and, with respect to limits on each opportunity to invest, established limits

Table of Contents

depending on whether the target fund is an affiliate, or our participation or the participation by our subsidiaries is as a limited or general partner. In 2006, we also established a principal investment limit for investment activities that any of our banking subsidiaries, Woori Investment & Securities, Woori F&I and Woori Private Equity undertakes as a principal (as opposed to as an agent). Such principal investment limit was also established for Woori Aviva Life Insurance in 2009 and for Woori FG Savings Bank at the end of 2011. The principal investment limit for each subsidiary is set as a certain percentage of the capitalization of such subsidiary.

We use our credit risk management systems to measure and control credit risk, to evaluate and approve new credit and to review and monitor outstanding credit. We conduct various quantitative and qualitative analyses to establish acceptable risk levels that provide what we believe are appropriate levels of return on investments. The credit risk management systems that we use to do this integrate various data, including customers' financial and economic condition, limits on loans and guarantee amounts, cash flow evaluations, collateral levels, our desired profit margin and the likelihood of unexpected loan losses.

Each subsidiary monitors its level of risk, determines how that level compares to our target optimized level of risk on a monthly basis and produces risk analysis reports and optimization reports on a monthly basis and stress test reports on an ad hoc basis. These reports, which are sent monthly to the respective Subsidiary Risk Management Committees and quarterly to the Group Risk Management Committee, provide a basis to set risk limits for, and allocate capital to, a subsidiary's business units.

Credit Evaluation and Approval

Our subsidiaries evaluate the credit of every loan applicant and guarantor before approving any loans, except for:

loans guaranteed by letters of guarantee issued by the Korea Credit Guarantee Fund, the Korea Technology Credit Guarantee Fund or certain other specified Korean government-controlled funds;

loans guaranteed by highly rated banks;

loans fully secured by deposits with us; and

loans against commercial promissory notes issued by creditworthy companies at a discount to the face value of the note determined by the issuer's creditworthiness.

The evaluation and approval process differs depending on whether the loan is a corporate loan, a general household consumer loan, or a mortgage or home equity loan, and there is a separate process for credit card applications. Although each of our commercial banking subsidiaries currently uses slightly different credit scoring and approval systems in determining whether to approve a loan, we have in recent years implemented a group-wide standardized expected loss and unexpected loss credit risk system which we believe enables us to better allocate risk capital on a group-wide basis by evaluating unexpected loss (a measurement of credit risk), VaR (a measurement of market risk) and earnings at risk (a measurement of whether our assets and liabilities are mismatched). We intend to also standardize our risk-adjusted performance measurement system and implement that system on a group-wide basis.

Our subsidiaries have undertaken a number of initiatives to develop credit evaluation and loan approval procedures that are more systematic and efficient. We prefer to use credit rating systems in our credit evaluation and loan approval process because they:

yield a uniform result regardless of the user;

can be used effectively by employees who do not have extensive experience in credit evaluation;

can be easily updated to reflect changing market conditions by changing how factors are weighted;

significantly limit the scope of employee discretion in the loan assessment and approval process; and

improve loan processing times while generally resulting in declines in delinquencies among new borrowers.

Table of Contents

For example, in September 2004 Woori Bank introduced its CREPIA credit evaluation system for corporate loans (including small- and medium-sized enterprise loans) and a consumer credit evaluation system for consumer loans. Following the introduction of its consumer credit evaluation system, Woori Bank substantially reduced the authority of branch managers and loan officers to approve consumer loans based solely on their own judgment. Woori Bank's consumer loan approval process historically took as long as three days, but now generally takes less than 24 hours even when applications are reviewed by headquarters personnel. Kyongnam Bank and Kwangju Bank have a similar evaluation and approval process, and are currently using standardized credit evaluation systems based on the CREPIA system following the completion of upgrades to standardize such systems in 2007.

Customers apply for loans by submitting a loan application through one of our subsidiaries' branches. These applications are initially reviewed using the appropriate credit evaluation system and, in the case of applications for a small amount or involving applicants with little or no credit risk, are approved by the branch manager or a relationship manager acting in concert with a credit officer based on the credit risk rating they receive under that system. Applications for larger loans and loans which are determined to involve greater credit risk are approved by bodies with greater authority, depending on where those loans fall in a matrix of size, collateral and credit risk. These loan applications will be referred to a credit officer committee at a bank office located near the customer, which may or may not be at the subsidiary's headquarters. Every credit officer committee is made up of credit officers from headquarters and has the same level of authority. Applications that cannot be approved by a credit officer committee are referred to a senior credit officer committee or the Loan Committee of the relevant subsidiary, depending on loan size, collateral and credit risk. The following table sets forth as an example the various Woori Bank committees and personnel involved in its credit evaluation and loan approval process:

Committee	Members	Approval Process
Headquarters Approval		
Loan Committee	Head of the credit support unit, head of the risk management unit, head of the investment banking unit, head of the capital market unit, head of the large corporate audit department, and head of medium-size enterprise audit department (no more than seven persons)	2/3 required for approval; 2/3 required to participate
Headquarters/Regional Approval		
Senior Credit Officer Committee	One head senior credit officer and four to six other senior credit officers (five to seven persons)	2/3 required for approval; 2/3 required to participate
Credit Officer Committee	At least one senior credit officer and two other credit officers (at least three persons)	2/3 required for approval; 2/3 required to participate
Individual Approval		
Senior Relationship Manager	Individual	Approval of the individual
Relationship Manager	Individual	Approval of the individual
Branch Manager	Individual	Approval of the individual
Different individuals or committees review and approve loan applications depending on various factors, including:		

the size and type of the loan;

the level of credit risk established by the credit rating system;

whether the loan is secured by collateral; and

if the loan is secured, an assessment of the collateral.

Table of Contents

Loan applications are generally reviewed only by the highest-level committee required to approve the loan, although multiple reviews, including separate reviews at the branch, regional and headquarters level, may occur depending on the size and terms of any particular loan or a borrower's credit risk.

Corporate Loan Approval Process

Each of our banking subsidiaries' branches reviews corporate loan applications using a credit evaluation system for corporate borrowers. Although these systems historically differed among our subsidiaries, our banking subsidiaries currently use standardized credit evaluation systems (including standardized credit risk measurement engines) following the completion of upgrades in 2007 to standardize these systems as part of our group-wide, standardized risk management system. Each corporate credit evaluation system measures various quantitative and qualitative factors. The model used by the credit evaluation system to review an application depends, however, on certain characteristics of the potential borrower. For example, Woori Bank's credit risk management department, together with its large corporate loan department and small- and medium-sized enterprise loan department, has developed separate credit evaluation models for large corporate borrowers that are subject to external audit under the External Audit Act of Korea, large corporate borrowers that are not subject to external audit, medium-sized enterprises and SOHO borrowers that either have outstanding loans, or are applying for a loan, in excess of 1 billion. In general, each model uses scores from both a computerized evaluation of quantitative financial factors, such as cash flow and income, and more qualitative factors which are scored using judgments by the credit officer or officers reviewing the application to produce an overall credit risk rating. These credit evaluation systems provide our subsidiaries with tools to make consistent credit decisions and assist them in making risk-based pricing decisions. For example, Woori Bank's CREPIA system, depending on whether the borrower is audited by independent auditors and its size, produces two separate scores based on one of 14 rating models: one for quantitative current financial factors, which is weighted 60% in determining the CREPIA credit risk rating, and another for the more qualitative factors that the judgment of our credit officers plays a more significant part in determining, which is weighted 40%. The CREPIA credit risk rating estimates the probability that Woori Bank will recover extended credits and the likelihood that borrowers will default. Qualitative factors included in CREPIA include:

a customer's future financial condition;

its competitive position in the industry;

its industry situation;

the quality of its management;

its technological merits;

its operations;

the nature and the location of any collateral; and

our level of priority in that collateral to estimate non-recovery risks.

These qualitative factors are input into the CREPIA system by the credit officer, and are scored based on his or her historical experience and that of the bank.

The CREPIA system produces separate credit risk ratings for each borrower and for each loan requested by that borrower. Woori Bank's credit analysis and approval center evaluates and approves corporate loan applications based on these credit risk ratings. The CREPIA system assigns each borrower and facility one of the following fourteen credit risk rating grades from AAA to D, which are classified as follows: AAA

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

(extremely strong), AA (very strong), A+ (strong), A (good), BBB+ (more adequate), BBB (adequate), BBB (less adequate), BB+ (less susceptible), BB (susceptible), BB (more susceptible), B+ (slightly weak), B (weak), C (very weak) and D (default). Certain loans are subject to review by the Loan Committee depending on the size of the loan and the determined credit risk rating. Examples of this include loan applications for secured loans in excess of 60 billion regardless of the borrower's or facility's credit risk rating, and, at the other extreme for

Table of Contents

unsecured loans, loan applications in excess of 4 billion for a borrower or facility with a credit risk rating of BB to C. Applications from borrowers with loans on a subsidiary's watch list (see Credit Review and Monitoring below) are also automatically reviewed by its Loan Committee.

Our subsidiaries use the same systems to evaluate and approve applications from small- and medium-sized enterprises that they use to evaluate other corporate borrowers, but use different credit evaluation models. For example, Woori Bank implemented its current credit evaluation models for small- and medium-sized enterprise customers in September 2004. These models, which are incorporated into the CREPIA system, use the same quantitative and qualitative factors that Woori Bank uses to evaluate other corporate customers. However, the small- and medium-sized enterprise models apply a 50% weighting to the score derived from quantitative factors and a 50% weighting to the score derived from the more flexible qualitative factors in determining the credit risk rating. In September 2004, Woori Bank introduced a separate credit evaluation model to evaluate newly opening small- and medium-sized enterprises that relies solely on qualitative factors. Woori Bank has also adopted a separate credit evaluation system for SOHOs (such as pharmacies, clinics and restaurants) which either have outstanding loans, or are applying for a loan, of 1 billion or less that uses simpler credit evaluation models and resembles our application scoring system for new retail customers. In December 2006, Woori Bank implemented a new credit evaluation model, which reflects Woori Bank's new capital adequacy requirements and apply to consumer and corporate loans (including loans to small- and medium-sized enterprises). Woori Bank also introduced a new corporate rating model dedicated to evaluating large corporate borrowers in July 2008.

With respect to the evaluation of any collateral to which a commercial loan application relates (which principally consists of land, buildings and equipment), the fair value of such underlying collateral for commercial loans is appraised by external valuation experts and such appraisals are collated in Woori Bank's CREPIA system. Woori Bank uses its CREPIA system to manage its lending activities, and inputs data gathered from loan application forms, credit scores of borrowers and the appraisal value of collateral provided by external valuation experts into the CREPIA system and updates such information periodically to reflect changes in such information (such as any changes in credit scores of borrowers or the appraisal value of collateral). In addition, to validate the appropriateness of the appraisal values provided by such external valuation experts, we review the qualification of the external valuation experts (including a review of whether such experts are legitimately registered with the Korea Association of Property Appraisers) and evaluate the assumptions and valuation model used by such experts as well as the appropriateness of variables by reference to market data and comparisons to actual transaction prices in similar regions.

Woori Bank supplements the CREPIA evaluation by testing potential exposures with another separate model that is an element of its portfolio management system. This model analyzes information based primarily on current factors, such as a potential borrower's stock price. This model provides a check on potential lending, including potential deterioration of outstanding credits, in cases where there have been significant changes in a borrower's status that may not be fully reflected in its most recently available quantitative or qualitative data.

We have set credit limits for our corporate customers. Some of these limits, particularly those imposed by Korean banking regulations, apply to all of our subsidiaries, and are aimed at preventing loan concentrations relating to any single customer. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Financial Exposure to Any Individual Customer and Major Shareholder. In certain cases, our subsidiaries have introduced even stricter exposure limits than required by regulation, including additional limitations on providing credit to certain borrowers. For example, Woori Bank has introduced and implemented internally developed large exposure limits that are stricter than the applicable Financial Services Commission requirements.

In evaluating applications, credit officers or the Loan Committee will often, in addition to reviewing ratings from these credit evaluation models, also refer to corporate information gathered or ratings assigned by external credit rating agencies, such as the Korea Federation of Banks, Korea Information Service, Korean government-released information on bankruptcy rates, National Information & Credit Evaluation Inc. and Korea Management Consulting & Credit Rating Corporation. They review the information we obtain from these sources and compare it to the information we have developed internally with respect to our customers to improve the accuracy of our internal credit ratings.

Table of Contents*Consumer Loan Approval Process*

The consumer loan department of each of our banking subsidiaries evaluates and approves consumer loan applications using dedicated consumer credit evaluation systems. Although these systems historically differed among our subsidiaries, our banking subsidiaries currently use standardized credit evaluation systems (including standardized credit risk measurement engines) following the completion of upgrades in 2007 to standardize these systems as part of our group-wide, standardized risk management system. Each of the consumer credit evaluation systems currently in use uses a standardized credit scoring system to evaluate and approve consumer loan applications and determine the appropriate pricing for the loan. Each consumer credit evaluation system measures various quantitative factors to produce a credit score for each application. As similarly situated consumer loan customers generally have similar performance profiles when evaluated collectively, these systems enable us to better evaluate individual customers using group characteristics.

Woori Bank, for example, began using its consumer credit evaluation system to review consumer loan applications in September 2004. That system assigns a credit score to each application based on its evaluation of various factors. These factors include any loan and guarantee limits we have set for particular borrowers or groups of borrowers and our evaluation of their cash flows and credit profiles. The system gives each customer's loan application a score from one to ten. From March 2006, Woori Bank also added another scoring system based on the external ratings provided by the Korea Credit Bureau. Applications are classified as automatically approved, automatically rejected and subject to further evaluation based on a combination of the scores of these two systems. For example, applications scoring between one to six under Woori Bank's internal system that also score between one to eight in the external ratings provided by the Korea Credit Bureau are automatically accepted, while applications scoring ten under Woori Bank's internal system and nine or above in the external ratings provided by the Korea Credit Bureau are automatically rejected. Woori Bank uses this system to evaluate all new consumer loan applications, except for loans fully secured by deposits with Woori Bank.

Woori Bank augments its consumer credit evaluation system with a behavioral scoring system. The behavioral scoring system enhances the consumer credit evaluation system by enabling the consideration of factors not previously evaluated, including the customer's spending history and credit behavior. By the nature of the information it analyzes, however, the behavioral scoring system can only be used for applications of persons who are existing borrowers, generally consisting of roll-overs of outstanding amounts or increases to existing credit limits.

We also evaluate any collateral to which a consumer loan application relates (which principally consists of residential properties) using the fair value of the underlying collateral appraised by Korea Investors Service as part of our loan approval process. Such appraisals are collated in the CREPIA system used by Woori Bank and similar systems used by Kyongnam Bank and Kwangu Bank, and such information is updated periodically to reflect changes (such as any changes in credit scores of borrowers or the appraisal value of collateral). For example, Woori Bank automatically obtains re-evaluations for the underlying collateral for secured consumer loans and mortgages every month with respect to apartments. If the value of the collateral declines, we may have the ability to require that the borrower provide more collateral or to change the payment terms of the relevant loan.

Credit Card Approval Process

We have worked to ensure that risk management and credit extension policies with respect to our credit card operations reflect our group-wide risk management policies and guidelines.

Woori Card reviews each new card application for completeness, accuracy and creditworthiness. It bases this review on various factors that assess the applicant's ability to repay borrowed amounts. The review process involves three stages:

Initial Application Process. Woori Card verifies basic information by requesting certain documents from the applicant, generally contacts the applicant directly (usually by telephone, although there are personal visits to some applicants) and statistically analyzes the applicant's personal credit history together with financial and default information gathered from third-party sources and its internal

Table of Contents

database. The analysis considers various factors including employment, default status and historical relationships with Woori Bank and any delinquency history with other credit card companies. Woori Card also reviews information about an applicant obtained from external databases maintained by the Korea Federation of Banks, Korea Information Service Inc., Korea Credit Bureau Inc. and a consortium of seven Korean credit card providers.

Application Scoring System Process. The application scoring system at Woori Card is a standardized evaluation tool used to determine the probability of a credit card applicant defaulting during the one-year period following issuance. The application scoring system, using a statistical model, assigns risks to factors that indicate a probability of non-payment. The model analyzes credit history, occupation and income data to develop a combined risk score. The applicant's eligibility to receive a credit card and credit limit is determined by its anticipated delinquency ratio over 90 days within one year.

Credit Assessment. If the application is approved, then the application scoring system assessment is used to determine the applicant's credit limit. The aggregate credit limit for a new applicant who is an individual rarely exceeds 20 million. There is a separate but similar system for determining the credit limit available to corporate card applicants, which will generally be higher than limits available to individual applicants but will not provide for the ability to obtain cash advances.

The entire approval process generally takes two to three days and the applicant receives the new card within one week after making an application. Woori Card evaluates and updates the application scoring system on a monthly basis (or more frequently as required) to incorporate new data or adjust the importance placed on existing data or market conditions.

Kyongnam Bank and Kwangju Bank currently operate a similar application process, although in the case of Kyongnam Bank, the approval process itself takes place within BC Card.

Credit Review and Monitoring

Our credit review and monitoring procedures are designed to reduce the risks of deterioration in our asset quality and to maintain acceptable levels of portfolio risk. These procedures include:

confirming a borrower's credit rating or score;

ensuring the accuracy of the credit analysis done by our credit officers; and

ensuring compliance with internal policies relating to loan approval.

We believe that these procedures enable us to identify potential non-performing loans as soon as possible and minimize the possibility of approving in advance loans that will become non-performing. These procedures also enable us to manage credit risk more effectively and set interest rates to more accurately reach our targeted level of return.

Loan Review and Monitoring

Each of our banking subsidiaries monitors credit risk with respect to its borrowers using its own loan review system. Each banking subsidiary has a loan review department that oversees its review and monitoring efforts. After a loan has been approved, the relevant materials or the results generated by the subsidiary's relevant credit evaluation system, together with any supporting data, are reviewed by an officer in that department. There are three types of reviews that our subsidiary loan review units undertake:

Desk review. Desk reviews are the most common and are generally done within five days after a loan has been approved. Although the process is similar, different loans are automatically reviewed by our subsidiaries based on the size of the loan. At Woori Bank, for example, the loan review department will initiate a desk review of loans approved by a credit officer committee or the Loan

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Committee of the subsidiary, for any corporate loan that exceeded 5 billion, any consumer loan that exceeded 1 billion, any loan to a housing applicant group that exceeded 5 billion or any loan where the loan

Table of Contents

terms were adjusted. For loans originating from a branch, the loan review department will initiate a desk review for new domestic loans or credit limit increases that exceed 300 million. For new overseas loans, desk reviews are conducted for amounts that exceed US\$300,000.

Periodic review. Periodic reviews are done on a quarterly, semi-annual or annual basis with respect to loans that are current and exceed 10 billion or with respect to borrowers who are on a watch list with respect to possible insolvency. Quarterly periodic reviews are done for certain corporate borrowers, depending on their size and the borrower's industry.

Ad hoc review. Ad hoc reviews can be done at any time. The head of the subsidiary risk management department or the chief executive officer or chief financial officer of the respective subsidiary can initiate ad hoc reviews. Loan review officers who are responsible for desk and periodic reviews also conduct ad hoc reviews.

Following a review, the subsidiary's sales office may hold additional meetings with the borrower and adjust the loan amount or the borrower's credit rating. The loan review department may also direct sales office personnel to institute early collections or to adjust a borrower's credit rating, total exposure and asset portfolio without consulting the borrower. The loan review officer may request that the credit officer adjust a borrower's credit ratings based on various factors, including asset quality, credit limits, applied interest rates and our credit policies. We also continually review other factors, such as industries in which borrowers operate and their domestic and overseas assets and operations, to ensure that our ratings are appropriate.

Woori Bank monitors and manages its exposures to and credit limits for corporations and *chaebols* on a daily basis. Woori Bank uses its Total Exposure Management System to make real-time inquiries regarding its exposures, either by company or by *chaebol*, and to manage the credit limits for all kinds of business transactions. Woori Bank monitors and analyzes these exposures on a monthly basis. Corporate borrowers on Woori Bank's watch list are monitored more closely and with respect to additional aspects of their relationships with us. Woori Bank places borrowers on its watch list when it believes that any impediment on a borrower's ability to meet its financial obligations exists or is pending. Woori Bank may also monitor newly extended credits or any additional credits extended to a previous borrower more frequently if it believes additional monitoring is necessary after reviewing the loan approval process. Credits outstanding to a particular industry or region that Woori Bank believes are higher risk are monitored even more frequently. Based on the results of such monitoring, the loan review department of each of our subsidiary banks provides monthly reports to its chief executive officer and its Subsidiary Risk Management Committee. Kyongnam Bank and Kwangju Bank also monitor their exposures to corporate borrowers but only on a monthly basis and using less advanced systems.

The consumer loan department of each of our banking subsidiaries has the ability to conduct daily surveillance on the status of its retail borrowers through an on-line system established by the Korea Federation of Banks. This system, which tracks consumer loans at all major Korean banks and non-banking institutions, permits us to track all loan defaults by any borrower. We evaluate the need to monitor consumer loans by using our consumer credit evaluation system, including, in the case of Woori Bank, its behavioral scoring system, and make adjustments to the credit scoring formula based on the results of that process.

Each subsidiary's loan review department in its risk management unit is required to submit monthly loan review reports and quarterly deficiency reports to the chief executive officer and the head of the risk management unit of that subsidiary. The chief executive officer then provides feedback to the relevant sales offices of the banking subsidiary's branches through that subsidiary's auditing team or relevant business unit. Based on these reports, we or our subsidiaries may, for example, stop lending to particular borrowers, change credit limits or modify our loan approval procedures. We do not monitor loans to certain borrowers, such as loans to government entities such as the KDIC or to companies in workout proceedings.

Credit Card Review and Monitoring

Woori Card monitors its risk exposure to individual accounts on a regular basis. It monitors each customer's card usage trends and negative credit data such as delinquency information through both its own credit risk

Table of Contents

management system (which was developed with the assistance of an outside consultant) and BC Card's similar system (which BC Card maintains for its member banks). These systems monitor the behavior of users of Woori Card's credit cards, using both internally generated information and information from external sources. Woori Card statistically analyzes this information to estimate each customer's creditworthiness on a monthly basis. The credit risk management system is an integral part of the credit practices at Woori Card and is used to determine increases or decreases in credit limits, reset interest rates, set fee levels, authorize special transactions and approve card loans using criteria such as:

how much credit each customer has incurred in the past (i.e., frequency and amount of payments);

whether a customer uses his card to make credit card purchases or to get cash advances;

internal credit scores; and

whether the customer has been delinquent in making payments.

After assigning appropriate weightings to each factor, the system computes a behavior score and uses that score to classify each cardholder. Each customer's credit limit is subject to adjustment in accordance with the monthly updated score. Woori Card uses these results and the results of its application scoring system to evaluate its credit risk management system and make adjustments to its credit scoring formula based on the results of that process.

Woori Card's credit risk management system has also been able to run various simulations in connection with monitoring its operations, including:

new product simulations, which predict a customer's likely spending pattern when using a new credit card product and analyzes that pattern to predict the new product's costs, delinquencies and profitability; and

credit use limit simulations, which test whether a customer's credit limit has been properly set by simulating an increase or decrease of that limit.

Woori Card's credit administration team manages customer credit risk for users of its credit cards. It reviews and updates its underwriting, credit evaluation, collection, servicing and write-off procedures, and the terms and conditions of card agreements, from time to time in accordance with its business practices, applicable law and guidelines issued by regulatory authorities. Kyongnam Bank currently operates customer credit risk with respect to its credit card business using the BC Card system.

Early Warning Systems

Each of our banking subsidiaries and Woori Card have developed separate early warning systems that monitor the status of both commercial and retail borrowers and evaluate all of a customer's outstanding credits. These systems monitor various factors, including the financial status, financial transaction status, industry rating and management status of borrowers. They enable our subsidiaries to find defaults and signs of potential delinquency in advance, monitor these problematic credits properly before any default or delayed payment occurs and keep track of information on the credit status of borrowers. Updated information is input as it becomes available, either automatically from internal and external sources or manually. This information includes data relating to:

credit evaluation and monitoring system results, which determine if a borrower should be put on a watch list;

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

loan transactions, such as a borrower's remaining line of credit and whether it has any dishonored notes, overdue loans or setoffs with respect to collateral deposits which have not matured;

deposit transactions, such as any decrease in a borrower's average deposit balance, requests for large volumes of promissory notes or checks, or the inability to pay immediately available funds owed when due;

Table of Contents

foreign exchange transactions, such as unpaid amounts of a borrower's purchased export bills that have exceeded the maturity date; and

other information, such as a borrower's management and employees, business operations, production operations, financial affairs and accounting operations and bank transactions.

We also monitor borrowers' credits through on-line credit reports that are provided by Korea Information Service and National Information & Credit Evaluation, Inc., which are Korean credit reporting agencies.

After gathering this information, for example at Woori Bank, the CREPIA system reviews such information to monitor any changes that could affect the credit rating of the borrower, approval conditions with respect to the loan or credit, underlying collateral or assigned credit limit of the borrower. Depending on the likelihood of the change, the system automatically sends a signal to the responsible credit officer. The officer then evaluates the information and formulates an action plan, which could result in an adjustment in the borrower's credit rating or loan pricing, a re-evaluation of the loan or the taking of other preventative measures.

Credit Remediation

We believe that by centralizing the management of our non-performing credits within each subsidiary, we can implement uniform policies for non-performing credit resolution, pool institutional knowledge and create a more specialized (and therefore more efficient) work force. Each of our subsidiaries has one or more units that are responsible for managing non-performing loans. At Woori Bank, for example, the Credit Management and Collection Department and the Corporate Restructuring Department generally oversee the process for resolving non-performing loans transferred to them by other Woori Bank business units. When a loan becomes non-performing, the units at our banking subsidiaries that are responsible for monitoring non-performing loans will begin a due diligence review of the borrower's assets, send a notice demanding payment or stating that the unit will take legal action, and prepare for legal action. At the same time, we initiate our non-performing loan management process. 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 commencing collection proceedings or legal actions and writing off such loans, transferring them to subsidiaries in charge of collection and authorizing those subsidiaries to recover what they can. We have also disposed of a number of non-performing credits to KAMCO, UAMCO and various special purpose companies. See Item 4B. Business Overview Assets and Liabilities Asset Quality of Loans Non-Performing Loan Strategy.

Market Risk Management

The principal market risks to which we are exposed are interest rate risk, equity risk and, to a lesser extent, foreign exchange risk and commodity risk. We divide market risk into risks arising from trading activities and risks relating to management of our assets and liabilities. The financial instruments that expose us to market risks are primarily trading and available-for-sale securities and financial derivatives and, with respect to commodity risk, commodity derivatives.

Our Group Risk Management Committee establishes our risk capital allocation and risk limits for our trading activities. The Group Risk Management Committee has delegated the responsibility for coordinating market risk management for trading activities to the Group Risk Management Council. The risk management units of each of our subsidiaries coordinates with the Group Risk Management Council. These units review on a daily basis reports that include trading profits and losses, position reports, stress test results and value at risk results for our trading activities. Any violations of such risk limits are reported to the Group Risk Management Department.

Market Risk Management for Trading Activities

We measure market risk from trading activities to monitor and control the risk of our business groups and teams that perform those activities. Our trading activities consist of:

trading activities for our own account to realize short-term trading profits in debt (primarily Won-denominated), equity and foreign exchange markets based on our forecasts of changes in market situation and customer demand; and

Table of Contents

trading activities involving derivatives transactions, including interest rate and foreign exchange swaps, forwards, futures and options and, to a lesser extent, commodity derivatives, primarily to sell derivatives products to our customers and to hedge our own market risk.

Market risk arising from our trading activities can be subdivided into interest rate risk, equity risk, foreign exchange risk and commodity risk:

Interest rate risk is a significant risk to which our trading activities are exposed. This risk arises primarily from our debt securities (which are primarily held by Woori Bank). We set different risk limits for our interest rate risk for our trading and non-trading debt portfolios.

Equity risk arises from price and volatility fluctuations in equity securities and derivatives.

Foreign exchange risk arises from foreign currency-denominated assets and liabilities in both our trading and non-trading accounts and financial derivatives involving foreign currencies, which are not controlled separately on a trading and asset/liability management basis.

Commodity risk arises from price and volatility fluctuations in commodity derivatives.

The Group Risk Management Committee monitors market risk both for the group and for each subsidiary individually. See Standardization Strategy. The Group Risk Management Committee has established a maximum market risk appetite for each subsidiary, which is defined as the risk capital of a particular subsidiary divided by its available capital. Risk capital is a benchmark figure that determines the VaR limits, accumulated loss limits (for trading portfolios) and present value of a basis point (or PVBP) limits (for non-trading available-for-sale assets) for each subsidiary. Available capital generally consists of stockholder's equity. Using this benchmark, as of December 31, 2012, we have established market risk limits with respect to our subsidiaries as shown in the following table:

	Trading Portfolio Accumulated Loss Limit			Non-Trading Portfolio PVBP Limit
	VaR Limit	Quarter	Annual	
		(in billions of Won)		
Woori Bank	18.0	67.8	132.6	2.073
Kyongnam Bank	2.1	8.5	17.0	0.353
Kwangju Bank	0.5	1.5	2.9	0.230

Each of our subsidiaries generally manages its market risk at the portfolio level, rather than on a credit-by-credit basis. To control its exposure, each of our subsidiaries takes into consideration the VaR limits, accumulated loss limits and PVBP limits set by the Group Risk Management Committee in determining its internal allocation of risk among its various portfolios. Each subsidiary also sets its own stop loss limits with respect to particular types of transactions. Each subsidiary uses an integrated market risk management system to manage market risks for its debt and equity trading operations. This system enables each subsidiary to generate consistent VaR numbers for all of its trading activities.

In addition, we have implemented internal processes which include a number of key controls designed to ensure that fair value is measured appropriately, particularly where a fair value model is internally developed and used to price a significant product. See Item 5A. Operating Results Critical Accounting Estimates Valuation of Financial Assets and Liabilities and Notes 2-(9)-5), 3-(3) and 11 of the notes to our consolidated financial statements. For example, Woori Bank's Risk Management Department reviews the existing pricing and valuation models on a regular basis, with a focus on their underlying modeling assumptions and restrictions, to assess the appropriateness of their continued use. In consultation with Woori Bank's Trading Department, the Risk Management Department recommends potential valuation models to Woori Bank's Fair Value Evaluation Committee. Upon approval by Woori Bank's Fair Value Evaluation Committee, the selected valuation models are reported to its Risk Management Committee.

Value at Risk analysis. We use daily VaR to measure market risk. Our daily VaR is a statistically estimated maximum amount of loss that can occur for a day. We use a 99% confidence level to measure our daily VaR, which means the actual amount of loss may exceed the VaR, on average, once out of 100 business days. We use

Table of Contents

the variance-covariance method which takes into account the diversification effects among different risk factors. This method is based on two assumptions: first, that the distribution of risk factors is normal; and, second, that profit and loss is a quadratic function of the returns. Different VaR methodologies and distributional assumption could produce a materially different VaR.

Although VaR is a commonly used market risk management technique, it has some inadequacies. Since it is a statistical approach, VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movements, however, are not necessarily a good indicator of future events. Another problem with VaR is that the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, VaR may understate or overstate the potential loss. VaR is most appropriate as a risk measure for trading positions in liquid financial markets and will understate the risk associated with severe events, such as a period of extreme liquidity.

The following table shows our daily VaR for each of Woori Bank, Kyongnam Bank and Kwangju Bank as of December 31, 2010, 2011 and 2012 at a 99% confidence level for a one-day holding period, for interest rate risk, equity risk, foreign exchange risk and commodity risk relating to our trading activities.

	Interest Rate Risk	Equity Risk	Foreign Exchange Risk	Commodity Risk	Less: Diversification	VaR for Overall Trading Activities
	(in millions of Won)					
As of December 31, 2010						
Woori Bank	3,770	2,005	4,042	13	5,452	4,377
Kyongnam Bank	70	298	27		76	319
Kwangju Bank	86	2	7		8	88
As of December 31, 2011						
Woori Bank	5,066	2,978	2,745	3	6,391	4,402
Kyongnam Bank	78	160	32		93	177
Kwangju Bank	11	1	12		8	16
As of December 31, 2012						
Woori Bank	3,695	1,608	2,677	13	5,353	2,640
Kyongnam Bank	348		9		12	345
Kwangju Bank	41		6		7	40

Table of Contents

In 2012, the average, high, low and ending amounts of daily VaR for each of Woori Bank, Kyongnam Bank and Kwangju Bank relating to its trading activities (at a 99% confidence level for a one-day holding period) were as follows:

	Trading activities VaR for 2012			As of December 31, 2012
	Average	Minimum	Maximum	
(in millions of Won)				
Woori Bank				
Interest risk	4,200	2,712	6,382	3,695
Equity risk	2,380	1,180	3,734	1,608
Foreign exchange risk	2,250	1,507	3,585	2,677
Commodity risk	37	3	227	13
Total risk	3,720	2,372	5,190	2,640
Kyongnam Bank				
Interest risk	273	20	685	348
Equity risk	122		518	
Foreign exchange risk	15	4	83	9
Commodity risk				
Total risk	308	89	641	345
Kwangju Bank				
Interest risk	27	7	82	41
Equity risk	28		63	
Foreign exchange risk	6	1	65	6
Commodity risk				
Total risk	40	7	83	40

Stress test. In addition to VaR, we perform stress testing to measure market risk. As VaR assumes normal market situations, we assess our market risk exposure to abnormal market fluctuations through stress testing. Stress testing is an important way of supporting VaR since VaR is a statistical expression of possible loss under a given confidence level and holding period. It does not cover potential loss if the market moves in a manner that is outside our normal expectations. Stress testing projects the anticipated change in value of holding positions under certain scenarios assuming that we take no action during a stress event to change the risk profile of a portfolio. The following table shows, for each identified subsidiary, the loss that would have occurred in its trading portfolio as of December 31, 2012 for assumed short-term extreme changes of a +/-20% change in the equity market and a +/-60 basis point change from interest rates prevailing in the market on that date, under an abnormal stress environment.

(in billions of Won, except percentages)						
Equity Market Chart	(20)%	(10)%	(5)%	5%	10%	20%
Market fluctuation amount						
Woori Bank	41.0	8.6	0.8	2.0	8.7	32.9
Kyongnam Bank						
Kwangju Bank						

(in billions of Won, except basis points)						
Interest Rate Chart	(60) basis	(40) basis	(20) basis	20 basis	40 basis	60 basis
		points	points	points	points	points
Basis point fluctuation amount	Points					

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Woori Bank	20.1	13.0	6.5	(6.1)	(12.3)	(18.2)
Kyongnam Bank	3.9	2.6	1.3	(1.3)	(2.6)	(3.9)
Kwangju Bank	0.1	0.0	0.0	(0.0)	(0.0)	(0.1)

Table of Contents

Stop loss limits. Our Subsidiary Risk Management Committees also approves total accumulated loss limits, and the heads of the relevant trading departments in each of our subsidiaries sets its own stop loss limits with respect to particular types of transactions. For example, Woori Bank has stop loss limits for various trading activities, including:

for trading equity securities in Won, within 25% of the purchase price of such securities;

for trading fixed income securities in Won, within a specified range of increase in market interest rates (from 30 basis points to 250 basis points, depending on the time remaining until maturity of the relevant fixed income securities);

for available-for-sale equity securities in Won, within 35% of the book value of such securities;

for available-for-sale fixed income securities in Won, within 10% of the book value of such securities;

for trading equity or fixed income securities in foreign currencies, within 5% of the purchase price of such securities; and

for available-for-sale equity or fixed income securities in foreign currencies, within 15% of the purchase price of such securities.

Interest Rate Risk

Interest rate risk from trading activities arises mainly from our trading of Won-denominated debt securities. Our trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. As our subsidiaries' trading accounts are marked-to-market daily, each of our subsidiaries manages its interest rate risk related to our trading accounts using market value-based tools such as VaR. See [Asset and Liability Management](#) [Interest Rate Risk](#).

Equity Risk

Equity price risk and equity volatility risk result from our subsidiaries' equity portfolios, which consist mainly of futures contracts and options and Won-denominated equity securities, as a result of the strict limits we have imposed with respect to VaR and accumulated loss imposed by our Subsidiary Risk Management Committees within the overall limits imposed by the Group Risk Management Committee, stop loss limits set by the heads of the relevant trading departments of our subsidiaries, and stress test limits. Equity risk arises in the context of trading activities for our own accounts to realize short-term trading profits with respect to equity and trading activities involving certain derivatives transactions.

Foreign Exchange Risk

Foreign exchange risk arises because we have assets, liabilities and off-balance sheet items such as foreign exchange forwards and currency swaps that are denominated in non-Won currencies. The difference between each of our subsidiaries' foreign currency assets and liabilities is offset against forward foreign exchange positions to obtain its net foreign currency open position. We then net the positions of our subsidiaries against each other to derive our net exposure. Each of our subsidiaries determines its maximum foreign exchange exposure for both trading and asset and liability management purposes by establishing a limit for this net foreign currency open position. Each Subsidiary Risk Management Committee also establishes VaR limits for the foreign exchange business of its respective subsidiary and exposure limits for the business units of that subsidiary.

Assets and liabilities denominated in U.S. dollars account for the majority of our foreign currency assets and liabilities. Those denominated in Japanese yen and the euro account for most of the remainder, the majority of which have been swapped into U.S. dollars.

Each of our subsidiaries monitors changes in, and matches of, foreign-currency assets and liabilities in order to reduce exposure to currency fluctuations. Most of our foreign exchange risk arises in connection with the operations of Woori Bank. Our subsidiaries also manage risks relating to exchange rate fluctuations through

Table of Contents

foreign exchange dealing, including by their overseas branches. However, we conduct foreign exchange dealings primarily on behalf of our customers. Counterparties are restricted to domestic and foreign financial institutions and banks with respect to which our subsidiaries have established a foreign exchange dealing limit. Our subsidiaries deal primarily in the Won/U.S. dollar market and their dealings are subject to what we believe are conservative daily maximum and closing limits and stop loss limits. By way of illustration, the following table sets forth information concerning Woori Bank's limits on proprietary foreign exchange dealings as of December 31, 2012:

	Won/U.S. Dollar Dealing Headquarters		Dealings in other currencies			
	Total	Individual	Headquarters		Overseas Branches	
	Total	Individual	Total	Individual	Total	Individual
	(in millions of US\$)					
Open position						
Daily maximum limit	US\$ 1,000	US\$ 200	US\$ 200	US\$ 50	US\$ 60	US\$ 15
Daily closing limit	200	50	100	20	30	6
Stop loss:						
Daily	2.00	0.50	0.80	0.15	0.24	0.05
Monthly	3.00	0.80	2.00	0.50	0.60	0.15

The following table shows the non-consolidated net open positions of Woori Bank, Kyongnam Bank and Kwangju Bank at the end of 2010, 2011 and 2012. Positive amounts represent long exposures and negative amounts represent short exposures.

