SHINHAN FINANCIAL GROUP CO LTD
Form 20-F
April 30, 2013
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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 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **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**
For the transition period from to

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

Commission File Number: 001-31798

Shinhan Financial Group Co., Ltd.

(Exact name of registrant as specified in its charter)

N/A	**The Republic of Korea**
(Translation of registrant s name into English)	**(Jurisdiction of incorporation or organization)**

120, 2-Ga, Taepyung-Ro, Jung-Gu

Seoul 100-102, Korea

(Address of principal executive offices)

Sung Hun Yu, +822 6360 3071(T), irshy@shinhan.com, +822 6360 3082 (F), 120, 2- Ga, Taepyung-Ro, Jung-Gu, Seoul 100-102 Korea

(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:**
Common stock, par value Won 5,000 per share	New York Stock Exchange*
American depositary shares	New York Stock Exchange

* Not for trading, but only in connection with the listing of American depositary shares on the New York Stock Exchange, pursuant to the requirements of the Securities and Exchange Commission.

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

None

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

None

Indicate the number of outstanding shares of each of Shinhan Financial Group s classes of capital or common stock as of the close of the last full fiscal year covered by this Annual Report: 474,199,587 shares of common stock, par value of Won 5,000 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes þ 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 þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 þ 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 þ 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 þ

(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 Section 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 ¨

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CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

Unless otherwise specified or the context otherwise requires:

- the terms we, us, our, Shinhan Financial Group, SFG and the Group mean Shinhan Financial Group Co., Ltd. and its consolidated subsidiaries;

- the terms Shinhan Financial Group Co., Ltd., our company and our holding company mean Shinhan Financial Group Co., Ltd.

All references to Korea or the Republic contained in this annual report mean The Republic of Korea. All references to the Government mean the government of The Republic of Korea. The Financial Supervisory Service (FSS) is the executive body of the Financial Services Commission of Korea (FSC). References to MOSF are to the Ministry of Strategy and Finance of Korea.

Our fiscal year ends on December 31 of each year, except Shinhan Life Insurance and four other subsidiaries. Unless otherwise specified or the context otherwise requires, all references to a particular year are to the year ended December 31 of that year.

The currency of the primary economic environment in which we operate is Korean Won.

In this annual report, unless otherwise indicated, all references to Won or are to the currency of The Republic of Korea, and all references to U.S. Dollars, Dollars, $ or US$ are to the currency of the United States of America. Unless otherwise indicated, all translations from Won Dollars were made at 1,063.2 to US$1.00, which was the noon buying rate in the City of New York on December 31, 2012 for cable transfers according to the H.10 statistical release of the Federal Reserve Board (the Noon Buying Rate). On April 10, 2013, the Noon Buying Rate was 1,135.35 to US$1.00. The Noon Buying Rate has been volatile recently and the U.S. Dollar amounts referred to in this report should not be relied upon as an accurate reflection of our results of operations. We expect this volatility to continue in the near future. No representation is made that the Won or U.S. Dollar amounts referred to in this report could have been or could be converted into Dollars or Won, as the case may be, at any particular rate or at all.

Unless otherwise indicated, the financial information presented in this annual report has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Any discrepancies in the tables included herein between totals and sums of the amounts listed are due to rounding.

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FORWARD LOOKING STATEMENTS

This annual report includes forward-looking statements, as defined in Section 27A of the U.S. Securities Act, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act), including statements regarding our expectations and projections for future operating performance and business prospects. The words believe, expect, anticipate, estimate, project and similar words us connection with any discussion of our future operating or financial performance identify forward-looking statements. In addition, all statements other than statements of historical facts included in this annual report are forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. 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. This annual report discloses, under the caption Item 3.D. Risk Factors and elsewhere, important factors that could cause actual results to differ materially from our expectations (Cautionary Statements). Included among the factors discussed under the caption Item 3.D. Risk Factors are the followings risks related to our business, which could cause actual results to differ materially from those described in the forward-looking statements: the risk of adverse impacts from an economic downturn; increased competition; market volatility in securities and derivatives markets, interest or foreign exchange rates or indices; other factors impacting our operational plans; or legislative or regulatory developments. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

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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 3.A. Selected Financial Data

The selected consolidated income statement and balance sheet data set forth below for the years ended December 31, 2010, 2011 and 2012 have been derived from our consolidated financial statements which have been prepared in accordance with IFRS as issued by the IASB. Until December 31, 2010, we prepared our consolidated financial information in accordance with generally accepted accounting principles in the United States (U.S. GAAP). All financial information as of and for the year ended December 31, 2010 included in this report has been prepared in accordance with IFRS. Our consolidated financial statements as of and for the years ended December 31, 2010, 2011 and 2012 have been audited by independent registered public accounting firm KPMG Samjong Accounting Corp.

You should read the following data with the more detailed information contained in Item 5. Operating and Financial Review and Prospects and our consolidated financial statements included in Item 18. Financial Statements. Historical results do not necessarily predict future results.

Consolidated Income Statement Data

	Year Ended December 31,			
	2010	2011	2012	
	(In billions of Won and millions of US$, except per common share data)			
Interest income	12,909	13,781	13,857	$ 13,033
Interest expense	(6,436)	(6,701)	(6,883)	(6,474)
Net interest income	**6,473**	**7,080**	**6,974**	**6,559**
Fees and commission income	3,397	3,557	3,514	3,305
Fees and commission expense	(1,640)	(1,798)	(1,942)	(1,826)
Net fees and commission income	**1,757**	**1,759**	**1,572**	**1,479**
Net insurance income	(76)	(119)	(209)	(197)
Dividend income	217	209	176	165
Net trading income (loss)	334	(132)	596	560
Net foreign currency transaction gain	117	14	280	263
Net gain (loss) on financial instruments designated at fair value through profit or loss	(125)	172	(532)	(500)
Net gain on sale of available-for-sale financial assets	652	846	537	505
Impairment loss on financial assets(1)	(1,336)	(983)	(1,416)	(1,332)
General and administrative expenses	(3,848)	(4,135)	(4,060)	(3,818)
Other operating expenses, net(1)	(613)	(538)	(724)	(681)
Operating income(1)	**3,552**	**4,173**	**3,194**	**3,003**
Equity in income of associates	15	58	28	26
Other non-operating income (loss), net(1)	(138)	(38)	11	11

Income before income taxes	**3,429**	**4,193**	**3,233**	**3,040**
Income tax expense	(570)	(920)	(739)	(695)
Net income for the period	**2,859**	**3,273**	**2,494**	**$ 2,345**

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	Year Ended December 31,			
	2010	2011	2012	
	(In billions of Won and millions of US$, except per common share data)			
Other comprehensive income (loss) for the period, net of income tax	(18)	16	(85)	$ (80)
Foreign currency translation differences for foreign operations assets	175	(461)	12	11
Equity in other comprehensive income of associates	21	3	4	4
Net Change in unrealized fair value of cash flow hedges	13	1	15	14
Other comprehensive income (loss) of separate account	2	0	0	0
Total other comprehensive loss, net of income tax	193	(441)	(54)	(51)
Total comprehensive income for the period	**3,052**	**2,832**	**2,440**	**$ 2,294**
Net income attributable to:				
Equity holder of the Group	2,684	3,100	2,323	2,184
Non-controlling interest	175	173	171	161
Total comprehensive income attributable to:				
Equity holder of the Group	2,876	2,659	2,269	2,134
Non-controlling interest	176	172	172	162
Earnings per share:				
Basic earnings per share in won(2)	5,175	5,954	4,686	4,407
Dilutive earnings per share in won(3)	5,076	5,832	4,686	4,407

Notes:

(1) We changed our accounting policy regarding certain items previously classified as operating income items to non-operating income items in the consolidated statements of comprehensive income, and have retrospectively presented prior years consolidated statements of comprehensive income for comparative purposes. See Note 2(e) of the notes to our consolidated financial statements.