	As of December 31,								
	Woori Bank	2010 Kyongnam Bank	Kwangju Bank	Woori Bank	2011 Kyongnam Bank	Kwangju Bank	Woori Bank	2012 Kyongnam Bank	Kwangju Bank
	(in millions of US\$)								
Currency									
U.S. dollar	US\$ (102.0)	US\$ (3.0)	US\$ 0.0	US\$ (64.4)	US\$ (3.7)	US\$ 0.6	US\$ (36.5)	US\$ (1.8)	US\$ (0.7)
Japanese yen	(3.8)	0.3	0.2	7.6	0.7	0.0	(52.5)	0.0	0.0
Euro	35.0	0.1	(0.6)	(13.4)		0.0	(19.4)	(0.1)	0.2
Others	16.3	2.1	0.7	(25.3)	1.9	0.1	(16.5)	2.1	0.2
Total	US\$ (54.5)	US\$ (0.5)	US\$ 0.3	US\$ (95.5)	US\$ (1.1)	US\$ 0.7	US\$ (125.0)	US\$ 0.2	US\$ (0.3)

Commodity Risk

Commodity risk represents exposures to instruments traded in the metals, petroleum, natural gas and other commodities markets, and arises principally from Woori Bank's trading of U.S. dollar-denominated commodity derivatives. Under applicable Korean laws, Woori Bank may only engage in commodity derivative transactions on behalf of its corporate customers for hedging purposes. Woori Bank manages its commodity risk using VaR, accumulated loss and stress test limits.

Derivatives-Related Market Risk

The Foreign Exchange Transaction Regulations of Korea provide that a foreign exchange bank (such as Woori Bank) may generally enter into derivatives transactions without restriction so long as those transactions are not linked with credit risks of a party to the transaction or any third party. If they are, the bank must report the transaction to the Bank of Korea.

Most of the derivatives products that our subsidiaries trade are on behalf of their customers or to hedge their own positions. Our derivatives activities include interest rate and cross-currency swaps, foreign exchange forwards, stock index and interest rate futures, forward rate agreements and currency and over-the-counter equity options.

Asset and Liability Management

Our principal market risk with respect to managing our assets and liabilities is interest rate risk. Interest rate risk arises due to mismatches in the maturities or re-pricing periods of rate-sensitive assets and liabilities, such as

Table of Contents

loans and deposits. Any imbalance of the maturity of our interest rate-sensitive assets and liabilities and the gap resulting from that imbalance may cause net interest income to be affected by changes in the prevailing level of interest rates. Our principal asset and liability management objectives are to generate stable net interest revenues and protect our asset value against interest rate fluctuations.

Each of our commercial banking subsidiaries uses a standardized asset and liability management system for its Won- and foreign currency-denominated assets and liabilities. In addition, Woori Bank's system also allows it to manage the assets and liabilities in its trust accounts. Prior to 2009, this system used roll-over modeling to mitigate the difficulty of predicting maturity with respect to customers' purchases and cash advances and to calculate actual cash flow of customers based on pre-payment, extension of payments, delinquencies, bankruptcies and recoveries at each of our commercial banking subsidiaries. In January 2009, this system was integrated among our commercial banking subsidiaries and upgraded to include a new statistical analysis system to calculate statistically estimated maximum amount of loss, as well as an integrated user-interface operated by Woori FIS. As a part of this upgrade, we also changed our methodology to determine interest rate VaR from the Hull-White model using Monte-Carlo simulation to the historical scenario method. In 2011, in anticipation of Basel III requirements, we further upgraded our standard asset and liability management system by developing modules to calculate and monitor our net coverage ratio and net stable funding ratio.

Interest Rate Risk

We manage interest rate risk based on rational interest rate forecasts, using gap analysis to measure the difference between interest-sensitive assets and interest-sensitive liabilities, using simulations to calculate the effect of changing interest rates on income. Since Korea does not currently have a well-established derivatives market, we principally manage this risk by managing maturity and duration gaps between our interest-earning assets and interest-bearing liabilities.

We measure interest rate risk for Won and foreign currency assets and liabilities in our bank accounts (including derivatives) and, in the case of Woori Bank, assets and liabilities in our principal guaranteed trust accounts. Most of our interest-earning assets and interest-bearing liabilities are denominated in Won and our foreign currency-denominated assets and liabilities are mostly denominated in U.S. dollars. We believe, however, that our interest rate sensitivity is limited with respect to our Won-denominated assets. Deposits in Won generally bear fixed rates of interest for fixed time periods (other than deposits payable on demand which constituted approximately 36.4% of our total deposits in Won as of December 31, 2012). We generally adjust the interest rates on these deposits when they are rolled over. In addition, as of December 31, 2012, 95.3% of those deposits had current maturities of one year or less. As of December 31, 2012, approximately 65.4% of our Won-denominated loans bore floating rates of interest, and 57.3% of those loans had current maturities of one year or less.

Interest rate gap analysis measures expected changes in net interest revenues by calculating the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and interest resetting date. Woori Bank, Kyongnam Bank and Kwangju Bank each performs interest rate gap analysis for Won and foreign currency-denominated assets (and, in the case of Woori Bank, trust assets), on a monthly basis. Our subsidiaries report these results to the Group Risk Management Committee on a quarterly basis.

Interest Rate Gap Analysis. For interest rate gap analysis we use or assume the following maturities for different assets and liabilities:

With respect to maturities of assets, for prime rate-linked loans, we apply the actual maturities of each loan; furthermore, we assume the reserves with the Bank of Korea and loans and securities classified as substandard or below to have maximum remaining maturities.

With respect to maturities of liabilities, for demand deposits with no fixed maturities held by the banks, a portion of the demand deposits are recognized to have maturities of less than three months as calculated in accordance with Financial Services Commission guidelines.

Table of Contents

From July 2004, our Group Risk Management Committee established the interest rate risk limit for each of our subsidiaries by directing that the earnings at risk for each subsidiary should be within 5% of the estimated net interest income of such subsidiary for a one-year period. We calculate VaR through our group-wide, standardized asset and liability management system, which uses the historical scenario method to simulate the current portfolio's net asset value for a one-year holding period at a 99.9% confidence level.

The following tables show, for each of Woori Bank, Kyongnam Bank and Kwangju Bank on a non-consolidated basis pursuant to the guidelines of the Financial Supervisory Service, the interest rate gap for Won-denominated accounts and foreign currency-denominated accounts as of December 31, 2012:

Woori Bank

	0-3 Months	3-6 Months	As of December 31, 2012		Over 3 Years	Total
			6-12 Months	1-3 Years		
(in billions of Won, except percentages)						
Won-denominated accounts:						
Interest rate-sensitive assets						
Free interest rate	6,926	4,893	8,486	5,416	13,279	39,000
Market interest rate	103,664	19,274	8,888	10,143	9,705	151,673
Interest rate pegged to customer deposit	58	44	89	23	2	215
Total	110,648	24,211	17,463	15,583	22,985	190,889
Interest rate-sensitive liabilities						
Free interest rate	12,784	4,032	5,347	8,784	7,269	38,215
Market interest rate	70,737	16,400	24,495	625	21,627	133,884
Total	83,521	20,432	29,842	9,409	28,896	172,098
Sensitivity gap	27,128	3,779	(12,379)	6,174	(5,911)	18,790
Cumulative gap	27,128	30,907	18,528	24,702	18,790	18,790
% of total assets⁽¹⁾	12.63%	14.39%	8.63%	11.50%	8.75%	8.75%
Total assets in Won						214,791

	0-3 Months	3-6 Months	As of December 31, 2012		Over 3 Years	Total
			6-12 Months	1-3 Years		
(in millions of US\$, except percentages)						
Foreign currency-denominated accounts:						
Interest rate-sensitive assets						
Free interest rate	US\$ 0	US\$ 0	US\$ 0	US\$ 0	US\$ 0	US\$ 0
Market interest rate	12,604	1,784	159	24	97	14,667
Interest rate pegged to customer deposit	0	0	0	0	0	0
Total	US\$ 12,604	US\$ 1,784	US\$ 159	US\$ 24	US\$ 97	US\$ 14,667
Interest rate-sensitive liabilities						
Free interest rate	US\$ 0	US\$ 0	US\$ 0	US\$ 0	US\$ 0	US\$ 0
Market interest rate	6,119	422	1,117	2,523	2,412	12,592
Total	US\$ 6,119	US\$ 422	US\$ 1,117	US\$ 2,523	US\$ 2,412	US\$ 12,592
Sensitivity gap	6,485	1,362	(958)	(2,499)	(2,315)	2,075

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Cumulative gap	6,485	7,847	6,889	4,390	2,075	2,075
% of total assets⁽¹⁾	24.87%	30.09%	26.42%	16.84%	7.96%	7.96%
Total assets in US\$						US\$ 26,076

Table of Contents

Kyongnam Bank

	0-3 Months	3-6 Months	As of December 31, 2012		Over 3 Years	Total
			6-12 Months	1-3 Years		
(in billions of Won, except percentages)						
Won-denominated accounts:						
Interest rate-sensitive assets						
Free interest rate	565	479	695	862	1,651	4,252
Market interest rate	9,198	1,313	3,063	3,043	3,430	20,047
Interest rate pegged to customer deposit	35	15	15	6	1	72
Total	9,798	1,807	3,773	3,911	5,082	24,371
Interest rate-sensitive liabilities						
Free interest rate	6,427	3,977	4,680	914	2,707	18,705
Market interest rate	1,637	42	21	567	1,723	3,991
Total	8,064	4,019	4,701	1,482	4,430	22,696
Sensitivity gap	1,735	(2,212)	(928)	2,429	652	1,675
Cumulative gap	1,735	(478)	(1,406)	1,023	1,675	1,675
% of total assets⁽¹⁾	5.74%	(1.58)%	(4.66)%	3.39%	5.55%	5.55%
Total assets in Won						30,196

	0-3 Months	3-6 Months	As of December 31, 2012		Over 3 Years	Total
			6-12 Months	1-3 Years		
(in millions of US\$, except percentages)						
Foreign currency-denominated accounts:						
Interest rate-sensitive assets						
Free interest rate	US\$ 793	US\$ 155	US\$ 13	US\$ 0	US\$ 7	US\$ 968
Market interest rate	172	2	0	0	0	173
Interest rate pegged to customer deposit	0	0	0	0	0	0
Total	US\$ 964	US\$ 157	US\$ 13	US\$ 0	US\$ 7	US\$ 1,141
Interest rate-sensitive liabilities						
Free interest rate	US\$ 802	US\$ 158	US\$ 17	US\$ 0	US\$ 0	US\$ 976
Market interest rate	0	0	0	0	0	0
Total	US\$ 802	US\$ 158	US\$ 17	US\$ 0	US\$ 0	US\$ 976
Sensitivity gap	163	(1)	(4)	0	7	165
Cumulative gap	163	162	158	158	165	165
% of total assets⁽¹⁾	9.97%	9.91%	9.67%	9.66%	10.09%	10.09%
Total assets in US\$						US\$ 1,633

Table of Contents*Kwangju Bank*

	0-3 Months	3-6 Months	As of December 31, 2012			Total
			6-12 Months	1-3 Years	Over 3 Years	
Won-denominated accounts:						
Interest rate-sensitive assets						
Free interest rate	773	263	237	474	674	2,422
Market interest rate	7,524	1,995	1,400	1,685	776	13,380
Interest rate pegged to customer deposit	109	20	49	5	2	185
Total	8,407	2,278	1,685	2,164	1,453	15,986
Interest rate-sensitive liabilities						
Free interest rate	4,354	1,743	2,671	591	1,789	11,148
Market interest rate	1,135	284	308	464	473	2,664
Total	5,489	2,027	2,979	1,054	2,262	13,811
Sensitivity gap	2,918	251	(1,294)	1,109	(809)	2,175
Cumulative gap	2,918	3,169	1,875	2,984	2,175	2,175
% of total assets⁽¹⁾	18.25%	19.82%	11.73%	18.67%	13.61%	13.61%
Total assets in Won						15,986

	0-3 Months	3-6 Months	As of December 31, 2012			Total
			6-12 Months	1-3 Years	Over 3 Years	
Foreign currency-denominated accounts:						
Interest rate-sensitive assets						
Free interest rate	US\$ 0	US\$ 0	US\$ 0	US\$ 0	US\$ 6	US\$ 6
Market interest rate	696	6	0	2	5	710
Interest rate pegged to customer deposit	0	0	0	0	0	0
Total	US\$ 696	US\$ 6	US\$ 0	US\$ 2	US\$ 11	US\$ 715
Interest rate-sensitive liabilities						
Free interest rate	US\$ 12	US\$ 2	US\$ 22	US\$ 2	US\$ 5	US\$ 43
Market interest rate	96	91	247	261	41	736
Total	US\$ 107	US\$ 94	US\$ 269	US\$ 263	US\$ 46	US\$ 779
Sensitivity gap	589	(87)	(269)	(261)	(35)	(63)
Cumulative gap	589	501	232	(29)	(63)	(63)
% of total assets⁽¹⁾	82.28%	70.07%	32.43%	(4.01)%	(8.87)%	(8.87)%
Total assets in US\$						US\$ 715

⁽¹⁾ Represents the cumulative gap as a percentage of total assets.

Duration Gap Analysis. Each of Woori Bank, Kyongnam Bank and Kwangju Bank also performs a duration gap analysis to measure and manage its interest rate risk. Duration gap analysis is a more long-term risk indicator than interest rate gap analysis, as interest rate gap analysis focuses only on accounting income and not on the market value of the assets and liabilities. We emphasize duration gap analysis because, in the

long run, our principal concern with respect to interest rate fluctuations is the net asset value rather than net interest revenue changes.

For duration gap analysis, we use or assume the same maturities for different assets and liabilities that we use or assume for our interest rate gap analysis.

Table of Contents

The following table shows, for Woori Bank, Kyongnam Bank and Kwangju Bank on a combined basis, with respect to Won-denominated assets and liabilities, duration gaps and net asset value changes when interest rate increases by one percentage point as of the specified dates:

Date	Interest-earning asset duration (in years)	Interest-bearing liability duration (in years)	Total asset/liability duration gap (in years)	Net asset value change (in billions of Won)
June 30, 2010	0.51	0.80	(0.25)	604
December 31, 2010	0.54	0.75	(0.18)	459
June 30, 2011	0.53	0.74	(0.14)	389
December 31, 2011	0.69	0.72	0.02	2
June 30, 2012	0.73	0.72	0.04	96
December 31, 2012	0.85	0.72	0.15	312

We set interest rate risk limits using the historical simulation method, which uses actual historical price, volatility and yield changes in comparison with the current position to generate hypothetical portfolios and calculate a distribution of position and portfolio market value changes. The following table shows our interest rate VaR with respect to our Won-denominated assets and liabilities for each of the quarters since the fourth quarter of 2011:

	Fourth Quarter 2011	First Quarter 2012	Second Quarter 2012	Third Quarter 2012	Fourth Quarter 2012
	(in billions of Won, except percentages)				
Woori Finance Holdings	462.5	429.0	235.2	238.8	278.9
Woori Bank	255.1	293.1	113.1	159.7	193.4
Kyongnam Bank	49.0	39.0	40.6	24.3	22.2
Kwangju Bank	8.8	10.1	9.2	5.3	7.0
Volatility					
Mean reversion					

The Group Risk Management Committee reviews gap analysis reports, duration gap analysis reports and interest rate limit compliance reports prepared by our subsidiary risk management units on a quarterly basis.

Foreign Exchange Risk

We manage foreign exchange rate risk arising in connection with the management of our assets and liabilities together with such risks arising from our trading operations. See **Market Risk Management for Trading Activities Foreign Exchange Risk** above.

Liquidity Risk Management

Liquidity risk is the risk of insolvency or loss due to disparity between inflow and outflow of funds such as maturity mismatch, including having to obtain funds at a high price or to dispose of securities at an unfavorable price due to lack of available funds. We manage our liquidity in order to meet our financial liabilities from withdrawals of deposits, redemption of matured debentures and repayments at maturity of borrowed funds. We also require sufficient liquidity to fund loans and extend other forms of credits, as well as to make investments in securities. Each of our Subsidiary Risk Management Committees establishes liquidity policies for its respective subsidiary and monitors liquidity on an on-going basis. Our subsidiaries make constant adjustment to take into account variables affecting their liquidity levels. Our subsidiary risk management units review the uses and sources of funds on a daily basis, taking into consideration the various goals of their respective business units.

Our liquidity management goal is to be able, even under adverse conditions, to meet all our liability repayments on time and fund all investment opportunities. Since the formation of the holding company structure, neither we nor our subsidiaries have experienced significant liquidity risk.

We maintain diverse sources of liquidity to facilitate flexibility in meeting our funding requirements. We fund our operations principally by accepting deposits from retail and corporate depositors, accessing the call loan

Table of Contents

market (a short-term market for loans with maturities of less than one month), issuing debentures and borrowing from the Bank of Korea. We use the majority of funds raised by us to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

In managing liquidity risk, each of our subsidiaries currently determines gap limits, implements those limits and monitors maturity gaps using its asset and liability management system. We also establish group-wide gap limits for liquidity management purposes. Each subsidiary has set a total limit in order to manage liquidity risk. For example, Woori Bank's three-month accumulated gap limits for banking and trust accounts are between (10)% and 10%. In the foreign currency account, the limit for a one-week gap has been set as (3)% or higher and as (10)% or higher for a one-month gap.

Liquidity is maintained by holding sufficient quantities of assets that can be liquidated to meet actual or potential demands for funds from depositors and others. Liquidity is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds we believe we can raise by issuing securities when required. We seek to minimize our liquidity costs by managing our liquidity position on a daily basis and by limiting the amount of cash at any time that is not invested in interest-earning assets or securities.

The Financial Services Commission requires 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, and 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.

The definition of Won Current Assets reflects the following:

the inclusion of reserve deposits with the Bank of Korea, negotiable certificates of deposit and call loans;

the inclusion of marketable securities at market value;

the exclusion of securities restricted for sale and securities offered as collateral;

the exclusion of assets classified as substandard or below based on the Financial Service Commission's asset classification criteria; and

the exclusion of fixed assets and other assets which cannot be converted into cash within a short period of time.

The maturity of assets is measured based on the actual maturity date or the date when the principal is unconditionally due according to the terms and conditions of the relevant contract.

The definition of Won Current Liabilities reflects the following:

the adjustment of demand deposits by the annual average balance and an explicitly defined standard deviation;

the inclusion of checks issued by other banks similar to deposits;

the inclusion of borrowings from the Bank of Korea;

the exclusion of provisional liabilities; and

the exclusion of borrowings from trust accounts.

The maturity of borrowings and debentures with put options is measured based on the put date.

Table of Contents

The following table shows the liquidity status and limits for Won accounts of each of our banking subsidiaries on a non-consolidated basis and for Woori Finance Holdings on a combined basis as of December 31, 2012 in accordance with Financial Services Commission regulations:

	1 month or less			
	Woori Finance Holdings ⁽¹⁾	Woori Bank (in billions of Won, except percentages)	Kyongnam Bank	Kwangju Bank
Won Current Assets (A)	77,780	67,128	6,858	3,794
Cash and deposits	11,626	9,543	1,182	901
Securities	34,217	28,414	3,728	2,076
Loans	15,182	13,491	990	700
Other assets	7,807	7,102	588	117
Off-balance sheet derivatives	8,948	8,578	370	
Won Current Liabilities (B)	60,492	52,977	4,803	2,712
Deposits	34,197	29,027	2,946	2,224
Borrowings	6,582	5,556	835	191
Debentures	360	280		80
Other liabilities	11,385	10,506	662	217
Off-balance sheet derivatives	7,967	7,607	360	
Liquidity Gap	17,288	14,151	2,054	1,082
Won Liquidity Ratio (A/B)	128.6%	126.7%	142.8%	139.9%
Limit	100%	100%	100%	100%

(1) Combined amounts for Woori Bank, Kyongnam Bank and Kwangju Bank.

The following table shows the liquidity status on a cumulative basis and limits for foreign currency accounts of each of our banking subsidiaries on a non-consolidated basis and for Woori Finance Holdings on a combined basis as of December 31, 2012 in accordance with the Bank of Korea's regulations:

	7 days or less				7 days-1 month				1-3 months		
	Woori Finance Holdings ⁽¹⁾	Woori Bank	Kyongnam Bank	Kwangju Bank	Woori Finance Holdings ⁽¹⁾	Woori Bank	Kyongnam Bank	Kwangju Bank	Woori Finance Holdings ⁽¹⁾	Woori Bank	Kyongnam Bank
	US\$ 14,621	US\$ 13,725	US\$ 545	US\$ 351	US\$ 10,428	US\$ 9,966	US\$ 225	US\$ 237	US\$ 11,509	US\$ 10,733	US\$ 563
	13,073	12,347	463	263	10,167	9,808	228	131	10,020	9,354	528
	1,548	1,379	82	88	261	157	(3)	106	1,489	1,379	35
	1,548	1,379	82	88	1,809	1,536	79	194	3,298	2,915	114
	60,344	56,875	2,343	1,126	60,344	56,875	2,343	1,126	60,344	56,875	2,343
(B)	2.57%	2.42%	3.48%	7.79%	3.00%	2.70%	3.37%	17.20%	109.9% ⁽²⁾	109.3% ⁽²⁾	109.3% ⁽²⁾
	(3)%	(3)%	(3)%	(3)%	(10)%	(10)%	(10)%	(10)%	85%	85%	85%

(1) Combined amounts for Woori Bank, Kyongnam Bank and Kwangju Bank.

(2) Liquidity ratio, calculated as foreign currency assets as a percentage of foreign currency liabilities.

Our Subsidiary Risk Management Committees receive reports from our subsidiaries regarding their respective liquidity ratios and liquidity gap ratios on a monthly basis. Based on those reports, each subsidiary's risk management department reports these results to the Group Risk Management Committee on a quarterly basis.

Operational and Business Risk Management

Operational risk is difficult to quantify and subject to different definitions. We define our operational risk as the risk related to the overall management of the group other than credit risk, market risk, interest rate risk and liquidity risk. These include risks arising from system failure, human error or non-adherence to systems and procedures, or from fraud or inadequate internal controls and procedures, resulting in financial loss. Woori Bank

Table of Contents

successfully established its operational risk management system in 2005 and, since 2009, uses an operational risk management framework meeting the Basel II Advanced Measurement Approach. In 2006, we completed implementation of various aspects of the operational risk management system (not including the business risk management system) at Kyongnam Bank, Kwangju Bank and Woori FIS, and also completed the implementation of such aspects of the operational risk management system at Woori Investment & Securities by the end of 2008.

To monitor and control operational risks, we maintain a system of comprehensive policies and have put in place a control framework designed to provide a stable and well-managed operational environment throughout our organization. Several bodies are responsible for managing our operational risk, including our Audit Council (which reports to our group-level Audit Committee), our group-level legal and compliance department and the Subsidiary Risk Management Committees and their respective risk management units. In particular, our group-level Audit Committee monitors our subsidiaries' compliance with our internal policies and guidelines relating to the issuance of credit and ongoing review of a borrower's ability to meet its obligations. We have established group-wide internal guidelines with respect to our subsidiaries' audit reporting requirements. Our subsidiaries review their operations and their level of compliance with our risk management policies and guidelines on an annual basis. As part of this process, they report any problems discovered and any remedial actions taken to our group-level Audit Committee. Based on the results of these reports, or on an ad hoc basis in response to any problem or potential problem that it identifies, the Audit Committee may direct a subsidiary to conduct an audit of its operations or, if it chooses to do so, conduct its own audit of those operations. The Audit Committee and the Audit Council interact on a regular basis with our legal and compliance department and our risk management department.

We consider legal and business risk as a part of our operational risk. The uncertainty of the enforceability of the obligations of our customers and counterparties, including foreclosure on collateral, creates legal risk. Business risk includes the risk of changes in laws and regulations, which could also adversely affect us. Legal and business risk is higher in new areas of business where the law is often untested in the courts although such risk can also increase in our traditional business to the extent that the legal and regulatory landscape in Korea is changing and many new laws and regulations governing the banking industry remain untested. Our subsidiaries' legal departments seek to minimize legal and business risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers. Each of our subsidiaries' internal auditors also review loan documentation to ensure that these are correctly drawn up to withstand scrutiny in court should such scrutiny occur.

In connection with our disaster recovery capabilities, we are in the process of meeting the guidelines suggested by the Financial Services Commission. These generally require that our disaster and recovery capabilities enable us to recover data and resume operations within three hours with respect to our banking and securities subsidiaries.

The majority of our information technology systems are operated by our subsidiary, Woori FIS. We currently have a mirror site in operation with respect to Woori Bank, Kyongnam Bank, Kwangju Bank and Woori Investment & Securities, which backs up transaction information on a real-time basis. We also have a back-up site in operation with respect to these subsidiaries, which backs up transaction information on a daily basis. In September 2008, Woori Bank completed its implementation of a business continuity plan to prepare for emergency situations and disasters. See Item 3D. Risk Factors. Other risks relating to our business. We may experience disruptions, delays and other difficulties from our information technology systems.

Table of Contents**Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES****Fees and Charges**

Under the terms of the deposit agreement, as a holder of our ADSs, you are required to pay the following service fees to the depositary:

Services	Fees
Issuance of ADSs	Up to \$0.05 per ADS issued
Cancellation of ADSs	Up to \$0.05 per ADS canceled
Distribution of cash dividends or ADSs pursuant to stock dividends	Up to \$0.02 per ADS held
Distribution of cash proceeds or free shares in the form of ADSs	Up to \$0.02 per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to \$0.05 per securities distributed
Depository Services	Up to \$0.02 per ADS held as of the last day of each calendar year, except to the extent any cash dividend fee is charged (as described above) during the applicable calendar year
Distribution of ADSs pursuant to exercise of rights to purchase additional ADSs	Up to \$0.02 per ADS held

As a holder of our ADSs, you are also responsible for paying certain fees and expenses incurred by the depositary and certain taxes and governmental charges such as:

Fees for the transfer and registration of shares charged by the registrar and transfer agent for the shares in Korea (*i.e.*, upon deposit and withdrawal of shares).

Expenses incurred for converting foreign currency into U.S. dollars.

Expenses for cable, telex and fax transmissions and for delivery of securities.

Taxes and duties upon the transfer of securities (*i.e.*, when shares are deposited or withdrawn from deposit).

Fees and expenses incurred in connection with the delivery or servicing of shares on deposit.

Depository fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these fees to their clients. Depository fees payable in connection with distributions of cash or securities to ADS holders and the depository services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date.

The depository fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (*i.e.*, stock dividend, rights), the depository charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depository sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via the Depository Trust Company, or DTC), the depository generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depository.

Table of Contents

In the event of refusal to pay the depositary fees, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to such holder of ADSs.

Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. You will receive prior notice of such changes.

Fees and Payments from the Depositary to Us

In 2012, pursuant to an agreement with us, the depositary waived, or made payments to third parties of, approximately \$16,526 (net of applicable taxes) in the aggregate in connection with proxy process expenses (including printing, postage and distribution expenses), contributions towards investor relations efforts (including investor relations agency fees) and other standard out-of-pocket maintenance costs relating to our American Depositary Receipt, or ADR, facility that were payable by us.

In addition, as part of its service to us, the depositary waives its fees for the standard costs and operating expenses associated with the administration of the ADR facility.

Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not Applicable

Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not Applicable

Item 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We have evaluated, with the participation of our chief executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of December 31, 2012. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and principal financial officer concluded that our disclosure controls and procedures as of December 31, 2012 were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements in accordance with IFRS as issued by the IASB. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Table of Contents

Our management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. Our management also takes steps to ensure that information and communication flows are effective and to monitor performance, including performance of internal control procedures.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012 based on the criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management believes that, as of December 31, 2012, our internal control over financial reporting is effective.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by Deloitte Anjin LLC, an independent registered public accounting firm, as stated in its report included herein which expressed an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2012.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16. RESERVED**Item 16A. Audit Committee Financial Expert**

Our board of directors has determined that we do not have an audit committee financial expert serving on our Audit Committee as defined by the U.S. Securities and Exchange Commission, as none of our Audit Committee members have the familiarity with IFRS required by the U.S. Securities and Exchange Commission, which are the accounting standards of the financial statements included in this annual report. Our board believes that the interests of our stockholders can be adequately served for the time being by the current members but intends to add such an expert to the board once a suitable candidate can be identified and recruited.

Item 16B. Code of Ethics

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of ethics applies to our chief executive officer, principal financial officer and persons performing similar functions as well as to our outside directors and other officers and employees. Our code of ethics is available on our website at <http://www.woorifg.com>. If we amend the provisions of our code of ethics that apply to our chief executive officer and principal financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the fees billed to us by our independent registered public accountants, Deloitte Anjin LLC, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte"), during the fiscal years ended December 31, 2011 and 2012:

	Year ended December 31,	
	2011	2012
	(in millions of Won)	
Audit fees	5,422	5,841
Audit-related fees	253	219
Tax fees	323	282
All other fees	795	64

Total fees	6,793	6,406
------------	-------	-------

Table of Contents

Audit fees in the above table are the aggregate fees billed or expected to be billed by Deloitte in connection with the audit of our annual financial statements, the review of our interim financial statements, the review of filings with the U.S. Securities and Exchange Commission and audit of the effectiveness of our internal control over financial reporting.

Audit-related fees in the above table are the aggregate fees billed or expected to be billed by Deloitte for agreed upon procedures related to the issuance of comfort letters in connection with the issuance of debt securities.

Tax fees in the above table are fees billed or expected to be billed by Deloitte for assistance in the preparation of certain tax returns and other tax advice.

Audit Committee Pre-Approval Policies and Procedures

Our audit committee pre-approves the engagement of our independent auditors for audit services with respect to our financial statements prepared in accordance with IFRS as issued by the IASB. Our audit committee has implemented a policy regarding pre-approval of certain other services provided by our independent auditors that the audit committee has deemed as not affecting their independence. Under this policy, our audit committee may grant pre-approvals for the following services: (i) services related to the audit of our financial statements prepared in accordance with IFRS as adopted by Korea and our internal controls under Korean laws and regulations; (ii) general tax advisory services; and (iii) service contracts required to be entered into with us under applicable laws and regulations or pursuant to requests from relevant governmental agencies.

Any other audit or permitted non-audit service must be pre-approved by the audit committee on a case-by-case basis. In the event that immediate approval is necessitated by the circumstances, the chairman of our audit committee or a member of the audit committee designated by such chairman may pre-approve the relevant service, subject to a subsequent report of such pre-approval being made to the audit committee.

Our audit committee did not pre-approve any non-audit services under the *de minimis* exception of Rule 2-01(c)(7)(i)(C) of Regulation S-X as promulgated by the Securities and Exchange Commission.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Under the listed company audit committee rules of the New York Stock Exchange and the U.S. Securities and Exchange Commission, we must comply with Rule 10A-3 under the Exchange Act, which requires that we establish an audit committee composed of members of the board of directors that meets specified requirements. In reliance on the exemption in Rule 10A-3(b)(iv)(E), we have designated one member to our audit committee, Hyung-Goo Lee, who is an employee of the KDIC. The KDIC, which is controlled by the Korean government, is our controlling shareholder and, therefore, one of our affiliates. In our assessment, Mr. Lee acts independently in performing the responsibilities of an audit committee member under the Sarbanes-Oxley Act and satisfies the other requirements of Rule 10A-3 under the Exchange Act.

Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers

Neither we nor any affiliated purchaser, as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

Item 16F. Change in Registrant's Certifying Accountant Not Applicable

Table of Contents

**Item 16G. Corporate Governance
Differences in Corporate Governance Practices**

Pursuant to the rules of the New York Stock Exchange applicable to foreign private issuers like us that are listed on the New York Stock Exchange, we are required to disclose significant differences between the New York Stock Exchange's corporate governance standards and those that we follow under Korean law. The following is a summary of such significant differences.

NYSE Corporate Governance Standards

Director independence

Listed companies must have a majority of independent directors.

Executive Session

Listed companies must hold meetings solely attended by non-management directors to more effectively check and balance management directors.

Nomination/Corporate Governance Committee

Listed companies must have a nomination/corporate governance committee composed entirely of independent directors.

Compensation Committee

Listed companies must have a compensation committee composed entirely of independent directors.

Audit Committee

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.

Audit Committee Additional Requirements

Listed companies must have an audit committee that is composed of more than three directors.

Shareholder Approval of Equity Compensation Plan

Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan.

Corporate Governance Guidelines

Listed companies must adopt and disclose corporate governance guidelines.

Woori Finance Holdings

The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange's standards), as seven of our eight directors are outside directors.

Our outside directors hold quarterly meetings, which coincide with the quarterly audit committee meetings, to discuss matters relating to management issues. The audit committee is comprised of five outside directors.

We have established a separate outside directors recommendation committee.

We maintain a business development and compensation committee composed of four outside directors.

We maintain an audit committee comprised of five outside directors. Accordingly, we are in compliance with Rule 10A-3 under the Exchange Act.

Our audit committee has five members, as described above.

We currently have one equity compensation plan, providing for the grant of stock options to officers and directors.

All material matters related to the granting of stock options are provided in our Articles of Incorporation, and any amendments to the Articles of Incorporation are subject to shareholders' approval.

We have adopted a corporate governance charter, a Korean-language copy of which is available on our website.

Table of Contents

Code of Business Conduct and Ethics

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

We have adopted a Code of Ethics and Business Conduct for Employees, a copy of which is available on our website.

Item 16H. *Mine Safety Disclosure*
Not Applicable

Item 17. FINANCIAL STATEMENTS
Not Applicable

Item 18. FINANCIAL STATEMENTS
 Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

Item 19. EXHIBITS
 (a) List of financial statements:

	Page
Audited consolidated financial statements of Woori Finance Holdings and subsidiaries prepared in accordance with IFRS as issued by the IASB	
<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated statements of financial position as of December 31, 2011 and 2012</u>	F-3
<u>Consolidated statements of comprehensive income for the years ended December 31, 2010, 2011 and 2012</u>	F-4
<u>Consolidated statements of changes in equity for the years ended December 31, 2010, 2011 and 2012</u>	F-5
<u>Consolidated statements of cash flows for the years ended December 31, 2010, 2011 and 2012</u>	F-7
<u>Notes to consolidated financial statements</u>	F-9

Table of Contents

(b) Exhibits

Pursuant to the rules and regulations of the U.S. Securities and Exchange Commission, Woori Finance Holdings has filed certain agreements as exhibits to this Annual Report on Form 20-F. These agreements may contain representations and warranties made by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to such agreements if those statements turn out to be inaccurate, (ii) may have been qualified by disclosures that were made to such other party or parties and that either have been reflected in the company's filings or are not required to be disclosed in those filings, (iii) may apply materiality standards different from what may be viewed as material to investors and (iv) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments. Accordingly, these representations and warranties may not describe Woori Finance Holdings' actual state of affairs at the date of this annual report.

Number	Description
1.1	Articles of Incorporation of Woori Finance Holdings (translation in English).
2.1*	Form of Stock Certificate of Woori Finance Holdings common stock, par value 5,000 per share (translation in English).
2.2**	Form of Deposit Agreement among Woori Finance Holdings, Citibank, N.A., as depositary, and all holders and beneficial owners of American depositary shares evidenced by American depositary receipts, including the form of American depositary receipt.
4.1*	Memorandum of understanding between the KDIC and Woori Finance Holdings dated July 2, 2001, as amended.
4.2*	Memorandum of understanding between the KDIC and Hanvit Bank (since renamed Woori Bank) dated December 30, 2000, as amended.
4.3*	Memorandum of understanding between the KDIC and Kyongnam Bank dated December 30, 2000, as amended.
4.4*	Memorandum of understanding between the KDIC and Kwangju Bank dated December 30, 2000, as amended.
4.5*	Memorandum of understanding between Woori Finance Holdings and Hanvit Bank (since renamed Woori Bank) dated July 12, 2001, as amended.
4.6*	Memorandum of understanding between Woori Finance Holdings and Kyongnam Bank dated July 31, 2001, as amended.
4.7*	Memorandum of understanding between Woori Finance Holdings and Kwangju Bank dated July 31, 2001, as amended.
8.1***	List of subsidiaries of Woori Finance Holdings.
11.1****	Code of Ethics.
12.1	Section 302 certifications.
13.1	Section 906 certifications.

* Incorporated by reference to the exhibits to the Registration Statement on Form 20-F (File No. 001-31811), filed on September 25, 2003.

** Incorporated by reference to exhibit (a) to the Registration Statement on Form F-6 (File No. 333-109106), filed on September 25, 2003.

*** Incorporated by reference to Note 1 of the notes to the consolidated financial statements of the registrant included in this Annual Report.

**** Incorporated by reference to exhibits to the Annual Report on Form 20-F (File No. 001-31811), filed on June 30, 2004.

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

WOORI FINANCE HOLDINGS Co., LTD.

(Registrant)

/s/ Pal Seung Lee
(Signature)

Pal Seung Lee
Chairman and Chief Executive Officer
(Name/Title)

Date: April 30, 2013

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Woori Finance Holdings Co., Ltd.:

We have audited the internal control over financial reporting of Woori Finance Holdings Co., Ltd. and subsidiaries (the Company) as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2012 of the Company and our report dated April 23, 2013 expressed an unqualified opinion on those consolidated financial statements and included explanatory paragraph related to the translation of financial statement amounts into United States dollars for the convenience of readers in the United States of America.

/s/ DELOITTE ANJIN LLC

Seoul, Korea

April 23, 2013

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Woori Finance Holdings Co., Ltd.:

We have audited the accompanying consolidated statements of financial position of Woori Finance Holdings Co., Ltd. and subsidiaries (the Company) as of December 31, 2011 and 2012 and the related consolidated statements of comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Woori Finance Holdings Co., Ltd. and subsidiaries as of December 31, 2011 and 2012 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Our audits also comprehended the translation of Korean Won amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 23, 2013, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE ANJIN LLC

Seoul, Korea

April 23, 2013

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****AS OF DECEMBER 31, 2011 AND 2012**

	Korean Won December 31, 2011 (in millions)	Korean Won December 31, 2012	U.S. Dollars December 31, 2012 (in thousands) (Note 2)
ASSETS			
Cash and cash equivalents	6,417,123	5,777,804	5,434,148
Financial assets at fair value through profit or loss (Notes 4, 6, 7, 11, 17 and 25)	25,600,231	26,147,141	24,591,946
Available-for-sale financial assets (Notes 4, 6, 8, 11, 17 and 45)	19,671,924	18,869,900	17,747,545
Held-to-maturity financial assets (Notes 4, 9, 11 and 17)	20,036,128	18,684,801	17,573,456
Loans and receivables (Notes 4, 6, 10, 11, 17, 31, 43, 44 and 45)	235,159,956	250,105,729	235,229,797
Investments in jointly controlled entities and associates (Note 12)	928,233	1,037,930	976,195
Investment properties (Notes 13 and 16)	498,999	491,685	462,440
Premises and equipment (Notes 14, 16 and 17)	3,134,472	3,185,543	2,996,071
Intangible assets and goodwill (Notes 15 and 47)	447,891	433,407	407,629
Current tax assets (Note 41)	56,570	37,792	35,544
Deferred tax assets (Note 41)	79,980	155,086	145,862
Derivative assets (Notes 4, 11 and 25)	326,840	281,069	264,351
Assets held for sale (Note 16)	56,243	83,347	78,390
Other assets (Notes 18 and 45)	377,059	414,699	390,034
Total assets	312,791,649	325,705,933	306,333,408
LIABILITIES			
Financial liabilities at fair value through profit or loss (Notes 4, 11, 19 and 25)	9,621,546	10,985,765	10,332,347
Deposits due to customers (Notes 11, 20 and 45)	195,930,482	202,919,613	190,850,244
Borrowings (Notes 11 and 21)	34,666,709	33,478,685	31,487,421
Debentures (Notes 11 and 21)	29,265,833	27,959,969	26,296,950
Provisions (Notes 22 and 45)	892,308	863,658	812,289
Retirement benefit obligation (Note 23)	119,704	166,296	156,405
Current tax liabilities (Note 41)	274,257	178,793	168,159
Deferred tax liabilities (Note 41)	260,431	124,946	117,514
Derivative liabilities (Notes 11 and 25)	33,493	38,000	35,740
Other financial liabilities (Notes 11, 24, 43 and 45)	19,083,709	25,479,827	23,964,323
Other liabilities (Notes 24 and 45)	569,783	507,668	477,473
Total liabilities	290,718,255	302,703,220	284,698,865
EQUITY			
Owners' equity:	17,523,998	18,665,600	17,555,396
Capital stock (Note 27)	4,030,077	4,030,077	3,790,374
Hybrid securities (Note 28)	309,010	498,407	468,762
Capital surplus (Note 27)	175,768	174,044	163,692
Other equity (Note 29)	586,421	185,950	174,890
Retained earnings (Note 30)	12,422,722	13,777,122	12,957,678
Non-controlling interests	4,549,396	4,337,113	4,079,147
Total equity	22,073,394	23,002,713	21,634,543

Total liabilities and equity	312,791,649	325,705,933	306,333,408
------------------------------	-------------	-------------	-------------

See accompanying notes to consolidated financial statements.