(2) Basic earnings per share are calculated by dividing net income available to holders of our common shares by the weighted average number of common shares issued and outstanding for the relevant period.

(3) Dilutive earnings per share are calculated in a manner consistent with basic earnings per share, while giving effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common shares were converted into or exercised for common shares. Common shares issuable upon conversion of redeemable convertible preferred shares are potentially dilutive.

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Consolidated Balance Sheet Data

	As of December 31,			
	2010	2011	2012	
	(In billions of Won and millions of US$, except per common share data)			
Assets				
Cash and due from banks	11,822	14,731	13,394	$ 12,598
Trading assets	9,412	11,954	14,019	13,185
Financial assets designated at fair value through profit or loss	2,208	1,801	2,585	2,431
Derivative assets(1)	3,159	2,319	2,165	2,036
Loans	181,347	192,573	199,656	187,780
Available-for-sale financial assets	29,452	34,106	36,328	34,168
Held-to-maturity financial assets	12,529	11,895	11,659	10,966
Property and equipment, net	2,976	2,994	3,047	2,865
Intangible assets, net	4,073	4,203	4,191	3,942
Investments in associates	300	249	299	281
Deferred tax assets	65	29	96	90
Current tax receivables	11	9	14	13
Investment property, net	286	275	247	232
Assets held for sale	21	16	54	51
Other assets, net	9,949	10,888	13,094	12,315
Total assets(1)	**267,610**	**288,042**	**300,848**	**$ 282,953**
Liabilities				
Deposits	149,417	163,016	170,096	$ 159,979
Trading liabilities	823	704	1,371	1,289
Financial liabilities designated at fair value through profit or loss	1,954	3,298	4,822	4,535
Derivative liabilities(1)	2,588	1,972	1,904	1,791
Borrowings	18,085	20,033	18,891	17,768
Debt securities issued	40,286	39,737	38,840	36,530
Liability for defined benefit obligations	170	275	214	201
Provisions	859	870	747	702
Current tax liabilities	251	568	252	237
Deferred tax liabilities	184		20	19
Liabilities under insurance contracts	8,986	10,867	13,419	12,620
Other liabilities	16,812	19,843	21,493	20,215
Total liabilities(1)	**240,415**	**261,183**	**272,069**	**$ 255,886**
Equity				
Capital stock	2,590	2,645	2,645	$ 2,488
Other equity instruments		239	537	505
Capital surplus	8,835	9,887	9,887	9,299
Capital adjustments	(391)	(393)	(393)	(370)
Accumulated other comprehensive income	1,629	1,189	1,135	1,067
Retained earnings	12,071	10,830	12,499	11,756
Total equity attributable to equity holders of the Group	24,734	24,397	26,310	24,745
Non-controlling interest	2,461	2,462	2,469	2,322
Total equity	**27,195**	**26,859**	**28,779**	**$ 27,067**

Total liabilities and equity(1)	**267,610**	**288,042**	**300,848**	**$ 282,953**

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Note:

(1) Prior to 2012, we recorded certain synthetic options on a gross basis that should have recorded on a net basis. As of December 31, 2012, the respective synthetic options have been recorded on a net basis and all corresponding information in the prior periods has been retrospectively adjusted. As a result, as of December 31, 2010, derivative assets, total assets, derivative liabilities, total liabilities and total liabilities and equity were each decreased by 947 billion and as of December 31, 2011 all such line items were each decreased by 76 billion. As of and for the years ended December 31, 2010 and 2011, there was no impact on total equity, net income or the presentation of consolidated statements of comprehensive income.

Dividends

	Year Ended December 31,		
	2010	**2011**	**2012**
		(In Won and US$)	
Cash dividends per share of common stock:			
In Korean Won	750	750	700
In U.S. dollars	$ 0.66	$ 0.65	$ 0.66
Cash dividends per share of preferred stock:			
In Korean Won	5,275	4,996	5,580
In U.S. dollars	$ 4.62	$ 4.31	$ 5.25

Selected Statistical Information

Profitability Ratios

	Year Ended December 31,		
	2010	**2011**	**2012**
		(Percentages)	
Net income attributable to the Group as a percentage of:			
Average total assets(1)	0.98%	1.09%	0.78%
Average total Group stockholders equity(1)	10.36	10.89	8.25
Dividend payout ratio(2)	21.84	20.39	17.98
Net interest spread(3)	2.29	2.34	2.18
Net interest margin(4)	2.69	2.80	2.60
Efficiency ratio(5)	87.60	83.14	85.73
Cost-to-average assets ratio(6)	8.85	7.23	6.59
Equity to average asset ratio(7)	9.49	9.97	9.42

Notes:

(1) Average balances are based on (a) daily balances for Shinhan Bank and (b) quarterly balances for other subsidiaries.

(2) Represents the ratio of total dividends declared on common and preferred stock as a percentage of net income attributable to the Group.

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

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

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(5) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income, a measure of efficiency for banks and financial institutions. Efficiency ratio may be reconciled to comparable line-items in our income statements for the periods indicated as follows:

	Year Ended December 31,		
	2010	2011	2012
	(In billions of Won, except percentages)		
Non-interest expense(A)	24,183	20,657	19,715
Divided by			
The sum of net interest income and non-interest income(B)	27,606	24,845	22,997
Net interest income	6,473	7,080	6,974
Non-interest income	21,133	17,765	16,022
Efficiency ratio ((A) as a percentage of (B))	87.60%	83.14%	85.73%

(6) Represents the ratio of non-interest expense to average total assets.

(7) Represents the ratio of average stockholders equity to average total assets.

Asset Quality Ratios

	As of December 31,		
	2010	2011	2012
	(In billions of Won, except percentages)		
Total gross loans	184,249	195,055	202,275
Total allowance for loan losses	2,852	2,577	2,793
Allowance for loan losses as a percentage of total loans	1.55%	1.32%	1.38%
Impaired loans(1)	2,757	2,457	2,636
Impaired loans as a percentage of total loans	1.50%	1.26%	1.30%
Allowance as a percentage of impaired loans	103.45%	104.88%	105.96%
Total non-performing loans(2)	1,427	1,416	1,695
Non-performing loans as a percentage of total loans	0.77%	0.73%	0.84%
Allowance as a percentage of total assets	1.06%	0.89%	0.93%

Notes:

(1) Impaired loans include (i) loans for which the borrower has defaulted under Basel standards and (ii) loans that qualify as troubled debt restructurings under IFRS.

(2) Non-performing loans are defined as loans, whether corporate or retail, that are past due more than 90 days.