F-3

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012**

	Korean Won			U.S. Dollars
	2010	2011	2012	2012
	(in millions, except per share data)			(in thousands, except per share data) (Note 2)
Interest income	14,057,227	15,044,846	15,019,982	14,126,615
Interest expense	(7,629,912)	(7,780,451)	(7,752,879)	(7,291,749)
Net interest income (Notes 33 and 45)	6,427,315	7,264,395	7,267,103	6,834,866
Fees and commissions income	1,688,039	1,774,434	1,667,166	1,568,005
Fees and commissions expense	(572,265)	(578,942)	(663,676)	(624,201)
Net fees and commissions income (Notes 34 and 45)	1,115,774	1,195,492	1,003,490	943,804
Dividends (Note 35)	200,780	203,005	163,125	153,423
Net gain (loss) on financial instruments at fair value through profit or loss (Note 36)	39,074	119,403	(293,469)	(276,014)
Net gain on available-for-sale financial assets (Note 37)	1,073,469	1,072,877	566,161	532,487
Net gain on held-to-maturity financial assets	21	82	10	9
Impairment losses on credit loss (Note 38)	(2,872,943)	(2,268,927)	(2,121,102)	(1,994,942)
Other net operating expenses (Notes 39 and 45)	(3,835,238)	(4,500,619)	(4,356,747)	(4,097,614)
Operating income (Note 2)	2,148,252	3,085,708	2,228,571	2,096,019
Share of profits of jointly controlled entities and associates (Note 12)	29,926	16,700	68,667	64,583
Other non-operating income (expense) (Note 40)	(79,383)	74,965	(5,974)	(5,619)
Non-operating income (Note 2)	(49,457)	91,665	62,693	58,964
Net income before income tax expense	2,098,795	3,177,373	2,291,264	2,154,983
Income tax expense (Note 41)	(498,121)	(744,093)	(493,389)	(464,043)
Net income	1,600,674	2,433,280	1,797,875	1,690,940
Loss on available-for-sale financial assets	(205,332)	(374,877)	(350,226)	(329,394)
Share of other comprehensive income (loss) of jointly controlled entities and associates	(20,546)	(37,602)	56,856	53,474
Gain (loss) on overseas business translation	(18,826)	24,591	(107,509)	(101,115)
Gain on valuation of cash flow hedge	8,713	2,514	13,091	12,312
Other comprehensive income (loss), net of tax	(235,991)	(385,374)	(387,788)	(364,723)
Total comprehensive income	1,364,683	2,047,906	1,410,087	1,326,217
Net income attributable to:				
Net income attributable to owners	1,288,856	2,136,828	1,583,580	1,489,391
Net income attributable to non-controlling interests	311,818	296,452	214,295	201,549
Total comprehensive income attributable to:				
Comprehensive income attributable to owners	1,051,725	1,729,658	1,177,633	1,107,589
Comprehensive income attributable to non-controlling interests	312,958	318,248	232,454	218,628
Basic and diluted earnings per share (Note 42)	1,599	2,649	1,931	1.82

See accompanying notes to consolidated financial statements.

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012**

	Capital stock	Hybrid securities	Capital surplus	Other equity	Retained earnings	Controlling interests	Non- controlling interests	Total equity
January 1, 2010	4,030,077		180,473	1,244,096	9,280,347	14,734,993	4,476,411	19,211,404
Net income					1,288,856	1,288,856	311,818	1,600,674
Dividends					(80,601)	(80,601)	(41,339)	(121,940)
Changes in investment in consolidated subsidiaries			(368)			(368)	397	29
Variation of available-for-sale financial assets				(206,476)		(206,476)	1,144	(205,332)
Changes in equity of jointly controlled entities and associates				(21,111)		(21,111)	565	(20,546)
Cash flow hedge				6,299		6,299	2,414	8,713
Foreign currency translation				(15,843)		(15,843)	(2,983)	(18,826)
Changes in other equity				(4,946)		(4,946)	(983)	(5,929)
Changes in equity of non-controlling interests							(14,585)	(14,585)
Dividends to hybrid securities							(169,645)	(169,645)
Others					737	737		737
December 31, 2010	4,030,077		180,105	1,002,019	10,489,339	15,701,540	4,563,214	20,264,754
January 1, 2011	4,030,077		180,105	1,002,019	10,489,339	15,701,540	4,563,214	20,264,754
Net income					2,136,828	2,136,828	296,452	2,433,280
Dividends					(201,503)	(201,503)	(36,687)	(238,190)
Paid in capital stock			(4,632)			(4,632)	355,418	350,786
Changes in investment in consolidated subsidiaries			295			295	(217)	78
Variation of available-for-sale financial assets				(403,737)		(403,737)	28,860	(374,877)
Changes in equity of jointly controlled entities and associates				(20,030)		(20,030)	(17,572)	(37,602)
Foreign currency translation				13,449		13,449	11,142	24,591
Cash flow hedge				3,149		3,149	(635)	2,514
Changes in other equity				(8,428)		(8,428)	(16,340)	(24,768)
Changes in equity of non-controlling interests							22,292	22,292
Dividends to hybrid securities					(1,942)	(1,942)	(156,532)	(158,474)
Issue of hybrid securities		309,010				309,010		309,010
Repayment of hybrid securities				(1)		(1)	(499,999)	(500,000)
December 31, 2011	4,030,077	309,010	175,768	586,421	12,422,722	17,523,998	4,549,396	22,073,394

(Continued)

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)****FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012**

	Capital stock	Hybrid securities	Capital surplus	Other equity (Korean Won in millions)	Retained earnings	Controlling interests	Non- controlling interests	Total equity
January 1, 2012	4,030,077	309,010	175,768	586,421	12,422,722	17,523,998	4,549,396	22,073,394
Net income					1,583,580	1,583,580	214,295	1,797,875
Dividends					(201,503)	(201,503)	(40,842)	(242,345)
Changes in investment in consolidated subsidiaries			(1,724)			(1,724)	(221)	(1,945)
Variation of available-for-sale financial assets				(335,688)		(335,688)	(14,538)	(350,226)
Changes in equity of jointly controlled entities and associates				7,188		7,188	49,668	56,856
Foreign currency translation				(81,805)		(81,805)	(25,704)	(107,509)
Cash flow hedge				4,357		4,357	8,734	13,091
Changes in other equity				5,136		5,136	3,102	8,238
Depreciation of subsidiaries stock discount				341	(341)			
Changes in equity of non-controlling interests							(271,770)	(271,770)
Dividends to hybrid securities					(27,336)	(27,336)	(135,007)	(162,343)
Issue of hybrid securities		189,397				189,397		189,397
December 31, 2012	4,030,077	498,407	174,044	185,950	13,777,122	18,665,600	4,337,113	23,002,713

U.S. Dollars (in thousands) (Note 2)

	Capital stock	Hybrid securities	Capital surplus	Other equity	Retained earnings	Controlling interests	Non- controlling interests	Total equity
January 1, 2012	3,790,374	290,631	165,314	551,541	11,683,837	16,481,697	4,278,804	20,760,501
Net income					1,489,391	1,489,391	201,549	1,690,940
Dividends					(189,518)	(189,518)	(38,413)	(227,931)
Changes in investment in consolidated subsidiaries			(1,622)			(1,622)	(207)	(1,829)
Variation of available-for-sale financial assets				(315,722)		(315,722)	(13,672)	(329,394)
Changes in equity of jointly controlled entities and associates				6,760		6,760	46,714	53,474
Foreign currency translation				(76,939)		(76,939)	(24,176)	(101,115)
Cash flow hedge				4,098		4,098	8,214	12,312
Changes in other equity				4,831		4,831	2,917	7,748
Depreciation of subsidiaries stock discount				321	(321)			
Changes in equity of non-controlling interests							(255,606)	(255,606)
Dividends to hybrid securities					(25,711)	(25,711)	(126,977)	(152,688)
Issue of hybrid securities		178,131				178,131		178,131
December 31, 2012	3,790,374	468,762	163,692	174,890	12,957,678	17,555,396	4,079,147	21,634,543

See accompanying notes to consolidated financial statements.

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012**

	2010	Korean Won 2011 (in millions)	2012	U.S. Dollars 2012 (in thousands) (Note 2)
Cash flows from operating activities:				
Net income	1,600,674	2,433,280	1,797,875	1,690,940
Adjustments:				
Income tax expense	498,121	744,093	493,389	464,043
Interest income	(14,057,227)	(15,044,846)	(15,019,982)	(14,126,615)
Interest expense	7,629,912	7,780,451	7,752,879	7,291,749
Dividend income	(200,780)	(203,005)	(163,125)	(153,423)
Impairment losses on credit loss	2,872,943	2,268,927	2,121,102	1,994,942
Loss on valuation of financial instruments at fair value through profit or loss			176,907	166,385
Loss on valuation of investments in jointly controlled entities and associates	35,852	39,738	5,349	5,031
Loss on foreign exchange translation	63,830	35,226	44,539	41,890
Loss on transaction of derivatives	27,525	5,641	24,461	23,006
Loss on valuation of derivatives	24,670	8,378	32,006	30,102
Loss on fair value hedged items	158,256	195,837	38,879	36,567
Provisions	117,531	59,260	81,385	76,544
Retirement benefits	125,235	153,167	207,249	194,922
Depreciation and amortization	267,124	273,607	291,033	273,723
Loss on disposal of investments in jointly controlled entities and associates	69	40	19,807	18,629
Loss on disposal of premises and equipment and other assets	8,055	6,247	3,335	3,137
Impairment loss of premises and equipment and other assets	15,331	18,875	17,731	16,676
Gain on valuation of financial instruments at fair value through profit or loss	(12,470)	(224,550)		
Gain on disposal of available-for-sale financial assets	(1,073,469)	(1,072,877)	(566,161)	(532,487)
Gain on disposal of held-to-maturity financial assets	(21)	(82)	(10)	(9)
Gain on valuation of investments in jointly controlled entities and associates	(65,778)	(56,438)	(74,016)	(69,614)
Gain on foreign exchange translation	(41,073)	(46,882)	(26,059)	(24,509)
Gain on transaction of derivatives	(7,684)	(233)	(4,496)	(4,229)
Gain on valuation of derivatives	(121,434)	(187,038)	(40,072)	(37,689)
Gain on fair value hedged items	(36,691)	(3,876)	(43,725)	(41,124)
Reversal of provisions	(30,185)	(8,350)	(25,069)	(23,578)
Gain on disposal of investments in jointly controlled entities and associates	(175)	(61,071)	(28,627)	(26,924)
Gain on disposal of premises and equipment and other assets	(12,145)	(74,140)	(4,669)	(4,391)
Reversal of impairment loss of premises and equipment and other assets	(3,146)	(791)	(3,700)	(3,480)
Changes in operating assets and liabilities:				
Decrease (increase) in financial instruments at fair value through profit or loss	1,186,876	(2,408,645)	640,404	602,314
Increase in loans and receivables	(6,722,951)	(17,933,322)	(16,796,956)	(15,797,897)
Increase in other assets	(1,662,368)	(2,529,458)	(55,488)	(52,188)
Increase in deposits due to customers	8,499,933	10,455,304	6,529,154	6,140,809
Increase (decrease) in provisions for guarantee and loan commitment	(24,218)	12,921	(79,095)	(74,391)
Decrease in retirement benefit obligation	(178,297)	(142,289)	(160,658)	(151,102)
Increase in other financial liabilities	425,859	6,829,024	6,035,108	5,676,148
Increase (decrease) in other liabilities	(421,826)	174,424	(17,603)	(16,556)

(Continued)

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)****FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012**

	2010	Korean Won 2011 (in millions)	2012	U.S. Dollars 2012 (in thousands) (Note 2)
Cash received (paid for) from operating activities:				
Interest revenue received	13,920,782	14,948,932	14,986,770	14,095,378
Interest expense paid	(7,632,921)	(7,170,272)	(7,781,131)	(7,318,320)
Dividend received	200,780	203,005	156,463	147,157
Income tax paid	(380,380)	(549,333)	(666,170)	(626,547)
Net cash provided by (used in) operating activities	4,994,119	(1,071,121)	(100,987)	(94,980)
Cash flows from investing activities:				
Disposal of available-for-sale financial assets	12,451,649	11,319,306	25,991,898	24,445,937
Redemption of held-to-maturity financial assets	7,963,819	6,595,952	11,264,656	10,594,650
Disposal of investments in jointly controlled entities and associates	101,182	167,701	140,871	132,492
Disposal of investment properties	8,909	130,501		
Disposal of premises and equipment	57,582	31,962	15,545	14,620
Disposal of intangible asset	6,261	3,270	3,199	3,009
Disposal of assets held for sale	4,962	109,168	15,860	14,917
Acquisition of available-for-sale financial assets	(11,912,309)	(8,360,550)	(24,796,958)	(23,322,070)
Acquisition of held-to-maturity financial assets	(12,072,500)	(6,826,232)	(9,913,276)	(9,323,648)
Acquisition of investment in jointly controlled entities and associates	(191,913)	(311,805)	(97,819)	(92,001)
Acquisition of investment properties		(1,356)	(2,724)	(2,562)
Acquisition of premises and equipment	(194,910)	(232,456)	(252,470)	(237,453)
Acquisition of intangible assets	(59,918)	(211,778)	(72,598)	(68,280)
Net cash provided by (used in) investing activities	(3,837,186)	2,413,683	2,296,184	2,159,610
Cash flows from financing activities:				
Net increase in borrowings	1,806,822	401,121		
Issue of debentures	9,094,550	6,942,404	8,922,872	8,392,152
Issue of hybrid securities		309,010	189,397	178,132
Increase in hedging derivatives	25,080	10,113	43,965	41,350
Net increase (decrease) in non-controlling interests	(225,014)	189,728	(168,448)	(158,429)
Net decrease in borrowings			(1,188,024)	(1,117,362)
Repayment of debentures	(12,683,638)	(6,975,522)	(10,234,926)	(9,626,167)
Dividends paid	(80,601)	(201,503)	(201,503)	(189,518)
Dividends to hybrid securities paid			(26,629)	(25,045)
Repayment of hybrid securities of subsidiaries		(500,000)		
Net cash provided by (used in) financing activities	(2,062,801)	175,351	(2,663,296)	(2,504,887)
Net increase (decrease) in cash and cash equivalents	(905,868)	1,517,913	(468,099)	(440,257)
Cash and cash equivalents, beginning of the year	5,805,996	4,871,109	6,417,123	6,035,442
Effects of exchange rate changes on cash and cash equivalents	(29,019)	28,101	(171,220)	(161,036)

Cash and cash equivalents, end of the year	4,871,109	6,417,123	5,777,804	5,434,148
---	-----------	-----------	-----------	-----------

See accompanying notes to consolidated financial statements.

F-8

Table of Contents

WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2012

1. General

(1) Woori Finance Holdings Co., Ltd.

Woori Finance Holdings Co., Ltd. (hereinafter referred to as Woori Finance Holdings or Parent or the Company) was incorporated under the laws of the Republic of Korea on March 27, 2001, to manage the following five financial institutions: Woori Bank, Kyongnam Bank, Kwangju Bank, Woori Credit Card Co., Ltd. (formerly known as Peace Bank of Korea which merged into Woori Bank on March 31, 2004) and Woori Investment Bank (which merged into Woori Bank on July 31, 2003), whose shares were contributed to the Company by the Korea Deposit Insurance Corporation (the KDIC) in accordance with the provisions of the Financial Holding Company Act. As a result of functional restructuring since incorporation, as of December 31, 2012, the Company controls the following entities: three commercial banks, which include Woori Bank (formerly known as Hanvit Bank), Kyongnam Bank and Kwangju Bank (collectively referred to as the Bank Subsidiaries); Woori FIS Co., Ltd. (formerly known as Woori Finance Information System Co., Ltd.); Woori F&I Co., Ltd. (Woori F&I); Woori Investment & Securities Co., Ltd. (Woori Investment & Securities); Woori Asset Management Co., Ltd. (Woori Asset Management, formerly known as Woori Credit Suisse Asset Management Co., Ltd.); Woori Private Equity Co., Ltd. (Woori PE); Woori Financial Co., Ltd. (Woori Financial, formerly known as Hanmi Capital Co., Ltd.) and Woori FG Savings Bank; all collectively referred to as Woori Subsidiaries. Several of the Woori Subsidiaries also have other subsidiaries of which the Company is now the ultimate financial holding company. As a result of its functional restructuring, as of December 31, 2012, the Company consolidates Woori Bank, ten other subsidiaries, and 146 2nd-tier subsidiaries including Woori Credit Information Co., Ltd.

Upon incorporation, the Company's stock amounted to 3,637,293 million Won, consisting of 727,458,609 common shares (5,000 Won per share).

On June 24, 2002, the Company listed its common shares on the Korea Exchange. On September 29, 2003, the Company registered with the Securities and Exchange Commission in the United States of America and listed its American Depositary Shares on the New York Stock Exchange.

As of December 31, 2012, the Company's stock amounted to 4,030,077 million Won, consisting of 806,015,340 common shares issued and outstanding of which KDIC owns 459,198,609 shares (56.97% ownership) as a result of several capital increases, exercise of warrants and conversion rights since incorporation.

Table of Contents

(2) The financial statements for the Company and its subsidiaries (the Group) includes the following subsidiaries:

Subsidiaries	Main business	Percentage of ownership (%)	
		December 31, 2011	December 31, 2012
Woori Finance Holdings Co., Ltd.:			
Woori Bank	Banking	100.0	100.0
Kyongnam Bank		100.0	100.0
Kwangju Bank		100.0	100.0
Woori FIS Co., Ltd.	System software development & maintenance	100.0	100.0
Woori F&I Co., Ltd.	Finance	100.0	100.0
Woori Investment & Securities(*1)		37.9	37.9
Woori Asset Management Co., Ltd.		100.0	100.0
Woori Private Equity Co., Ltd.		100.0	100.0
Woori Financial Co., Ltd.(*4)		52.5	52.0
Woori FG Savings Bank		100.0	100.0
Woori Finance Research Institute Co., Ltd.(*2)	Other service business		100.0
Woori Bank:			
Woori Credit Information Co., Ltd.	Credit information	100.0	100.0
Woori America Bank(*10)	Finance	100.0	100.0
Woori Global Market Asia Limited(*10)		100.0	100.0
Woori Bank (China) Limited(*10)		100.0	100.0
ZAO Woori Bank(*10)		100.0	100.0
PT. Bank Woori Indonesia(*10)		95.2	95.2
Woori Brazil Bank(*2)(*10)			100.0
Korea BTL Infrastructure Fund		100.0	100.0
Woori Fund Service Co., Ltd.		100.0	100.0
Kumho Trust 1st Co., Ltd.(*3)	Asset securitization	0.0	0.0
Asiana Saigon Inc.(*3)		0.0	0.0
An-Dong Raja 1st Co., Ltd.(*3)		0.0	0.0
Consus 8th Co., LLC(*3)		0.0	0.0
KAMCO Value Recreation 1st Securitization Specialty Co., Ltd.(*3)		15.0	15.0
Woori IB Global Bond Co., Ltd.(*3)		0.0	0.0
IB Global 1st Inc.(*3)		0.0	0.0
Real DW Second Co., Ltd.(*3)(*7)		0.0	
Hermes STX Co., Ltd.(*3)		0.0	0.0
BWL First Co., LLC(*3)		0.0	0.0
Woori Poongsan Co., Ltd.(*3)		0.0	0.0
Ocean Sand Co., Ltd.(*3)		0.0	0.0
Kyongnam Bank:			
Consus 6th Co., LLC(*3)		0.0	0.0
Kwangju Bank:			
Euro Quanto Second Inc.(*7)		0.0	
Hybrid 1st Specialty Inc.(*3)		0.0	0.0
KAMCO Value Recreation 2nd Securitization Specialty Co., Ltd.(*3)		15.0	15.0
Woori F&I Co., Ltd.:			
Woori AMC Co., Ltd.	Other financial business	100.0	100.0
Woori F&I Seventh Asset Securitization Specialty	Asset securitization	100.0	100.0
Woori F&I Eighth Asset Securitization Specialty(*7)		100.0	
Woori F&I Tenth Asset Securitization Specialty		100.0	100.0
Woori F&I Eleventh Asset Securitization Specialty		100.0	100.0
Woori F&I Thirteenth Asset Securitization Specialty		94.6	94.6
Woori SB Tenth Asset Securitization Specialty		50.0+1share	50.0+1share
Woori F&I Sixteenth Asset Securitization Specialty		100.0	100.0

Table of Contents

Subsidiaries	Main business	Percentage of ownership (%)	
		December 31, 2011	December 31, 2012
Woori EA Third Asset Securitization Specialty		70.0	70.0
Woori EA Fourth Asset Securitization Specialty		70.0	70.0
Woori EA Fifth Asset Securitization Specialty		70.0	70.0
Woori F&I Seventeenth Asset Securitization Specialty		100.0	100.0
WR Loan Inc. (*5)		100.0	
Woori EA Eighth Asset Securitization Specialty		51.0	51.0
WR Investment America, LLC (*10)	Administration of NPL	100.0	100.0
Woori F&I Eighteenth Asset Securitization Specialty	Asset securitization	100.0	100.0
Woori EA Tenth Asset Securitization Specialty		51.0	51.0
Woori F&I Nineteenth Asset Securitization Specialty		100.0	100.0
Woori F&I Twentieth Asset Securitization Specialty		60.0	60.0
Woori F&I Twenty first Asset Securitization Specialty		100.0	100.0
Woori F&I Twenty second Asset Securitization Specialty		100.0	100.0
Woori F&I Twenty third Asset Securitization Specialty		100.0	100.0
Woori F&I Twenty fourth Asset Securitization Specialty		100.0	100.0
Woori F&I Twenty fifth Asset Securitization Specialty (*2)			100.0
Woori EA Twelfth Asset Securitization Specialty		70.0	70.0
Woori EA Thirteenth Asset Securitization Specialty		70.0	70.0
Woori EA Fourteenth Asset Securitization Specialty		70.0	70.0
Woori EA Fifteenth Asset Securitization Specialty (*2)			70.0
Woori EA Eighteenth Asset Securitization Specialty (*2)			67.0
Woori F&I Twenty sixth Asset Securitization Specialty (*2)			100.0
Woori F&I Twenty seventh Asset Securitization Specialty (*2)			100.0
Woori F&I Twenty eighth Asset Securitization Specialty (*2)			100.0
Woori F&I Twenty ninth Asset Securitization Specialty (*2)			100.0
Woori F&I Thirtieth Asset Securitization Specialty (*2)			100.0
Woori F&I Thirty first Asset Securitization Specialty (*2)			100.0
Woori Investment & Securities Co., Ltd.:			
Woori Futures Co., Ltd.	Futures trading	100.0	100.0
Woori Investment Asia PTE, Ltd. (*10)	Investments	100.0	100.0
Woori Absolute Global Opportunity Fund (*9) (*10)	Securities investments	100.0	100.0
LG Investments Holding B.V. (*10)		100.0	100.0
Woori Investment Securities (H.K.) Ltd. (*10)	Securities business	100.0	100.0
Connacht Capital Market Investment (*8) (*10)	Securities investments	100.0	
Woori Investment Securities Int 1 Ltd (*10)		100.0	100.0
Woori Investment Securities America, Inc. (*10)		100.0	100.0
Woori CBV Securities Corporation (*1) (*9) (*10)	Securities business	49.0	49.0
MARS First Private Equity Fund	Other financial business	52.9	52.9
MARS Second Private Equity Fund (*1)		8.9	8.9
Woori Absolute Partners PTE, Ltd. (*10)	Securities investments	100.0	100.0
Woori Korindo Securities Indonesia (*10)		60.0	60.0
Woori Absolute Return Investment Strategies Fund (*9) (*10)		100.0	100.0
KoFC Woori Growth Champ Private Equity Fund (*6)	Other financial business	27.3	27.3
Woori Investment advisory Co., Ltd. (Beijing) (*4) (*10)	Securities investments	100.0	95.1
KAMCO Value Recreation 9th Securitization Specialty Co., Ltd. (*3)	Asset securitization	15.0	15.0
Woori Giant First Co., Ltd.		100.0	100.0
Woori Private Equity Co., Ltd.:			
Woori Private Equity Fund	Other financial business	61.0	61.0
Woori EL Co., Ltd. (*9)		100.0	100.0

Table of Contents

Subsidiaries	Main business	Percentage of ownership (%)	
		December 31, 2011	December 31, 2012
MARS First:			
MARS INS First, Ltd.		100.0	100.0
Woori Private Equity Fund:			
Kumho Investment Bank(*1)	Other credit finance business	41.4	41.4
Kumho Investment Bank:			
HUB 1st Co., Ltd.(*3)	Asset securitization	0.0	0.0
HUB 2nd Co., Ltd.(*3)		0.0	0.0
HUB 3rd Co., Ltd.(*3)		0.0	0.0
Two Eagles KIB LLC(*9)(*10)	Other service business	100.0	100.0
TY Second Asset Securitization Specialty(*8)	Asset securitization	0.0	
Two Eagles LLC(*10)	Other service business	55.0	55.0
Sahn Eagles LLC(*10)	Other financial business	65.6	65.6
Woori Partner Plus Private Equity Securities 4th and 59 beneficiary certificates for the rest	Beneficiary certificates		

- (*1) Woori Investment & Securities is consolidated since the Company has de facto control over Woori Investment & Securities based on an analysis of that the Company has power to govern the financial and operating policies of Woori Investment & Securities through the board of directors and shareholders meeting. Also, the Company has power to appoint or remove the majority of the members of the board of directors and controls Woori Investment & Securities by that board. Woori CBV Securities Corporation, MARS Second Private Equity Fund, and Kumho Investment Bank are scoped in as consolidation since the Company has controlling power over these entities by exercising more than 50% voting power.
- (*2) Included in consolidation scope due to the investment over 50% for the year ended December 31, 2012.
- (*3) Classified as a special purpose entity (SPE) controlled by the Group and included in consolidation scope under Standing Interpretations Committee (SIC) -12 *Consolidation Special Purpose Entities*, based on consideration of activities of the SPE being conducted on behalf of the Group, the Group's decision-making power to obtain the majority of the benefits of the activities and the Group's right to obtain the majority of benefit from the activities and exposure to risk incident to the activities. In addition, principal and interest guaranteed trusts of Woori Bank, Kyongnam Bank, and Kwangju Bank are included in consolidation under SIC-12 *Consolidation Special Purpose Entities*.
- (*4) The Company's ownership interest decreased due to disproportionate increase in paid-in capital for the year ended December 31, 2012.
- (*5) Excluded from consolidation and reclassified to an associate which is under equity method because the Company's ownership interest has decreased due to disproportionate decrease in paid-in capital for the year ended December 31, 2012. (see Note 12)
- (*6) KoFC Woori Growth Champ Private Equity Fund was included in the scope of consolidation as Woori Investment & Securities has controlling power as the general partner of the fund.
- (*7) Excluded from consolidation because related risk and benefit have become extinct as a consequence of the Company's activity ended substantially.
- (*8) Excluded from consolidation scope due to the liquidation for the year ended December 31, 2012.
- (*9) Financial information for consolidation is based on the financial statements as of September 30, 2012 for certain entities such as Woori EL Co., Ltd. and Two Eagles KIB LLC and November 30, 2012 for entities such as Woori Absolute Global Opportunity Fund, Woori CBV Securities Corporation and Woori Absolute Return Investment Strategies Fund, respectively. There have been no significant transactions and events subsequent to September 30, 2012 and November 30, 2012.
- (*10) All subsidiaries are located in Korea except for the following subsidiaries; 1) Woori America Bank, WR Investment America, LLC, Woori Investment Securities America, Inc., Two Eagles KIB LLC, Two Eagles LLC and Sahn Eagles LLC in the United States; 2) Woori Global Market Asia Limited and Woori Investment Securities (H.K.) Ltd. in Hong Kong; 3) Woori Bank (China) Limited and Woori Investment advisory Co. Ltd. (Beijing) in China; 4) ZAO Woori Bank in Russia; 5) PT. Bank Woori Indonesia and Woori Korindo Securities Indonesia in Indonesia; 6) Woori Brazil Bank in Brazil; 7) Woori Investment Asia PTE. Ltd. and Woori Absolute Partners PTE Ltd. in Singapore; 8) Woori Absolute Global Opportunity Fund and Woori Absolute Return Investment Strategies Fund in Cayman Island; 9) LG Investments Holding B.V. in the Netherlands; 10) Connacht Capital Market Investment in Malaysia; 11) Woori Investment Securities Int'l Ltd. in United Kingdom; and 12) Woori CBV Securities Corporation in Vietnam.

Table of Contents

- (3) Summarized financial information before elimination of intercompany accounts of subsidiaries whose financial information prepared under IFRS for the Group's consolidated financial statements are as follows (Unit: Korean Won in millions):

	December 31, 2011			Net income (loss) attributable to owners
	Assets	Liabilities	Operating revenue	
Woori Bank	242,472,162	224,346,022	28,273,439	2,068,544
Kyongnam Bank	25,353,427	23,555,666	1,714,594	195,647
Kwangju Bank	18,030,369	16,813,501	1,132,847	136,328
Woori FIS	264,215	238,393	284,357	(3,480)
Woori F&I	1,371,031	1,114,343	146,849	43,145
Woori Investment & Securities	21,535,058	17,862,450	3,878,239	164,621
Woori Asset Management	80,020	17,174	31,542	1,462
Woori PE	1,575,969	1,505,636	346,972	651
Woori Financial	3,161,794	2,889,741	334,174	51,702
Woori FG Savings Bank	603,400	526,035	54,429	(32,352)

	December 31, 2012			Net income (loss) attributable to owners
	Assets	Liabilities	Operating revenue	
Woori Bank	247,248,351	228,682,457	21,586,057	1,447,904
Kyongnam Bank	28,901,504	26,933,672	1,798,571	178,420
Kwangju Bank	18,616,830	17,300,605	1,164,060	136,359
Woori FIS	334,878	293,612	308,325	(4,458)
Woori F&I	1,748,298	1,468,673	154,367	45,923
Woori Investment & Securities	24,821,505	21,367,997	3,498,567	122,957
Woori Asset Management	80,095	16,269	31,845	979
Woori PE	1,559,318	1,503,445	213,360	2,879
Woori Financial	3,537,592	3,165,522	347,411	53,073
Woori FG Savings Bank	1,598,619	1,442,376	82,742	(19,772)
Woori Finance Research Institute	4,156	1,562		(407)

2. Significant Basis of Preparation and Accounting Policies

- (1) Basis of presentation

The Group has adopted International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) for the annual periods beginning on January 1, 2011.

The Group operates primarily in Korea and its official accounting records are maintained in Korean Won. The United States dollar (U.S. dollar or US\$ or USD) amounts are provided herein as supplementary information solely for the convenience of readers outside Korea. Korean Won amounts are expressed in U.S. Dollars at the rate of 1,063.2 Korean Won to US\$1.00, the noon buying exchange rate in effect on December 31, 2012, as quoted by the Federal Reserve Bank of New York in the United States. Such convenience translation into U.S. Dollars should not be construed as representations that Korean Won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

The Group's consolidated financial statements have been prepared based on the historical cost method except for specific non-current assets and certain financial assets or liabilities reported at fair value.

Table of Contents

1) The Group has newly adopted following new standards and interpretations that made changes in accounting policies.

Amendments to IFRS 7 Disclosures Transfers of Financial Assets

In accordance with the amendments to IFRS 7, the Group discloses the nature of the transferred assets, the nature of the risks and rewards of ownership to which the Group is exposed, the carrying amounts of the transferred assets and the associated liabilities and other requirements for each class of transferred financial assets that are not derecognized in their entirety. In addition, when the Group derecognizes transferred financial assets in their entirety but has continuing involvement in them, the Group discloses the carrying amount of the assets and liabilities that are recognized in the Group's consolidated statements of financial position and the amount that best represents the Group's maximum exposure to loss and others, such information to evaluate the nature of, and risks associated with, the Group's continuing involvement. Detailed contents due to the amendments are described in Note 11.

Amendments to IAS 12 Deferred Tax Recovery of Underlying Assets

The amendments to International Accounting Standards (IAS) 12 allows that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the Group expect to recover the carrying amount of an asset. Investment property is measured using the revaluation model under IAS 40 *Investment Property* or a non-depreciable asset measured using the revaluation model in IAS 16 *Property, Plant, and Equipment*, are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The adoption of the amendments has no effect on consolidated financial statements.

Amendments to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The amendments permit the benefit of such prepayment to be recognized as an asset. The adoption of the amendments has no effect on financial statements.

2) The Group has not early adopted the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IAS 1 Presentation of Financial Statements

The amendments of IAS 1 requires that other comprehensive income shall be presented and classified by items not to be reclassified subsequently to net income and items to be reclassified subsequently to net income upon meeting certain conditions. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Group anticipates that the amendments will not have significant effect on financial statements.

Amendments to IAS 19 Employee Benefits

The amendments to IAS 19 relate to elimination of the corridor approach permitted under the previous version of IAS 19. The amendments deleted the options to present income (loss) from retirement benefit obligation and plan assets either in comprehensive income or other comprehensive income. The amendments require the Group disclose the change in retirement benefit obligation three components, such as service cost, net interest and recognition factor. Service cost and net interest shall be recognized in comprehensive income and recognition factor shall be recognized in other comprehensive income. The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013. The Group is in progress of reviewing the effect of the amendments on financial statements.

Table of Contents

Amendments to IAS 32 Financial Instruments: Presentation

The amendments to IAS 32 clarify existing application issue relating to the offset of financial assets and financial liabilities requirements. The Group's right of set-off must not be contingent upon any future events but enforceable anytime during the contract period in all of the circumstances; in the event of default, insolvency or bankruptcy of the entity or the counterparties as well as in the ordinary course of business. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. The Group is in progress of reviewing the effect of the amendments on financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures

The amendments to IFRS 7 are mainly focusing on presentation of the offset between financial assets and financial liabilities. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013. The Group is in progress of reviewing the effect of the amendments on financial statements.

Enactment of IFRS 9, Financial Instruments

The enactment of IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the Group's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. IFRS 9 is effective for the Group as of January 1, 2015. The Group is in progress of reviewing the effect of the enactment on financial statements.

Enactment of IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single source of guidance for assessing control of an investee with three elements consisting of power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to affect those returns through its power over the investee. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Group is in progress of reviewing the effect of the enactment on financial statements.

Enactment of IFRS 11 Joint Arrangements

The enactment of IFRS 11 classifies a joint arrangement whereby the parties that have joint control into joint operations and joint ventures according to the rights and obligations of the parties. In case of joint operations, joint operator accounts for its share of the joint assets, liabilities, revenues and expenses. In case of joint ventures, joint ventures account for its investment in the joint venture using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Group is in progress of reviewing the effect of the enactment on financial statements.

Enactment of IFRS 12 Disclosure of Interests in Other Entities

The enactment of IFRS 12 establishes disclosures requirements for entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Group is in progress of reviewing the effect of the enactment on financial statements.

Table of Contents

Enactment of IFRS 13 *Fair Value Measurement*

The enactment of IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The enactment applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements except in specified circumstances. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Group is in progress of reviewing the effect of the enactment on financial statements.

(2) Basis of consolidated financial statement presentation

The consolidated financial statements incorporate the financial statements of Woori Finance Holdings and its subsidiaries which the Group is generally controlling through a majority voting right. The consolidated financial statements also include the account of special purpose entities (SPE s) where the Group has the power to govern the financial and operating policies of the SPEs so as to obtain benefits from its activities.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those adopted by the Group.

All intra-group transactions, related assets and liabilities, income and expenses are eliminated in full on consolidation.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, respectively, as appropriate. The carrying amount of non-controlling interests is adjusted to reflect their proportional share of changes in equity subsequent to the initial recognition. Total comprehensive income of subsidiaries is attributed to the owners of the Group and the non-controlling interests even if this results in the non-controlling interests has a deficit balance.

Changes in the Group s ownership interests in subsidiaries, without a loss of control, are accounted for as equity transactions. The carrying amounts of the owners interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the adjusted non-controlling interests and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to net income or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

The Group may establish a special purpose entity to accomplish a narrow and well-defined objective (i.e. a securitization of financial assets, project financing and fund investments). A SPE may take the form of a corporation, trust, partnership or unincorporated entity. SPEs are often created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the SPEs. Frequently, the provisions on the legal arrangements specify that the policy guiding the ongoing activities of the SPEs cannot be modified, other than perhaps by its creator or sponsor (i.e. they operate on so-called autopilot).

Table of Contents

An SPE shall be consolidated when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE. The relationship exists where the activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation; the Group has the decision-making powers to obtain majority of the benefits from the activities of the SPE or, by setting up an autopilot mechanism, the Group has delegated these decision-making powers; the Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or the Group retains majority of residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a purchase commitment. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits of the SPE's activities. The Group may retain a significant beneficial interest in the SPE's activities, even though it may own little or none of the SPE's equity.

For example, the Group is liable to compensate trust account holders for losses incurred in certain trust accounts subject to minimum rate of return and principal guarantees. These accounts are considered SPEs and are consolidated in the accompanying consolidated financial statements.

(3) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in net income as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the condition for recognition under IFRS 3 are recognized at their fair value, except that:

deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

assets (or disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Any excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest (if any) in the acquiree over the net of identifiable assets and liabilities assumed of the acquiree at the acquisition date is recognized as goodwill which is included in intangible assets.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognized immediately in net income as a bargain purchase gain.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured at fair value at the acquisition date (i.e. the date when the Group obtains control) and the

Table of Contents

resulting gain or loss, if any, is recognized in net income. Amounts arising from changes in value of interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to net income where such treatment would be appropriate if that interest were disposed of.

(4) Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate making decision on the financial and operating policy decisions of the investee but is not control or joint control over those policies. Significant influence is generally presumed to exist when the Group holds 20% or more, but less than 50%, of the voting rights.

The net income of current period and the financial results of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Group's share of the net assets of the associate and any impairment. When the Group's share of losses of an associate exceeds the Group's interest in the associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognized immediately in net income.