Capital Ratios

	As of December 31,		
	2010	2011	2012
	(Percentages)		

Group BIS ratio(1)	12.38%	11.41%	12.46%
Total capital adequacy ratio of Shinhan Bank	15.47	15.26	15.83
Adjusted equity capital ratio of Shinhan Card(2)	24.99	25.81	27.43
Solvency ratio for Shinhan Life Insurance(3)	397.93	324.02	287.70

Notes:

(1) Starting 2007, under the revised guidelines of the Financial Services Commission applicable to financial holding companies, the minimum requisite capital ratio applicable to us changed to the Bank for International Settlement (BIS) ratio of 8%. This computation is based on our consolidated financial statements in accordance with IFRS. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

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(2) Represents the ratio of total adjusted shareholders equity to total adjusted assets and is computed in accordance with the guidelines issued by the Financial Services Commission for credit card companies. Under these guidelines, a credit card company is required to maintain a minimum adjusted equity capital ratio of 8%. This computation is based on the separate financial statements of the credit card company prepared in accordance with IFRS. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Credit Card Companies Capital Adequacy.

(3) Solvency ratio is the ratio of the solvency margin to the standard amount of solvency margin as defined and computed in accordance with the guidelines issued by the Financial Services Commission for life insurance companies. Under these guidelines, Shinhan Life Insurance is required to maintain a minimum solvency ratio of 100%. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Insurance Companies Capital Adequacy.

The Financial Services Commission regulations require that capital ratios be computed based on our consolidated financial statements under IFRS and regulatory guidelines. The following table sets forth our capital ratios computed on the basis of our consolidated financial statements under IFRS and the regulatory guidelines of the Financial Services Commission.

	As of December 31,		
	2010	2011	2012
	(In millions of Won, except percentages)		
Risk-weighted assets	188,785,745	195,579,399	201,184,402
Total risk-adjusted capital	23,369,691	22,315,419	25,075,736
Tier 1 capital	15,502,733	17,316,861	19,124,728
Capital adequacy ratio (%)	12.38%	11.41%	12.46%
Tier 1 capital ratio (%)	8.21%	8.85%	9.51%

Exchange Rates

The following table sets forth, for the periods and dates indicated, certain information concerning the Noon Buying Rate in Won per US$1.00.

Year Ended December 31,	At End of Period	Average(1)	High	Low
		(Won per US$1.00)		
2008	1,262.0	1,105.3	1,507.9	935.2
2009	1,163.7	1,270.0	1,532.8	1,163.7
2010	1,130.6	1,155.7	1,253.2	1,104.0
2011	1,158.5	1,106.9	1,197.5	1,049.2
2012	1,063.2	1,126.2	1,185.0	1,063.2
October	1,090.2	1,105.4	1,114.6	1,090.2
November	1,081.8	1,087.0	1,091.8	1,081.8
December	1,063.2	1,075.2	1,083.7	1,063.2
2013 (through April 10)	1,135.4	1,090.4	1,140.3	1,056.0
January	1,087.5	1,066.5	1,091.2	1,056.0
February	1,083.9	1,087.3	1,095.7	1,078.2
March	1,112.5	1,102.9	1,119.2	1,083.9
April (through April 10)	1,135.4	1,128.0	1,140.3	1,114.4

Source: *Federal Reserve Bank of New York (for the periods ended on or prior to December 31, 2008) and Federal Reserve Board (for the period since January 1, 2009)*

Note:

(1) Represents the average of the Noon Buying Rates on the last day of each month during the relevant period.

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We have translated certain amounts in Korean Won, which appear in this annual report, into U.S. dollars for convenience. This does not mean that the Won amounts referred to could have been, or could be, converted into U.S. dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, translations of Won amounts to U.S. dollars are based on the Noon Buying Rate in effect on December 31, 2012, which was 1,063.2 to US$1.00. On April 10, 2013, the Noon Buying Rate in effect was 1,135.35 to US$1.00.

ITEM 3.B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

ITEM 3.D. Risk Factors

An investment in the American depositary shares representing our common shares involves a number of risks. You should carefully consider the following information about the risks we face, together with the other information contained in this annual report, in evaluating us and our business.

Risks Relating to the Recent Economic and Market Crisis

Difficult conditions and turbulence in the Korean and global economy and financial markets may adversely affect our business, asset quality, capital adequacy and earnings.

Most of our assets are located in, and we generate most of our income from, Korea. Accordingly, our business and profitability are largely dependent on the general economic and social conditions in Korea, including interest rates, inflation, exports, personal expenditures and consumption, unemployment, demand for business products and services, debt service burden of households and businesses, the general availability of credit, the asset value of real estate and securities and other factors affecting the financial well-being of our corporate and retail customers.

The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. The ongoing difficulties affecting the European, U.S. and global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the European, U.S., Chinese and global economy have increased the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. Due to recent liquidity and credit concerns and volatility in the global financial markets, the value of the Won relative to the U.S. Dollar has also fluctuated significantly in recent years. Furthermore, as a result of adverse global and Korean economic conditions, there has been continuing volatility in the stock prices of Korean companies. While the global economy showed some signs of stabilization and improvement starting in 2010 following the global credit and financial crisis in 2008 and 2009, substantial uncertainties remain, among others, in the form of fiscal and financial crisis in several European countries (including Italy, Spain, France, Greece and Portugal), a downgrade in the sovereign or other credit ratings of governments and financial institutions in Europe and the United States and signs of cooling of the Chinese economy, and the overall prospects for the Korean and global economy in 2013 and beyond remain uncertain. Although we have exposure to certain troubled European countries, namely Spain, Ireland, Italy and Portugal, our aggregate exposure to such countries only amounted to 57.3 billion as of December 31, 2012, which is approximately 0.02% of our total assets as of December 31, 2012. However, any future deterioration of the European or other economies, and in turn, the global and Korean economy, could adversely affect our business, financial condition and results of operations.

In particular, difficulties in financial and economic conditions could result in significant deterioration in the quality of our assets and accumulation of higher provisioning, allowances for loan losses and charge-offs as an increasing number of our corporate and retail customers declare bankruptcy or insolvency or otherwise face increasing difficulties in meeting their debt obligations. For example, during the global financial crisis in 2008 to

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2009, our delinquent and non-performing loans increased significantly before returning largely to pre-crisis levels in 2009 due in part to our preemptive measures and improvements in the general economy. In addition, since 2010 the continuing slump in the real estate market and the shipbuilding industry have led to increased delinquency among our corporate borrowers in the construction, real estate leasing, shipbuilding and shipping industries (and in certain cases, even insolvency and/or corporate restructurings as was recently the case for Kukdong Engineering & Construction and its parent Woongjin Holdings). For example, in April 2013, as a result of the continued stagnation in the shipbuilding industry, STX Offshore & Shipbuilding, the flagship member company of one of the leading conglomerates STX Group, entered into a voluntary arrangement with its creditors (including Shinhan Bank) to improve its credit situation. While we have sought to actively reduce our exposure to such troubled industries through preemptive risk management policies, we cannot assure you that we will not experience further loan losses from borrowers in these industries since the quality of their assets may further deteriorate due to the continued slump in these industries or for other reasons. Shinhan Bank s delinquency ratio (based on one or more month of delinquency) increased from 0.48% in 2010 to 0.60% in 2011 and 0.61% in 2012. As for Shinhan Card, its delinquency ratio under the Financial Services Commission guidelines increased from 2.0% in 2010 to 2.3% in 2011 and 2.6% in 2012 largely as a result of an increase in Shinhan Card s assets, but it may continue to experience an increase in delinquency ratio as it seeks to maintain or enlarge its asset base amid intensifying competition among credit card companies to gain market share.