Upon a loss of significant influence over an associate, the Group discontinues the use of the equity method and measures the retained interest in the associate at fair value from that date. The fair value of the investment is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The Group accounts for all amounts recognized in other comprehensive income in relation to that associate on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by an associate would be reclassified to net income on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to net income as a reclassification adjustment.

The requirements of IAS 39 *Financial Instruments: Recognition and Measurement* to determine whether there has been a loss event are applied to identify whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized is not allocated to any asset (including goodwill), which forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group transacts with its associates, unrealized profits and losses resulting from the transactions with the associates are eliminated to the extent of interests in the associate.

(5) Interests in jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Table of Contents

The Group accounts for its interests in jointly controlled entities using the equity method, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, recognized immediately in net income.

(6) Revenue recognition

1) Interest income

Interest income is recognized when earned. Interest income on financial assets that are classified as loans and receivables, available-for-sale or held-to-maturity is determined using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset (or group of financial assets) and of allocating the interest income over the expected life of the asset. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that is an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

2) Loan origination fees and costs

The commission fees earned on loans, which is part of the effective interest rate of loans, is accounted for deferred origination fees. Incremental cost related to the acquisition or disposal is accounted for deferred origination costs, and it is amortized on the effective interest method and included in interest revenues on loans.

3) Fees and commissions income

Fees and commissions income, including investment management fees, credit card fees, guarantee commissions, placement and syndication fees, import/export letters of credit, commissions received on remittance and ATM service fees are recognized when the related services are performed.

Commitment and utilization fees are determined as a percentage of the outstanding facility. If it is unlikely that a specific lending arrangement will be entered into, such fees are taken to net income over the life of the facility otherwise they are deferred and included in the effective interest rate on the advance.

Fees in respect of services are recognized as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and determinable.

Credit card fees include commission received from merchants for processing credit card transaction and annual fees received from credit card holders. Revenue from the commission is accrued to net income when the service performed and annual fee is deferred and recognized as income over the period of the service provided.

4) Trust fees and compensation related to trust accounts

The Group receives fees for its management of unconsolidated trust assets, which are recognized on an accrual basis when the management services are provided and earned. The Group also is entitled to receive

Table of Contents

performance-based fees for certain trust accounts. These performance-based fees are recognized at the end of the performance period. In addition, a certain trust account which the Group guarantees to repay the principles and minimum interests of the trust account to its beneficiaries shall be included in the consolidated financial statements. The Group recognizes incomes when earned and expenses when interests paid to beneficiaries are accrued.

(7) Accounting for foreign currencies

The Group's consolidated financial statements are presented in Korean Won, which is the functional currency of the Company. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at its prevailing exchange rates at the date. Foreign exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge or that form part of net investment in foreign operations are recognized in equity.

A monetary available-for-sale (AFS) financial asset is treated as if it were carried at amortized cost in the foreign currency. Accordingly, for such financial assets, exchange differences resulting from retranslating amortized cost are recognized in net income.

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into Korean Won at foreign exchange rates at the dates the values were determined. Translation differences arising on non-monetary items measured at fair value are recognized in net income except for differences arising on non-monetary AFS financial assets, for example equity shares, which are included in the AFS reserve in equity unless the asset is the hedged item in a fair value hedge.

The Group identifies the most appropriate functional currency for each foreign operation based on the foreign operation's activities. If Korean Won is not the foreign operation's functional currency, its assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated into Korean Won at foreign exchange rates at the end of each reporting date while the revenues and expenses are translated into Korean Won at average exchange rates for the period unless these do not approximate to the foreign exchange rates at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognized directly in equity and included in net income on its disposal.

However, as the Group has determined to use the exemption of cumulative translation differences that existed at the date of transition to IFRSs in accordance with IFRS 1 First-time adoption of IFRS, the cumulative translation differences for all foreign operations were reset to be zero at the date of transition to IFRSs and the gain or loss on a subsequent disposal of any foreign operation exclude translation differences that arose before the date of transition to IFRSs and include later translation differences.

(8) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, interest-earning deposits with original maturities of up to 90 days of acquisition date and highly liquid investment assets that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

(9) Financial assets and financial liabilities**1) Financial assets**

A regular way purchase or sale of financial assets is recognized or derecognized on the trade or settlement date. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose term requires delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Table of Contents

On initial recognition, financial assets are classified into held-for-trading, designated as at fair value through profit or loss (FVTPL), AFS financial assets, held-to-maturity (HTM) investments and loans and receivables.

Held-for-trading:

A financial asset is classified as held-for-trading if it is acquired principally for sale in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative (not in a qualifying hedge relationship). Held-for-trading financial assets are recognized at fair value with transaction costs being recognized in net income. Subsequently they are measured at fair value. Gains and losses on held-for-trading financial assets are recognized in net income as they arise.

Designated as at FVTPL:

Financial assets may be designated as at FVTPL only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both, which is managed and performance is evaluated on a fair value basis; or (c) is related to a contract containing one or more embedded derivative that would be required to be separated from the host contract.

Financial assets designated by the Group on initial recognition as at FVTPL are recognized at fair value, with transaction costs recognized in net income, and are subsequently measured at fair value. Gains and losses on financial assets that are designated as at FVTPL are recognized in net income as they arise.

AFS financial assets:

Financial assets that are not classified as HTM; held-for-trading; designated as at FVTPL; or loans and receivables, are classified as AFS. Financial assets can be designated as AFS on initial recognition. AFS financial assets are initially recognized at fair value plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost and classified as AFS financial assets. Impairment losses in monetary and non-monetary AFS financial assets and dividends on non-monetary financial assets are recognized in net income. Interest revenue on monetary financial assets is calculated using the effective interest method. Other changes in the fair value of AFS financial assets and any related tax are reported in a separate component of shareholders equity until disposal, when the cumulative gain or loss is recognized in net income.

HTM investments:

A financial asset may be classified as a HTM investment only if it has fixed or determinable payments and a fixed maturity and the Group has the positive intention and ability to hold the financial asset to maturity. HTM investments are initially recognized at fair value plus directly related transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment losses.

Loans and receivables:

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as AFS or as held-for-trading, or designated as at FVTPL. Loans and receivables are initially recognized at fair value plus directly related transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment losses.

Regular way purchases of financial assets classified as loans and receivables are recognized on settlement date; issues of equity or financial liabilities measured at amortized cost are recognized on settlement date; all other regular way transactions in financial instruments are recognized on trade date.

Table of Contents

2) Financial liabilities

On initial recognition financial liabilities are classified into held-for-trading; designated as at FVTPL; or amortized cost.

Held-for-trading:

A financial liability is classified as held-for-trading if it is incurred principally for repurchase in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative (not in a qualifying hedge relationship). Held-for-trading financial liabilities are recognized at fair value with transaction costs being recognized in net income. Subsequently, they are measured at fair value. Gains and losses are recognized in net income as they arise.

Designated as at FVTPL:

Financial liabilities may be designated as at FVTPL only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial liabilities or both that the Group manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract. Financial liabilities that the Group designates on initial recognition as being at FVTPL are recognized at fair value, with transaction costs being recognized in net income, and are subsequently measured at fair value. Gains and losses on financial liabilities that are designated as at FVTPL are recognized in net income as they arise.

Amortized cost:

All other financial liabilities are measured at amortized cost using the effective interest method.

3) Reclassifications

Held-for-trading and AFS financial assets that meet the definition of loans and receivables (non-derivative financial assets with fixed or determinable payments that are not quoted in an active market) may be reclassified to loans and receivables if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. The Group typically regards the foreseeable future as twelve months from the date of reclassification. Reclassifications are made at fair value. This fair value becomes the asset's new cost or amortized cost as appropriate. Gains and losses recognized up to the date of reclassification are not reversed.

4) Derecognition of financial assets and liabilities

The Group derecognizes a financial asset when the contractual right to the cash flows from the asset is expired, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another company. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

However, in accordance with the exception to the retrospective application in IFRS 1 *First-time adoption of International Financial Reporting Standards*, the Group has applied the derecognition requirements in IAS 39 *Financial instruments: Recognition and Measurement* prospectively for transactions occurring on or after the date of transition to IFRSs. Therefore, the non-derivative financial assets or non-derivative financial liabilities derecognized in accordance with K-GAAP as a result of a transaction that occurred before the date of transition to IFRSs were not recognized in accordance with IFRSs. See Note 11 (6).

Table of Contents

5) Fair value of financial assets and liabilities

Financial instruments classified as held-for-trading or designated as at FVTPL and financial assets classified as AFS are recognized in the financial statements at fair value. All derivatives are measured at fair value.

Debt securities (held-for-trading, designated as at FVTPL and AFS) include those issued by governments, municipal bodies and financial institutions as well as corporate bonds and debentures.

Equity securities (held-for-trading, designated as at FVTPL and AFS) comprise equity shares of companies or corporations both listed and unlisted.

Derivatives include swaps (currency swaps, interest rate swaps, credit default swaps, total return swaps and equity and equity index swaps), forward foreign exchange contracts, forward rate agreements, futures (currency, interest rate and equity) and options (exchange-traded options on currencies, interest rates and equities and equity indices and over-the-counter (OTC) currency and equity options, interest rate caps and floors and swaptions).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. The Group characterizes active markets as those where transaction volumes are sufficient to provide objective pricing information, with reasonably narrow bid/ask spreads.

Where a financial instrument is not in active market characterized by low transaction volumes, price quotations which vary substantially among market participants, or in which minimal information is released publicly, fair values are established using valuation techniques rely on alternative market data or internally developed models using significant inputs that are generally readily observable from objective sources. Market data includes prices of financial instruments with similar maturities and characteristics, duration, interest rate yield curves, and measures of volatility. The amount determined to be fair value may incorporate the management of the Group's own assumptions (including assumptions that the Group believes market participants would use in valuing the financial instruments and assumptions relating to appropriate risk adjustments for nonperformance and lack of marketability).

The valuation techniques used to estimate the fair value of the financial instruments include market approach and income approach, each of which involves a significant degree of judgment. Under the market approach, fair value is determined by reference to a recent transaction involving the financial instruments or by reference to observable valuation measures for comparable companies or assets. Under the income approach, fair value is determined by converting future amounts (e.g., cash flows or earnings) to a single present amount (discounted) using current market expectations about the future amounts. In determining value under this approach, the Group makes assumptions regarding, among other things, revenues, operating income, depreciation and amortization, capital expenditures, income taxes, working capital needs, and terminal value of the financial investments. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data.

The following are descriptions of valuation methodologies used by the Group to measure various financial instruments at fair value.

Financial assets at FVTPL and AFS financial assets:

The fair value of the securities included in financial assets at FVTPL and AFS financial assets are recognized in the consolidated statements of financial position based on quoted market prices, where available. For debt securities traded in the OTC market, the Group generally determines fair value based on prices obtained from independent pricing services. Specifically, with respect to independent pricing services, the Group obtains three prices per instrument from reputable independent pricing services in Korea, such as Korea Asset Pricing

Table of Contents

(an affiliate of Fitch Ratings), KIS Pricing (an affiliate of Moody's Investors Service) and NICE Pricing Service, and generally uses the lowest of the prices obtained from such services without further adjustment. For non-marketable equity securities, the Group obtains prices from Korea Asset Pricing. The Group validates prices received from such independent pricing services using a variety of means, including verification of the qualification of the independent pricing services, corroboration of the pricing by comparing the prices among the independent pricing services and by reference to other available market data, and review of the pricing model and assumptions used by the independent pricing services by the Group's personnel who are familiar with market-related conditions.

Derivative assets and liabilities:

Quoted market prices are used for the Group's exchange-traded derivatives, such as certain interest rate futures and option contracts. All of the Group's derivatives are traded in OTC markets where quoted market prices are not readily available are valued using internal valuation techniques. Valuation techniques and inputs to internally developed models depend on the type of derivative and nature of the underlying rate, price or index upon which the derivative's value is based. If the model inputs for certain derivatives are not observable in a liquid market, significant judgments on the level of inputs used for valuation techniques are required.

Valuation Adjustments:

By using derivatives, the Group is exposed to credit risk if counterparties to the derivative contracts do not perform as expected. If counterparty fails to perform, counterparty credit risk is equal to the amount reported as a derivative asset in the consolidated statements of financial position. The amounts reported as a derivative asset are derivative contracts in a gain position. Few of the Group's derivatives are listed on an exchange. The majority of derivative positions are valued using internally developed models that use as their basis observable market inputs. Therefore, an adjustment is necessary to reflect the credit quality of each counterparty to arrive at fair value. Counterparty credit risk adjustments are applied to derivative assets, such as OTC derivative instruments, when the market inputs used in valuation models may not be indicative of the creditworthiness of the counterparty. Adjustments are also made when valuing financial liabilities to reflect the Group's own credit standing.

The adjustment is based on probability of default of a counterparty and loss given default. The adjustment also takes into account contractual factors designed to reduce the Group's credit exposure to each counterparty. To the extent derivative assets (liabilities) are subject to master netting arrangements, the exposure used to calculate the credit risk adjustment is net of derivatives in a loss (gain) position with the same counterparty and cash collateral received (paid).

6) Impairment of the financial assets

The Group assesses at the end of each reporting date whether there is any objective evidence that a financial asset or group of financial assets classified as AFS, HTM or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence of impairment as result of one or more events that occurred after the initial recognition asset and that event (or events) has an impact on the estimated future cash flows of the financial asset.

Financial assets carried at amortized cost:

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as HTM investments or as loans and receivables has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. For collateralized loans and receivables, estimated future cash flows include cash flows that may result from foreclosure less the costs of obtaining and selling the collateral.

Table of Contents

Impairment losses are assessed individually for financial assets that are individually significant and assessed either individually or collectively for assets that are not individually significant. In making collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of observable data, to reflect current conditions not affecting the period of historical experience.

Impairment losses are recognized in net income and the carrying amount of the financial asset or group of financial assets reduced by establishing a provision for impairment losses. If, in a subsequent period, the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognized, the previously recognized loss is reversed by adjusting the provision. Once an impairment loss has been recognized on a financial asset or group of financial assets, interest income is recognized on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

Impaired loans and receivables are written off (i.e. the impairment provision is applied in writing down the loan's carrying value in full) when the Group concludes that there is no longer any realistic prospect of recovery of part or the entire loan. It is not the Group's usual practice to write-off the asset at the time an impairment loss is recognized; it may however, take place in rare circumstances. Amounts recovered after a loan has been written off are reflected to the provision for the period in which they are received.

Financial assets carried at fair value:

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss is reclassified from equity to net income. The amount of cumulative loss is measured as the difference between the acquisition cost of the financial asset (net of principal repayments and amortization for debt securities) and current fair value. Impairment losses on AFS equity instruments are not reversed through net income, but those on AFS debt instruments are reversed through net income, if there is a decrease in the cumulative impairment loss that is objectively related to a subsequent event.

(10) Offsetting financial instruments

Financial assets and liabilities are presented in net in the consolidated statements of financial position when the Group has an enforceable legal right to set off and an intention to settle on a net basis or to realize an asset and settle the liability simultaneously.

(11) Investment properties

The Group classifies a property held to earn rentals and/or for capital appreciation as an investment property. Investment properties are measured initially at cost, including transaction costs, less subsequent depreciation and impairment.

While land is not depreciated, all other investment properties are depreciated based on the respective assets' estimated useful lives using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any change in estimate accounted for on a prospective basis.

However, under IFRS 1 *First-time adoption of International Financial Reporting Standard*, certain Investment properties were re-evaluated at fair value, which is regarded as deemed cost, at the date of transition to IFRS.

Table of Contents

(12) Premises and equipment

Premises and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of premises and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. However, under IFRS 1 *First-time adoption of International Financial Reporting Standard*, certain premises and equipment such as land and buildings were re-evaluated at fair value, which is regarded as deemed cost, at the date of transition to IFRS.

Subsequent costs to replace part of the premises and equipment are recognized in carrying amount of an asset or as an asset if it is probable that the future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

Depreciation is charged to net income on a straight-line basis on the estimated economic useful lives as follows:

	Useful life
Buildings used for business purpose	35 to 57 years
Structures in leased office	4 to 5 years
Properties for business purpose	4 to 5 years
Leased assets	Useful lives of the same kind or

similar other premises and equipment

The Group assesses the depreciation method, the estimated useful lives and residual values of premises and equipment at the end of each reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate. When the carrying amount of a fixed asset exceeds the estimated recoverable amount, the carrying amount of such asset is reduced to the recoverable amount.

(13) Intangible assets and goodwill

Intangible assets are stated at the manufacturing cost or acquisition cost plus additional incidental expenses less accumulated amortization and accumulated impairment losses. The Group's software and industrial property right (trademark) are amortized over five years using the straight-line method. The estimated useful life and amortization method are reviewed at the end of each reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

	Useful life
Patents	10 years
Development costs	5 years
Software and others	4 to 5 years

Goodwill acquired in a business combination is included in intangible assets. Goodwill is not amortized but tested for impairment annually to the extent of reporting unit and when there is any indication of impairment.

Goodwill acquired is allocated to each of the Group's cash-generating units (CGU) expected to benefit from the synergies of the combination. A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis based on the

Table of Contents

carrying amount of each asset in the CGU. Any impairment loss for goodwill is recognized directly in net income in the consolidated statements of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

(14) Impairment of non-monetary assets

Intangible assets with indefinite useful lives or intangible assets that are not yet available for use are tested for impairment annually, regardless of whether or not there is any indication of impairment. All other assets are tested for impairment when there is an objective indication that the carrying amount may not be recoverable, and if the indication exists. The Group estimates the recoverable amount. Recoverable amount is the higher of value in use and net fair value less costs to sell. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and such impairment loss is recognized immediately in net income.

(15) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) As a lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases being the minimum lease payments and any unguaranteed residual value discount interest rate implicit in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term. Operating lease assets are included within premise and equipment and depreciated over their useful lives.

2) As a lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Contingent rentals arising under finance leases are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as expenses in the period in which they are incurred.

(16) Derivative instruments

Derivative instruments are classified as forward, futures, option, and swap, depending on the types of transactions and are classified as either trading or hedging if they are qualified for hedge accounting. Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in net income immediately unless the derivative is designated and effective as a hedging instrument.

Table of Contents

A derivative embedded in a contract is accounted for as a stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the entire contract is measured at fair value with changes in fair value recognized in net income.

The Group designates certain hedging instruments to (a) hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment (fair value hedge); (b) hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction (cash flow hedge); and (c) hedge of a net investment in a foreign operation.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in net income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Hedge accounting is discontinued when the Group revokes the hedging relationship or when the hedging instrument is no longer qualified for hedge accounting. The fair value adjustment to the carrying amount of the hedged item is amortized to net income from that date to maturity using the effective interest method.

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in net income. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to net income when the hedged item is recognized in net income.

Hedge accounting is discontinued when the hedging instrument is expired or sold, or it is no longer qualified for hedge accounting, and any cumulative gain or loss in other comprehensive income remains in equity until the forecast transaction is ultimately recognized in net income. When a forecasted transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in net income.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The effective portion of changes in the fair value of the hedging instrument is recognized in equity while the ineffective portion is recognized immediately in net income. The cumulated gain and loss in other comprehensive income is reclassified from equity to profit or loss on the disposal or partial disposal of the foreign operations.

(17) Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Table of Contents

(18) Provisions

The Group recognizes provision if it has a present or contractual obligations as a result of the past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation is reliably estimated. Provision is not recognized for the future operating losses.

The Group recognizes provision related to the unused portion of point rewards earned by credit card customers, payment guarantees, loan commitment and litigations. Where the Group is required to restore a leased property that is used as a branch, to an agreed condition after the contractual term expires, the present value of expected amounts to be used to dispose, decommission or repair the facilities is recognized as an asset retirement obligation.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the obligations as a whole. Although the likelihood of outflow for any one item may be small, if it is probable that some outflow of resources will be needed to settle the obligations as a whole, a provision is recognized.

(19) Capital and compound financial instruments

The Group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavorable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities. The components of a compound financial instrument issued by the Group are classified and accounted for separately as financial liabilities or equity as appropriate.

The Group recognizes common stock as equity and redeemable preferred stocks as a liability. Direct expenses related to the issuance of new shares or options are recognized as a deduction from equity, net of any tax effects. If the Group reacquires its own equity instruments, those instruments (treasury shares) are presented as a deduction from total equity. The gain or loss on the purchase, sale, issue, or cancellation of treasury shares is not recognized in net income but recognized directly in equity.

(20) Financial guarantee contracts

Under a financial guarantee contract, the Group, in return for a fee, undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. A financial guarantee is recognized as a liability; initially at fair value and, if not designated as at FVTPL, subsequently at the higher of its initial value less cumulative amortization and any provision under the contract measured in accordance with provision policy. Amortization is calculated so as to recognize fees receivable in net income over the period of the guarantee.

(21) Employee benefits and pensions

The Group recognizes the undiscounted amount of short-term employee benefits expecting payment in exchange for the services, when employee renders services. Also, the Group recognizes expenses and liabilities in the case of accumulating compensated absences, when the employees render service that they are entitled to future compensated absences. Though the Group may have no legal obligation to pay a bonus, considering some cases, the Group has a practice of paying bonuses. In such cases, the Group has a constructive obligation, and thus the Group recognizes expenses and liabilities when employees render service.

The Group provides post-retirement benefit in the form of pensions, both defined contribution plans and defined benefit plans, to all eligible employees. Under defined contribution plans, the Group recognizes contribution payable to a defined contribution plan when eligible employees have rendered service. Under

Table of Contents

defined benefit plan, the Group measures its obligation to a defined benefit plan on an actuarial basis using the projected unit credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the plan liabilities. The plan assets are measured at their fair value. The current service cost, curtailments and any past service costs together with the expected return on plan assets less the unwinding of the discount on the plan liabilities is charged to operating expenses. Actuarial gains and losses are recognized in full as profit or loss when they occur.

Retirement benefit obligation on the consolidated statements of financial position is recognized as the present value of defined benefit obligation which applied to unrecognized past service cost, less the fair value of plan assets. If the plan assets exceed the present value of defined benefit obligation, the excess amount shall be recognized as an asset to the extent of the unrecognized past service cost and the present value of refundable amount from defined benefit plans or decreased amount of future contribution on defined benefit plans.

(22) Income taxes

Income tax consists of current and deferred income tax. Current income tax expense approximates taxes to be paid or refunded for the current period and deferred income tax expense is provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences, including operating losses and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the carrying values of assets and liabilities for financial reporting purposes and their tax bases. Deferred income tax benefit or expense is then recognized for the change in deferred tax assets or liabilities between periods. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment or substantive enactment. Deferred tax assets, including the carryforwards of unused tax losses, are recognized to the extent it is probable that the deferred tax assets will be realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention either to settle the balances on a net basis or to realize the asset and settle the liability simultaneously.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill. Deferred tax assets or liabilities are not recognized if they arise from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Income tax is charged or credited to the income statement, except when it relates to items charged or credited in other comprehensive income or directly to equity, in which case the income tax is also dealt with accordingly.

In accordance with Korean Corporate Tax Act, the Company and its wholly owned domestic subsidiaries prepare a consolidated tax return which includes Woori Bank, Kyongnam Bank, Kwangju Bank, Woori Asset Management Co., Ltd., Woori Credit Information Co., Ltd., Woori FIS Co., Ltd., Woori F&I Co., Ltd., Woori Private Equity Co., Ltd., Woori AMC Co., Ltd., Woori Finance Research Institute, Woori FG Savings Bank and Woori Fund Service Co., Ltd. along with the Company as of December 31, 2012.

For all other subsidiaries of the Company, income tax is calculated on an individual entity basis and losses incurred by these other subsidiaries cannot be offset against profits earned by any other profitable entity.

Table of Contents**(23) Earnings per share (EPS)**

Basic EPS is calculated by earnings subtracting the dividends paid to holders of preferred stock and hybrid securities from the net income attributable to ordinary shareholders from the statements of comprehensive income and dividing by the weighted average number of common shares outstanding. Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of all dilutive potential common shares.

(24) Reclassifications

In 2012, the Company reclassified certain items which had been originally included in operating income items into non-operating income items. And reclassifications have been made to previously reported amounts to conform to current presentation. The changes in certain other operating items have been reclassified from other operating incomes(expenses) to non-operating incomes(expenses). As a result of these reclassifications, other net operating expenses decreased by 79,383 million Won (with a corresponding increase in other non-operating expenses) in 2010 and increased by 74,965 million Won (with a corresponding increase in other non-operating income) in 2011, as compared to the amounts previously reported. These reclassifications do not have an impact on the Company's consolidated net assets and net income.

3. Significant Accounting Estimates and Assumptions

The significant accounting estimates and assumptions are continually evaluated based on historical experience and various factors including expectations of future events that are considered to be reasonable. Actual results can differ from those estimates based on such definitions. The following are the accounting estimates and assumptions that have a significant risk of causing changes to the carrying amounts of assets and liabilities within the next accounting period.

(1) Impairment of goodwill

The Group performs impairment test of goodwill annually or more frequently when there is indication that a CGU may be impaired. To determine whether goodwill is impaired; the Group estimates the value of the CGUs to which goodwill has been allocated. The value in use is calculated based on the management's estimates on the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. See Note 15 (3).

(2) Income Taxes

The Group is subject to income taxes in numerous jurisdictions, which requires significant judgment in determining realization of deferred tax. Deferred tax assets relating to tax losses carried forward and deductible temporary differences are recognized, only to the extent that it is probable that future taxable profit will be available against which the tax losses carried forward and the deductible temporary differences can be utilized. This assessment requires significant management estimates and judgments. Future taxable profit is estimated based on, among other relevant factors, forecasted operating results, which are based on historical financial performance. In the event the Group was to determine that the Group would be able to realize its deferred income tax assets in the future at an amount different than their net recorded amount, the Group would make an adjustment to the provision for income taxes at such time. Actual tax payment may be different from the provision estimate and such difference may affect the income tax expense. There are various transactions and calculations for which the ultimate tax determination is uncertain.

(3) Fair value of financial instruments

Financial instruments classified as held-for trading or designated as at FVTPL and financial instruments classified as AFS are recognized in the financial statements at fair value. All derivatives are measured at fair value. Financial instruments, which are not traded in active market will have less objective fair value and require broad judgment in liquidity, concentration, uncertainty in market factors and assumption in price determination and other risks. The fair values of those assets are established by using valuation techniques.

Table of Contents

As described in the significant accounting policies in Note 2-(9)-5), Fair value of financial assets and liabilities, a variety of valuation techniques, which include market approach and income approach and internally developed models that incorporate various types of assumptions and variables, are used to determine the fair value of financial instruments.

(4) Impairment of Loans

The Group's allowance of loan for credit losses are established to recognize incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortized cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan negatively. For loans individually assessed, such objective evidence, indicative that a borrower's financial condition has deteriorated, includes such as: delinquent loans; debt in restructuring; probable bankruptcy or liquidation; significant reduction in the value of any security; breach of limits or covenants; and deterioration in trading performance. For loans collectively assessed, such indication includes borrower's payment status and observable data about relevant macroeconomic measures.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant (individual evaluation of impairment), and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (collective evaluation of impairment).

There are two components to the Group's loan impairment allowances (individual and collective).

Individual assessment of impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of borrower and net realizable value of any collateral held and the timing of anticipated receipts.

Collective assessment of impairment losses are established on a portfolio basis using the methodology based on historical loss experience. The methodology based on historical loss experience is used to estimate inherent incurred loss on groups of assets for collective evaluation of impairment. Such methodology incorporates factors such as type of product and borrowers, credit rating, portfolio size, loss emergence period and recovery period and applies probability of default on each assets (or pool of assets) and loss given default by type of collateral. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4. Risk Management

The Group's operating activity is exposed to various financial risks; hence, the Group is required to analyze and assess the level of complex risks, determine the permissible level of risks and manage such risks.

The Group's risk management procedures have been established to improve the quality of assets for holding or investment purposes by making decisions as to how to avoid or mitigate risks through the identification of the source of the potential risks and their impact.

The Group has established an approach to manage the acceptable level of risks and reduce the excessive risks in financial instruments in order to maximize the profit given the risks present, for which the Group has implemented processes for risk identification, assessment, control, and monitoring and reporting. The risk is managed by the risk management department in accordance with the Group's risk management policy. The Risk Management Committee makes decisions on the risk strategies such as avoidance of concentration on capital at risk and establishment of acceptable level of risk limit.

Table of Contents

(1) Credit risk

Credit risk represents the possibility of financial losses incurred when the counterparty fails to fulfill its contractual obligations. The goal of credit risk management is to maintain the Group's credit risk exposure to a permissible degree and to optimize its rate of return considering such credit risk.

1) Credit risk management

The Group considers the probability of failure in performing the obligation of its counterparties, credit exposure to the counterparty and the related default risk and the rate of default loss. The Group uses the credit rating model to assess the possibility of counterparty's default risk; and when assessing the obligor's credit grade, the Group utilizes credit grades derived using statistical methods.

In order to manage credit risk limit, the Group establishes the appropriate credit line per obligor, company or industry and monitors obligors credit line, total exposures and loan portfolios when approving the loan.

The Group mitigates credit risk resulting from the obligor's credit condition by using financial and physical collateral, guarantees, netting agreements and credit derivatives. The Group has adopted the entrapment method acknowledged by BASEL II standards to mitigate its credit risk. Credit risk mitigation is reflected in qualifying financial collateral, trade receivables, guarantees, residential and commercial real estate and other collaterals. The Group regularly performs a revaluation of collateral reflecting such credit risk mitigation.

2) Maximum exposure to credit risk

The Group's maximum exposure to credit risk refers to net book value of financial assets net of allowances, which shows the uncertainties of maximum changes of net value of financial assets attributable to a particular risk without considering collateral and other credit enhancements obtained. However, the maximum exposure is the fair value amount (recorded on the books) for derivatives, maximum contractual obligation for payment guarantees and loan commitment for loan contracts.

The maximum exposure to credit risk is as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Loans and receivables:		
Korean treasury and government agencies	13,761,594	14,012,805
Banks	12,921,330	30,768,403
Corporates	110,204,743	102,068,180
Consumers	98,272,289	103,256,341
Sub-total	235,159,956	250,105,729
Financial assets at FVTPL:		
Gold banking assets		5,582
Debt securities held for trading	18,873,158	19,120,451
Designated at FVTPL	409,804	389,996
Derivative for trading	3,899,897	3,740,313
Sub-total	23,182,859	23,256,342
AFS debt securities	13,086,849	13,840,461
HTM securities	20,036,128	18,684,801
Derivative assets (hedging)	326,840	281,069
Off-balance sheet items:		
Guarantees	26,702,154	23,735,411
Loan commitments	88,400,600	91,362,821

Sub-total	115,102,754	115,098,232
Total	406,895,386	421,266,634

F-33

Table of Contents

a) Credit risk exposure by geographical areas

The following tables analyze credit risk exposure by geographical areas (Unit: Korean Won in millions):

	December 31, 2011						Total
	Korea	China	USA	UK	Japan	Others(*)	
Loans and receivables	225,621,567	2,282,712	1,748,898	814,148	535,055	4,157,576	235,159,956
Financial assets at FVTPL	23,069,879	9,893		1,366		101,721	23,182,859
AFS debt securities	12,955,152	34,035	81,030			16,632	13,086,849
HTM securities	19,933,161	1,817	1,967			99,183	20,036,128
Derivative assets (hedging)	326,840						326,840
Off-balance sheet items	112,451,295	632,189	215,942	108,222	71,230	1,623,876	115,102,754
Total	394,357,894	2,960,646	2,047,837	923,736	606,285	5,998,988	406,895,386

	December 31, 2012						Total
	Korea	China	USA	UK	Japan	Others(*)	
Loans and receivables	242,158,755	2,294,595	1,552,406	513,250	433,395	3,153,328	250,105,729
Financial assets at FVTPL	23,098,497	116,332		6,139		35,374	23,256,342
AFS debt securities	13,639,796	34,999	100,130			65,536	13,840,461
HTM securities	18,648,308		1,195			35,298	18,684,801
Derivative assets (hedging)	281,069						281,069
Off-balance sheet items	112,195,944	672,075	195,538	82,999	64,939	1,886,737	115,098,232
Total	410,022,369	3,118,001	1,849,269	602,388	498,334	5,176,273	421,266,634

(*) Others consist of financial assets in Vietnam, Panama and European countries.

b) Credit risk exposure by industries

The following tables analyze credit risk exposure by industries, which are service, manufacturing, finance and insurance, construction, individuals and others in accordance with the Korea standard industrial classification code (Unit: Korean Won in millions):

	December 31, 2011						Total
	Service	Manufacturing	Finance and insurance	Construction	Individuals	Others	
Loans and receivables	48,945,299	47,695,469	32,693,537	8,041,012	84,528,891	13,255,748	235,159,956
Financial assets at FVTPL	726,618	1,862,004	13,934,077	76,103	39	6,584,018	23,182,859
AFS debt securities	802,032	245,531	6,383,456	145,744		5,510,086	13,086,849
HTM securities	1,558,998	80,317	9,504,549	678,545		8,213,719	20,036,128
Derivative assets (hedging)			326,393			447	326,840
Off-balance sheet items	18,906,958	41,151,375	10,912,549	6,554,705	29,548,373	8,028,794	115,102,754
Total	70,939,905	91,034,696	73,754,561	15,496,109	114,077,303	41,592,812	406,895,386

Table of Contents

December 31, 2012

	Service	Manufacturing	Finance and insurance	Construction	Individuals	Others	Total
Loans and receivables	49,331,775	43,152,361	48,242,602	7,259,660	89,851,234	12,268,097	250,105,729
Financial assets at FVTPL	1,926,534	1,541,187	14,588,306	277,561	2,936	4,919,818	23,256,342
AFS debt securities	846,994	278,005	8,447,500	149,800		4,118,162	13,840,461
HTM securities	2,048,084	50,135	7,227,265	516,944		8,842,373	18,684,801
Derivative assets (hedging)			279,126			1,943	281,069
Off-balance sheet items	18,817,677	32,245,740	21,731,717	6,586,906	27,275,006	8,441,186	115,098,232
Total	72,971,064	77,267,428	100,516,516	14,790,871	117,129,176	38,591,579	421,266,634

3) Credit risk of loans and receivables

The credit exposure of loans and receivables by customer and loan condition are as follows (Unit: Korean Won in millions):

	December 31, 2011							Total
	Korean treasury and government agencies	Banks	General business	Small & medium sized enterprise	Project financing	Sub-total	Consumers	
Loans and receivables neither overdue nor impaired	13,765,038	12,934,452	67,162,724	32,772,948	9,037,396	108,973,068	96,548,782	232,221,340
Loans and receivables overdue but not impaired	325	3,493	59,112	133,244	8,132	200,488	1,273,662	1,477,968
Impaired loans and receivables	1	1,494	2,249,694	1,810,179	479,023	4,538,896	958,255	5,498,646
Gross loans	13,765,364	12,939,439	69,471,530	34,716,371	9,524,551	113,712,452	98,780,699	239,197,954
Allowance for credit losses	3,770	18,109	2,040,879	975,209	491,621	3,507,709	508,410	4,037,998
Total, net	13,761,594	12,921,330	67,430,651	33,741,162	9,032,930	110,204,743	98,272,289	235,159,956

F-35

Table of Contents

	December 31, 2012							Total
	Korean treasury and government agencies	Banks	General business	Small & medium sized enterprise	Project financing	Sub-total	Consumers	
Loans and receivables neither overdue nor impaired	14,016,324	30,795,638	60,351,949	32,465,961	7,634,782	100,452,692	101,231,070	246,495,724
Loans and receivables overdue but not impaired	16		159,308	189,585	5,532	354,425	1,346,130	1,700,571
Impaired loans and receivables	27	1,319	2,534,090	1,507,526	462,353	4,503,969	1,274,774	5,780,089
Gross loans	14,016,367	30,796,957	63,045,347	34,163,072	8,102,667	105,311,086	103,851,974	253,976,384
Provision for credit losses	3,562	28,554	2,026,874	725,168	490,863	3,242,905	595,634	3,870,655
Total, net	14,012,805	30,768,403	61,018,473	33,437,904	7,611,804	102,068,181	103,256,340	250,105,729

a) Credit quality of loans and receivables

The Group manages its loans and receivables neither overdue nor impaired, net of allowance, through an internal rating system. Segregation of credit quality is as follows (Unit: Korean Won in millions):

	December 31, 2011							Total
	Korean treasury and government agencies	Banks	General business	Small & medium sized enterprise	Project financing	Sub-total	Consumers	
Upper grade ^(*1)	13,753,815	12,892,460	43,035,863	8,710,329	4,624,455	56,370,647	85,841,335	168,858,257
Lower grade ^(*2)	7,454	25,076	23,310,931	23,740,023	4,042,946	51,093,900	10,507,991	61,634,421
Total	13,761,269	12,917,536	66,346,794	32,450,352	8,667,401	107,464,547	96,349,326	230,492,678
Value of collateral	6,374	540,337	27,903,763	26,029,317	2,818,055	56,751,135	79,859,625	137,157,471

	December 31, 2012							Total
	Korean treasury and government agencies	Banks	General business	Small & medium sized enterprise	Project financing	Sub-total	Consumers	
Upper grade ^(*1)	14,008,849	30,747,135	37,392,456	9,324,721	4,597,780	51,314,957	93,508,109	189,579,050
Lower grade ^(*2)	3,939	21,064	21,841,095	22,801,135	2,686,979	47,329,209	7,476,795	54,831,007
Total	14,012,788	30,768,199	59,233,551	32,125,856	7,284,759	98,644,166	100,984,904	244,410,057
Value of collateral	18,872	761,959	25,311,705	24,515,475	2,054,424	51,881,604	82,302,812	134,965,247

(*1) AAA ~ BBB for Corporates and 1~6 level for Consumers

(*2) BBB- ~ C for Corporates and 7~10 level for Consumers

Allowances for credit losses, for loans and receivables neither overdue nor impaired amounting to 1,728,662 million Won and 2,085,667 million Won as of December 31, 2011 and 2012, respectively, are deducted from the loans and receivables above.

Table of Contents

b) Aging analysis of loans and receivables

Aging analysis of loans and receivables, net of allowance overdue but not impaired is as follows (Unit: Korean Won in millions):

Past due	Korean treasury and government agencies		Banks	General business	December 31, 2011 Corporates		Sub-total	Consumers	Total
					Small & medium sized enterprise	Project financing			
Less than 30 days	325	3,491		54,278	93,190	7,708	155,176	1,007,040	1,166,032
30 to 60 days				4,964	21,707		26,671	115,415	142,086
60 to 90 days				1,796	8,724		10,520	69,098	79,618
Total	325	3,491		61,038	123,621	7,708	192,367	1,191,553	1,387,736
Value of collateral ^(*)				15,112	100,549		115,661	894,850	1,010,511

Past due	Korean treasury and government agencies		Banks	General business	December 31, 2012 Corporates		Sub-total	Consumers	Total
					Small & medium sized enterprise	Project financing			
Less than 30 days	16			144,010	126,840	5,230	276,080	1,037,017	1,313,113
30 to 60 days				10,969	40,183		51,152	149,329	200,481
60 to 90 days				3,209	7,010	252	10,471	75,408	85,879
Total		16		158,188	174,033	5,482	337,703	1,261,754	1,599,473
Value of collateral ^(*)				60,739	141,011	3,346	205,096	958,048	1,163,144

(*) The value of collateral held is recoverable amounts used when calculating the respective provision for credit losses. Allowances for credit losses, for loans and receivables that are overdue but not impaired, amounting to 90,232 million Won and 101,098 million Won as of December 31, 2011 and 2012, respectively, are deducted from the loans and receivables above.

c) Impaired loans and receivables

Impaired loans and receivables, net of allowance is as follows (Unit: Korean Won in millions):

Impaired loans	Korean treasury and government agencies		Banks	General business	December 31, 2011 Corporates		Sub-total	Consumers	Total
					Small & medium sized enterprise	Project financing			
	303			1,026,034	1,163,975	357,820	2,547,829	731,410	3,279,542
Value of collateral ^(*)				841,529	683,823	199,382	1,724,734	387,943	2,112,677

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

	December 31, 2012						
	Korean treasury and government agencies	Banks	General business	Small & medium sized enterprise	Project financing	Sub-total	Consumers
Impaired loans	204	1,626,734	1,138,013	321,563	3,086,310	1,009,684	4,096,198
Value of collateral ^(*)		1,226,501	528,786	162,591	1,917,878	399,380	2,317,258

(*) The collateral value held is recoverable amount used when calculating allowance for credit losses.