Moreover, as was the case during the recent global financial crisis, depending on the nature of the difficulties in the financial markets and general economy, we may be forced to scale back certain of our core lending activities and other operations and/or borrow money at a higher funding cost or face a tightening in the net interest spread, any of which may have a negative impact on our earnings and profitability. Furthermore, while we and our principal subsidiaries currently maintain a capital adequacy ratio at a level higher than the required regulatory minimum, there is no guarantee that an even higher capital requirement will not be imposed by the Government in case of a renewed economic crisis.

In addition, given the highly integrated nature of financial systems and economic relationships worldwide, there may be other, unanticipated systemic or other risks that may not be presently predictable. Any of these risks if materialized may have a material adverse effect on our business, liquidity, financial condition and results of operations.

Risks Relating to Our Overall Business

Competition in the Korean financial services industry is intense, and may further intensify as a result of further deregulation.

Competition in the Korean financial services industry is, and is likely to remain, intense.

In the banking sector, Shinhan Bank competes principally with other national commercial banks in Korea, but also faces competition from a number of additional banking institutions, including branches and subsidiaries of foreign banks operating in Korea, regional banks, government-owned development banks and Korea s specialized banks, such as Korea Development Bank, the Industrial Bank of Korea and the National Association of Agriculture and Fisheries, as well as various other types of financial service providers, including savings institutions (such as mutual savings and finance companies, credit unions and credit cooperatives), investment companies (such as securities brokerage firms, merchant banking corporations and asset management companies) and life insurance companies. As of December 31, 2012, Korea had seven major nationwide domestic commercial banks (including Citibank and Standard Chartered Bank, both of which are domestic commercial banks acquired by global financial institutions), six regional commercial banks and branches and subsidiaries of 39 foreign banks. We believe that foreign financial institutions, many of which have greater experiences and resources than we do, will continue to enter the Korean market and compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions.

In the small- and medium-sized enterprise and retail banking segments, which have been Shinhan Bank s traditional core businesses, competition is expected to increase further, although in a more limited fashion compared to that prior to the recent global financial crisis. Prior to the crisis, most Korean banks, including Shinhan Bank, focused on enlarging their assets through aggressive loan growth from small- and medium-sized

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enterprises and retail customers and, to a lesser extent, from large corporate borrowers, while developing fee income businesses, including bancassurance and investment products, as complementary sources of revenue. Following the crisis, the Korean banks, including Shinhan Bank, are increasingly focusing on stable asset growth based on quality credit, such as corporate borrowers with high credit ratings, loans to small office, home office (SOHO) with high levels of collateralization, and mortgage and home equity loans within the limits of the prescribed loan-to-value ratios and debt-to-income ratios, while reducing their credit exposure to small- and medium-sized enterprises. This shift in focus toward stable growth based on less risky assets may result in lower net interest margin and reduced overall profitability, especially as the banks compete for the same pool of quality credit by engaging in price competition or by other means. Shinhan Bank has traditionally focused, and will continue to focus, on enhancing profitability rather than increasing asset size or market share, and has avoided, to the extent practicable, engaging in price competition by way of lowering lending rates. Therefore, if competing financial institutions seek to expand market share by lowering their lending rates, Shinhan Bank may suffer customer loss, especially among customers who select their lenders principally on the basis of lending rates. In response thereto or for other strategic reasons, Shinhan Bank may subsequently lower their lending rates to stay competitive, which could lead to a decrease in its net interest margins and outweigh any positive impact on the net interest margin from a general rise in market interest rates. Any future decline in Shinhan Bank s customer base or its net interest margins could have an adverse effect on its results of operations and financial condition.

In the credit card sector, Shinhan Card competes principally with existing monoline credit card companies, credit card divisions of commercial banks, consumer finance companies, other financial institutions and, recently, credit card service providers allied with mobile telecommunications service providers in Korea. Competition has been historically intense in this sector and the market has shown signs of saturation as existing and new credit card service providers, such as credit card companies spun off from KB Financial Group, made significant investments and engaged in aggressive marketing campaigns and promotions to acquire new customers and target customers with high credit quality. While competition has subsided somewhat recently due to stricter government regulations, such as curbs on excessive marketing expenses, competition remains intense and credit card issuers may continue to compete with Shinhan Card for customers by offering lower interest rates and fees, higher credit limits, more attractive promotions and incentives and alternative products such as phone cards, gift cards and low-interest consumer loan products. As a result, Shinhan Card may lose customers or service opportunities to competing credit card issuers and/or incur higher marketing expenses. In addition, recent Government regulations mandating lower merchant fees chargeable to small- and medium-sized businesses are likely to reduce the revenues of credit card companies, including Shinhan Card. Customer attrition, together with any further lowering of fees or reduction in base and market interest rates and/or additional expenses from more extensive marketing and promotional campaigns that Shinhan Card might implement to acquire and retain customers, could reduce its revenues and earnings. Furthermore, the average credit quality of Shinhan Card s customers may decline if customers with higher credit quality borrow from Shinhan Card s competitors rather than from Shinhan Card.

In other financial services sectors, our other subsidiaries also compete in a highly fragmented market. Some of our competitors, particularly the major global financial institutions, have greater experience and resources than we do.

Consolidation among our rival institutions may also add competition in the markets in which we and our subsidiaries conduct business. The Korean banking industry may undergo further consolidation either voluntarily or as part of government-led initiatives. Some of the financial institutions resulting from these developments may, by virtue of their increased size, expanded business scope and more efficient operations, provide greater competition for us. For example, the Government may eventually privatize Korea Development Bank, one of the Government s key policy banks, through an initial public offering. In January 2010, the Government announced its intent to sell its controlling stake in Woori Financial Group, one of the top three financial holding companies in Korea in terms of assets as of December 31, 2012 with a similarly ranked banking operation. If Woori Financial Group or any of its major operating subsidiaries were to be acquired by a rival bank or financial holding company, the consolidated entity will have a greater scale of operations, including a larger customer base, and financial resources than us, which may hurt our ability to compete effectively. In addition, in February 2012, Hana Financial Group, which owns and operates Hana Bank, one of the major commercial banks in Korea,

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received regulatory approval to acquire a controlling equity interest in Korea Exchange Bank, another major commercial bank in Korea, from Lone Star Funds, and in April 2013 Korea Exchange Bank became a wholly-owned subsidiary of Hana Financial Group and was delisted. In March 2012, the National Agricultural Cooperative Federation, another policy bank of the Government, was reorganized into a holding company structure pursuant to which several of its financial business units were spun off into separate subsidiaries, including banking, life insurance and non-life insurance units. Furthermore, former specialized policy banking institutions, such as the National Agricultural Cooperative Federation and Industrial Bank of Korea are in the course of actively expanding their retail operations. Any of these developments may place us at a competitive disadvantage and outweigh any potential benefit to us in the form of opportunities to acquire new customers who are displeased with the level of services at the newly reorganized entities or to provide credit facilities to corporate customers who wish to maintain relationships with a wide range of banks in order to diversify their sources of funding.

As the Korean economy further develops and new business opportunities arise, more competitors may enter the financial services industry. Recently, banks are beginning to compete for new customers and it is likely that competition between bank-operated credit card companies and independent card companies will increase substantially. For example, in 2009, Hana SK Card was launched through a partnership between Hana Financial Group Inc. and SK Telecom. In addition, in November 2011, BC Card became a subsidiary of KT Group while the KDB Group and Korea Post have recently announced their intentions to enter the credit card industry. Furthermore, large non-financial institutions, such as mobile telecommunications companies, have also been reported to be considering entry into the Korean credit card and consumer finance businesses by way of convergence with the existing and future mobile telephone networks. SK Telecom, Korea Telecom and LG Uplus have been actively providing mobile phone payment services through payment solutions tailored for smartphones. As these companies are the three largest telecommunications service providers in Korea serving a substantial majority of the Korean population, a widespread consumer acceptance of mobile phone payment services in lieu of credit card services could pose a serious competitive threat to the existing credit card service providers, including our credit card subsidiary.

Competition in the Korean financial services industry may also intensify as a result of deregulation. For example, the Financial Investment Services and Capital Markets Act, which became effective in February 2009, promotes integration and rationalization of the Korean capital markets and financial investment products industry by permitting a wider range of financial services providers to engage in a broader sphere of financial activities, including depositary services, and has, to a significant extent, removed the regulatory barriers between securities brokerage, asset management, derivative financial services and trust services in favor of creating financial investment companies that may engage in all of the foregoing activities. Accordingly, the Financial Investment Services and Capital Markets Act enables the creation of large financial institutions that can offer both commercial and investment banking and asset management services modeled after the major global financial institutions based in the United States and Europe. Recently, in light of the recent global financial crisis, the Government has subjected Korean financial institutions to stricter regulatory requirements and guidelines in areas of asset quality, capital adequacy, liquidity and residential and other lending practices, which has had a dampening effect on competition. However, there is no assurance that these measures will continue to curb competition or that the Government will not reverse or reduce such measures or introduce other deregulatory measures, which may further intensify competition in the Korean financial services industry.

If we are unable to compete effectively in the changing business and regulatory environment, our profit margin and market share may erode and our future growth opportunities may become limited, which could adversely affect our business, results of operations and financial condition.

We and our subsidiaries need to maintain our capital ratios above minimum required levels, and the failure to so maintain could result in the suspension of some or all of our operations.

We and our subsidiaries in Korea are required to maintain specified capital adequacy ratios. For example, we and our banking subsidiaries in Korea are required to maintain a minimum Tier I capital adequacy ratio of 4.0% and a BIS ratio of 8.0%. These ratios measure the respective regulatory capital as a percentage of risk-weighted assets on a consolidated basis and are determined based on guidelines of the Financial Services

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Commission. In addition, our subsidiaries Shinhan Card, Shinhan Life Insurance and Shinhan Investment are required to maintain a consolidated adjusted equity capital ratio of 8.0%, a solvency ratio of 100% and a net operating capital ratio of 150%, respectively.

While we and our subsidiaries currently maintain capital adequacy ratios in excess of the respective required regulatory minimum levels, we or our subsidiaries may not be able to continue to satisfy the capital adequacy requirements for a number of reasons, including an increase in risky assets and provisioning expenses, substitution costs related to the disposal of problem loans, declines in the value of securities portfolios, adverse changes in foreign currency exchange rates, changes in the capital ratio requirements, the guidelines regarding the computation of capital ratios, or the framework set by the Basel Committee on Banking Supervision (the Basel Committee) upon which the guidelines of the Financial Services Commission are based, or other adverse developments affecting our asset quality or equity capital or due to other reasons.

Specifically, beginning on January 1, 2008, the Financial Supervisory Service implemented the new Basel Capital Accord, commonly referred to as Basel II, in Korea, which has affected the measurement of risk by Korean financial institutions, including us and our subsidiaries. Building upon the initial Basel Capital Accord of 1988, commonly referred to as Basel I, which focused primarily on capital adequacy and asset soundness as a measure of risk, Basel II expanded this approach by considering additional risks such as operational risk. Basel II also instituted new measures that require us and our subsidiaries to take into account individual borrower credit risk and operational risk when calculating risk-weighted assets.

In December 2010, the Basel Committee issued final rules in respect of (i) a global regulatory framework for more resilient banks and banking systems and (ii) an international framework for liquidity risk measurement, standards and monitoring, which together are commonly referred to as Basel III. The new minimum capital requirements, including the minimum common equity Tier 1 requirement of 4.5% and additional capital conservation buffer requirement of 2.5%, are scheduled to be implemented in phases during the period from January 2013 to January 1, 2019. Additional countercyclical capital buffer requirements are also expected to be phased in starting in 2016, in parallel with the capital conservation buffer to a maximum level of 2.5% effective on January 1, 2019, although individual jurisdictions may choose to implement larger countercyclical capital buffers. Effective January 1, 2011, the leverage ratio is subject to a supervisory monitoring period as well as a parallel run period from January 1, 2013 lasting to January 1, 2017. Further calibration of the leverage ratio will be carried out in the first half of 2017, with a view to migrating to the minimum regulatory capital requirement of Pillar 1, from January 1, 2018. We are currently in compliance with the Basel Committee s capital requirement for trading book and complex securitization exposures. On January 13, 2011, the Basel Committee issued further minimum requirements to ensure that all classes of capital instruments fully absorb losses at the point of non-viability before taxpayers are exposed to loss. Instruments issued on or after January 1, 2013 may only be included in regulatory capital if the new requirements are met. The capital treatment of securities issued prior to this date will be phased out over a ten-year period commencing January 1, 2013.

The Financial Supervisory Service has announced proposed regulations to implement the capital requirements of Basel III in Korea from September 2012 to November 2012, which regulations were expected to become final in December 2012. Under the Financial Supervisory Service s proposed regulations in respect of Basel III capital, commercial banks in Korea will be required to maintain a minimum total capital adequacy (BIS) ratio of 8.0%, a minimum common equity ratio of 4.5% and a minimum Tier 1 capital ratio of 6.0%, which minimum requirements will be phased in sequentially from January 1, 2013 and become fully effective on January 1, 2016. Starting January 1, 2016, capital conservation buffer requirements will be phased in sequentially through January 1, 2019, at which date commercial banks will be required to maintain a capital conservation buffer of 2.5%. However, in December 2012 the Financial Services Commission announced that it would delay the implementation of Basel III, and therefore the above proposed regulations have been delayed indefinitely. According to this announcement, the timing and other details relating to the implementation of proposed regulations and the actual requirements (including in relation to the capital adequacy ratios) are to be decided in the future in consideration of, among others, how other countries (including the United States and Europe) plan to implement Basel III.

Our holding company is currently in compliance with Basel I requirements and our banking subsidiaries are currently in compliance with Basel II requirements, and we and our banking subsidiaries are actively taking steps

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to comply with the additional requirements under Basel III, as it becomes applicable. There can be no assurance that new requirements under Basel III will not require an increase in our banking subsidiaries credit risk capital requirements in the future, which may require our banking subsidiaries to either improve their asset quality or raise additional capital.

If the capital adequacy ratios of us or our subsidiaries fall below the required levels, the Financial Services Commission may impose penalties ranging from a warning to suspension or revocation of our or our subsidiaries business licenses. In order to maintain the capital adequacy ratios above the required levels, we or our subsidiaries may be required to raise additional capital through equity financing, but there is no assurance that we or our subsidiaries will be able to do so on commercially favorable terms or at all and, even if successful, any such capital raising may have a dilutive effect on our shareholders with respect to their interest in us or on us with respect to our interest in our subsidiaries.

Liquidity, funding management and credit ratings are critical to our ongoing performance.

Liquidity is essential to our business as a financial intermediary, and we may seek additional funding in the near future to satisfy liquidity needs, meet regulatory requirements, enhance our capital levels or fund the growth of our operations as opportunities arise.