Table of Contents

Allowance for credit losses, for impaired loans and receivables, amounting to 2,219,104 million Won and 1,683,891 million Won as of December 31, 2011 and 2012, respectively, are deducted from the impaired loans and receivables above.

The collateral values are evaluated based on the appraisal value of external valuation experts, as adjusted for significant inputs related to the foreclosure proceeding for such collateral. Such adjustments mainly take into account (i) a collateral recognition factor, which reflects the average historical auction clearance rate for such type of collateral in the same region in Korea for the past year and adjustments based on changes that the Company anticipates to the value of the collateral as well as the anticipated costs with regard to foreclosure proceedings, (ii) a present value discount factor, to account for the time required to complete the foreclosure proceedings and (iii) the value of any liens and other security interests which are senior to those of the Company. The above-described adjustments to the appraisal value of collateral as determined by external valuation experts are made on a quarterly basis.

In addition, to validate the appropriateness of the appraisal values provided by external valuation experts, the Company reviews the qualification of the external valuation experts (including a review of whether such experts are legitimately registered with the Korea Association of Property Appraisers) and evaluates the assumptions and valuation model used by such experts as well as the appropriateness of variables by reference to market data and comparisons to actual transaction prices in similar regions.

4) Credit risk of debt securities

The Group manages debt securities based on the external credit rating. Credit soundness of debt securities on the basis of External Credit Assessment Institution (ECAI) s rating is as follows (Unit: Korean Won in millions):

	December 31, 2011				
	Debt securities held for trading	Designated at FVTPL	AFS debt securities	HTM securities	Total
AAA	11,631,282		10,105,669	17,910,287	39,647,238
AA- ~ AA+	6,428,995		1,102,943	1,223,193	8,755,131
BBB- ~ A+	748,023	408,810	1,723,995	902,648	3,783,476
Below BBB-	64,858	994	152,397		218,249
Default grade			1,845		1,845
Total	18,873,158	409,804	13,086,849	20,036,128	52,405,939

	December 31, 2012				
	Debt securities held for trading	Designated at FVTPL	AFS debt securities	HTM securities	Total
AAA	11,059,452		9,931,388	16,495,041	37,485,881
AA- ~ AA+	7,119,657		2,311,267	1,472,656	10,903,580
BBB- ~ A+	928,150	341,630	1,579,121	717,104	3,566,005
Below BBB-		48,366	16,971		65,337
Default grade	13,192		1,714		14,906
Total	19,120,451	389,996	13,840,461	18,684,801	52,035,709

(2) Market risk

Market risk is the possible risk of loss arising from trading activities and non-trading activities in the volatility of market factors such as interest rates, stock prices and foreign exchange rates.

Table of Contents

Market risk occurs as a result of changes in the interest rates and foreign exchange rates for financial instruments that are not yet settled, and all contracts are exposed to a certain level of volatility according to changes in the interest rates, credit spreads, foreign exchange rates and the price of equity securities.

1) Market risk management

For trading activities and non-trading activities, the Group avoids, bears or mitigates risks by identifying the underlying source of the risks, measuring parameters and evaluating their appropriateness.

At the beginning of each year, the Risk Management Committee establishes a VaR limit, loss limit and risk capital limit by subsidiaries for its management purposes. Limit by investment desk/dealer is independently managed to the extent of the limit given to subsidiaries and the limit by investment and loss cut is managed by risk management personnel with department.

The Group uses both a standard-based and an internal model-based approach to measure market risk. The standard-based approach is used to calculate individual market risk of owned capital while the internal model-based approach is used to calculate general capital market risk and it is used to measure internal risk management measure. For the trading activities, the Risk Management department measures the Value at Risk (VaR , maximum losses) limit by department and risk factor and loss limit on a daily basis and reports regularly to the Risk Management Committee.

2) Sensitivity analysis of market risk

The Group performs the sensitivity analyses for both trading and non-trading activities.

For the trading activities, the Group uses a VaR model which uses certain assumptions of possible fluctuations in market conditions and, by conducting simulations of gains and losses, estimates the maximum losses that may occur. A VaR model predicts based on statistics of possible losses on the portfolio at a certain period currently or in the future. It indicates the maximum expected loss with at least 99% credibility. In short, there exists a one percent possibility that the actual loss might exceed the predicted loss generated from the VaR s calculation. The actual results are periodically monitored to examine the validity of the assumptions and variables and factors that are used in VaR s calculations. However, this approach cannot prevent the loss when the market fluctuation exceeds expectation.

For the non-trading activities, interest rate Earning at Risk (EaR) and interest rate VaR, which is based on the simulations of the Net Interest Income (NII) and Net Present Value (NPV), are calculated for the Group s bank subsidiaries such as Woori Bank, Kyongnam Bank and Kwangju Bank, and the risks for the Company and all other subsidiaries are measured and managed by the interest rate EaR and the interest rate VaR based on Bank for International Settlements (BIS) Framework.

NII is a profit based indicator for displaying profit changes in short term due to the short term interest change. It will be estimated as subtracting interest expenses of liabilities from the interest income of assets. NPV is an indicator for displaying risks in economical view according to unfavorable changes related to interest rate. It will be estimated as subtracting the present value of liabilities from the present value of asset. EaR shows the maximum profit-loss amount, which indicates the maximum deduction amount caused by the unfavorable changes related to interest rate of a certain period of time. Interest rate VaR shows the potential maximum loss generated by the unfavorable changes during a certain period of time in the present or future.

Table of Contents

a) Trading activities

The minimum, maximum and average VaR for the years ended December 31, 2011 and 2012, respectively, and the VaR as of December 31, 2011 and 2012, respectively, are as follows (Unit: Korean Won in millions):

	As of	For the year ended			As of	For the year ended		
	December 31, 2011	Average	Maximum	Minimum	December 31, 2012	Average	Maximum	Minimum
Interest rate	(8,495)	(8,733)	(11,117)	(5,967)	(4,294)	(7,926)	(12,277)	(2,942)
Stock price	(6,329)	(7,653)	(11,486)	(4,974)	(2,458)	(4,896)	(8,095)	(2,027)
Foreign currencies	(3,227)	(3,573)	(7,151)	(1,639)	(2,006)	(2,460)	(5,314)	(1,572)
Commodity price	(3)	(333)	(3,070)	(2)	(48)	(163)	(643)	(3)
Total	(10,682)	(11,330)	(14,675)	(8,053)	(4,753)	(8,618)	(12,862)	(4,567)

b) Non-trading activities

The NII and NPV calculated, respectively, by using the simulation method for Woori Bank, Kyongnam Bank and Kwangju Bank and the scenario responding to interest rate (IR) changes are as follows (Unit: Korean Won in millions):

	December 31, 2011		December 31, 2012	
	NII	NPV	NII	NPV
Base case	5,943,993	13,262,235	5,385,170	18,817,708
Base case (Prepay)	5,949,816	13,148,172	5,391,840	18,033,259
IR 100bp up	6,230,290	13,375,487	5,653,172	18,439,944
IR 100bp down	5,614,039	13,172,038	5,122,010	19,230,819
IR 200bp up	6,516,351	13,507,906	5,921,200	18,094,995
IR 200bp down	5,193,395	13,109,481	4,837,398	19,683,985
IR 300bp up	6,802,411	13,655,892	6,189,226	17,779,613
IR 300bp down	4,671,343	13,082,383	4,429,496	20,183,435

The EaR and VaR calculated, respectively, based on the BIS Framework of the Company and subsidiaries excluding Woori Bank, Kyongnam Bank, and Kwangju Bank are as follows (Unit: Korean Won in millions):

	December 31, 2011		December 31, 2012	
	EaR	VaR	EaR	VaR
	(39,458)	(66,885)	(59,723)	(57,410)

Table of Contents

The Group estimates and manages risks related to changes in interest rate due to the difference in the sensitivity of interest-yielding assets and the sensitivity of liabilities. Cash flows of principal amounts and interests from interest bearing assets and liabilities by maturity date are as follows (Unit: Korean Won in millions):

	December 31, 2011						
	Total	Within 3 months	4 to 6 months	7 to 9 months	10 to 12 months	1 to 5 years	5 years~
Asset:							
Loans and receivables	221,489,544	162,935,497	28,109,587	5,347,251	6,011,847	12,292,132	6,793,230
AFS financial assets	16,997,594	2,687,482	1,715,632	2,253,811	3,153,123	6,703,353	484,193
HTM financial assets	21,548,196	4,079,416	2,843,038	1,346,271	1,308,890	11,815,271	155,310
Total	260,035,334	169,702,395	32,668,257	8,947,333	10,473,860	30,810,756	7,432,733
Liability:							
Deposits due to customers	198,793,984	106,191,712	26,938,477	20,810,689	19,487,233	25,088,248	277,625
Borrowings	34,941,240	22,496,224	3,744,346	955,878	2,702,381	3,889,306	1,153,105
Debentures	30,960,193	5,406,008	1,888,020	1,532,052	2,601,066	17,650,244	1,882,803
Total	264,695,417	134,093,944	32,570,843	23,298,619	24,790,680	46,627,798	3,313,533

	December 31, 2012						
	Total	Within 3 months	4 to 6 months	7 to 9 months	10 to 12 months	1 to 5 years	5 years~
Asset:							
Loans and receivables	250,244,187	145,961,719	33,509,558	8,723,533	9,175,903	31,929,319	20,944,155
AFS financial assets	16,993,422	2,612,208	1,887,739	2,034,286	3,481,569	6,157,205	820,415
HTM financial assets	20,219,898	2,787,439	1,667,114	1,843,788	754,810	12,922,657	244,090
Total	287,457,507	151,361,366	37,064,411	12,601,607	13,412,282	51,009,181	22,008,660
Liability:							
Deposits due to customers	205,593,901	105,039,354	31,158,697	20,586,299	21,808,598	26,793,029	207,924
Borrowings	34,278,449	23,343,527	3,108,062	641,452	1,769,538	4,303,424	1,112,446
Debentures	29,248,287	3,685,388	2,355,907	1,664,403	2,255,959	16,542,899	2,743,731
Total	269,120,637	132,068,269	36,622,666	22,892,154	25,834,095	47,639,352	4,064,101

3) Currency risk

Currency risk arises from monetary financial instruments denominated in foreign currencies other than the functional currency. Therefore, no currency risk arises from non-monetary items or financial instruments denominated in the functional currency.

Table of Contents

Financial instruments in foreign currencies exposed to currency risk are as follows (Unit: USD in millions, JPY in millions, CNY in millions, EUR in millions, and Korean Won in millions):

	December 31, 2011									
	USD		JPY		CNY		EUR		Others	Total
	Foreign currency	Won equivalent	Foreign currency	Won equivalent	Foreign currency	Won equivalent	Foreign currency	Won equivalent	Won equivalent	Won equivalent
Asset:										
Loans and receivables	21,140	24,380,962	340,442	5,056,106	9,809	1,790,168	883	1,319,120	2,202,903	34,749,259
Financial assets at FVTPL	694	800,019	1,238	18,389	208	37,871	1	1,375	568	858,222
AFS financial assets	177	204,029	1,102	16,362	186	33,937	15	22,050	36,148	312,526
HTM financial assets	21	23,867			10	1,812			77,283	102,962
Total	22,032	25,408,877	342,782	5,090,857	10,213	1,863,788	899	1,342,545	2,316,902	36,022,969
Liability:										
Financial liabilities at										
FVTPL	425	489,613	1,766	26,225			2	2,667		518,505
Deposits due to customer	6,341	7,315,781	63,427	942,003	8,790	1,604,293	230	344,227	508,233	10,714,537
Borrowings	8,452	9,748,919	199,649	2,965,102	4	766	859	1,283,618	344,566	14,342,971
Debentures	3,809	4,392,959	50,019	742,856					274,503	5,410,318
Other financial liabilities	2,553	2,944,212	25,010	371,451	128	23,428	372	555,366	200,691	4,095,148
Total	21,580	24,891,484	339,871	5,047,637	8,922	1,628,487	1,463	2,185,878	1,327,993	35,081,479
Off-balance sheet items	12,345	14,237,934	35,466	526,720	123	22,451	703	1,050,120	601,735	16,438,960
December 31, 2012										
	USD		JPY		CNY		EUR		Others	Total
	Foreign currency	Won equivalent	Foreign currency	Won equivalent	Foreign currency	Won equivalent	Foreign currency	Won equivalent	Won equivalent	Won equivalent
Asset:										
Loans and receivables	22,804	24,424,877	295,543	3,686,900	9,727	1,671,884	968	1,370,582	1,340,084	32,494,327
Financial assets at FVTPL	983	1,052,795	1,263	15,750	272	46,691	8	11,386	12,450	1,139,072
AFS financial assets	295	316,357	507	6,320	190	32,650	12	17,386	68,226	440,939
HTM financial assets	6	6,557							29,936	36,493
Total	24,088	25,800,586	297,313	3,708,970	10,189	1,751,225	988	1,399,354	1,450,696	34,110,831
Liability:										
Financial liabilities at										
FVTPL	359	384,030	1,600	19,960			2	2,558	1,976	408,524
Deposits due to customer	7,618	8,159,288	71,800	895,702	9,160	1,574,463	281	397,938	402,981	11,430,372
Borrowings	6,843	7,325,347	154,293	1,934,691	527	90,579	578	819,254	59,941	10,229,812
Debentures	3,691	3,953,731	46,533	580,495					613,500	5,147,726
Other financial liabilities	5,552	5,947,139	14,475	180,576	301	51,734	200	282,695	149,960	6,612,104
Total	24,063	25,769,535	288,701	3,611,424	9,988	1,716,776	1,061	1,502,445	1,228,358	33,828,538
Off-balance sheet items	12,395	13,276,171	43,141	538,181	229	39,353	947	1,340,523	650,894	15,845,122

(3) Liquidity risk

Liquidity risk refers to the risk that the Group may encounter difficulties in meeting obligations from its financial liabilities.

Table of Contents

1) Liquidity risk management

Liquidity risk management is to prevent potential cash shortage as a result of mismatching the use of funds (assets) and sources of funds (liabilities) or unexpected cash outflows. Of the financial liabilities on the consolidated statements of financial position, financial liabilities in relation to liquidity risk become the objects of liquidity risk management. Derivatives are excluded from those financial liabilities as they reflect expected cash flows for a pre-determined period.

Assets and liabilities are grouped by account under Asset Liability Management (ALM) in accordance with the characteristics of the account. The Group manages liquidity risk by identifying the maturity gap and such gap ratio through various cash flows analysis (i.e. based on remaining maturity and contract period, etc.); while maintaining the gap ratio at or below the target limit.

2) Maturity analysis of non-derivative financial liabilities

- a) The Group's maturity analysis of non-derivative financial liabilities, cash flows of principals and interests, by remaining contractual maturities are as follows (Unit: Korean Won in millions):

	December 31, 2011						
	Total	Within 3 months	4 to 6 months	7 to 9 months	10 to 12 months	1 to 5 years	5 years~
Financial liabilities at FVTPL	5,780,042	1,057,625	184,647	260,209	362,821	3,670,422	244,318
Deposits due to customers	202,643,808	115,656,618	22,510,095	18,361,303	38,515,143	5,976,083	1,624,566
Borrowings	35,831,760	20,687,439	4,406,057	1,655,742	3,169,074	4,763,273	1,150,175
Debentures	33,791,328	4,106,984	2,119,383	1,696,919	3,001,881	20,353,521	2,512,640
Other financial liabilities	17,363,140	12,324,772	36,849	9,660	152,197	218,049	4,621,613
Total	295,410,078	153,833,438	29,257,031	21,983,833	45,201,116	34,981,348	10,153,312

	December 31, 2012						
	Total	Within 3 months	4 to 6 months	7 to 9 months	10 to 12 months	1 to 5 years	5 years~
Financial liabilities at FVTPL	7,338,341	1,083,968	234,054	321,158	380,760	4,869,769	448,632
Deposits due to customers	210,207,362	122,660,322	26,564,440	18,455,791	34,940,594	5,838,095	1,748,120
Borrowings	34,619,051	21,515,529	3,892,520	1,071,822	1,975,378	5,053,413	1,110,389
Debentures	32,306,517	2,672,563	2,641,609	2,144,295	2,637,162	19,130,086	3,080,802
Other financial liabilities	21,385,214	16,183,562	41,786	26,214	34,483	182,945	4,916,224
Total	305,856,485	164,115,944	33,374,409	22,019,280	39,968,377	35,074,308	11,304,167

Table of Contents

b) Cash flows of principals and interests by expected maturities of non-derivative financial liabilities are as follows (Unit: Korean Won in millions):

	December 31, 2011						
	Total	Within 3 months	4 to 6 months	7 to 9 months	10 to 12 months	1 to 5 years	5 years~
Financial liabilities at FVTPL	5,780,042	1,057,626	184,647	260,209	362,821	3,670,422	244,317
Deposits due to customers	201,858,224	127,915,964	27,364,643	18,757,322	21,595,623	5,034,209	1,190,463
Borrowings	35,831,760	20,687,439	4,406,057	1,655,742	3,169,074	4,763,273	1,150,175
Debentures	33,791,328	4,106,984	2,119,383	1,696,919	3,001,881	20,353,520	2,512,641
Other financial liabilities	17,363,140	12,324,772	36,849	9,660	152,196	218,050	4,621,613
Total	294,624,494	166,092,785	34,111,579	22,379,852	28,281,595	34,039,474	9,719,209

	December 31, 2012						
	Total	Within 3 months	4 to 6 months	7 to 9 months	10 to 12 months	1 to 5 years	5 years~
Financial liabilities at FVTPL	7,338,341	1,083,968	234,054	321,158	380,760	4,869,769	448,632
Deposits due to customers	209,422,562	136,167,522	29,768,331	17,046,678	20,557,118	4,743,926	1,138,987
Borrowings	34,619,051	21,515,629	3,892,433	1,071,809	1,975,378	5,053,413	1,110,389
Debentures	32,306,517	2,671,397	2,642,775	2,144,295	2,637,162	19,130,086	3,080,802
Other financial liabilities	21,385,214	16,183,562	41,786	26,213	34,483	182,945	4,916,225
Total	305,071,685	177,622,078	36,579,379	20,610,153	25,584,901	33,980,139	10,695,035

3) Maturity analysis of derivative financial liabilities is as follows (Unit: Korean Won in millions):

The following table shows the residual maturity of derivative financial liabilities, based on contractual date of maturity. Derivative financial liabilities at FVTPL are allocated within 3 months due to their short-term nature.

	Total due	Within 3 months	4 to 6 months	7 to 9 months	10 to 12 months	1 to 5 years	5 years~
December 31, 2011	4,142,140	3,353,984	37,133	28,800	43,648	645,063	33,512
December 31, 2012	3,938,932	3,409,756	48,261	26,221	42,866	323,113	88,715

4) Maturity analysis of off-balance accounts are as follows

The Group gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that the Group will meet a customer's obligations to third parties if the customer fails to do so. Under a loan commitment, the Group agrees to make funds available to a customer in the future. Loan commitments which are usually for a specified term may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived. Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and utilized overdraft facilities. Guarantees and loan commitments like guarantees for debenture issuance and guarantees for loans which are financial guarantee provided by the Group have expiration dates. However, under the term of the guarantees and loan commitments, amounts are funded upon demand by the counterparty. Details of off-balance accounts are as follows (Unit: Korea Won in millions):

	December 31, 2011	December 31, 2012
Guarantees	26,702,154	23,735,411
Loan commitments	88,400,600	91,362,821

Table of Contents

Although not included in the maturity tables above, these off-balance sheet transactions may be drawn down within 3 months which is the earliest date loan commitments can be drawn down or guarantees would be called.

(4) Capital management

In accordance with financial holding company regulations, the Group is required to maintain a minimum 8% of the capital adequacy ratio with high capital risk. The capital adequacy ratio must correspond to the standard of own capital regulation of BIS and is calculated by dividing own capital by asset (weighted with a risk premium risk weighted assets) based on the financial statements of a holding company which owns bank as its subsidiary (the bank holding company) and its subsidiaries.

The own capital consists of basic capital and supplement capital. Goodwill and others which have only few characteristics as capital under the purposes of capital management are deducted from basic capital or own capital. The basic capital consists of capital, capital surplus, and retained earnings; while the supplement capital includes liabilities which meet regulatory requirements.

The risk weighted assets consist of credit risk weighted assets and market risk weighted assets. The credit risk weighted assets are calculated by multiplying risk weighted value which is given by credit level of other party on transaction, maturity of bond, collateral and the existence of guarantee by relevant assets. The market risk weighted assets are calculated by multiplying required capital on market risk (e.g. interest rate, stock and foreign currencies) by 12.5. The Group calculates its capital adequacy ratio under Basel I, according to the financial holding company regulations. The Group is maintaining its capital ratio under consolidation over 8% as of December 31, 2012.

The capital adequacy with figures is as follows (Unit: Korea Won in millions):

	December 31, 2011	December 31, 2012
Tier 1 capital	18,530,442	19,384,790
Tier 2 capital	7,261,559	7,727,332
Total risk-adjusted capital ^(*)	25,668,548	26,989,716
Risk-weighted assets for credit risk	203,412,508	204,751,747
Risk-weighted assets for market risk	4,656,713	5,645,475
Total risk-weighted assets	208,069,221	210,397,222
Tier 1 capital ratio	8.91%	9.21%
Tier 2 capital ratio	3.49%	3.67%
Total risk-based capital ratio	12.34%	12.83%

(*) Investment in non-consolidated equity investees engaged in banking and financial activities are directly deducted from total risk-adjusted capital pursuant to the guidelines of the Financial Supervisory Service.

5. Operating Segments

The Group's Chief Operation Decision Maker (the CODM) is the Chief Financial Officer of the Group. In evaluating the results of the Group and allocating resources, the CODM utilizes two different sets of financial information. The primary one is the information prepared on the bases of type of customer and the secondary one is by legal entity. This financial information of the segment entities is regularly reviewed by the CODM to make decisions about resources to be allocated to the segment and evaluate its performance.

Table of Contents

(1) Segment by type of customers

The Group's reporting segments comprise the following customers: consumer banking, corporate banking, investment banking, capital market, and headquarters and others. The reportable segments are classified based on the target customers for whom the service is being provided.

Consumer banking: consumer banking divisions of subsidiaries, Woori Bank, Kyongnam Bank, Kwangju Bank and Woori Investment & Securities;

Corporate banking: corporate banking divisions of subsidiaries, Woori Bank, Kyongnam Bank, Kwangju Bank and Woori Investment & Securities;

Investment banking: investment banking divisions of subsidiaries, Woori Bank and Woori Investment & Securities;

Capital market: capital market (representing securities trading and asset and liability management) divisions of subsidiaries, Woori Bank, Kyongnam Bank, Kwangju Bank and Woori Investment & Securities; and

Headquarter and others: the Company and administration centers of subsidiaries, Woori Bank, Kyongnam Bank, Kwangju Bank and Woori Investment & Securities and other consolidated subsidiaries.

(Unit: Korean Won in millions)

December 31, 2011								
	Consumer banking	Corporate banking	Investment banking	Capital market	Headquarter and Others	Sub-total	Inter-segment transaction	Total
Assets	78,613,580	112,923,658	8,451,890	46,780,998	89,391,621	336,161,747	(23,370,098)	312,791,649
Liabilities	81,570,032	117,413,072	95,663	32,320,238	57,956,695	289,355,700	1,362,555	290,718,255

December 31, 2012								
	Consumer banking	Corporate banking	Investment banking	Capital market	Headquarter and Others	Sub-total	Inter-segment transaction	Total
Assets	86,361,530	108,291,394	8,224,846	55,497,656	92,145,670	350,521,096	(24,815,163)	325,705,933
Liabilities	57,101,946	150,281,468	250,945	47,176,210	49,975,638	304,786,207	(2,082,987)	302,703,220

For the year ended December 31, 2010								
	Consumer banking	Corporate banking	Investment banking	Capital market	Headquarter and Others	Sub-total	Inter-segment transaction	Total
Interest income, net	2,731,248	3,418,776	42,363	200,548	(554,309)	5,838,626	588,689	6,427,315
Interest income	4,456,860	6,133,192	367,577	1,191,928	2,021,140	14,170,697	(113,470)	14,057,227
Interest expense	2,139,309	3,427,521	13,864	501,028	2,237,539	8,319,261	(689,349)	7,629,912
Inter-segment	413,697	713,105	(311,350)	(490,352)	(337,910)	(12,810)	12,810	
Non-interest income, net	745,540	495,972	195,920	227,585	1,181,377	2,846,394	(823,779)	2,022,615
Non-interest income	1,892,870	2,465,324	754,565	9,364,889	5,987,384	20,465,032	(190,515)	20,274,517
Non-interest expense	1,179,114	2,010,751	509,298	9,185,624	4,733,648	17,618,435	633,467	18,251,902
Inter-segment	31,784	41,399	(49,347)	48,320	(72,359)	(203)	203	
Other expense	2,387,368	2,377,562	219,965	195,642	1,349,546	6,530,083	(228,405)	6,301,678
Administrative expense	2,209,005	836,300	53,581	96,548	431,637	3,627,071	(314,944)	3,312,127
	178,363	1,541,262	166,384	99,094	917,909	2,903,012	86,539	2,989,551

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Impairment loss on credit loss and others ^(*)									
Operating income	1,089,420	1,537,186	18,318	232,491	(722,478)	2,154,937	(6,685)	2,148,252	

F-46

Table of Contents**For the year ended December 31, 2011**

	Consumer banking	Corporate banking	Investment banking	Capital market	Headquarter and Others	Sub-total	Inter- segment transaction	Total
Interest income, net	2,868,758	3,408,982	25,545	236,676	115,223	6,655,184	609,211	7,264,395
Interest income	4,785,678	6,373,874	352,064	1,418,775	2,174,108	15,104,499	(59,653)	15,044,846
Interest expense	2,154,519	3,632,781	11,136	657,357	2,005,574	8,461,367	(680,916)	7,780,451
Inter-segment	237,599	667,889	(315,383)	(524,742)	(53,311)	12,052	(12,052)	
Non-interest income, net	721,160	524,131	52,306	63,382	1,270,722	2,631,701	(559,150)	2,072,551
Non-interest income	2,205,513	3,109,898	576,311	8,156,084	7,291,307	21,339,113	(777,135)	20,561,978
Non-interest expense	1,506,473	2,622,631	489,158	8,125,085	5,964,354	18,707,701	(218,274)	18,489,427
Inter-segment	22,120	36,864	(34,847)	32,383	(56,231)	289	(289)	
Other expense	2,495,830	1,776,698	428,386	151,384	1,439,925	6,292,223	(40,985)	6,251,238
Administrative expense	2,317,456	961,288	61,407	104,866	569,852	4,014,869	(239,140)	3,775,729
Impairment loss on credit loss and others ^(*)	178,374	815,410	366,979	46,518	870,073	2,277,354	198,155	2,475,509
Operating income	1,094,088	2,156,415	(350,535)	148,674	(53,980)	2,994,662	91,046	3,085,708

For the year ended December 31, 2012

	Consumer banking	Corporate banking	Investment banking	Capital market	Headquarter and Others	Sub-total	Inter- segment transaction	Total
Interest income, net	2,655,414	3,068,986	8,566	371,290	617,043	6,721,299	545,804	7,267,103
Interest income	4,899,327	5,926,030	350,778	1,244,337	2,393,432	14,813,904	206,078	15,019,982
Interest expense	2,234,740	3,401,065	74	638,253	1,818,473	8,092,605	(339,726)	7,752,879
Inter-segment	(9,173)	544,021	(342,138)	(234,794)	42,084			
Non-interest income, net	571,937	530,794	150,785	(85,212)	874,753	2,043,057	(961,093)	1,081,964
Non-interest income	1,163,146	1,199,210	420,587	7,405,479	3,711,319	13,899,741	(475,064)	13,424,677
Non-interest expense	573,668	689,070	274,955	7,511,360	2,807,631	11,856,684	486,029	12,342,713
Inter-segment	(17,541)	20,654	5,153	20,669	(28,935)			
Other expense	2,563,593	2,628,268	147,670	191,293	1,022,014	6,552,838	(432,342)	6,120,496
Administrative expense	2,409,074	1,033,238	62,844	110,469	706,217	4,321,842	(365,565)	3,956,277
Impairment loss on credit loss and others ^(*)	154,519	1,595,030	84,826	80,824	315,797	2,230,996	(66,777)	2,164,219
Operating income	663,758	971,512	11,681	94,785	469,782	2,211,518	17,053	2,228,571

(*) Impairment loss on credit losses and others consist of impairment loss on credit losses, gain (loss) on transactions of loans and receivables and provision (reversal) of provisions.

(2) Segment by legal entity

The Group's reporting segments comprise the following legal entities: Woori Bank, Kyongnam Bank, Kwangju Bank, Woori Investment & Securities and others. The reportable segments are classified based on the independent legal entity.

Woori Bank: Woori Bank and its consolidated subsidiaries

Kyongnam Bank: Kyongnam Bank and its consolidated subsidiaries

Kwangju Bank: Kwangju Bank and its consolidated subsidiaries

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Woori Investment & Securities: Woori Investment & Securities and its consolidated subsidiaries

Others: the Company and its other consolidated subsidiaries

F-47

Table of Contents

(Unit: Korean Won in millions)

	December 31, 2011							Inter-segment transaction	Total
	Woori Bank	Kyongnam Bank	Kwangju Bank	Woori Investment & Securities	Others	Sub-total			
Assets	242,472,162	25,353,427	18,030,369	21,535,058	25,380,943	332,771,959	(19,980,310)	312,791,649	
Liabilities	224,346,022	23,555,666	16,813,501	17,862,450	10,406,220	292,983,859	(2,265,604)	290,718,255	

	December 31, 2012							Inter-segment transaction	Total
	Woori Bank	Kyongnam Bank	Kwangju Bank	Woori Investment & Securities	Others	Sub-total			
Assets	247,248,351	28,901,504	18,616,830	24,821,505	27,321,088	346,909,278	(21,203,345)	325,705,933	
Liabilities	228,682,457	26,933,672	17,300,605	21,367,997	11,767,502	306,052,233	(3,349,013)	302,703,220	

	For the year ended December 31, 2010							Inter-segment transaction	Total
	Woori Bank	Kyongnam Bank	Kwangju Bank	Woori Investment & Securities	Others	Sub-total			
Interest income, net	5,029,773	627,050	468,528	350,691	(80,726)	6,395,316	31,999	6,427,315	
Interest income	10,981,048	1,168,487	906,899	619,638	418,214	14,094,286	(37,059)	14,057,227	
Interest expense	5,951,275	541,437	438,371	268,947	498,940	7,698,970	(69,058)	7,629,912	
Non-interest income, net	1,341,600	57,731	25,114	489,437	444,118	2,358,000	(335,385)	2,022,615	
Non-interest income	16,191,164	513,550	248,955	3,156,784	611,604	20,722,057	(447,540)	20,274,517	
Non-interest expense	14,849,564	455,819	223,841	2,667,347	167,486	18,364,057	(112,155)	18,251,902	
Other expense	4,820,052	439,916	321,979	527,064	499,792	6,608,803	(307,125)	6,301,678	
Administrative expense	2,260,068	235,806	194,422	529,547	374,598	3,594,441	(282,314)	3,312,127	
Impairment loss on credit loss and others ^(*)	2,559,984	204,110	127,557	(2,483)	125,194	3,014,362	(24,811)	2,989,551	
Operating income	1,551,321	244,865	171,663	313,064	(136,400)	2,144,513	3,739	2,148,252	

	For the year ended December 31, 2011							Inter-segment transaction	Total
	Woori Bank	Kyongnam Bank	Kwangju Bank	Woori Investment & Securities	Others	Sub-total			
Interest income, net	5,728,211	682,850	500,471	332,549	4,609	7,248,690	15,705	7,264,395	
Interest income	11,659,258	1,294,919	949,858	661,563	511,498	15,077,096	(32,250)	15,044,846	
Interest expense	5,931,047	612,069	449,387	329,014	506,889	7,828,406	(47,955)	7,780,451	
Non-interest income, net	1,377,847	7,167	13,381	458,908	504,143	2,361,446	(288,895)	2,072,551	
Non-interest income	16,433,320	416,595	161,494	3,213,050	769,418	20,993,877	(431,899)	20,561,978	
Non-interest expense	15,055,473	409,428	148,113	2,754,142	265,275	18,632,431	(143,004)	18,489,427	
Other expense	4,512,870	426,779	331,106	576,496	655,001	6,502,252	(251,014)	6,251,238	
Administrative expense	2,549,359	273,698	223,532	569,619	448,313	4,064,521	(288,792)	3,775,729	
Impairment loss on credit loss and others ^(*)	1,963,511	153,081	107,574	6,877	206,688	2,437,731	37,778	2,475,509	
Operating income	2,593,188	263,238	182,746	214,961	(146,249)	3,107,884	(22,176)	3,085,708	

Table of Contents

For the year ended December 31, 2012

	Woori						Inter-segment	Total
	Woori Bank	Kyongnam Bank	Kwangju Bank	Investment & Securities	Others	Sub-total	transaction	Total
Interest income, net	5,611,954	687,677	492,934	386,662	76,847	7,256,074	11,029	7,267,103
Interest income	11,436,460	1,390,524	979,643	718,285	565,944	15,090,856	(70,874)	15,019,982
Interest expense	5,824,506	702,847	486,709	331,623	489,097	7,834,782	(81,903)	7,752,879
Non-interest income, net	642,758	(14,063)	4,477	333,711	429,718	1,396,601	(314,637)	1,081,964
Non-interest income	9,903,318	374,790	164,912	2,777,208	656,120	13,876,348	(451,671)	13,424,677
Non-interest expense	9,260,560	388,853	160,435	2,443,497	226,402	12,479,747	(137,034)	12,342,713
Other expense	4,555,754	437,835	313,246	546,868	587,905	6,441,608	(321,112)	6,120,496
Administrative expense	2,727,640	296,082	230,715	540,544	470,127	4,265,108	(308,831)	3,956,277
Impairment loss on credit loss and others ^(*)	1,828,114	141,753	82,531	6,324	117,778	2,176,500	(12,281)	2,164,219
Operating income	1,698,958	235,779	184,165	173,505	(81,340)	2,211,067	17,504	2,228,571

(*) Impairment loss on credit losses and others consist of impairment loss on credit losses, gain (loss) on transactions of loans and receivables and provision (reversal) of provisions.

(3) Information on financial products and services

The financial products of the Group are classified as interest-bearing products such as loans, deposits and debt securities and non-interest bearing products such as loan commitment, credit commitment, equity securities, and credit card service. This classification of products has been reflected in the segment information presenting interest income and non-interest income.

(4) Information on geographical areas

Of the Group's revenue (interest income and non-interest income) from services, revenue from the domestic customers for the years ended December 31, 2010, 2011 and 2012 amounted to 33,124,286 million Won, 34,738,552 million Won and 27,851,511 million Won, respectively, and revenue from the foreign customers amounted to 1,207,458 million Won, 868,272 million Won and 593,148 million Won, respectively. Of the Group's non-current assets (investments in jointly controlled entities and associates, investment properties, premises and equipment and intangible assets), non-current assets attributed to domestic subsidiaries as of December 31, 2011, and 2012 are 4,974,603 million Won, 5,112,439 million Won, respectively, and foreign subsidiaries are 34,991 million Won, 36,126 million Won, respectively.

Table of Contents**6. Restricted Deposits**

Details of restricted deposits are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012	
Financial assets at FVTPL:			
Korea Finance Security Co., Ltd.	818,252	826,292	Regulation on supervision of securities business
AFS financial assets:			
Korea Exchange	10,117	10,176	Collective fund for loss
Loans and receivables:			
Due from banks in local currency			
The Bank of Korea	11,304,073	10,001,184	Reserve deposits
Korea Exchange	751	751	Deposits for required allotted charges
Korea Finance Security Co., Ltd.	309,681	319,345	Regulation on supervision of securities business
Samsung Security, etc.	46,121	47,592	Margins
Shinhan Bank, etc.	68	55	Deposits for opening account, etc.
Others	648,511	485,010	Borrowings on collateral, etc.
Due from banks in foreign currencies			
The Bank of Korea	350,951	484,261	Reserve deposits
Central Bank of Bangladesh, etc.	517,631	426,429	Reserve deposits
Bank of Tokyo Mitsubishi, etc.	59,024	17,905	Installation deposits of financial institution, etc.
Barclays, etc.	110,369	59,412	Derivative transaction collateral provider, etc.
Sub-total	13,347,180	11,841,944	
Total	14,175,549	12,678,412	

Table of Contents**7. Financial Assets at FVTPL**

Financial assets at FVTPL consist of financial assets held for trading and financial assets designated at FVTPL.

(1) Financial assets held for trading are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Deposits:		
Reserve for claims of customers deposits	818,252	826,292
Deposits indexed to gold prices		5,582
Sub-total	818,252	831,874
Securities:		
Debt securities		
Korean treasury and government agencies	1,194,168	2,266,526
Financial institutions	5,194,371	3,886,826
Corporates	5,394,733	5,525,622
CP	2,972,865	3,132,604
Equity securities	608,310	694,312
Beneficiary certificates ^(*)	324,843	696,657
CMA securities	2,466,325	1,936,507
Others	1,650,696	2,372,366
Sub-total	19,806,311	20,511,420
Derivatives instruments assets:		
Interest rate derivatives	1,552,875	1,820,628
Currency derivatives	2,205,831	1,564,671
Equity derivatives	95,533	309,081
Credit derivatives	17,878	28,133
Commodity derivatives	27,780	17,800
Sub-total	3,899,897	3,740,313
Total	24,524,460	25,083,607

(*) Beneficiary certificates are securities which state beneficiary's right to receive profit from operation of trusts or funds.