For example, Basel III includes an international framework for liquidity risk measurement, standards and monitoring, as noted above, including a new minimum liquidity standard, known as the liquidity coverage ratio (LCR), which is designed to ensure that banks have an adequate stock of unencumbered high quality liquid assets (HQLA) that can be easily and speedily converted into cash in the private marketplace to survive a significant stress scenario lasting 30 calendar days. The LCR is computed as (a) the value of a banking organization s HQLA, divided by (b) its total expected net cash outflows over the next 30 calendar days under stress scenarios. The minimum LCR is 100%. In January 2013, the Basel Committee on Bank Supervision released a revised formulation of the LCR, one of two quantitative liquidity measures approved in December 2010 as part of Basel III. The Basel Committee extended the timetable for full phase-in of the LCR from January 2015 to January 2019. The Financial Supervisory Service is expected to promulgate proposed regulations to implement the liquidity requirements of Basel III.

A substantial part of the liquidity and funding requirements for our banking subsidiaries is met through short-term customer deposits, which typically roll over upon maturity. While the volume of our customer deposits has generally been stable over time, customer deposits have from time to time declined substantially due to the popularity of other, higher-yielding investment opportunities, namely stocks and mutual funds, for example, during times of bullish stock markets. During such times, our banking subsidiaries were required to obtain alternative funding at higher costs. In addition, due to the deregulation of depositary and settlement services as a result of the Financial Investment Services and Capital Markets Act, our banking subsidiaries may experience a decrease in customer deposits due to intensified competition among a more diversified group of financial services providers.

We and our subsidiaries also raise funds in the capital markets and borrow from other financial institutions, the cost of which depends on the market rates and the general availability of credit and the terms of which may limit our ability to pay dividends, make acquisitions or subject us to other restrictive covenants. In addition, during times of sudden and significant devaluations of the Korean Won against the U.S. dollar as was the case recently amid the global liquidity crisis, Korean commercial banks, including our banking and credit card subsidiaries, had temporary difficulties in refinancing or obtaining optimal amounts of foreign currency-denominated funding on terms commercially acceptable to us. While we and our subsidiaries are not currently facing liquidity difficulties in any material respect, if we or our subsidiaries are unable to obtain the funding we need on terms commercially acceptable to us for an extended period of time for whatever reason, we may not be able to ensure our financial viability, meet regulatory requirements, implement our strategies or compete effectively.

Credit ratings affect the cost and other terms upon which we and our subsidiaries are able to obtain funding. Domestic and international rating agencies regularly evaluate us and our subsidiaries, and their ratings of our and our subsidiaries long-term debt are based on a number of factors, including our financial strength as well as

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conditions affecting the financial services industry generally and in Korea. There can be no assurance that the rating agencies will maintain our current ratings or outlooks. There is no assurance that Shinhan Bank, Shinhan Card, any of our other major subsidiaries or our holding company will not experience a downgrade in their respective credit ratings and outlooks for reasons related to the general Korean economy or reasons specific to such entity. Any downgrade in the credit ratings and outlooks of us and our subsidiaries will likely increase the cost of our funding, limit our access to capital markets and other borrowings, require us to post additional collateral in financial transactions, and could increase the amount of regulatory liquidity we will be required to hold when Basel III liquidity requirements become effective, any of which could adversely affect our liquidity, net interest margins and profitability, and in turn, our business, financial condition and results of operations.

Changes in interest rates, foreign exchange rates, bond and equity prices, and other market factors have affected and will continue to affect our business.

The most significant market risks we face are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realized between lending and borrowing costs. Changes in currency rates, particularly in the Korean Won-U.S. dollar exchange rates, affect the value of our assets and liabilities denominated in foreign currencies, the reported earnings of our non-Korean subsidiaries and income from foreign exchange dealings, and substantial and rapid fluctuations in the exchange rates may cause difficulty in obtaining foreign currency-denominated financing in international financial markets on commercial terms acceptable to us or at all. The performance of financial markets may affect bond and equity prices and, therefore, cause changes in the value of our investment and trading portfolios. While we have implemented risk management systems to mitigate and control these and other market risks to which we are exposed, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on our business, financial condition and results of operations.

A significant or sustained decrease in interest rates could decrease our net interest margin due to a mismatch in our assets and liabilities structures, which could have a material adverse effect on our asset quality and profitability.

Commencing in the second half of 2008, interest rates in Korea declined to historically low levels as the government sought to stimulate the economy through active rate-lowering measures. As the Korean economy showed signs of recovery, the Korean government increased the base interest rate by an aggregate of 125 basis points during the period of 2010 and 2011 from 2.0% in 2010 to 3.25% in 2011; however, as an effort to spur domestic economy amid signs of protracted recession, the Korean government decreased the base interest rate by an aggregate of 50 basis points during the period of 2011 and 2012 from 3.25% in 2011 to 2.75% in 2012 in order to stimulate the economy.

Interest rate movements, in terms of magnitude and timing as well as their relative impacts on our assets and liabilities, have a significant impact on our net interest margin and profitability, particularly with respect to our financial products that are sensitive to such movements. For example, if the interest rates applicable to our loans (which are recorded as assets) decrease or increase at a slower pace or by a thinner margin than the interest rates applicable to our deposits (which are recorded as liabilities), our net interest margin will shrink and our profitability will be negatively affected. In addition, the relative size and composition of our variable rate loans and deposits (as compared to our fixed rate loans and deposits) may also impact our net interest margin. Furthermore, the difference in the average term of our interest-earning assets (primarily loans) compared to our interest-bearing liabilities (primarily deposits) may also impact our net interest margin. For example, since our deposits tend to have longer terms, on average, than those of our loans, our deposits are on average less sensitive to movements in the base interest rates on which our deposits and loans tend to be pegged, and therefore, an increase in the base interest rates tend to increase our net interest margin while a decrease in the base interest rates tend to have the opposite effect. While we continually manages our assets and liabilities to minimize our exposure to interest rate volatility, such efforts by us may not mitigate the impact of interest rate volatility in a timely or effective manner, and our net interest margin, and in turn our results of operations and financial condition, could suffer significantly.

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We cannot assure you when and to what extent the Korean government will in the future raise the base interest rate, to which the market interest rate correlate, as such determination is subject to many policy considerations, including the general economic cycle, inflationary levels, interest rates in other economies and foreign currency exchange rates, among others. If there were to be a significant or sustained increase in interest rates, all else being equal, such movement would lead to a decline in the value of traded debt securities and could also raise our funding costs, while reducing loan demand, especially among retail customers. Rising interest rates may therefore require us to re-balance our assets and liabilities in order to minimize the risk of potential mismatches and maintain our profitability. In additional, rising interest rates may adversely affect the Korean economy and the financial condition of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to deterioration of our credit portfolio. Since most of our retail and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rates will increase the funding costs of our borrowers and could adversely affect their ability to make payments on their outstanding loans.

We may incur losses associated with our counterparty exposures.

We face the risk that counterparties will be unable to honor contractual obligations to us or our subsidiaries. These parties may default on their obligations to us or our subsidiaries due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swaps or other derivative contracts under which counterparties have obligations to make payments to us or our subsidiaries or in executing currency or other trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Counterparty risk has increased especially in light of the global credit crisis and global economic downturn starting in 2008. For example, Shinhan Investment, our securities brokerage subsidiary, recorded losses of 91 billion in 2008 as a result of the bankruptcy filing by Lehman Brothers. There is no guarantee that similar losses to what happened during the global credit crisis of 2008 will not happen in the future, and such occurrence may have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Our Banking Business

We have significant exposure to small- and medium-sized enterprises, and financial difficulties experienced by such enterprises may result in a deterioration of our asset quality.

Our banking activities are conducted primarily through our wholly-owned subsidiary, Shinhan Bank. One of our core banking businesses has historically been and continues to be lending to small- and medium-sized enterprises (as defined in Item 4.B. Business Overview Our Principal Activities Corporate and Investment Banking Services Small- and Medium-sized Enterprises Banking). Our loans to such enterprises amounted to 51,266 billion as of December 31, 2010, 52,268 billion as of December 31, 2011 and 51,324 billion as of December 21, 2012, representing 27.8%, 26.8% and 25.37%, respectively, of our total loan portfolio as of such dates.

Compared to loans to large corporations, which tend to be better capitalized and weather business downturns with greater ease, or loans to individuals and households, which tend to be secured with homes and with respect to which the borrowers are therefore less willing to default, loans to small- and medium-sized enterprises have historically had a relatively higher delinquency ratio. Prior to the onset of the recent global financial crisis, loans to such enterprises were the targets of aggressive lending by Korean banks, including Shinhan Bank, as part of their campaigns to increase their respective market shares. Many small- and medium-sized enterprises represent sole proprietorships or 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

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exposure, also resulting in an impairment of their ability to repay loans. As large Korean corporations continue to expand into China and other countries with lower labor costs and other expenses through relocating their production plants and facilities to such countries, such development may have a material adverse impact on such small- and medium-sized enterprises.

Financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, recent economic difficulties in Korea and globally and aggressive marketing and intense competition among banks to lend to this segment in recent years, coupled with our efforts to counter asset quality deterioration through conservative lending policy, have led to a fluctuation in the asset quality of our loans to this segment. As of December 31, 2010, 2011 and 2012, under IFRS, Shinhan Bank s delinquent loans to small- and medium-sized enterprises were 492 billion, 597 billion and 487 billion, respectively, representing delinquency ratios (net of charge-offs and loan sales) of 0.86%, 1.04% and 0.89%, respectively. If the ongoing difficulties in Korean or global economy were to be sustained or experience an even more severe downturn, the delinquency ratio for our loans to the small- and medium-sized may rise significantly.

Of particular concern is the significant exposure we have to enterprises in the real estate and leasing and construction industries. As of December 31, 2012, Shinhan Bank had outstanding loans to the real estate and leasing and construction industries (many of which are small- and medium-sized enterprises) of 15,717 billion and 4,898 billion, respectively, representing 9.4% and 2.9%, respectively, of our total loan portfolio as of such date. We also have other exposure to borrowers in these sectors of the Korean economy, including extending guarantees for the benefit of such companies and holding debt and equity securities issued by such companies. In addition, Shinhan Bank has exposure to borrowers in the shipbuilding and shipping industries, which are continuing to experience business downturns.

The enterprises in the real estate development and construction industries in Korea, concentrated in the housing market, are currently experiencing a prolonged downturn characterized by reduced real estate demand and stagnant real estate prices, especially in areas outside of Seoul, largely due to a combination of excessive supply of residential property, sustained efforts by the Korean government to stem speculation in the housing market, ongoing economic sluggishness in Korea and globally and the demographic changes in the Korean population. We also have a limited exposure to real estate project financing, particularly by construction companies that have built residential units in provinces outside the metropolitan Seoul area, which have experienced a relatively low rate of pre-sales, the proceeds from which the construction companies primarily rely on as a source for their liquidity and cash flow.

The delinquency ratio for the small- and medium-sized enterprises in the construction industry may increase significantly if restructuring of troubled companies in this industry intensifies as a result of a Government initiative or concerted efforts by lending institutions to improve their asset quality. For example, in 2009 and 2010, in an effort to curtail further deterioration in the credit quality of troubled companies in certain industries that have been disproportionately affected by the recent global economic crisis, the Government encouraged a swift review of the credit quality of such companies and restructuring of troubled companies by creditor financial institutions, including Shinhan Bank. In accordance with such program, 29 construction companies became subject to workouts in February and March 2009. In addition, in June 2010, the Government announced that, following review of credit risk relating to 1,985 companies in Korea with outstanding debt of 50 billion or more, 65 of such companies would be subject to restructuring in the form of workout, liquidation or court receivership. Of the 65 companies, 16 were construction companies. There is no assurance that credit exposure to companies in the construction or other troubled industries will not increase in the future as a result of an economic downturn or for other reasons, and additional restructuring may follow as a result of a Government initiative or otherwise.

Any of the foregoing developments may result in deterioration in the asset quality of our banking subsidiaries. See Item 4.B. Business Overview Description of Assets and Liabilities Credit Exposures to Companies in Workout, Court Receivership or Composition. According to the annual evaluation conducted pursuant to the Corporate Restructuring Promotion Act in relation to exposure to troubled companies (which examines each large corporation with credit exposure of 50 billion or more and small- to medium enterprises with credit exposure of 5 billion to 50 billion), in 2011 we had an aggregate exposure of 149.3 billion to

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five conglomerates (for which we set out provisions in the aggregate amount of 15.6 billion) and an aggregate exposure of 113.2 billion to eight small- to medium-sized enterprises (for which we set out provisions in the aggregate amount of 15.9 billion) and in 2012 we had an aggregate exposure of 142.0 billion to four conglomerates (for which we set out provisions in the aggregate amount of 85.6 billion) and an aggregate exposure of 18.5 billion to one small- to medium-sized enterprise (for which we set out provisions in the aggregate amount of 18.5 billion).

We have been taking active steps to curtail delinquency among our small- and medium-sized enterprise customers, including by way of strengthening loan application review processes and closely monitoring borrowers in troubled sectors. Despite such efforts, there is no assurance that the delinquency ratio for our loans to small- and medium-sized enterprises will not rise in the future, especially if the Korean economy were to face renewed difficulties and a subsequent deterioration in the liquidity and cash flow of these borrowers. A significant rise in the delinquency ratios among these borrowers would lead to increased charge-offs and higher provisioning and reduced interest and fee income from this segment in the future, which would have a material adverse effect on our business, financial condition and results of operations.

A decline in the value of the collateral securing our loans or our inability to fully realize the collateral value may adversely affect our credit portfolio.

Most of our mortgage and home equity loans are secured by borrowers homes, other real estate, other securities and guarantees (which are principally provided by the Government and other financial institutions), and a substantial portion of our corporate loans are also secured, including by real estate. As of December 31, 2012, the secured portion of Shinhan Bank s loans amounted to 82,550 billion, or 57.2% of its total loans. There is no assurance that the collateral value will not materially decline in the future. Shinhan Bank s general policy for mortgage and home equity loans is to lend up to 40% to 60% of the appraised value of the collateral and to periodically re-appraise such collateral. However, in light of the sustained downturn in the real estate market in Korea, the value of the collateral may fall below the outstanding principal balance of the underlying mortgage loans. Borrowers of such under-collateralized mortgages or loans may be forced to pay back all or a portion of such mortgage loans or, if unable to meet the collateral requirement through such repayment, sell the underlying collateral, which sales may lead to a further decline in the price of real estate in general and set off a chain reaction for other borrowers due to the further decline in the value of collateral. Declines in real estate prices reduce the value of the collateral securing our mortgage and home equity loans, and such reduction in the value of collateral may result in our inability to cover the uncollectible portion of our secured loans. A decline in the value of the real estate or other collateral securing our loans, or our inability to obtain additional collateral in the event of such decline, may result in the deterioration of our asset quality and require us to make additional loan loss provisions. In Korea, foreclosure on collateral generally requires a written petition to a Korean court. Foreclosure procedures in Korea generally take seven months to one year from initiation to collection depending on the nature of the collateral, and foreclosure applications may be subject to delays and administrative requirements, which may result in a decrease in the recovery value of such collateral. There can be no assurance that we will be able to realize the full value of collateral as a result of, among others, delays in foreclosure proceedings, defects in the perfection of collateral and general declines in collateral value. Our failure to recover the expected value of collateral could expose us to significant losses.