(2) Financial assets designated at FVTPL are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Equity-linked securities	654,124	651,309
Asset-backed securities	409,804	384,691
Debt securities		5,305
Equity securities	11,843	11,758
Structured deposit		10,471

Total		1,075,771	1,063,534
-------	--	-----------	-----------

F-51

Table of Contents**8. AFS Financial Assets**

AFS financial assets are as follows (Unit: Korean Won in millions):

	December 31, 2011			Fair value
	Amortized cost (or cost)	Gross unrealized gain	Gross unrealized loss	
Debt securities:				
Korean treasury and government agencies	2,753,363	34,315	(957)	2,786,721
Financial institutions	5,199,072	12,632	(1,279)	5,210,425
Corporates	4,151,705	32,802	(1,130)	4,183,377
Asset-backed securities	610,168	103	(10,950)	599,321
Foreign currency bonds	132,739	315	(148)	132,906
Sub-Total	12,847,047	80,167	(14,464)	12,912,750
Equity securities				
Beneficiary certificates	1,859,844	917,015	(25,398)	2,751,461
Others	3,719,718	73,986	(5,274)	3,788,430
	219,278	248	(243)	219,283
Total	18,645,887	1,071,416	(45,379)	19,671,924

	December 31, 2012			Fair value
	Amortized cost (or cost)	Gross unrealized gain	Gross unrealized loss	
Debt securities:				
Korean treasury and government agencies	2,659,543	24,626	(2,863)	2,681,306
Financial institutions	6,031,959	18,864	(1,358)	6,049,465
Corporates	4,288,897	47,964	(15,461)	4,321,400
Asset-backed securities	400,602	2,416	(19,809)	383,209
Foreign currency bonds	212,594	516	(215)	212,895
Sub-Total	13,593,595	94,386	(39,706)	13,648,275
Equity securities				
Beneficiary certificates	1,692,124	525,068	(32,386)	2,184,806
Others	2,841,752	15,001	(22,296)	2,834,457
	203,588		(1,226)	202,362
Total	18,331,059	634,455	(95,614)	18,869,900

9. HTM Financial Assets

HTM financial assets are as follows (Unit: Korean Won in millions):

	December 31, 2011			Fair value
	Amortized cost	Gross unrealized gain	Gross unrealized	

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

			loss	
Korean treasury and government agencies	7,234,926	198,456	(1,382)	7,432,000
Financial institutions	5,858,741	21,595	(518)	5,879,818
Corporates	6,828,617	73,437	(4,300)	6,897,754
Foreign governments	102,967			102,967
Securities loaned	10,877	177		11,054
Total	20,036,128	293,665	(6,200)	20,323,593

F-52

Table of Contents

	December 31, 2012			Fair value
	Amortized cost	Gross unrealized gain	Gross unrealized loss	
Korean treasury and government agencies	7,664,773	175,905	(5,868)	7,834,810
Financial institutions	3,620,821	24,789	(311)	3,645,299
Corporates	7,351,726	136,496	(3,270)	7,484,952
Foreign governments	36,493			36,493
Securities loaned	10,988	24		11,012
Total	18,684,801	337,214	(9,449)	19,012,566

10. Loans and Receivables

(1) Loans and receivables are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Due from banks	15,347,524	14,376,558
Allowance for credit losses	(7,175)	(6,675)
Loans	212,639,337	221,116,725
Allowance for credit losses	(3,759,304)	(3,564,444)
Other receivables	11,211,093	18,483,101
Allowance for credit losses	(271,519)	(299,536)
Total	235,159,956	250,105,729

(2) Due from banks are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Due from banks in local currency		
Due from the Bank of Korea	11,304,073	10,001,184
Due from depository banks	1,641,349	1,905,671
Due from non-depository	137,037	498,052
Due from the Korea Exchange	249,248	393,308
Others	25,919	21,130
Allowance for credit losses	(4,887)	(4,854)
Sub-total	13,352,739	12,814,491
Due from banks in foreign currencies		
Due from banks on demand	649,068	648,940
Due from banks on time	471,600	470,316
Others	869,230	437,957
Allowance for credit losses	(2,288)	(1,821)
Sub-total	1,987,610	1,555,392

Total	15,340,349	14,369,883
-------	------------	------------

F-53

Table of Contents

(3) Loans are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Loans in local currency	171,589,808	178,414,419
Loans in foreign currencies	13,243,422	10,454,463
Domestic bankers' issuance letter of credit	5,423,078	5,240,805
Credit card accounts	4,592,095	4,500,687
Bills bought in foreign currencies	5,672,021	4,662,700
Bills bought in local currency	661,151	887,966
Factoring receivables	275,732	187,421
Advances for customers on guarantees	41,870	128,394
Privately placed bonds	1,738,138	1,428,229
Loans to be converted to equity securities	1,723	1,723
Finance leases	661,764	639,729
Loans for installment	1,535,405	1,811,214
Securitized loans	1,614,240	1,530,521
Loans secured by securities	1,181,402	1,231,035
Call loans	3,431,638	5,379,762
Bonds purchased under resale agreements	749,490	4,314,334
Others	226,360	303,323
Gross loans	212,639,337	221,116,725
Allowance for credit losses	(3,759,304)	(3,564,444)
Total	208,880,033	217,552,281

(4) Other receivables are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
CMA accounts	167,847	3,920
Receivables	7,378,434	14,322,042
Accrued income	1,452,733	1,523,075
Telex and telephone subscription rights and refundable deposits	1,253,525	1,307,722
Other debtors	958,554	1,326,342
Allowance for credit losses	(271,519)	(299,536)
Total	10,939,574	18,183,565

(5) Changes in allowance for credit losses on loans and receivables are as follows (Unit: Korean Won in millions):

	For the year ended December 31, 2010				Total
	Consumers	Corporates	Credit card	Others	
Beginning balance	(175,550)	(3,057,974)	(150,191)	(478,945)	(3,862,660)
Net provision	(128,412)	(2,799,460)	(46,573)	105,905	(2,868,540)
Increase on repurchase of NPL		(10,314)			(10,314)
Recoveries of written-off loans	(47,467)	(66,677)	(53,749)	(706)	(168,599)
Charge-off	116,820	1,248,387	127,746	13,295	1,506,248
Sales of loans and receivables	7,873	255,805	49	4,168	267,895
Unwinding effect	2,613	61,627	209	12,215	76,664

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Others	6,757	182,980	94	(47,939)	141,892
Ending balance	(217,366)	(4,185,626)	(122,415)	(392,007)	(4,917,414)

F-54

Table of Contents

	For the year ended December 31, 2011				
	Consumers	Corporates	Credit card	Others	Total
Beginning balance	(217,366)	(4,185,626)	(122,415)	(392,007)	(4,917,414)
Net provision	(141,199)	(1,781,456)	(115,100)	(124,870)	(2,162,625)
Increase on repurchase of NPL	(295)	(3,230)			(3,525)
Recoveries of written-off loans	(43,036)	(26,107)	(33,718)	(1,626)	(104,487)
Charge-off	123,740	2,079,835	141,954	23,274	2,368,803
Sales of loans and receivables	8,376	527,943		1,296	537,615
Unwinding effect	8,882	139,783	75	7,357	156,097
Others	934	105,956	486	(19,838)	87,538
Ending balance	(259,964)	(3,142,902)	(128,718)	(506,414)	(4,037,998)

	For the year ended December 31, 2012				
	Consumers	Corporates	Credit card	Others	Total
Beginning balance	(259,964)	(3,142,902)	(128,718)	(506,414)	(4,037,998)
Net provision	(241,958)	(1,712,364)	(151,565)	(25,702)	(2,131,589)
Recoveries of written-off loans	(53,638)	(187,155)	(33,830)	(401)	(275,024)
Charge-off	190,122	1,839,241	185,545	8,610	2,223,518
Sales of loans and receivables	9,953	152,926	7	963	163,849
Unwinding effect	14,450	107,774	311	577	123,112
Others	13,867	(41,397)	479	90,528	63,477
Ending balance	(327,168)	(2,983,877)	(127,771)	(431,839)	(3,870,655)

11. The Fair Value of Financial Assets and Liabilities

(1) The fair value hierarchy

The fair value hierarchy prioritizes and ranks the levels of market price observability used in the financial assets and liabilities at fair value. Market price observability is impacted by a number of factors, including the types of and the characteristics specific to the financial assets and liabilities and the state of the marketplace (including the existence and transparency of transactions between market participants). Fair value with readily-available actively quoted prices or measured from actively-quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. The fair value hierarchy requires the Group 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, the Group's own assumptions reflect those that market participants would use in pricing the assets or liabilities at the measurement date. The fair value measurement is described in the one of the following three levels used to classify fair value measurements:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. The types of financial assets or liabilities generally included in Level 1 are publicly traded equity securities and derivatives.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices). The types of financial assets or liabilities generally included in Level 2 are debt securities not traded in active markets and derivatives traded in OTC but not required significant judgment.

Table of Contents

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The types of financial assets or liabilities generally included in Level 3 are non-public securities and derivatives and debt securities of which valuation techniques require significant judgments and subjectivity. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Group's assessment of the significance of a particular input to a fair value measurement in its entirety requires judgment and consideration of factors specific to the asset or liability. See Note 2 (9) 5), *Fair value of financial assets and liabilities* for further discussion relating to the Group's fair value measurement.

(2) Fair value hierarchy of financial assets and liabilities measured at fair value are as follows (Unit: Korean Won in millions):

	December 31, 2011			Total
	Level 1	Level 2	Level 3(*)	
Financial assets:				
Financial assets held for trading				
Deposits				
Reserve for claims of customers deposits		818,252		818,252
Debt securities				
Korean treasury and government agencies	787,071	407,097		1,194,168
Financial institutions		5,194,371		5,194,371
Corporates		5,394,733		5,394,733
CP		2,972,865		2,972,865
Equity securities	608,310			608,310
Beneficiary certificates	287,628	37,215		324,843
CMA securities		2,466,325		2,466,325
Others	19,876	1,630,820		1,650,696
Derivatives instruments assets:				
Interest rate derivatives		1,539,099	13,776	1,552,875
Currency derivatives		2,204,356	1,475	2,205,831
Equity derivatives	3,186	37,991	54,356	95,533
Credit derivatives		3,337	14,541	17,878
Commodity derivatives		20,296	7,484	27,780
Financial assets designed at FVTPL				
Equity linked securities	994	204,339	448,791	654,124
Asset-backed securities		360,442	49,362	409,804
Equity securities	623		11,220	11,843
AFS financial assets				
Debt securities				
Korean treasury and government agencies	2,632,569	154,152		2,786,721
Financial institutions		5,201,625	8,800	5,210,425
Corporates		4,168,331	15,046	4,183,377
Asset-backed securities		599,321		599,321
Foreign currency bonds	9,116	121,945	1,845	132,906
Equity securities	377,839		2,373,622	2,751,461
Beneficiary certificates		3,535,459	252,971	3,788,430
Others	90,209	35,435	93,639	219,283
Derivative assets		326,840		326,840

Table of Contents

	December 31, 2011			Total
	Level 1	Level 2	Level 3(*)	
Financial liabilities:				
Financial liabilities held for trading				
Borrowings				
Warrants in short position	7,173	3,136		10,309
Securities in short position	606,723	20,156		626,879
Derivative liabilities				
Interest rate derivatives		1,658,036	12,809	1,670,845
Currency derivatives	14	1,689,830		1,689,844
Equity derivatives	504		516,330	516,834
Credit derivatives		7,308	14,251	21,559
Commodity derivatives	109	19,536	6,217	25,862
Financial liabilities designated at FVTPL				
Borrowings				
Debentures		1,839,656	2,897,551	4,737,207
Derivative liabilities	57	33,436		33,493
December 31, 2012				
	Level 1	Level 2	Level 3(*)	Total
Financial assets:				
Financial assets held for trading				
Deposits				
Reserve for claims of customers deposits		826,292		826,292
Gold banking deposits	5,582			5,582
Debt securities				
Korean treasury and government agencies	1,812,739	453,787		2,266,526
Financial institutions		3,886,826		3,886,826
Corporates		5,525,622		5,525,622
CP		3,132,604		3,132,604
Equity securities	694,312			694,312
Beneficiary certificates	664,533	32,124		696,657
CMA securities		1,936,507		1,936,507
Others	105,000	2,267,366		2,372,366
Derivatives instruments assets:				
Interest rate derivatives		1,765,081	55,547	1,820,628
Currency derivatives		1,564,243	428	1,564,671
Equity derivatives	2,910	89,549	216,622	309,081
Credit derivatives		9,988	18,145	28,133
Commodity derivatives	1,264	6,261	10,275	17,800
Financial assets designed at FVTPL				
Equity linked securities		58,180	593,129	651,309
Asset-backed securities		337,701	46,990	384,691
Debt securities			5,305	5,305
Equity securities	637		11,121	11,758
Structured deposits		10,471		10,471

Table of Contents

	December 31, 2012			Total
	Level 1	Level 2	Level 3(*)	
AFS financial assets				
Debt securities				
Korean treasury and government agencies	2,608,348	72,958		2,681,306
Financial institutions		6,049,465		6,049,465
Corporates		4,309,381	12,019	4,321,400
Asset-backed securities		383,209		383,209
Foreign currency bonds	19,143	192,038	1,714	212,895
Equity securities	268,027		1,916,779	2,184,806
Beneficiary certificates		2,451,893	382,564	2,834,457
Others	20,413	53,688	128,261	202,362
Derivative assets		281,069		281,069
Financial liabilities:				
Financial liabilities held for trading				
Deposits				
Gold banking liabilities	5,583			5,583
Borrowings				
Warrants in short position	3,197	2,130		5,327
Securities in short position	788,461	629		789,090
Derivative liabilities				
Interest rate derivatives		1,838,742	55,788	1,894,530
Currency derivatives		1,401,426		1,401,426
Stock derivatives	1,492		408,043	409,535
Credit derivatives		358	16,281	16,639
Commodity derivatives	421	6,624	8,141	15,186
Financial liabilities designated at FVTPL				
Borrowings		1,664,566	4,468,429	6,132,995
Debentures		315,454		315,454
Derivative liabilities		38,000		38,000

(*) Certain AFS unquoted equity securities were measured at cost as at December 31, 2011 and 2012 in the amounts of 314,290 million Won and 234,161 million Won, respectively. These unquoted equity instruments mostly represent minority investments in special purposed entity vehicles such as asset securitization structures where the Group is not the sponsor neither retains a significant interest. They are measured at cost because (a) it was not possible to obtain the necessary financial information to perform a proper valuation, or (b) there is a significant variance in likely estimated cash flows or (c) the probabilities for the various estimated cash flows could not be measured reliably. In addition, there were no indicators of impairments in these investments and the Group has no intention to dispose these investments in the foreseeable future.

Table of Contents

(3) Changes in financial assets and liabilities classified into Level 3 are as follows (Unit: Korean Won in millions):

	January 1, 2010	Net income ^(*1)	For the year ended December 31, 2010			Transfer to or from level 3	December 31, 2010
			Other comprehensive income (loss)	Purchases/ Issuances	Disposals/ Settlements		
Financial assets:							
Financial assets held for trading							
Derivatives instruments assets							
Interest rate derivatives	444	14,845		176	(1,738)		13,727
Currency derivatives	15	(21)		1,568	(19)		1,543
Equity derivatives	67,939	30,074		2,427	(37,517)		62,923
Credit derivatives	6,122	(3,951)			1,702		3,873
Commodity derivatives	224	(2,005)		6,008	(108)		4,119
Financial assets designed at FVTPL							
Equity linked securities	473,918	63,542		323,859	(463,129)		398,190
Asset-backed securities	47,903	5,603					53,506
Debt securities	81,218	(176)			(81,042)		
Equity securities	15,938	(1,267)		683	(5,009)		10,345
AFS Financial Assets							
Debt securities							
Financial institutions	8,800						8,800
Corporates	22,655		(13)		(9,025)		13,617
Foreign currency bonds	49,935	(45)			(15,440)	5,649	40,099
Equity securities							
Beneficiary certificates	3,159,403	618,375	(293,050)	414,400	(1,154,024)	(36,208)	2,745,104
Others	274,234	(12,065)	57,925	6,174	(53,759)		236,301
Others	26,977	(341)		5,186	(2,129)		29,693
Financial liabilities:							
Financial liabilities held for trading							
Derivative liabilities							
Interest rate derivatives	1,203	6,783		417	1,425		9,828
Equity derivatives	552,306	(145,629)		198,215	(289,567)		315,325
Credit derivatives	205,129	(6,625)		515	(195,598)		3,421
Commodity derivatives		9,618		2,030	(1,101)		10,547
Financial liabilities designated at FVTPL							
Borrowings	2,003,850	315,430		1,551,813	(2,104,880)		1,766,213

(*1) Included 313,150 million Won of unrealised net gains, net relating to those financial assets and liabilities classified into level 3 held at December 31, 2010 which were recognized in net gain (loss) on financial instruments at fair value through profit or loss and net gain (loss) on available-for-sale financial assets in the comprehensive income statements.

Table of Contents

	For the year ended December 31, 2011						
	January 1, 2011	Net income(*2)	Other comprehensive income (loss)	Purchases/ Issuances	Disposals/ Settlements	Transfer to or from level 3	December 31, 2011
Financial assets:							
Financial assets held for trading							
Derivatives instruments assets							
Interest rate derivatives	13,727	4,318			(4,269)		13,776
Currency derivatives	1,543	(68)					1,475
Equity derivatives	62,923	831		33,585	(42,983)		54,356
Credit derivatives	3,873	6,555		4,113			14,541
Commodity derivatives	4,119	(1,259)		7,208	(2,584)		7,484
Financial assets designed at FVTPL							
Equity linked securities	398,190	(76,405)		388,474	(261,468)		448,791
Asset-backed securities	53,506	(4,144)					49,362
Equity securities	10,345	434		441			11,220
AFS Financial Assets							
Debt securities							
Financial institutions	8,800						8,800
Corporates	13,617	2,993			(1,564)		15,046
Foreign currency bonds	40,099	666			(6,292)	(32,628)	1,845
Equity securities	2,745,104	874,494	(420,404)	362,169	(1,164,514)	(23,227)	2,373,622
Beneficiary certificates	236,301	(583)	7,921	32,685	(44,033)	20,680	252,971
Others	29,693	707		65,477	(2,238)		93,639
Financial liabilities:							
Financial liabilities held for trading							
Derivative liabilities							
Interest rate derivatives	9,828	4,857			(1,876)		12,809
Equity derivatives	315,325	188,944		231,192	(219,131)		516,330
Credit derivatives	3,421	4,206		6,624			14,251
Commodity derivatives	10,547	9,247		2,762	(16,339)		6,217
Financial liabilities designated at FVTPL							
Borrowings	1,766,213	(304,837)		2,771,127	(1,334,952)		2,897,551

(*2) Included 723,894 million Won of unrealised net losses, net relating to those financial assets and liabilities classified into level 3 held at December 31, 2011 which were recognized in net gain (loss) on financial instruments at fair value through profit or loss and net gain (loss) on available-for-sale financial assets in the comprehensive income statements.

Table of Contents

	For the year ended December 31, 2012						December 31,
	January 1, 2012	Net income ^(*3)	Other comprehensive income (loss)	Purchases/ Issuances	Disposals/ Settlements	Transfer to or from level 3	2012
Financial assets:							
Financial assets held for trading							
Derivatives instruments assets							
Interest rate derivatives	13,776	42,023			(252)		55,547
Currency derivatives	1,475	(439)			(608)		428
Equity derivatives	54,356	173,500		132,006	(143,240)		216,622
Credit derivatives	14,541	5,390			(1,786)		18,145
Commodity derivatives	7,484	4,784		808	(2,801)		10,275
Financial assets designed at FVTPL							
Equity linked securities	448,791	116,826		294,621	(267,109)		593,129
Asset-backed securities	49,362	(2,372)					46,990
Debt securities				5,305			5,305
Equity securities	11,220	(88)	(442)	4,110	(3,679)		11,121
AFS Financial Assets							
Debt securities							
Financial institutions	8,800				(8,800)		
Corporates	15,046		5,087		(8,114)		12,019
Foreign currency bonds	1,845	(131)					1,714
Equity securities	2,373,622	340,356	(354,390)	195,418	(635,333)	(2,894)	1,916,779
Beneficiary certificates	252,971	65,810	(53,478)	66,006	(114,964)	166,219	382,564
Others	93,639	(1,801)	(1,458)	167,456	(126,757)	(2,818)	128,261
Financial liabilities:							
Financial liabilities held for trading							
Derivative liabilities							
Interest rate derivatives	12,809	41,056		1,923			55,788
Equity derivatives	516,330	(204,394)		101,998	(5,891)		408,043
Credit derivatives	14,251	(4,004)		6,034			16,281
Commodity derivatives	6,217	(1,044)		3,099	(131)		8,141
Financial liabilities designated at FVTPL							
Borrowings	2,897,551	715,381		3,620,109	(2,764,612)		4,468,429

(*3) Included 1,462,376 million Won of unrealised net gains, net relating to those financial assets and liabilities classified into level 3 held at December 31, 2012 which were recognized in net gain (loss) on financial instruments at fair value through profit or loss and net gain (loss) on available-for-sale financial assets in the comprehensive income statements.

Table of Contents

(4) Fair value and carrying amount of financial assets and liabilities that are recorded at amortized cost are as follows (Unit: Korean Won in millions):

	December 31, 2011		December 31, 2012	
	Fair value	Book value	Fair value	Book value
Financial assets:				
HTM financial assets	20,323,593	20,036,128	19,012,566	18,684,801
Loans and receivables	236,723,318	235,159,956	256,881,069	250,105,729
Financial liabilities:				
Deposits due to customers	195,908,985	195,930,482	203,049,281	202,919,613
Borrowings	34,491,299	34,666,709	33,688,805	33,478,685
Debentures	30,857,257	29,265,833	29,142,741	27,959,969
Other financial liabilities	19,071,984	19,083,709	25,469,292	25,479,827

(5) The following table shows the sensitivity of level 3 fair values to reasonably possible alternative assumptions.

The sensitivity analysis of the financial instruments has been performed by classifying with favorable and unfavorable changes based on how changes in unobservable assumptions have effects on the fluctuations of financial instruments' value. When the fair value of a financial instrument is affected by more than one unobservable assumption, the below table reflects the most favorable or the most unfavorable changes which result from varying the assumptions individually. The sensitivity analysis was performed for two types of level 3 financial instruments: (1) equity derivatives and interest rate derivatives, that fair value changes are recognized as current income; (2) equity securities, debt securities, and beneficiary certificates that fair value changes are recognized as other comprehensive income.

The following table shows the sensitivity analysis to disclose the effect of reasonably possible alternative assumptions on the fair value of a level 3 financial instruments for the year ended December 31, 2012 (Unit: Korean Won in millions):

	Objected carrying value of analysis ^(*1)	For the year ended December 31, 2012			
		Net income (loss)		Other comprehensive income (loss)	
		Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:					
Financial assets held for trading					
Derivatives instruments assets ^(*2)	285,726	33,816	(32,959)		
Financial assets designed at FVTPL					
Equity-linked securities ^(*2)	593,129	4,613	(798)		
AFS Financial Assets					
Equity securities ^(*3)	999,099		(1,004)	210,709	(85,205)
Beneficiary certificates ^(*4)	156,262			1,953	(1,896)
Total	2,034,216	38,429	(34,761)	212,662	(87,101)
Financial liabilities:					
Financial liabilities held for trading					
Derivative liabilities ^(*2)	488,196	31,815	(30,414)		
Financial liabilities designated at FVTPL					
Borrowings - equity linked instruments ^(*5)	4,468,429	16,254	(26,984)		
Total	4,956,625	48,069	(57,398)		

(*1) Equity securities which are measured at cost among the financial instruments of level 3 are excluded from sensitivity analysis.

Table of Contents

- (*2) Fair value changes of derivatives instruments assets, derivative liabilities and equity-linked securities are calculated by increasing or decreasing historical fluctuation rate of stock price and correlation by 10%, respectively. The volatility of historical stock price and correlation are major unobservable variables.
- (*3) Fair value changes of equity securities are calculated by increasing or decreasing growth rate (0~1%) and discount rate (-1~1%) or liquidation value (-1~1%) and discount rate (-1~1%). The growth rate, discount rate, and liquidation value are major unobservable variables.
- (*4) Fair value changes of beneficiary certificates are calculated by increasing or decreasing price fluctuation of trust property and discount rate by 1%. The price fluctuation of trust property and discount rate are major unobservable variables.
- (*5) Fair value changes of borrowings including equity linked securities in short position and other derivative combined securities are calculated by increasing or decreasing historical fluctuation rate of stock price and correlation by 10%, respectively. The historical fluctuation rate of stock price and correlation are major unobservable variables.
- (6) Derecognition of financial assets

Before the adoption of IFRS, the Group derecognized certain loans in the consolidated financial statements under the previous GAAP for which it has continuing participation. When the Group neither transfers, nor retains substantially all of the risks and rewards of ownership of a financial asset, and retains control of that asset, the Group continues to recognize the asset to the extent of its continuing involvement. The nature of participation, book value and fair value of loans and maximum exposure of losses incurred from the continuous participation are as follows:

	Type of continuous involvement	Book value of continuous participation	Fair value of continuous participation	Maximum exposure to loss
KAMCO tenth Asset Securitization Specialty (KAMCO specialty)	Acquisition of subordinated bonds issued by KAMCO specialty	1,746	1,930	1,746
Conditional disposal of loans to KAMCO	Guarantee against loss on transferred assets by the Group ^(*)			709

- (*) KAMCO is still in the process of collecting the cash flows related to the transferred assets and the maximum exposure to loss represents the carrying amounts of the assets at the date when they were transferred to KAMCO. Under previous GAAP, the Group derecognized the transferred assets although the Group retained and continues to retain substantially all such risks and rewards and according to the transition exemptions in IFRS 1, the Group did not reassess the derecognition criteria for these transfers.

Table of Contents**12. Investments in Jointly Controlled Entities and Associates**

(1) Investments in jointly controlled entities and associates accounted for using the equity method are as follows (Unit: Korean Won in millions):

Subsidiaries	Main business	Percentage of owner-ship (%)	
		December 31, 2011	December 31, 2012
Woori Finance Holdings:			
Woori Aviva Life Insurance Co., Ltd.(*1)	Life insurance	51.6	51.6
Woori Bank, Kyongnam Bank, Kwangju Bank, Woori Financial, Woori Investment & Securities and Woori Private Equity Fund:			
Woori Blackstone Korea Opportunity Private Equity Fund I	Finance	44.6	44.6
Woori Bank, Kyongnam Bank and Kwangju Bank:			
Korea Credit Bureau Co., Ltd.(*2)	Credit information	9.0	9.0
Woori Bank:			
Korea Finance Security Co., Ltd.(*2)	Security service	15.3	15.3
Woori Service Networks Co., Ltd.(*2)	Freight & staffing services	4.9	4.9
Kumho Tire Co., Inc.(*3)	Manufacturing	21.2	17.8
United PF 1st Corporate Financial Stability(*4)	Finance	18.5	18.0
LIG E&C Co., Ltd.(*5)	Construction	23.2	23.2
Hyunjin Co., Ltd.(*5)		21.7	21.7
Chin Hung International Inc.(*5)			27.8
Pi City Co., Ltd.(*5)			21.1
Orient Shipyard Co., Ltd.(*5)	Shipbuilding		23.0
Poonglim Industrial Co., Ltd.(*5)	Construction		31.6
CNK Co., Ltd.(*5)	Manufacturing		30.8
Woori F&I:			
Woori SB Fifth Asset Securitization Specialty(*7)	Asset securitization	30.0	
Woori SB Eleventh Asset Securitization Specialty		45.0	45.0
Woori SB Twelfth Asset Securitization Specialty		40.0	40.0
Woori BC Pegasus Asset Securitization Specialty		30.0	30.0
Woori Stream Third Asset Securitization Specialty(*7)		40.0	
Woori Stream Fourth Asset Securitization Specialty		40.0	40.0
Woori HB First Asset Securitization Specialty(*7)		40.0	
Woori Piastone Bridge Asset Securitization Specialty(*7)		40.0	
Woori EA First Asset Securitization Specialty		40.0	40.0
Woori EA Second Asset Securitization Specialty		40.0	40.0
Woori EA Sixth Asset Securitization Specialty		40.0	40.0
Woori EA Seventh Asset Securitization Specialty		45.0	45.0
Woori EA Ninth Asset Securitization Specialty		40.0	40.0
Woori EA Eleventh Asset Securitization Specialty		45.0	45.0
Woori EA Sixteenth Asset Securitization Specialty(*6)			30.0
Woori EA Seventeenth Asset Securitization Specialty(*6)			45.0
CW Two Partners Co., Ltd.(*7)		50.0 - 1share	
KAMCO Fifth Asset Securitization Specialty		24.0	24.0
KAMCO Sixth Asset Securitization Specialty		45.0	45.0
KAMCO Seventh Asset Securitization Specialty		45.0	45.0
Woori Fine First Asset Securitization Specialty		45.0	45.0
WR Loan Inc.(*8)	Other financial business		49.0
Woori Fine Second Asset Securitization Specialty(*6)	Asset securitization		40.0
Woori HB Third Asset Securitization Specialty(*6)			40.0
Woori EA Nineteenth Asset Securitization Specialty(*6)			40.0
Woori KA First Asset Securitization Specialty(*6)			45.0
Chungdo Woori Century Security Corp., Ltd.	Other financial business	49.5	49.5

Table of Contents

Subsidiaries	Main business	Percentage of owner-ship (%)	
		December 31, 2011	December 31, 2012
Woori Private Equity Fund:			
Phoenix Digital Tech Co., Ltd. (*10)	Semiconductor equipment	50.0	63.1
Woori Renaissance Holdings(*1)			
Bonghwang Semiconductor Yuhan Gongsa	Other financial business	51.6	51.6
MARS First:			
Sempio Foods Co., Ltd. (*9)	Semiconductor packaging	30.0	
MARS Second:			
Seoul Lakeside Co., Ltd. (*10)	Food & beverages manufacturing	47.5	47.5
	Hotel		

- (*1) Woori Aviva Life Insurance Co. Ltd. is accounted for using the equity method as the investee is subject to joint control in accordance with the joint agreement with Aviva International Holdings Limited (Aviva), decision making on operating, investment and financing activities are made by the board members which are appointed equally by the Company and Aviva. Woori Renaissance Holdings is accounted for using the equity method as the investee subject to joint control in accordance with the joint agreement between Woori Private Equity Fund and Woori Renaissance Private Equity Fund.
- (*2) Woori Bank, a subsidiary of the Company, can participate in decision making body and can exercise significant influence over Korea Credit Bureau Co., Ltd. and the United PF 1st Corporate Financial Stability through business partnerships. Important transactions of Korea Finance Security Co., Ltd and Woori Service Network Co., Ltd. are mainly arranged with Group.
- (*3) The ownership interest in Kumho Tire Co., Inc. has decreased due to an increase in capital for the year ended December 31, 2012 in which the Group did not fully participate. However, Woori Bank has significant influence because it has potential voting rights on Kumho Tire Co., Inc. which are estimated about 20.7% when exercised.
- (*4) The ownership interest in the United PF 1st Corporate Financial Stability has decreased due to disproportionate increase in paid-in capital for the year ended December 31, 2012. After the decrease in ownership interest, Woori Bank continues to have significant influence on decision making of the Investment Deliberation Committee of the United PF 1st Corporate Financial Stability, a major operational decision making organization, by participating as a limited partner. In addition, there are significant transactions between Woori Bank and United PF 1st Corporate Financial Stability.
- (*5) Woori Bank acquired shares over 20% for the year ended December 31, 2012 and 2011 by using debt to equity swap. The book value of investment assets of LIG E&C Co., Ltd., Hyunjin Co., Ltd., Pi City Co., Ltd., Orient Shipyard Co., Ltd., and CNK Co., Ltd. were zero when Woori bank debt-to-equity swap occurred.
- (*6) Woori F&I acquired 30%~45% ownership of Woori EA 16th Asset Securitization Specialty and other 5 subsidiaries for the year ended December 31, 2012.
- (*7) Investee was liquidated during the year ended December 31, 2012.
- (*8) Excluded from consolidation and reclassified to a jointly controlled entity which is under equity method because the Company's ownership interest has decreased due to disproportionate increase in paid-in capital for the year ended December 31, 2012.
- (*9) The Group has lost its significant influence after partial disposition of investment in Sempio Foods Co., Ltd.
- (*10) Financial information of Phoenix Digital Tech Co., Ltd., and Seoul Lakeside Co., Ltd. was based on the financial statements as of September 30, 2012. There is no significant effect due to transactions and events which has occurred subsequent to September 30, 2012 and before December 31, 2012.

Table of Contents

- (2) Changes in carrying value of investments in jointly controlled entities and associates accounted for using the equity method are as follows (Unit: Korean Won in millions):

	For the year ended December 31, 2010								December 31, 2010
	Acquisition cost	January 1, 2010	Share of profits (losses)	Acquisition	Disposition	Dividends	Capital	Other change	
Woori Aviva Life Insurance Co., Ltd	74,310	74,310	(6,538)	33,150			3,236		104,158
Woori Blackstone Korea Opportunity First	2,700		(2,650)	2,700					50
Korea Credit Bureau	4,500	3,115	339						3,454
BC Card Co., Ltd.	11,668	196,065	46,624			(65,725)	(29,400)		147,564
Korea Finance Security Co., Ltd.	758	3,337	154			(55)			3,436
Woori Service Networks Co., Ltd.	24	108	(2)			(2)			104
Kumho Tire Co., Inc. (*1)	113,204			113,204					113,204
Woori SME First ABS Specialty Co. Ltd.	415	406	(1)		(405)		6	(6)	
Woori SB Fifth Asset Securitization Specialty	3,773	1,081	(73)						1,008
Woori SB Eighth Asset Securitization Specialty	2,787	1,575	(357)						1,218
Woori SB Ninth Asset Securitization Specialty	1,907	5,166	605			(1)	(4,047)		1,723
Woori SB Eleventh Asset Securitization Specialty	5,176	7,554	258			(568)	(2,699)		4,545
Woori SB Twelfth Asset Securitization Specialty	5,477	9,220	1,183			(2,989)	(2,398)		5,016
Woori BC Pegasus Asset Securitization Specialty	2,908		(1,828)					1,828	
Woori Stream Third Asset Securitization Specialty	2,664	2,400	(45)				(1,001)		1,354
Woori Stream Fourth Asset Securitization Specialty	3,650	3,698	219				(3,201)		716
Woori HB First Asset Securitization Specialty	186	852	1,138			(1,623)			367
Woori Piastone Bridge Asset Securitization Specialty	2,717	2,414	2,728			(1,544)			3,598
Woori EA First Asset Securitization Specialty	400	335	(1,951)					1,616	
Woori EA Second Asset Securitization Specialty	400		500	400			(1)		899
Woori EA Sixth Asset Securitization Specialty	400		(523)	400			(1)	124	
Woori EA Seventh Asset Securitization Specialty	1,611		356	1,611			(1)		1,966
Woori EA Ninth Asset Securitization Specialty	400		(15)	400			(1)		384
CW Two Partners Co., Ltd.	605		(469)	605			(2)		134
Woori F&I Fifteenth Asset Securitization Specialty	1		565	10			(9)		566
KAMCO Fifth Asset Securitization Specialty	8,736		2,030	8,736			(2)		10,764
KAMCO Sixth Asset Securitization Specialty	5,314		1,268	5,314			(16)		6,566
	1,285		(71)	1,285			(4)		1,210

Table of Contents

	For the year ended December 31, 2010								
	Acquisition cost	January 1, 2010	Share of profits (losses)	Acquisition	Disposition	Dividends	Capital	Other change	December 31, 2010
Woori Tomato Second Asset Securitization Specialty	1		(1,332)	1				1,331	
Woori Fine First Asset Securitization Specialty	15,697		(40)	15,697			(10)		15,647
Woori SB Sixth Asset Securitization Specialty	5,477	1,441	3		(1,441)		22	(25)	
Woori SB Seventh Asset Securitization Specialty	3,585	2,417	5		(2,417)		12	(17)	
Woori Tomato First Asset Securitization Specialty	1	1,353	1,772		(1,727)	(1,725)		327	
Woori Marine Third Asset Securitization Specialty	5,952	1,370	(3)				(1,358)	(9)	
Woori Stream Second Asset Securitization Specialty	2,554	803	117		(207)		(585)	(128)	
Woori HB Second Asset Securitization Specialty	444	292	574		(437)		1	(430)	
Woori F&I Ninth Asset Securitization Specialty	1,713		1,241			(1,653)		412	
Woori F&I Twelfth Asset Securitization Specialty	9,053	33	2,727					(2,760)	
Woori F&I Fourteenth Asset Securitization Specialty	1,508		(1,279)					1,279	
Hiking-Woori Capital	230		(57)	213			53		209
Woori-Consus Capital	203		(2,262)				90	2,172	
Chungdo Woori Century Security Corp.	8,187		21	8,187			436		8,644
Phoenix Digital Tech Co., Ltd.	10,459	10,458	(1,729)					104	8,833
Woori Renaissance Holdings	63,000	58,542	(3,500)				110	763	55,915
Bonghwang Semiconductor Yuhan Gongsa	11,905	27,770	115					(15,707)	12,178
Sempio Foods Company ^(*2)	26,578	36,053	1,350			(333)	693	4	37,767
Seoul Lakeside Co., Ltd.	270,000	203,553	(11,241)					(665)	191,647
Total	694,523	655,721	29,926	191,913	(6,634)	(76,218)	(40,077)	(9,787)	744,844

	For the year ended December 31, 2011								
	Acquisition cost	January 1, 2011	Share of profits (losses)	Acquisition	Disposition	Dividends	Capital	Other change	December 31, 2011
Woori Aviva Life Insurance Co., Ltd.	110,098	104,158	2,744				3,857	4,099	114,858
Woori Blackstone Korea Opportunity First	156,600	50	5,681	153,900					159,631
Korea Credit Bureau	4,500	3,454	458						3,912
BC Card Co., Ltd.	11,668	147,564			(91,919)		(24,788)	(30,857)	
Korea Finance Security Co., Ltd.	758	3,436	87			(55)			3,468
Woori Service Networks Co., Ltd.	24	104	6			(12)			98
Kumho Tire Co., Inc. ^(*1)	113,204	113,204	(12,952)				(3,560)	14,665	111,357
United PF 1st Corporate financial stability	148,000		1,099	148,000					149,099

Woori SB Fifth Asset Securitization Specialty	3,773	1,008	(27)	981
--	-------	-------	------	-----

F-67

Table of Contents

	For the year ended December 31, 2011								
	Acquisition cost	January 1, 2011	Share of profits (losses)	Acquisition	Disposition	Dividends	Capital	Other change	December 31, 2011
Woori SB Eighth Asset Securitization Specialty	2,787	1,218	76		(1,294)				
Woori SB Ninth Asset Securitization Specialty	1,907	1,723	13		(161)		(1,575)		
Woori SB Eleventh Asset Securitization Specialty	5,176	4,545	(89)			(495)	(3,150)		811
Woori SB Twelfth Asset Securitization Specialty	5,477	5,016	47			(709)	(400)		3,954
Woori BC Pegasus Asset Securitization Specialty ^(*2)	2,908		(2,462)					2,462	
Woori Stream Third Asset Securitization Specialty	2,664	1,354	195				(600)		949
Woori Stream Fourth Asset Securitization Specialty	3,650	716	(11)				(200)		505
Woori HB First Asset Securitization Specialty	186	367	1,288			(716)			939
Woori Piastone Bridge Asset Securitization Specialty	2,717	3,598	290			(1,152)	(1,600)		1,136
Woori EA First Asset Securitization Specialty ^(*2)	400		(840)			(355)		1,195	
Woori EA Second Asset Securitization Specialty ^(*2)	400	899	20			(1,205)		286	
Woori EA Sixth Asset Securitization Specialty ^(*2)	400		(53)			(110)		163	
Woori EA Seventh Asset Securitization Specialty	1,611	1,966	532			(271)			2,227
Woori EA Ninth Asset Securitization Specialty	400	384	4,226			(950)			3,660
Woori EA Eleventh Asset Securitization Specialty	9,905		1,000	9,905			(4)		10,901
CW Two Partners Co., Ltd.	605	134	(128)						6
Woori F&I Fifteenth Asset Securitization Specialty	1	566	3,110			(4,281)		605	
KAMCO Fifth Asset Securitization Specialty	8,736	10,764	(960)					3,854	13,658
KAMCO Sixth Asset Securitization Specialty	5,314	6,566	1,741			(1,124)			7,183
KAMCO Seventh Asset Securitization Specialty	1,285	1,210	352			(473)			1,089
Woori Tomato Second Asset Securitization Specialty	1		3,201			(1,912)		(1,289)	
Woori Fine First Asset Securitization Specialty	15,697	15,647	2,394			(556)			17,485
Hiking-Woori Capital	230	209	(8)		(189)		(12)		
Woori-Consus Capital	203		(371)				(63)	434	
Chungdo Woori Century Security Corp.	8,187	8,644	256				518		9,418
Phoenix Digital Tech Co., Ltd.	10,459	8,833	(14,236)				5,403		
Woori Renaissance Holdings Bonghwang Semiconductor	63,000	55,915	(23,399)						32,516
Yuhan Gongsu	11,905	12,178	105				(282)		12,001
Sempio Foods Company	26,578	37,767	17,248			(333)	(428)	6	54,260
Seoul Lakeside Co., Ltd.	270,000	191,647	26,067			(5,700)		117	212,131

1,011,414	744,844	16,700	311,805	(93,563)	(20,409)	(26,884)	(4,260)	928,233
-----------	---------	--------	---------	----------	----------	----------	---------	---------

F-68

Table of Contents

	For the year ended December 31, 2012								
	Acquisition cost	January 1, 2012	Share of profits (losses)	Acquisition	Disposition	Dividends	Capital	Other change	December 31, 2012
Woori Aviva Life Insurance Co., Ltd.	110,098	114,858	460				10,195	(3,107)	122,406
Woori Blackstone Korea Opportunity First	187,542	159,631	20,266	32,345	(1,403)	(3,803)			207,036
Korea Credit Bureau	4,500	3,912	283				(264)		3,931
Korea Finance Security Co., Ltd.	758	3,468	831			(55)			4,244
Woori Service Networks Co., Ltd.	24	98	38			(7)			129
Kumho Tire Co., Inc. ^(*1)	113,204	111,357	16,647				3,323	24,701	156,028
United PF 1st Corporate financial stability	191,617	149,099	8,815	43,617				(167)	201,364
Poonglim Industrial Co., Ltd.	14,476			14,476					14,476
Chin Hung International Inc. ^(*1)	60,275		(4,103)	60,275			51		56,223
Woori SB Fifth Asset Securitization Specialty		981	31		(1,012)				
Woori SB Eleventh Asset Securitization Specialty	2,026	811	(24)						787
Woori SB Twelfth Asset Securitization Specialty	3,077	3,954	76				(2,000)		2,030
Woori BC Pegasus Asset Securitization Specialty ^(*2)	2,908		(121)					121	
Woori Stream Third Asset Securitization Specialty		949	29		(978)				
Woori Stream Fourth Asset Securitization Specialty	1,250	505	282						787
Woori HB First Asset Securitization Specialty		939			(186)	(753)			
Woori Piastone Bridge Asset Securitization Specialty ^(*2)	40	1,136	203			(468)	(1,077)	205	(1)
Woori EA First Asset Securitization Specialty ^(*2)	400		335			(57)		(278)	
Woori EA Second Asset Securitization Specialty ^(*2)	400		(177)					177	
Woori EA Sixth Asset Securitization Specialty ^(*2)	400		248			(245)		(3)	
Woori EA Seventh Asset Securitization Specialty	1,611	2,227	624			(527)			2,324
Woori EA Ninth Asset Securitization Specialty	400	3,660	748			(3,025)			1,383
Woori EA Eleventh Asset Securitization Specialty	9,905	10,901	4,655			(1,386)			14,170
Woori EA Sixteenth Asset Securitization Specialty	5,400		(498)	5,400					4,902
Woori EA Seventeenth Asset Securitization Specialty	4,950		(367)	4,950					4,583
CW Two Partners Co., Ltd.		6	(1)		(5)				
WR Loan Inc.	5		26					5	31
KAMCO Fifth Asset Securitization Specialty	8,736	13,658	2,921						16,579
KAMCO Sixth Asset Securitization Specialty	5,314	7,183	1,432			(2,116)			6,499

Table of Contents

	For the year ended December 31, 2012								
	Acquisition cost	January 1, 2012	Share of profits (losses)	Acquisition	Disposition	Dividends	Capital	Other change	December 31, 2012
KAMCO Seventh Asset Securitization Specialty	390	1,089	9				(900)		198
Woori Fine First Asset Securitization Specialty	13,447	17,485	1,232			(1,917)	(5,400)		11,400
Woori Fine Second Asset Securitization Specialty	5,040		66	5,040					5,106
Woori HB Third Asset Securitization Specialty	234		(1)	234					233
Woori EA Nineteenth Asset Securitization Specialty	400		6	400					406
Woori KA First Asset Securitization Specialty	4,500			4,500					4,500
Chungdo Woori Century Security Corp.	8,187	9,418	320				(539)		9,199
Phoenix Digital Tech Co., Ltd.	10,997		2,319	1,872			(2,731)	400	1,860
Woori Renaissance Holdings	63,000	32,516	5,681				603		38,800
Bonghwang Semiconductor Yuhan Gongsa	11,905	12,001	(57)		(12,053)		109		
Sempio Foods Company	6,810	54,260			(45,167)	(366)	(804)	(7,923)	
Seoul Lakeside Co., Ltd.	198,450	212,131	5,433		(71,247)				146,317
	1,052,676	928,233	68,667	173,109	(132,051)	(14,725)	566	14,131	1,037,930

(*1) The market value of Woori Bank's ownership interest in Kumho Tire Co. Inc. was 234 billion Won and 293 billion Won as of December 31, 2011 and 2012, respectively. The market value of Woori Bank's ownership interest in Chin Hung International Inc. was 81 billion Won as of December 31, 2012.

(*2) Valuation of the investments in these associates was discontinued since these associates have accumulated deficits in equity. The amount of accumulated deficits was deducted from loans granted to these respective associates.

(3) Financial information of significant investments in jointly controlled entities and associates accounted for using the equity method are as follows (Unit: Korean Won in millions):

	December 31, 2011			
	Assets	Liabilities	Operating revenue	Net income
Woori Aviva Life Insurance Co., Ltd.	3,162,593	3,007,653	11,829	7,460
Woori Blackstone Korea Opportunity First	358,946	750	17,971	12,608
Korea Credit Bureau	51,484	9,650	41,409	6,380
Korea Finance Security Co., Ltd.	24,446	1,812	42,790	1,069
Woori Service Networks Co., Ltd.	3,541	1,552	11,492	697
Kumho Tire Co., Inc.	4,634,196	4,112,068	3,946,765	(39,354)
United PF 1st Corporate Financial Stability	836,104	30,162	48,117	5,942
Woori SB Fifth Asset Securitization Specialty	3,616	347	11	(89)
Woori SB Eleventh Asset Securitization Specialty	1,824	20	126	(198)
Woori SB Twelfth Asset Securitization Specialty	9,902	18	231	117
Woori BC Pegasus Asset Securitization Specialty	25,050	39,534	119	(8,208)
Woori Stream Third Asset Securitization Specialty	2,399	24	675	488
Woori Stream Fourth Asset Securitization Specialty	1,519	258	86	(27)

Table of Contents

	December 31, 2011			
	Assets	Liabilities	Operating revenue	Net income
Woori HB First Asset Securitization Specialty	2,351	5	3,478	3,220
Woori Piastone Bridge Asset Securitization Specialty	3,984	1,142	1,000	725
Woori EA First Asset Securitization Specialty	80,666	87,692	6,048	(3,934)
Woori EA Second Asset Securitization Specialty	13,029	13,745	3,337	50
Woori EA Sixth Asset Securitization Specialty	42,287	43,004	15,068	(133)
Woori EA Seventh Asset Securitization Specialty	10,119	5,170	5,114	1,182
Woori EA Ninth Asset Securitization Specialty	39,541	30,391	22,338	10,564
Woori EA Eleventh Asset Securitization Specialty	125,608	101,386	16,154	2,222
CW Two Partners Co., Ltd.	190	177	488	(255)
KAMCO Fifth Asset Securitization Specialty	66,794	38,913	1,489	(6,274)
KAMCO Sixth Asset Securitization Specialty	20,240	4,268	7,027	3,869
KAMCO Seventh Asset Securitization Specialty	2,437	7	1,186	781
Woori Fine First Asset Securitization Specialty	40,120	1,257	6,808	5,319
Chungdo Woori Century Security Corp.	20,843	1,822	2,796	516
Phoenix Digital Tech Co., Ltd.	51,016	55,852	(700)	(13,823)
Woori Renaissance Holdings	99,240	33,842	(38,772)	(41,338)
Bonghwang Semiconductor Yuhan Gongsa	531,387	320,920	700	842
Sempio Foods Company	238,938	74,573	173,443	28,915
Seoul Lakeside Co., Ltd.	231,361	111,558	48,170	7,859

	December 31, 2012			
	Assets	Liabilities	Operating revenue	Net income
Woori Aviva Life Insurance Co., Ltd.	3,921,940	3,743,642	1,766,857	3,589
Woori Blackstone Korea Opportunity First	463,839	1,687	51,321	44,918
Korea Credit Bureau	55,944	13,834	47,660	5,019
Korea Finance Security Co., Ltd.	29,363	1,666	42,196	5,703
Woori Service Networks Co., Ltd.	4,383	1,774	12,874	1,140
Kumho Tire Co., Inc.	4,782,299	3,893,931	4,047,691	120,584
United PF 1st Corporate Financial Stability	1,153,268	17,685	98,873	48,241
Chin Hung International Inc.	581,766	456,016	480,238	(62,617)
Woori SB Eleventh Asset Securitization Specialty	1,759	9	26	(54)
Woori SB Twelfth Asset Securitization Specialty	5,084	10	452	190
Woori BC Pegasus Asset Securitization Specialty	26,623	41,511	100	(404)
Woori Stream Fourth Asset Securitization Specialty	1,975	7	807	707
Woori EA First Asset Securitization Specialty	81,369	87,703		836
Woori EA Second Asset Securitization Specialty	8,029	9,188	8,941	(443)
Woori EA Sixth Asset Securitization Specialty	16,438	17,148	7,216	619
Woori EA Seventh Asset Securitization Specialty	5,521	356	12,427	1,386
Woori EA Ninth Asset Securitization Specialty	19,501	16,045	109	1,869
Woori EA Eleventh Asset Securitization Specialty	53,206	21,719		10,345
Woori EA Sixteenth Asset Securitization Specialty	111,892	95,555	8,192	(1,659)
Woori EA Seventeenth Asset Securitization Specialty	89,706	79,521	3,959	(809)
WR Loan Inc.	955	893	65	52
KAMCO Fifth Asset Securitization Specialty	75,984	42,122	1,264	5,981
KAMCO Sixth Asset Securitization Specialty	14,567	116	5,323	3,181
KAMCO Seventh Asset Securitization Specialty	453	3	18,705	19
Woori Fine First Asset Securitization Specialty	34,610	9,265	2,600	2,742
Woori Fine Second Asset Securitization Specialty	96,975	85,627	4,441	150

Table of Contents

	December 31, 2012			
	Assets	Liabilities	Operating revenue	Net income
Woori HB Third Asset Securitization Specialty	5,859	5,277	785	(3)
Woori EA Nineteenth Asset Securitization Specialty	89,710	88,694		21
Woori KA First Asset Securitization Specialty	93,619	83,622	136	
Chungdo Woori Century Security Corp.	22,098	3,520	3,304	646
Phoenix Digital Tech Co., Ltd.	24,435	21,388	18,497	7,328
Woori Renaissance Holdings	110,228	33,827	8,745	11,001
Seoul Lakeside Co., Ltd.	586,171	129,256	50,408	11,441

(4) Excluded entity from associates although its percentage of ownership is higher than 20% as of December 31, 2012, is as follows (Unit: Korean Won in millions):

	Number of shares owned	Ownership (%)
Vogo II-2 Investment Holdings Co., Ltd. (*)	24,187,282,362	34.6%

(*) The Group invests in the investee as a limited partner and has no participations in operational or financial decision making process and therefore no significant influence over the investee.

13. Investment Properties

(1) Investment properties are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Acquisition cost	514,819	512,528
Accumulated depreciation	(15,820)	(20,843)
Net carrying value	498,999	491,685

(2) Changes in investment properties are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Beginning balance	746,126	643,271	498,999
Acquisition		1,356	657
Capital expenditure			2,067
Disposition	(985)	(144,097)	
Depreciation	(9,576)	(6,462)	(5,286)
Impairment loss (reversal)	(3,911)	(2,212)	79
Transfer	(38,193)	(6,464)	(4,766)
Foreign currencies translation adjustments	(25)	11	(65)
Others	(50,165)	13,596	
Ending balance	643,271	498,999	491,685

- (3) Fair value of investment properties is 554,722 million Won and 551,706 million Won as of December 31, 2011 and 2012, respectively.
- (4) Rental fees earned from investment properties are 13,508 million Won and 10,456 million Won as of December 31, 2011 and 2012, respectively.

F-72

Table of Contents**14. Premises and Equipment**

(1) Premises and equipment are as follows (Unit: Korean Won in millions):

	December 31, 2011						
	Land	Building	Properties for business use	Structures in leased office	Construction in progress	Structures	Total
Acquisition cost	1,828,009	990,772	1,392,065	331,517	4,433	20	4,546,816
Accumulated depreciation		(60,434)	(1,075,775)	(276,122)		(13)	(1,412,344)
Net carrying value	1,828,009	930,338	316,290	55,395	4,433	7	3,134,472

	December 31, 2012						
	Land	Building	Properties for business use	Structures in leased office	Construction in progress	Structures	Total
Acquisition cost	1,827,026	1,036,763	1,381,036	365,069	4,376	20	4,614,290
Accumulated depreciation		(91,660)	(1,040,732)	(296,340)		(15)	(1,428,747)
Net carrying value	1,827,026	945,103	340,304	68,729	4,376	5	3,185,543

(2) Changes in premises and equipment are as follows (Unit: Korean Won in millions):

	For the year ended December 31, 2010						
	Land	Building	Properties for business use	Structures in leased office	Construction in progress	Structures	Total
Beginning balance	1,794,266	927,365	292,738	59,360	21,293	7	3,095,029
Acquisition	38,234	36,890	117,534	21,141	5,840		219,639
Disposition (transfer)	(37,341)	(14,409)	(7,432)	(724)	(24,729)		(84,635)
Depreciation		(27,695)	(110,280)	(30,339)			(168,314)
Impairment loss	(113)	(289)		(323)			(725)
Classified from assets held for sale	586	1,688					2,274
Foreign currencies translation adjustment	(28)	2	(259)	(1,138)			(1,423)
Others	19,466	7,867	6,385	1,815			35,533
Ending balance	1,815,070	931,419	298,686	49,792	2,404	7	3,097,378

	For the year ended December 31, 2011						
	Land	Building	Properties for business use	Structures in leased office	Construction in progress	Structures	Total
Beginning balance	1,815,070	931,419	298,686	49,792	2,404	7	3,097,378
Acquisition	7,261	33,575	159,367	30,224	20,958		251,385
Disposition or transfer	(21,491)	(6,284)	(5,861)	(791)	(18,929)		(53,356)
Depreciation		(29,141)	(119,017)	(23,813)			(171,971)
Impairment loss		(59)					(59)

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Classified to assets held for sale	(1,482)	(1,123)					(2,605)
Foreign currencies translation adjustment	15	(81)	336	178			448
Others	28,636	2,032	(17,221)	(195)			13,252
Ending balance	1,828,009	930,338	316,290	55,395	4,433	7	3,134,472

F-73

Table of Contents

	For the year ended December 31, 2012						
	Land	Building	Properties for business use	Structures in leased office	Construction in progress	Structures	Total
Beginning balance	1,828,009	930,338	316,290	55,395	4,433	7	3,134,472
Acquisition	5,090	40,629	148,636	40,921	17,194		252,470
Disposition or transfer	(7,240)	(4,340)	(3,402)	(1,587)	(17,194)		(33,763)
Depreciation		(31,669)	(130,194)	(27,692)		(2)	(189,557)
Classified to assets held for sale	(937)	290					(647)
Foreign currencies translation adjustment	(95)	(244)	(945)	(462)	(57)		(1,803)
Others	2,199	10,099	9,919	2,154			24,371
Ending balance	1,827,026	945,103	340,304	68,729	4,376	5	3,185,543

15. Intangible Assets and Goodwill

(1) Intangible assets are as follows (Unit: Korean Won in millions):

	December 31, 2011							
	Goodwill	Core deposit	Software	Industrial rights	Development cost	Others	Membership deposit	Total
Acquisition cost	151,138	14,310	124,917	350	183,492	389,527	70,549	934,283
Accumulated depreciation		(3,763)	(87,198)	(185)	(117,911)	(231,864)		(440,921)
Accumulated impairment losses	(42,725)					(2,106)	(640)	(45,471)
Net carrying value	108,413	10,547	37,719	165	65,581	155,557	69,909	447,891

	December 31, 2012							
	Goodwill	Core deposit	Software	Industrial rights	Development cost	Others	Membership deposit	Total
Acquisition cost	175,529	14,694	147,934	408	218,176	401,983	69,088	1,027,812
Accumulated depreciation		(5,065)	(102,694)	(224)	(140,807)	(288,076)		(536,866)
Accumulated impairment losses	(43,750)	(5,308)					(8,481)	(57,539)
Net carrying value	131,779	4,321	45,240	184	77,369	113,907	60,607	433,407

Table of Contents

(2) Changes in intangible assets are as follows (Unit: Korean Won in millions):

	For the year ended December 31, 2010							Total
	Goodwill	Core deposit	Software	Industrial rights	Development cost	Others	Membership deposit	
Beginning balance	78,065	1,289	28,960	103	68,575	83,502	54,693	315,187
Acquisition			10,105	80	19,800	16,806	13,127	59,918
Disposition			(622)		(1,899)	(3,193)	(1,328)	(7,042)
Amortization		(340)	(9,813)	(25)	(18,828)	(45,519)		(74,525)
Impairment loss							(202)	(202)
Foreign currencies translation adjustment	(5)	(27)	38		11	(54)	1,494	1,457
Others			35	(8)	2,092	(2,248)	472	343
Ending balance	78,060	922	28,703	150	69,751	49,294	68,256	295,136

	For the year ended December 31, 2011							Total
	Goodwill	Core deposit	Software	Industrial rights	Development cost	Others	Membership deposit	
Beginning balance	78,060	922	28,703	150	69,751	49,294	68,256	295,136
Acquisition	39,284	10,915	21,507	49	19,342	164,999	5,881	261,977
Disposition					(18)	(865)	(2,607)	(3,490)
Amortization		(1,288)	(12,111)	(34)	(22,991)	(56,215)		(92,639)
Impairment loss	(8,925)					(2,107)	(1,507)	(12,539)
Foreign currencies translation adjustment	(6)	(2)	(2)		2	33	(114)	(89)
Others			(378)		(505)	418		(465)
Ending balance	108,413	10,547	37,719	165	65,581	155,557	69,909	447,891

	For the year ended December 31, 2012							Total
	Goodwill	Core deposit	Software	Industrial rights	Development cost	Others	Membership deposit	
Beginning balance	108,413	10,547	37,719	165	65,581	155,557	69,909	447,891
Acquisition	20,874	626	21,936	58	35,331	11,433	3,840	94,098
Disposition			(1)			(66)	(2,999)	(3,066)
Amortization		(1,518)	(14,403)	(39)	(23,541)	(55,872)		(95,373)
Impairment loss	(1,025)	(5,308)					(8,349)	(14,682)
Foreign currencies translation adjustment		(26)	(2)		(2)	(229)	(187)	(446)
Others	3,517		(9)			3,084	(1,607)	4,985
Ending balance	131,779	4,321	45,240	184	77,369	113,907	60,607	433,407

Table of Contents

(3) Goodwill is as follows (Unit: Korean Won in millions):

	Woori Financial Co., Ltd	Kumho Investment bank	Woori FG Savings Bank (Note 46)	Others	Total
January 1, 2010	62,958	8,722		6,385	78,065
Foreign exchange translation adjustment				(5)	(5)
December 31, 2010	62,958	8,722		6,380	78,060
Acquisition			39,284		39,284
Goodwill impaired		(8,722)		(203)	(8,925)
Foreign exchange translation adjustment				(6)	(6)
December 31, 2011	62,958		39,284	6,171	108,413
Acquisition			20,873		20,873
Impairment loss				(1,024)	(1,024)
Others			3,517		3,517
December 31, 2012	62,958		63,674	5,147	131,779

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the CGU may be impaired.

Main assumptions used in the impairment test of the goodwill are as follows:

Goodwill is allocated to reporting units and tested for impairment. The Group determined its reporting units to be allocated to the Group's CGU. The Group determined its CGUs to be the same level or one level below as its operating segments. This determination was based on how the Group's operating segments are managed and how they reflect the manner in which the Group's CODM assesses the Group's performance and allocate resources.

For the impairment tests, the value in use of CGUs was calculated using a discounted cash flow analysis, a form of the income approach, using each CGU's internal five year forecast and a terminal value calculated using a growth rate reflecting the nominal growth rate of the economy as whole and appropriate discount rates for the respective CGUs. The Group's discounted cash flow analysis required management to make judgments regarding future revenue growth, credit losses and funding rates. In addition, the Group used the discount rates to reflect the risk and uncertainty related to the current business environment of each subsidiary.

To assess the reasonableness of the valuations derived from the discounted cash flow models, the Group also analyzed market-based trading and transaction multiples, where available. These trading and transaction comparables are used to assess the reasonableness of the estimated fair values, as observable market information is generally not available.

	Woori Financial Co., Ltd	Woori FG Savings Bank	Others
Basis of valuation	DCF Model	DCF Model	DCF Model
Period of the projections of cash flows ^(*1)	5 years	5 years	5 years
Growth rate	2%	3%	0%
Discount rate ^(*2)	11.86%	11.95%	20%

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

- (*1) The cash flow projections are prepared using internal budget and growth plans of the management, based on historical data, market expectations and conditions such as industry growth, interest rate and inflation.
- (*2) The discount rate is calculated based on the capital asset pricing model (CAPM).

F-76

Table of Contents**16. Assets Held for Sale**

Assets held for sale are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Investment properties	53,985	82,109
Premises and equipment	2,258	1,238
Total	56,243	83,347

17. Assets Subjected to Lien and Assets Acquired through Foreclosures

(1) Assets subjected to lien are as follows (Unit: Korean Won in millions):

		Collateral given to	December 31, 2011 Amount	Reason for collateral
Due from banks		Credit-agricole Bank and others	161,855	Security on borrowings and others
Financial assets at FVTPL	Financial institutions debt securities and others	Korea Securities Depository and others	9,470,575	Collateral repurchase agreement and others
AFS financial assets	Korean treasury and government agencies bond	Nomura Securities Co., Ltd. and others	291,674	Related to bonds sold under repurchase agreements ^(*)
	Financial institutions debt securities and others	Bank of communications and others		
			654,109	Foreign currencies Long-term borrowings and others
HTM financial assets	Korean treasury and government agencies bonds	Nomura Securities Co., Ltd. and others	946,684	Related to bonds sold under repurchase agreements ^(*)
	Korean treasury and government agencies bonds and others	Bank of Korea and others	6,608,480	Limitation on total loan exposure and others
Loans		Shinhan Bank Co., Ltd. and others	511,366	Collateral for borrowings
Land and building		Shinhan Card Co., Ltd. and others	93,220	Leasehold rights and others
		Total	18,737,963	

Table of Contents

		December 31, 2012		
		Collateral given to	Amount	Reason for collateral
Due from banks		Samsung Securities Co., Ltd. and others	5,989	Deposits for futures margin and others
Financial assets at FVTPL	Financial institutions debt securities and others	Korea Securities Depository and others	9,878,857	Collateral repurchase agreement and others
AFS financial assets		Nomura Securities Co., Ltd. and others		
	Korean treasury and government agencies bonds		423,536	Related to bonds sold under repurchase agreements ^(*)
	Financial institutions debt securities and others	Bank of communications and others		
			1,528,889	Foreign currencies Long-term borrowings and others
HTM financial assets		Nomura Securities Co., Ltd. and others		
	Korean treasury and government agencies bonds		1,041,159	Related to bonds sold under repurchase agreements ^(*)
	Korean treasury and government agencies bonds and others	Bank of Korea and others		
			5,492,249	Limitation on total loan exposure and others
Loans		Postal Savings Bank of China and others	87,569	Collateral for borrowings
Land and building		Shinhan Card Co., Ltd. and others	92,747	Leasehold rights and others
		Total	18,550,995	

(*) A transferee has the right to sell and pledge the collateral without constraints.

(2) As of December 31, 2011 and 2012, asset acquired through a foreclosure is the building, whose carrying amounts are 555 million Won and 588 million Won, respectively.

(3) Loaned securities are as follows (Unit: Korean Won in millions):

		December 31, 2011	December 31, 2012	Loaned to
Financial assets at FVTPL	Korean treasury and government agencies bonds	49,917	109,921	Korea Money Brokerage Corp. and others
	Korean treasury and government agencies securities		28,646	Korea Securities Depository and others
AFS financial assets	Korean treasury and government agencies bonds	90,209	20,413	Korea Securities Depository and others
HTM financial assets	Korean corporates bonds	10,877	10,988	The Korea Securities Finance Corporation
		Total	151,003	169,968

Table of Contents

(4) Collaterals held with right to sell and pledge without constraints

Fair value of the collaterals held can be disposed and re-subjected to lien regardless of defaults as of December 31, 2011 and 2012 are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
	Fair value of collateral	Fair value of the collaterals held were disposed and re-subjected to lien
Securities	735,101	111,247
Securities	4,312,075	120,287

18. Other Assets

Other assets are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Prepaid expenses	249,702	224,441
Advance payments	16,513	67,854
Leased assets	3,403	146
Non-operative assets	555	588
Others	106,886	121,670
Total	377,059	414,699

19. Financial Liabilities at FVTPL

Financial liabilities at FVTPL consist of financial liabilities held for trading and financial liabilities designated at FVTPL.

(1) Financial liabilities held for trading are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Deposits due to Customers:		
Gold banking liabilities		5,583
Borrowings:		
Warrants in short position	10,309	5,327
Securities in short position	626,879	789,090
Sub-total	637,188	794,417
Derivative liabilities:		
Interest rate derivatives	1,670,845	1,894,530
Currency derivatives	1,689,844	1,401,426
Equity derivatives	516,834	409,535
Credit derivatives	21,559	16,639
Commodity derivatives	25,862	15,186

Sub-total	3,924,944	3,737,316
Total	4,562,132	4,537,316

F-79

Table of Contents

(2) Financial liabilities designated at FVTPL are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Borrowings:		
Equity linked securities in short position	4,634,724	6,067,539
Equity linked securities index in short position	102,483	65,456
Sub-total	4,737,207	6,132,995
Debentures:		
Debentures in local currency	226,432	227,920
Debentures in foreign currencies	95,775	87,534
Sub-total	322,207	315,454
Total	5,059,414	6,448,449

(3) Credit risk adjustments to financial liabilities designated at FVTPL are as follows (Unit: Korean Won in millions):

	December 31, 2010	December 31, 2011	December 31, 2012
Financial liabilities designated at FVTPL subject to credit risk adjustments	4,331,508	5,059,414	6,448,449
Credit risk adjustments	8,713	31,735	(29,555)
Accumulated changes in credit risk adjustments	3,147	34,882	5,327

Credit risk adjustments are applied to reflect the Group's own credit risk when measuring derivative liabilities at fair value. The methodology to determine the adjustment incorporates the Group's credit spread as observed through credit rating.

(4) Financial liabilities at FVTPL's carrying value and face amounts at maturity are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Carrying value	5,059,414	6,448,449
Nominal value at maturity	5,346,184	6,227,993
	(286,770)	220,456

Table of Contents**20. Deposits due to Customers**

(1) Deposits sorted by interest type are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Deposits in local currency		
Demand deposits	13,704,296	14,038,777
Time deposits	163,162,643	168,977,771
Mutual installments	104,402	80,106
Deposits on notes payables	3,135,424	3,446,887
Deposits on CMA	2,136,820	1,855,321
Certificate of deposits	1,850,221	1,907,353
Other deposits	1,235,462	1,204,510
Sub-total	185,329,268	191,510,725
Deposits in foreign currencies	10,638,470	11,430,372
Present value discount	(37,256)	(21,484)
Total	195,930,482	202,919,613

(2) Deposits by customers are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Individual	66,285,132	69,428,159
Corporation	55,802,501	59,804,439
Banks	24,481,309	24,224,499
Government agencies	13,602,836	14,866,816
Other financial institutions	9,796,912	11,028,181
Government	9,931,364	6,686,367
Non-profit corporation	6,461,592	6,653,508
Educational organization	3,276,295	3,403,914
Foreign corporations	1,340,651	1,533,983
Others	4,989,146	5,311,231
Present value discount	(37,256)	(21,484)
Total	195,930,482	202,919,613

Table of Contents**21. Borrowings and Debentures**

(1) Borrowings are as follows (Unit: Korean Won in millions):

		December 31, 2011		
		Lenders	Average annual interest rate (%)	Amount
Borrowings in local currency				
Borrowings of the Bank of Korea	The Bank of Korea		1.5	1,089,170
Borrowings from government funds	Korea Environment Management Corporation		2.1	2,119,147
Others	Korea Finance Corporation and others		3.2	6,842,681
Sub-total				10,050,998
Borrowings in foreign currencies				
Borrowings in foreign currencies	Wilshire State Bank and others		1.3	12,140,368
Offshore borrowings in foreign currencies	Korea Development Bank and others		1.0	5,767
Sub-total				12,146,135
Bills sold	Others		2.9	181,102
Call money	Banks		2.5	4,393,138
Bonds sold under repurchase agreements	Mirae Asset Management and others			7,898,553
Present value discount				(3,217)
Total				34,666,709

		December 31, 2012		
		Lenders	Average annual interest rate (%)	Amount
Borrowings in local currency				
Borrowings of the Bank of Korea	The Bank of Korea		1.3	957,978
Borrowings from government funds	Small & medium Business Corporation and others		1.8	2,045,373
Others	Seoul, Korea and others		3.2	7,580,355
Sub-total				10,583,706
Borrowings in foreign currencies				
Borrowings in foreign currencies	CommerzBank AG and others		1.2	8,611,913
Offshore borrowings in foreign currencies	Korea Development Bank and others		1.2	5,356

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Sub-total			8,617,269
Bills sold	Others	2.9	126,306
Call money	Banks	1.6	5,783,616
Bonds sold under repurchase agreements	Others		8,372,522
Present value discount			(4,734)
Total			33,478,685

F-82

Table of Contents

(2) Debentures are as follows (Unit: Korean Won in millions):

	December 31, 2011		December 31, 2012	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Face value of bond				
Ordinary bonds	0.5 ~ 10.5	21,757,317	1.3 ~ 10.5	19,524,504
Subordinated bonds	4.5 ~ 10.3	7,316,553	3.4 ~ 10.3	8,332,491
Other bonds		244,892		152,208
Sub-total		29,318,762		28,009,203
Discounts on bond		(52,929)		(49,234)
Total		29,265,833		27,959,969

(3) Borrowings from financial institutions are as follows (Unit: Korean Won in millions):

	December 31, 2011		
	Banks	Non-banks	Total
Borrowings in local currency	1,758,453	8,292,545	10,050,998
Borrowings in foreign currencies	6,694,915	5,451,220	12,146,135
Call money	1,276,638	3,116,500	4,393,138
Bonds sold under repurchase agreements	110,000	7,788,553	7,898,553
Total	9,840,006	24,648,818	34,488,824

	December 31, 2012		
	Banks	Non-banks	Total
Borrowings in local currency	1,836,673	8,747,033	10,583,706
Borrowings in foreign currencies	5,010,277	3,606,992	8,617,269
Call money	923,516	4,860,100	5,783,616
Bonds sold under repurchase agreements	90,000	8,282,522	8,372,522
Total	7,860,466	25,496,647	33,357,113

Borrowings from the Bank of Korea are 1,089,170 million Won and 957,978 million Won as of December 31, 2011 and 2012, respectively.

22. Provisions

(1) Provisions recognized are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Asset retirement obligation	20,662	22,024
Provisions for guarantee ^(*1)	464,687	421,520

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Provisions for loan commitment	134,530	158,395
Provision for credit card points	1,387	7,181
Other provisions ^(*2)	271,042	254,538
Total	892,308	863,658

(*1) Provisions for guarantee includes provisions for financial guarantee of 200,246 million Won and 105,842 million Won as of December 31, 2011 and 2012, respectively.

(*2) Others provisions include provision for litigations.

F-83

Table of Contents

(2) Changes in provisions except for asset retirement obligation are as follows (Unit: Korean Won in millions):

	For the year ended December 31, 2010				Total
	Provisions for guarantee	Provisions for loan commitment	Provisions for credit card points	Other provisions	
Beginning balance	293,321	202,980	11,664	161,828	669,793
Provisions provided	207,059	4,240	22,601	93,224	327,124
Provisions used	(22,704)	(40)	(22,844)	20,819	(24,769)
Reversal of unused amount	(167,955)	(38,941)		(30,155)	(237,051)
Ending balance	309,721	168,239	11,421	245,716	735,097

	For the year ended December 31, 2011				Total
	Provision for guarantee	Provision for unused commitment	Provision for credit card points	Other provision	
Beginning balance	309,721	168,239	11,421	245,716	735,097
Provisions provided	156,749	5,317	9,342	47,583	218,991
Provisions used	14,932	23	(19,360)	(14,099)	(18,504)
Reversal of unused amount	(16,715)	(39,049)	(16)	(8,158)	(63,938)
Ending balance	464,687	134,530	1,387	271,042	871,646

	For the year ended December 31, 2012				Total
	Provision for guarantee	Provision for unused commitment	Provision for credit card points	Other provision	
Beginning balance	464,687	134,530	1,387	271,042	871,646
Provisions provided	46,572	27,316	27,157	54,211	155,256
Provisions used	(8,515)	(300)	(21,363)	(48,918)	(79,096)
Reversal of unused amount	(81,224)	(3,151)		(21,797)	(106,172)
Ending balance	421,520	158,395	7,181	254,538	841,634

(3) Changes in details of asset retirement obligation are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Beginning balance	23,728	25,958	20,662
Provisions provided	1,706	2,335	5,121
Provisions used	(457)	(488)	(1,421)
Depreciation	1,010	449	515
Reversal of unused amount	(29)	(176)	(4,433)
Decrease in restoration costs		(7,416)	1,580
Ending balance	25,958	20,662	22,024

23. Retirement Benefit Obligation

Employees and directors with one or more years of service are entitled to receive a payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. The assets of the plans are measured at their fair value at the end of reporting date. Plan liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the plan liabilities.

Table of Contents

(1) Retirement benefit obligation is as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Projected retirement benefit obligation	365,714	562,285
Fair value of plan assets	(246,010)	(395,989)
Liability recognized	119,704	166,296

(2) Changes in carrying value of retirement benefit obligation are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Beginning balance	336,651	227,729	365,714
Current service cost	123,426	126,281	136,628
Interest cost	10,364	11,604	16,534
Actuarial loss	1,228	21,756	67,290
Foreign currencies translation adjustments	3	103	2
Retirement benefit paid	(132,668)	(20,476)	(23,445)
Past service cost			232
Curtailement or settlement	(116,387)	(1,565)	(2,208)
Others	5,112	282	1,538
Ending balance	227,729	365,714	562,285

(3) Changes in plan assets are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Beginning balance	213,640	157,780	246,010
Expected return plan assets	7,948	8,211	14,620
Actuarial loss	(1,127)	(2,037)	(1,227)
Employer's contributions	78,440	89,125	152,090
Retirement benefit paid	(27,143)	(7,736)	(13,144)
Curtailement or settlement	(113,425)	(1,265)	(2,055)
Others	(553)	1,932	(305)
Ending balance	157,780	246,010	395,989

(4) Plan assets consist of mainly deposits which accounts for 93.59% and 89.76% of plan asset as of December 31, 2011 and 2012 respectively. Among plan asset, realized return on plan assets are 6,821 million Won, 6,174 million Won and 13,393 million Won of plan asset for the years ended December 31, 2010, 2011 and 2012, respectively.

Table of Contents

- (5) Current service cost, interest expense, expected return on plan assets, actuarial loss, past service cost and loss on curtailment or settlement recognized in the consolidated statements of comprehensive income are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Current service cost	123,426	126,281	136,628
Interest expense	10,364	11,604	16,534
Expected return on plan assets	(7,948)	(8,211)	(14,620)
Actuarial loss	2,355	23,793	68,517
Past service cost			232
Loss on the curtailment or settlement	(2,962)	(300)	(42)
Total	125,235	153,167	207,249

Defined Contribution retirement benefits are 627 million Won, 5,021 million Won and 5,075 million Won for the year ended December 31, 2010, 2011 and 2012.

- (6) Actuarial assumptions used in retirement benefit obligation assessment are as follows:

	December 31, 2010	December 31, 2011	December 31, 2012
Discount rate	5.65%	4.76%	3.82%
Inflation rate	3.20%	2.30%	2.35%
Expected rate of return on plan assets	4.24%	4.49%	4.49%
Future wage growth rate	5.74%	5.31%	5.66%
Mortality rate	Issued by Korea Insurance Development Institute	Issued by Korea Insurance Development Institute	Issued by Korea Insurance Development Institute

24. Other Financial Liabilities and Other Liabilities

Other financial liabilities and other liabilities are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Other financial liabilities:		
Payables	7,431,428	14,059,734
Accrued expenses	3,374,174	3,329,154
Borrowings from trust accounts	2,485,088	3,671,561
Refundable lease deposits	184,886	187,534
Agency business revenue	211,227	454,595
Foreign exchange payables	696,505	877,448
Domestic exchange payables	3,109,576	313,426
Miscellaneous liabilities	1,590,825	2,586,375
Sub-total	19,083,709	25,479,827
Other liabilities:		
Deferred Income	264,121	202,401
Other miscellaneous liabilities	305,662	305,267
Sub-total	569,783	507,668

Total	19,653,492	25,987,495
-------	------------	------------

F-86

Table of Contents**25. Derivatives**

(1) Derivative assets and derivative liabilities are as follows (Unit: Korean Won in millions):

	December 31, 2011								
	Assets				Liabilities				
	Nominal amount	Fair value hedge	Cash flow hedge	Foreign hedge	For trading	Fair value hedge	Cash flow hedge	Foreign hedge	For trading
Interest rate:									
Interest rate swap	176,582,515	326,005			1,516,621	348	23,978		1,639,921
Interest rate futures	298,253								
Long interest rate options	2,445,000				36,254				
Short interest rate options	2,771,136								30,924
Currency:									
Currency forwards	40,801,384			835	836,348			9,167	347,213
Currency swaps	27,763,127				973,215				1,315,693
Currency futures	1,086,199								
Long currency option	1,957,680				396,268				
Short currency option	1,890,912								26,938
Stock Index:									
Stock index futures	18,946								
Long index stock	740,808				59,092				
Short index stock	1,281,750								262,981
Stock index swaps	2,396,314				36,441				253,853
Others:									
Long option	234,408				17,771				
Short option	239,000								11,911
Other forwards	10,516				239				253
Other swaps	157,937				27,648				35,148
Other futures	299								109
Total	260,676,184	326,005		835	3,899,897	348	23,978	9,167	3,924,944

Table of Contents

December 31, 2012

	Assets				Liabilities				
	Nominal Amount	Fair value hedge	Cash flow hedge	Foreign hedge	For trading	Fair value hedge	Cash flow hedge	Foreign hedge	For trading
Interest rate:									
Interest rate swap	148,281,601	267,470			1,794,918	6,158	22,196		1,873,295
Interest rate futures	226,263								
Long interest rate options	1,755,000				25,710				
Short interest rate options	1,532,297								21,235
Currency:									
Currency forwards	47,790,350	32		13,567	535,790			306	518,226
Currency swaps	21,319,195				856,997				863,105
Currency futures	1,691,244								
Long currency option	1,146,439				171,884				
Short currency option	1,144,362								20,095
Stock Index:									
Stock index futures	34,593								
Long index stock	675,016				128,690				
Short index stock	1,191,741					9,340			317,822
Stock index swaps					180,391				91,713
Others:									
Long option	164,638				3,815				
Short option	180,594								2,074
Other forwards	14,896				139				285
Other swaps	56,387				40,714				28,987
Other futures					1,265				479
Total	226,969,616	267,502		13,567	3,740,313	15,498	22,196	306	3,737,316

Derivatives held for trading purpose are classified into financial assets or liabilities at FVTPL and derivatives for hedging are stated as a separate line item in the consolidated statements of financial position (see Notes 7 and 19).

(2) Gains or losses on valuation of derivatives applied hedge accounting are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Gains or losses from hedged items	(121,565)	(191,961)	4,846
Gains or losses from hedging instruments	76,923	173,252	(11,899)
Gains or losses from ineffective portion of hedges of a net investment in foreign operations	804	705	1,912

Table of Contents**26. Day 1 Profit and Loss**

Changes in details of deferred day 1 profits and losses are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Beginning balance		30,869	54,732
New transactions			
Financial assets at FVTPL	(38,888)	2,618	(65,510)
Financial liabilities at FVTPL	75,802	54,687	114,917
Sub-total	37,414	57,305	49,407
Amounts Recognized in profits and losses			
Financial assets at FVTPL	4,717	7,797	11,012
Financial liabilities at FVTPL	(11,262)	(41,239)	(49,884)
Sub-total	(6,545)	(33,442)	(38,872)
Ending balance	30,869	54,732	65,267

Although no observable elements were available in market transaction to determine fair values of financial instruments, valuation techniques were utilized to measure fair values of such instruments. These financial instruments are recorded at their fair values at the time of purchase even though there were differences noted on the transaction price and fair value obtained from valuation techniques. The table above shows the differences yet to be recognized as profits and losses and the details.

27. Capital Stock and Capital Surplus

(1) The number of authorized shares is as follows:

	December 31, 2011	December 31, 2012
Authorized shares of common stock	2,400,000,000 shares	2,400,000,000 shares
Par value	5,000 Won	5,000 Won
Issued shares of common stock	806,015,340 shares	806,015,340 shares

(2) Capital surplus are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Capital in excess of par value	109,025	109,025
Other capital surplus	66,743	65,019
Total	175,768	174,044

Table of Contents**28. Hybrid Securities**

The bond-type hybrid securities classified as owners' equity are as follows (Unit: Korean Won in millions):

	Issuance date	Maturity	Annual interest rate (%)	December 31, 2011	December 31, 2012
The 1st bond-type hybrid securities	November 22, 2011	November 22, 2041	5.91	310,000	310,000
The 2nd bond-type hybrid securities	March 8, 2012	March 8, 2042	5.83		190,000
Issuance cost				(990)	(1,593)
Total				309,010	498,407

Although these instruments have contractual maturity dates and stipulated contractual interest payments, the contractual agreements allow the Company to indefinitely extend the maturity date and defer the payment of interest without a modification of the other terms of the instrument such as interest rate, etc. If the Company makes a resolution not to pay dividends on ordinary stock, and then, the Company is exonerated from interest payment on the hybrid securities.

29. Other Equity

(1) Other equity consists of as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Other comprehensive income:		
Gain (loss) of available-for-sale financial assets	647,482	311,794
Share of other comprehensive gain (loss) of jointly controlled entities and associates	4,940	12,128
Gain (loss) on overseas business translation	(2,772)	(84,577)
Gain (loss) on cash flow hedges	4,336	8,693
Sub-total	653,986	248,038
Treasury shares(*)	(14)	(14)
Other capital adjustments	(67,551)	(62,074)
Total	586,421	185,950

(*) As of December 31, 2011 and 2012, the Group holds 1,999 shares (14 million Won) and 2,000 shares (14 million Won) of its treasury shares, respectively through acquired as a buyback of odd-lot share when exchanging the stock of Woori Investment & Securities.

Table of Contents

(2) Changes in accumulated other comprehensive income are as follows (Unit: Korean Won in millions):

	For the year ended December 31, 2010				
	Beginning balance	Increase (decrease) on valuation	Reclassification adjustments	Income tax effect	Ending balance
Gain (loss) of available-for-sale financial assets	1,257,695	257,794	(534,883)	70,613	1,051,219
Share of other comprehensive gain (loss) of jointly controlled entities and associates	46,081	(27,189)		6,078	24,970
Gain (loss) on overseas business translation	(378)	(15,995)		152	(16,221)
Gain (loss) on cash flow hedges	(5,112)	11,899	(3,994)	(1,606)	1,187
Total	1,298,286	226,509	(538,877)	75,237	1,061,155

	For the year ended December 31, 2011				
	Beginning balance	Increase (decrease) on valuation	Reclassification adjustments	Income tax effect	Ending balance
Gain (loss) of available-for-sale financial assets	1,051,219	100,201	(576,844)	72,906	647,482
Share of other comprehensive gain (loss) of jointly controlled entities and associates	24,970	(1,555)	(24,787)	6,312	4,940
Gain (loss) on overseas business translation	(16,221)	15,244		(1,795)	(2,772)
Gain (loss) on cash flow hedges	1,187	1,552	(749)	2,346	4,336
Total	1,061,155	115,442	(602,380)	79,769	653,986

	For the year ended December 31, 2012				
	Beginning balance	Increase (decrease) on valuation	Reclassification adjustments	Income tax effect	Ending balance
Gain (loss) of available-for-sale financial assets	647,482	87,938	(538,339)	114,713	311,794
Share of other comprehensive gain (loss) of jointly controlled entities and associates	4,940	10,094		(2,906)	12,128
Gain (loss) on overseas business translation	(2,772)	(107,113)		25,308	(84,577)
Gain (loss) on cash flow hedges	4,336	3,477	252	628	8,693
Total	653,986	(5,604)	(538,087)	137,743	248,038

30. Retained Earnings

(1) Retained earnings are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Legal reserves	1,005,401	1,035,849
Voluntary reserves	8,256,000	8,528,008
Retained earnings carried forward	3,161,321	4,213,265
	12,422,722	13,777,122

Pursuant to Article 53 of the Financial Holding Company Act, legal reserves are appropriated at no less than 10% of net income until reaching an amount equal to the Company's capital.

Table of Contents

(2) Changes in retained earnings are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Beginning balance	9,280,347	10,489,339	12,422,722
Net income	1,288,856	2,136,828	1,583,580
Dividends on common stock	(80,601)	(201,503)	(201,503)
Dividends on hybrid securities		(1,942)	(27,336)
Others	737		(341)
Ending balance	10,489,339	12,422,722	13,777,122

31. Planned Regulatory Reserve for Credit Loss

In accordance with the Regulations for Supervision of Financial Holding Companies (RSFHC), if the estimated allowance for credit loss determined in accordance with IAS 39 *Financial instruments: Recognition and Measurement* is lower than those in accordance with the RSFHC, the Group shall disclose the difference as the regulatory reserve for credit loss.

(1) Regulatory reserve for credit loss is as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Controlling interests	1,339,430	1,638,826
Non-controlling interests	12,336	45,519
	1,351,766	1,684,345

(2) Reserve, net income attributable to shareholders and earning per share after the reserve provided are as follows (Unit: Korean Won in millions, except for earning per share):

	For the years ended December 31		
	2010	2011	2012
Planned regulatory reserve for credit loss	(553,010)	(798,756)	(299,396)
Net income after the planned reserve provided	735,846	1,338,072	1,284,184
Earnings per share after the planned reserve provided ^(*)	913	1,658	1,559

(*) Earnings per share after the planned reserve provided is calculated by deducting dividends on hybrid securities from net income after the planned reserve provided.

32. Dividends

The Group determined and paid 201,503 million Won (250 Won per share) as the dividend for fiscal year 2011. The Group determines and is about to pay 201,503 million Won (250 Won per share) as the dividend for fiscal year 2012.

Table of Contents**33. Net Interest Income**

(1) Interest income recognized are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Financial assets at FVTPL:			
Debt securities			
Korean treasury and government agencies	222,403	143,280	156,388
Financial institutions	154,922	160,856	171,697
Corporates	130,150	128,533	143,154
CP	80,447	111,114	112,469
Interest of other FVTPL financial assets	106,865	115,762	96,266
Sub-total	694,787	659,545	679,974
AFS financial assets:			
Debt securities			
Korean treasury and government agencies	140,849	158,953	148,403
Financial institutions	195,542	212,053	207,561
Corporates	72,906	95,408	169,636
Asset-backed securities	9,550	1,826	556
Foreign currency bonds	10,924	5,817	7,781
Beneficiary certificates	1,799	1,067	
Interest of other AFS financial assets	4,695	4,644	9,075
Sub-total	436,265	479,768	543,012
HTM financial assets:			
Debt securities			
Korean treasury and government agencies	208,842	326,630	344,764
Financial institutions	416,257	261,841	160,377
Corporates	165,090	282,268	318,929
Others		709	
Foreign currency bonds	10,568	8,306	3,466
Sub-total	800,757	879,754	827,536
Loans and receivables:			
Interest on due from banks	116,059	169,268	269,426
Interest on loans	11,876,850	12,725,160	12,594,090
Interest of other receivables	132,509	131,351	105,944
Sub-total	12,125,418	13,025,779	12,969,460
Total	14,057,227	15,044,846	15,019,982

(2) Interest expense recognized are as follows (Unit: Korean Won in millions):

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

	For the years ended December 31		
	2010	2011	2012
Interest on deposits due to customers	4,976,121	5,298,071	5,429,956
Interest on borrowings	728,077	815,043	770,127
Interest on debentures	1,807,874	1,551,286	1,424,096
Other interest expense	117,840	116,051	128,700
Total	7,629,912	7,780,451	7,752,879

F-93

Table of Contents**34. Net Fees and Commissions Income**

(1) Fees and commissions income recognized are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Banking fees:			
Banking fees ^(*)	750,066	814,677	859,229
Guarantee fees	111,132	104,327	118,440
Fees from project financing	20,004	27,080	30,096
Sub-total	882,202	946,084	1,007,765
Other fees:			
Credit card fees	16,624	39,656	41,260
CMA management fees	6,131	5,553	4,451
Lease	25,626	12,854	11,702
Brokerage fees	630,540	650,155	473,601
Others	126,916	120,132	128,387
Sub-total	805,837	828,350	659,401
Total	1,688,039	1,774,434	1,667,166

(*) Banking fees include agency commission, fees income from electronic finance, fees income related to loan, fees for import letter of credit dealing, commission received on foreign exchange and others.

(2) Fees and commissions expense incurred are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Fees paid	106,894	121,029	136,316
Credit card commission	368,042	384,503	439,428
Brokerage commission	89,778	60,821	75,252
Others	7,551	12,589	12,680
Total	572,265	578,942	663,676

35. Dividend Income

Dividend income recognized are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Dividend of financial assets at FVTPL	38,770	17,769	39,082

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Dividend of AFS financial assets	162,010	185,236	124,043
Total	200,780	203,005	163,125

F-94

Table of Contents**36. Gain (Loss) on Financial Assets at FVTPL**

(1) Gain (loss) on financial assets held for trading are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Gain (loss) on valuation and disposal of securities:			
Gain (loss) on redemption of securities	(24,347)	12,212	(7,929)
Gain (loss) on transaction of securities	245,315	(27,877)	169,318
Gain on valuation of securities	93,172	41,780	46,397
Sub-total	314,140	26,115	207,786
Gain (loss) on derivatives:			
Gain (loss) on transaction of derivatives			
Interest rate derivatives	(128,998)	(84,074)	(101,209)
Currency derivatives	(41,969)	83,215	(2,891)
Equity derivatives	178,493	5,163	90,839
Other derivatives	20,077	6,681	3,620
Sub-total	27,603	10,985	(9,641)
Gain (loss) on valuation of derivatives			
Interest rate derivatives	(143,946)	50,563	(17,514)
Currency derivatives	137,499	37,539	(182,994)
Equity derivatives	118,135	(223,142)	385,548
Other derivatives	(12,507)	(17,451)	26,667
Sub-total	99,181	(152,491)	211,707
Total	440,924	(115,391)	409,852

(2) Gain (loss) on valuation of financial assets designated at FVTPL is as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Gain (loss) on redemption of securities	114,249	17,742	16,514
Gain (loss) on valuation of securities	3,192	(73,778)	137,161
Gain (loss) on transaction of other financial assets designated at FVTPL	(346,216)	(118,209)	(284,824)
Gain (loss) on valuation of other financial assets designated at FVTPL	(183,075)	409,039	(572,172)
Total	(401,850)	234,794	(703,321)

37. Gain (Loss) on Available for Sale Financial Assets

Gain (loss) on AFS financial assets recognized in statements of comprehensive income is as follows (Unit: Korean Won in millions):

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

	For the years ended December 31		
	2010	2011	2012
Gain (loss) on redemption of securities	8,715	(267)	16
Gain on transaction of securities	1,102,871	1,338,821	713,177
Impairment loss on securities	(38,117)	(265,677)	(147,032)
Total	1,073,469	1,072,877	566,161

F-95

Table of Contents**38. Impairment Losses on Credit Loss**

Impairment losses for loans, other receivables, guarantees and unused commitment recognized for credit loss are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Provision for credit loss	3,007,446	2,240,657	2,174,095
Reversal of provision for credit loss	(138,906)	(78,032)	(42,506)
Sub-Total	2,868,540	2,162,625	2,131,589
Provision for guarantee	207,059	156,749	46,572
Reversal of provision for guarantee	(167,955)	(16,715)	(81,224)
Sub-Total	39,104	140,034	(34,652)
Provision for loan commitment	4,240	5,317	27,316
Reversal of provision for loan commitment	(38,941)	(39,049)	(3,151)
Sub-Total	(34,701)	(33,732)	24,165
Total	2,872,943	2,268,927	2,121,102

39. Other Net Operating Incomes (Expenses)

(1) Other operating incomes recognized are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Gain on transaction of FX	7,585,168	8,292,591	2,498,793
Gain on translation of FX	41,073	46,882	26,059
Gain on loan sales	173,231	62,157	160,662
Gain on transactions of hedging derivatives	7,684	233	4,496
Gain on valuations of hedging derivatives	121,434	187,038	40,072
Gain on fair value hedged items	36,691	3,876	43,725
Reversal of other provisions	30,185	8,350	25,069
Others	31,508	25,217	178,335
Total	8,026,974	8,626,344	2,977,211

(2) Other operating expenses recognized are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Administrative expenses	3,312,127	3,775,729	3,956,278

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Loss on transaction of FX	7,321,097	8,185,494	2,207,497
Loss on translation of FX	63,830	35,226	44,539
KDIC deposit insurance fees	211,583	247,596	268,260
Contribution to miscellaneous funds	338,568	357,801	378,613
Loss on loan sales	205,677	231,116	147,461
Loss on transactions of hedging derivatives	27,525	5,641	24,461
Loss on valuations of hedging derivatives	24,670	8,378	32,006
Loss on fair value hedged items	158,256	195,837	38,879
Other provision	115,842	59,260	81,385
Others	83,037	24,885	154,579
Total	11,862,212	13,126,963	7,333,958

F-96

Table of Contents

(3) Administrative expenses recognized are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Short term employee benefits	1,394,473	1,621,347	1,623,502
Retirement benefit service costs	125,862	158,188	212,324
Fringe benefits	349,771	389,055	437,974
Depreciation and amortization	242,839	264,610	284,930
Rent	225,457	232,733	256,420
Taxes and dues	148,785	165,468	159,444
Service charges	176,647	200,503	226,777
IT expenses	102,901	112,742	116,112
Telephone and communication expenses	65,960	69,501	78,257
Operating promotion expenses	57,583	67,517	73,870
Advertising	110,556	118,627	103,459
Printing	16,856	16,612	16,836
Traveling expenses	14,777	16,589	16,046
Supplies	10,716	11,469	12,433
Insurance premium	8,481	7,740	7,173
Others	260,463	323,028	330,721
Total	3,312,127	3,775,729	3,956,278

40. Other Non-Operating Income (Expense)

(1) Other non-operating income recognized are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Rental fee income	18,511	16,520	13,997
Gain on disposal of investment in jointly controlled entities and associates	175	61,071	28,627
Gain on disposal of premises and equipment and other assets	4,764	71,725	4,669
Reversal of impairment loss of premises and equipment and other assets	3,146	791	3,700
Others	51,518	78,541	125,098
Total	78,114	228,648	176,091

(2) Other non-operating expense recognized are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Expense on Investment properties	13,831	9,061	7,736
Loss on disposal of investment in jointly controlled entities and associates	69	40	19,807
Loss on disposal of premises and equipment and other assets	7,933	6,206	3,335
Impairment loss of premises and equipment and other assets	15,331	18,875	17,731
Donation	80,862	61,553	92,557
Others	39,471	57,948	40,899

Total	157,497	153,683	182,065
-------	---------	---------	---------

F-97

Table of Contents**41. Income Tax Expense**

(1) Income tax expense is as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Current tax expense			
Current tax expense in respect of the current year	493,046	632,342	592,416
Adjustments recognized in the current period in relation to the current tax of prior periods	(56,296)	5,360	(26,179)
Sub-total	436,750	637,702	566,237
Deferred tax expense			
Deferred tax expense (income) relating to the origination and reversal of temporary differences	(13,866)	26,622	(210,591)
Deferred tax reclassified from other comprehensive income to net income	75,237	79,769	137,743
Sub-total	61,371	106,391	(72,848)
Income tax expense	498,121	744,093	493,389

(2) Income tax expense can be reconciled to net income as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Net income before income tax expense	2,098,795	3,177,373	2,291,264
Tax calculated at statutory tax rate ^(*)	507,882	768,898	554,024
Adjustments			
Effect of income that is exempt from taxation	(56,917)	(102,971)	(81,848)
Effect of expenses that are not deductible in determining taxable profit	102,922	87,922	46,920
Effect on deferred tax balance due to the change in income tax rate	(10,471)	(12,856)	
Adjustments recognized in the current period in relation to the current tax of prior periods	(56,296)	5,360	(26,179)
Others	11,001	(2,260)	472
Sub-total	(9,761)	(24,805)	(60,635)
Income tax expense	498,121	744,093	493,389
Effective tax rate	23.73%	23.42%	21.53%

(*) Income tax rate for 200 million Won and below was 11%, and for over 200 million Won was 24.2%, which is composed of corporate tax and local income tax for the year ended December 31, 2010 and 2011. Income tax rate for 200 million Won and below is 11%, for over 200 million Won up to 20 billion Won is 22%, and for over 20 billion Won is 24.2%, which is composed of corporate tax and local income tax for the year ended December 31, 2012.

Table of Contents

(3) Deferred tax assets and liabilities are as follows (Unit: Korean Won in millions):

	For the year ended December 31, 2010			Ending balance
	Beginning balance	Recognized as income (loss)	Recognized as other comprehensive income (loss)	
Gain (loss) on financial assets at FVTPL	199,442	(28,453)		170,989
Gain (loss) on available-for-sale financial assets	(398,133)	(38,699)	70,613	(366,219)
Gain (loss) on valuation using the equity method of accounting	31,491	(33,595)	6,078	3,974
Gain (loss) on valuation of derivatives	(67,245)	(34,405)	(1,606)	(103,256)
Accrued income	(27,666)	(55,489)		(83,155)
Allowance for credit losses	(149,995)	231,155		81,160
Loan and receivables written off	67,157	(12,835)		54,322
Loan origination costs and fees	(30,372)	(2,976)		(33,348)
Deposits with employee retirement insurance trust	(44,257)	16,376		(27,881)
Provision for guarantee	83,998	(35,263)		48,735
Other provision	94,282	(4,417)		89,865
Others	73,603	(62,770)	152	10,985
Net deferred tax assets (liabilities)	(167,695)	(61,371)	75,237	(153,829)

	For the year ended December 31, 2011			Ending balance
	Beginning balance	Recognized as income (loss)	Recognized as other comprehensive income (loss)	
Gain (loss) on Financial Assets at FVTPL	170,989	36,789		207,778
Gain (loss) on available-for-sale financial assets	(366,219)	48,301	72,906	(245,012)
Gain (loss) on valuation using the equity method of accounting	3,974	26,673	6,312	36,959
Gain (loss) on valuation of derivatives	(103,256)	(44,585)	2,346	(145,495)
Accrued income	(83,155)	(26,001)		(109,156)
Allowance for credit losses	81,160	(72,734)		8,426
Loan and receivables written off	54,322	(46,567)		7,755
Loan origination costs and fees	(33,348)	(10,619)		(43,967)
Deposits with employee retirement insurance trust	(27,881)	(16,648)		(44,529)
Provision for guarantee	48,735	7,599		56,334
Other provision	89,865	(6,065)		83,800
Others	10,985	(2,534)	(1,795)	6,656
Net deferred tax assets (liabilities)	(153,829)	(106,391)	79,769	(180,451)

Table of Contents

	For the year ended December 31, 2012			Ending balance
	Beginning balance	Recognized as income (loss)	Recognized as other comprehensive income (loss)	
Gain (loss) on financial assets at FVTPL	207,778	22,269		230,047
Gain (loss) on available-for-sale financial assets	(245,012)	30,288	114,713	(100,011)
Gain (loss) on valuation using the equity method of accounting	36,959	18,258	(2,906)	52,311
Gain (loss) on valuation of derivatives	(145,495)	84,846	628	(60,021)
Accrued income	(109,156)	(44,242)		(153,398)
Allowance for credit losses	8,426	(16,268)		(7,842)
Loan and receivables written off	7,755	2,857		10,612
Loan origination costs and fees	(43,967)	(29,292)		(73,259)
Deposits with employee retirement insurance trust	(44,529)	(49,383)		(93,912)
Provision for guarantee	56,334	23,815		80,149
Other provision	83,800	17,316		101,116
Others	6,656	12,384	25,308	44,348
Net deferred tax assets (liabilities)	(180,451)	72,848	137,743	30,140

(4) Unrealizable temporary differences are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Deductible temporary differences		
Allowance for credit losses	41,741	46,899
Investments in subsidiaries	79,527	78,953
Sub-total	121,268	125,852
Unused tax losses	235,404	294,863
Taxable temporary differences		
Investments in subsidiaries	(13,980,931)	(14,807,393)
Total	(13,624,259)	(14,386,678)

The unused tax losses of 12,562 million Won, 172,203 million Won and 110,098 million Won will be expired at the end of years 2013, 2019 and 2020, respectively.

(5) Deferred tax reclassified from other comprehensive income is as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Gain (loss) on available-for-sale financial assets	(252,247)	(137,534)
Share of other comprehensive gain (loss) of jointly controlled entities and associates	(1,154)	(4,060)
Gain (loss) on overseas business translation	(656)	24,652
Gain (loss) on valuation of cash flow hedges	(911)	(283)
Total	(254,968)	(117,225)

Table of Contents

(6) Current tax assets and liabilities are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Current tax assets	56,570	37,792
Current tax liabilities	274,257	178,793

(7) Deferred tax assets and liabilities are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Deferred tax assets	79,980	155,086
Deferred tax liabilities	260,431	124,946
Net deferred tax liabilities	(180,451)	30,140

42. Earnings Per Share (EPS)

Basic EPS is calculated by dividing net income by weighted average number of common shares outstanding (Unit: Korean Won in millions except for EPS):

	For the years ended December 31		
	2010	2011	2012
Net income attributable to common shareholders	1,288,856	2,136,828	1,583,580
Dividends to hybrid securities		(1,942)	(27,336)
Net income attributable to common shareholders	1,288,856	2,134,886	1,556,244
Weighted average number of common shares outstanding	806,012,779 shares	806,012,901 shares	806,013,341 shares
Basic EPS	1,599	2,649	1,931

Diluted EPS is equal to basic EPS because there is no dilution effect for the years ended December 31, 2010, 2011 and 2012, respectively.

43. Contingent Liabilities and Commitments

(1) Guarantees are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Confirmed guarantees		
Guarantee for debenture issuances	135	
Guarantee for loans	290,799	172,177
Acceptances	840,437	622,106
Letters of guarantees	142,073	124,531
Other confirmed guarantees	10,297,667	8,851,336
Total	11,571,111	9,770,150
Unconfirmed guarantees		
Local letter of credit	1,003,258	852,840
Letter of credit	4,837,106	5,795,397
Other unconfirmed guarantees	3,133,110	2,368,781

Total	8,973,474	9,017,018
CP purchase commitments and others	6,157,569	4,948,243

F-101

Table of Contents

(2) Loan commitments and others are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Loan commitments	88,400,600	91,362,821
Other commitments	10,035,221	6,666,254

(3) Litigation case

The Group had filed lawsuits as follows (Unit: Korean Won in millions):

	December 31, 2011		December 31, 2012	
	As plaintiff	As dependent	As plaintiff	As dependent
Number of cases	804 cases	292 cases	925 cases	504 cases
Amount of litigation	1,144,087	788,852	1,606,756	1,003,880
Allowances for litigations		261,508		243,745

As of December 31, 2012, major lawsuits which the Group is facing, are due to a financial incident by structured finance s division of 2010 Gongpyung 1st Co., Ltd. amounting to 65,000 million Won (Kyungnam Bank), non-existent debts imposed on 408 customers amounting to 53,100 million Won (Woori Bank and 6 companies including Nonghyup), payment of seized deposit of Seocho District Tax Office amounting to 45,000 million Won (Woori Bank) and lawsuits related to mortgage registration expenses upon issuing mortgage loans amounting to 12 billion Won (Woori Bank, Kyungnam Bank, Kwangju Bank, and 13 other banks)

Pending items from payment orders for unpaid credit card receivables from individuals are not included on the litigations as of December 31, 2011 and 2012 as the payment orders have been made through an electronic payment order system not suing through courts since 2011. The Group does not expect any impact on the financial statements as of December 31, 2011 and 2012 from these cases.

44. Lease

(1) Operating lease

Minimum lease payments collection under the operating lease agreement is as follows (Unit: Korean Won in millions):

	December 31, 2011		December 31, 2012	
	Local currencies	Foreign currencies	Local currencies	Foreign currencies
1 year or less	155	1,844	66	
1 - 2 years	66			
Total	221	1,844	66	

Table of Contents

(2) Finance lease receivables

Present value of gross investment and minimum lease payments are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
1 year or less	301,025	309,380
1 - 2 years	242,867	227,324
2 - 3 years	152,402	128,413
3 - 4 years	23,000	21,090
More than 5 years	3,715	1,794
Gross investment in lease	723,009	688,001
Unrealized interest revenue	(78,463)	(68,789)
Net investment in lease	644,546	619,212
Receivables of cancellable lease	673	3,851
Costs of finance lease	16,545	16,666
Receivables of finance lease	661,764	639,729
Allowance for credit losses	(3,831)	(2,971)
Total	657,933	636,758

(3) Finance lease liabilities

Present value of minimum lease payments under the finance lease agreement are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
1 year or less	34,151	25,333
1 - 5 years	48,535	42,540
Sub-total	82,686	67,873
Present value discount	(5,767)	(4,475)
Present value	76,919	63,398

Table of Contents**45. Related Party Transactions**

Related parties of the Group and major transactions with related parties during the current and prior period are as follows:

(1) Related parties

Government related entity:
(Ultimate controlling party)

KDIC

Jointly controlled entities:

Woori Aviva Life Insurance Co., Ltd., Woori Renaissance Holdings

Associates:

Woori Blackstone Korea Opportunity First, Korea Credit Bureau Co., Ltd., Woori Service Networks Co., Ltd., Korea Finance Security Co., Ltd., Kumho Tires Co., Ltd., LIG E & C Co., Ltd., Hyunjin Co., Ltd., Chungdo Woori Century Security Co., Ltd., Seoul Lakeside Co., Ltd., Orient Shipyard Co., Ltd., Phoenix Digital Tech Co., Ltd., Chinhung International Inc., Pi CITY Co., Ltd., Poonglim industrial Co., Ltd., CNK Co., Ltd., United PF 1st Corporate Financial Stability, Woori SB Fifth Asset Securitization Specialty and 20 SPCs for the rest.

(2) Assets and liabilities from transactions with related parties are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012
Government related entity		
Loans and receivables	1,000,000	133,853
Allowance for credit losses	(337)	
Other financial assets	901,780	1,058,731
Other assets		960
Deposits due to customers	251,916	590,061
Provision		377
Other financial liabilities	328	3,456
Other liabilities	690	1,783
Jointly controlled entities		
AFS financial assets	5,787	11
Loans and receivables	8,170	8,571
Allowance for credit losses	(110)	(149)
Other assets	83	295
Deposits due to customers	1,575	1,079
Other financial liabilities	1	280
Other liabilities	234	234
Associates		
AFS financial assets	54,474	148,373
Loans and receivables	474,137	827,730
Allowance for credit losses	(58,435)	(74,729)
Other assets		649
Deposits due to customers	77,712	91,047
Provision	1,907	141
Other financial liabilities	1,061	548
Other liabilities	288	

Table of Contents

(3) Gain or loss from transactions with related parties are as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Government related entity			
Interest income	5,865	66,217	47,073
Interest expense	2,711	9,482	7,497
Provision for credit loss		457	(281)
Other operating expenses	1,970	1,455	
Jointly controlled entities			
Fees and commissions income	14,729	17,565	18,298
Other operating incomes	3,283	4,911	3,879
Interest expense	165	27	18
Provision for credit loss	128	3	37
Fees and commissions expense	28	25	
Other operating expenses	212	167	568
Associates			
Interest income	14,222	17,047	13,638
Fees and commissions income	5,835	7,748	8,827
Other operating gain	11,924	14,327	13,077
Interest expense	620	1,569	979
Provision for credit loss	30,033	2,420	10,350
Fees and commissions expense		10	
Other operating expenses	126	193	450

(4) Guarantees provided to the related parties are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2012	
KDIC	1,200,000	2,200,000	Loan commitment
Kumho Tires Co., Inc.	4,844		Unconfirmed guarantees
	660	204	Endorsed notes
	17,303	18,967	Commitments on loss sharing
	18,091	13,922	Letter of credit
	42,443	74,668	Loan commitment
Sempio Food Co., Ltd. ^(*)	575		Letter of credit
Phoenix Digital Tech Co., Ltd.	6,277	4,994	Loan commitment
Hyunjin Co., Ltd.	287		Confirmed acceptances and guarantees
Chin Hung International Inc.	192	85	Letter of credit
	40,801	40,825	Loan commitment
Orient Shipyard Co., Ltd.		25,959	Acceptances and guarantees
		79,412	Guarantee of loan payment

(*) The Sempio Food Co., Ltd. is excluded from the related party because the entity is excluded from Woori Investment & Securities's associates for the year ended December 31, 2012.

Table of Contents

(5) Management compensation is as follows (Unit: Korean Won in millions):

	For the years ended December 31		
	2010	2011	2012
Short term benefits	24,570	26,298	27,074
Severance payments	1,345	1,372	2,507

46. Business Combination

Woori FG Savings Bank Co., Ltd., which is a subsidiary of the Company, entered into an agreement with KDIC to acquire assets and liabilities from Solomon Saving Bank on August 21, 2012, and transferred in certain assets and liabilities on September 5, 2012, in accordance with the agreement. Net assets acquired and goodwill recorded from the business combination are as follows (Unit: Korean Won in millions):

Acquiree	Solomon Savings Bank Co., Ltd.
Date of acquisition	September 5, 2012
The method of obtaining control over the transferred assets and liabilities	Acquisition of assets and liabilities of the acquiree after establishing Woori FG Savings Bank
Expected effects from the acquisition	a. Operating synergy by acquiring another financial institution which is capable of absorbing various levels of customers b. Obtaining the advantage over other regions where the acquiree had operated

(1) Net assets acquired and goodwill recorded from the business combination above are as follows (Unit: Korean Won in millions):

	Amounts
Acquired asset	577,902
AFS financial assets	167,416
Loans and receivables	406,606
Intangible assets ^(*)	626
Other assets	3,254
Transferred liabilities	3,890,283
Deposits due to customers	3,747,383
Other liabilities	142,900
Transferred net asset	(3,312,381)
Receiving from KDIC	3,291,507
Total acquisition cost	
Goodwill	20,874

(*) Core deposit of 626 million Won is recognized as identifiable intangible asset.

47. Subsequent Events

The board of directors of the Group and Woori Bank decided to spin off Woori Bank's credit card division and set up a new credit card subsidiary with the purpose of strengthening the competitiveness of credit card business, as of September 16, 2011. The Group and Woori Bank have acquired authorization about the spin-off of Woori Bank's credit card division and the operation of credit card business from Financial Services Commission on February 22, 2013.

Table of Contents**48. Agreement on the Implementation of a Management Plan**

(1) Since December 30, 2000, the Company's three subsidiaries, Woori Bank, Kyongnam Bank and Kwangju Bank, and KDIC have entered into agreements to implement management plans. Under the agreements, the subsidiaries are obligated to improve their respective financial ratios, such as Bank of International Settlements (BIS) capital ratio, general and administrative expense ratio, net borrowings substandard or below ratio and others. If the three subsidiaries fail to make improvements, the KDIC can enforce the subsidiaries to increase or decrease their capital, pursue mergers, transfer of loans and deposits, or close or sell parts of their business operations.

(2) Since July 2, 2001, the Company and KDIC have entered into an agreement whereby the Company would integrate the aforementioned subsidiaries, Woori Bank, Kyongnam Bank and Kwangju Bank, and improve their performances. The agreement stipulates that the Company should build a governance and management structure plan, implement a short-term business improvement strategy, enhance subsidiaries competitiveness, expedite privatization, meet the financial ratio targets, and dispose of business units in case the plan fails.

(3) In addition, on July 2, 2001, in order to implement the aforementioned agreements, the Company and its three subsidiaries entered management implementation agreements. Pursuant to the agreements, the three subsidiaries should meet management goals given by the Company, consult with the Company about material business decisions before execution, and prepare and implement a detailed business plan in conformity with the Company's business strategies. If the three subsidiaries fail to implement the management plan, the Company may order the three subsidiaries to limit sales of the specific financial products, investments in premises and equipment, promotion of new business or new equity investment, or to close or merge their branch operations and subsidiaries.

49. Parent Company

Condensed financial information of the parent company is as follows (Unit: Korean Won in millions):

(1) Condensed statements of financial position

	December 31, 2011	December 31, 2012
Assets		
Cash and cash equivalents:		
Bank subsidiaries	33,538	236,400
Investments in subsidiaries and associates:		
Bank subsidiaries	16,041,776	16,041,776
Non-bank subsidiaries	1,783,427	1,934,549
Other assets	244,264	233,879
Total assets	18,103,005	18,446,604
Liabilities		
Borrowings & debentures	3,653,968	3,654,276
Other liabilities	234,816	220,652
Total liabilities	3,888,784	3,874,928
Equity	14,214,221	14,571,676
Total liabilities and equity	18,103,005	18,446,604

Table of Contents

(2) Condensed statements of comprehensive income

	For the years ended December 31		
	2010	2011	2012
	(Korean Won in millions, except per share data)		
Interest and dividend income			
Interest income			
Bank subsidiaries	4,139	7,978	11,708
Non-bank subsidiaries	4,860	50	49
Dividends			
Bank subsidiaries	362,778	475,140	515,242
Non-bank subsidiaries	44,352	40,868	47,030
Others	(248,706)	(214,276)	(176,049)
Operating income	167,423	309,760	397,980
Non-operating expense	(4,541)	(6,310)	(1,368)
Net income before income tax expense	162,882	303,450	396,612
Income tax expense (income)	(1,128)	(1,030)	(286)
Net income	164,010	304,480	396,898
Other comprehensive income, net of tax			
Total comprehensive income	164,010	304,480	396,898
Basic and diluted earnings per share	203	375	459

(3) Condensed statements of changes in equity

	Capital stock	Hybrid securities	Capital surplus	Other equity	Retained earnings	Total equity
	(Korean Won in millions)					
January 1, 2010	4,030,077		109,025	(18)	9,581,678	13,720,762
Net income					164,010	164,010
Dividends					(80,601)	(80,601)
December 31, 2010	4,030,077		109,025	(18)	9,665,087	13,804,171
January 1, 2011	4,030,077		109,025	(18)	9,665,087	13,804,171
Net income					304,480	304,480
Dividends					(201,503)	(201,503)
Dividends to hybrid securities					(1,942)	(1,942)
Issue of hybrid securities		309,010				309,010
Disposal of treasury stock			1	4		5
December 31, 2011	4,030,077	309,010	109,026	(14)	9,766,122	14,214,221
January 1, 2012	4,030,077	309,010	109,026	(14)	9,766,122	14,214,221

Edgar Filing: WOORI FINANCE HOLDINGS CO LTD - Form 20-F

Net income					396,898	396,898
Dividends					(201,503)	(201,503)
Dividends to hybrid securities					(27,337)	(27,337)
Issue of hybrid securities		189,397				189,397
December 31, 2012	4,030,077	498,407	109,026	(14)	9,934,180	14,571,676

F-108

Table of Contents

(4) Condensed statements of cash flows

	For the years ended December 31		
	2010	2011	2012
	(Korean Won in millions)		
Cash flows from operating activities:			
Net income	164,010	304,480	396,898
Adjustments:			
Interest income			
Bank subsidiaries	4,139	7,978	11,708
Non-bank subsidiaries	4,860	50	49
Dividend income			
Bank subsidiaries	362,778	475,140	515,242
Non-bank subsidiaries	44,352	40,868	47,030
Others	(271,784)	(521,925)	(575,801)
Net cash provided by operating activities	308,355	306,591	395,126
Cash flows from investing activities:			
Acquisition of investments in subsidiaries and associates			
Bank subsidiaries			
Non-bank subsidiaries	33,150	441,970	154,229
Others	191	216	(3,043)
Net cash used in investing activities	(33,341)	(442,186)	(151,186)
Cash flows from financing activities:			
Increase in borrowings and debentures	897,666	1,196,280	802,657
Issue of hybrid securities		309,010	189,397
Repayment of borrowings and debentures	(1,050,000)	(1,200,000)	(805,000)
Dividends paid for hybrid securities			(26,629)
Dividends paid	(80,601)	(201,503)	(201,503)
Net cash provided by (used in) financing activities	(232,935)	103,787	(41,078)
Net increase (decrease) in cash and cash equivalents	42,079	(31,808)	202,862
Cash and cash equivalents, beginning of the year	23,267	65,346	33,538
Cash and cash equivalents, end of the year	65,346	33,538	236,400