Guarantees received in connection with our real estate financing may not provide sufficient coverage.

Primarily through Shinhan Bank, we, alone or together with other financial institutions, provide financing to real estate development projects, which are concentrated in the construction of residential and, to a lesser extent, commercial complexes. Developers in Korea commonly use project financing to acquire land and pay for related project development costs. As a market practice, lenders in project financing, including Shinhan Bank, generally receive from general contractors a performance guarantee for the completion of projects by the developers as well as a payment guarantee for the loans raised by a special purpose financing vehicle established by the developers in order to procure the construction orders, as the developers tend to be small and highly leveraged. While the general contractors tend to be large and well-established construction companies, given the sustained downturn in the real estate market and the construction industry in general, there is no guarantee that even such companies will have sufficient liquidity to back up their guarantees made for the benefit of the developers if the

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real estate development projects do not generate sufficient cash flow from pre-sales of the residential or commercial units. This is particularly the case for development projects outside the Seoul metropolitan area, which in recent years have had lower than expected levels of pre-sales. If defaults arise under our loans to real estate development projects and the general contractors fail to pay the guaranteed amount necessary to cover the amount of our financings, this may have a material adverse effect on our business, financial condition and results of operations.

A limited portion of our credit exposure is concentrated in a relatively small number of large corporate borrowers, and future financial difficulties experienced by them may have an adverse impact on us.

Of Shinhan Bank s 20 largest corporate exposures as of December 31, 2012, five were companies that are or were members of the main debtor groups identified by the Governor of the Financial Supervisory Service, which are largely comprised of *chaebols*. As of such date, the total amount of Shinhan Bank s exposures to the main debtor groups was 29,976 billion, or 11.7% of its total exposure. As of that date, Shinhan Bank s single largest outstanding *chaebol* exposure amounted to 3,414 billion, or 1.3% of our total exposures. In September 2012, Woongjin Holdings and Kukdong Engineering & Construction Co., large Korean corporations to which Shinhan Bank had exposure in the amount of 14.9 billion and 44.9 billion, respectively, as of December 31, 2012 filed for court receivership, and accordingly, Shinhan Bank established loan loss provisions for the full amount of such exposures as of December 31, 2012. In addition, in April 2013, as a result of the continued stagnation in the shipbuilding industry, STX Offshore & Shipbuilding, the flagship member company of one of the leading conglomerates STX Group, entered into a voluntary arrangement with its creditors (including Shinhan Bank) to improve its credit situation. If the credit quality of our exposures to these and other large corporations, including those in the main debtor groups, declines, we may be required to record additional loan loss provisions in respect of loans and impairment losses in respect of securities, which would adversely affect our financial condition, results of operations and capital adequacy. We cannot assure you that the allowances we have established against these exposures will be sufficient to cover all future losses arising from such exposures, especially in the case of a prolonged or renewed economic downturn.

In May 2010, creditor financial institutions entered into agreements with eight main debtor groups, largely comprised of *chaebols*, under which such groups agreed to undertake plans to improve their financial conditions, including through the sale of subsidiaries. While Shinhan Bank was not the main creditor financial institution to any of these main debtor groups, Shinhan Bank was one of the creditor financial institutions and has exposure to a limited number of such corporations and main debtor groups. These main debtor groups are making significant efforts to improve their financial conditions, such as by obtaining intragroup loans and entering into agreements to further improve their capital structures. As of December 31 2012, six main debtor groups are subject to the restructuring program. There is no assurance that there will not be future restructuring with major corporate customers or that such restructuring will not result in significant losses to Shinhan Bank with less than full recovery. In addition, bankruptcies or financial difficulties of large corporations, including *chaebol* groups, may have the adverse ripple effect of triggering delinquencies and impairment of our loans to small- and medium-sized enterprises that supply parts or labor to such corporations. If we experience future losses from our exposures to large corporations, including *chaebol* groups, it may have a material adverse impact on our business, financial condition and results of operations. See Item 4.B. Business Overview Description of Assets and Liabilities Loans Loan Portfolio Exposure to Main Debtor Groups.

Any deterioration in the asset quality of our guarantees and acceptances will likely have a material adverse effect on our financial condition and results of operations.

In the normal course of banking activities, we make various commitments and incur certain contingent liabilities in the form of guarantees and acceptances. Financial guarantees, which are contracts that require us to make specified payments to reimburse the beneficiary of the guarantee for a loss such beneficiary incurs because the debtor in respect of which the guarantee is given fails to make payments when due in accordance with the terms of the relevant debt instrument, are recognized initially at fair value, and such initial fair value is amortized over the life of the financial guarantee. Other guarantees are recorded as off-balance sheet items in the footnotes to our financial statements and those guarantees that we have confirmed to make payments are recorded on the

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statements of financial position. As of December 31, 2012, we had aggregate guarantees and acceptances of 14,788 billion, for which we provided allowances for losses of 112 billion. Such guarantees and acceptances include refund guarantees provided by us to shipbuilding companies, which involve guaranteeing a refund payment of the initial cash payment (typically 25% of the contract amount for ship orders) received by shipbuilders from buyers in the event that such shipbuilders are unable to deliver the ships in time or otherwise default under the shipbuilding contracts. In recent years, small- and medium-sized shipbuilding companies have faced increasing financial difficulties due to the global economic downturn and the resulting slowdown in shipbuilding orders, which has increased the risk that they may default on their shipbuilding contracts and we may have to make payments under the refund guarantees. The refund guarantees provided by us to small- and medium-sized shipbuilding companies amounted to approximately 80.7 billion as of December 31, 2012. If there is significant deterioration in the quality of assets underlying our guarantees and acceptances, our allowances may be insufficient to cover actual losses resulting in respect of these liabilities, or the losses we incur on the relevant guarantees and acceptances may be larger than the outstanding principal amount of the underlying loans.

Risks Relating to Our Credit Card Business

Future changes in market conditions as well as other factors, such as stricter regulation, may lead to reduced revenues and deterioration in the asset quality of credit card receivables.

In recent years, credit card and other consumer debt has increased significantly in Korea. As of December 31, 2010, 2011 and 2012, Shinhan Card s interest-earning credit card assets amounted to 19,460 billion, 19,772 billion and 20,027 billion, respectively. Our large exposure to credit card and other consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers in general. For example, a rise in unemployment, an increase in interest rates, a downturn in the real estate market, or a general contraction or other difficulties affecting the Korean economy may lead Korean consumers to reduce spending (a substantial portion of which is conducted through credit card transactions), which in turn leads to reduced earnings for our credit card business, as well as to higher default rates on credit card loans, deterioration in the quality of our credit card assets and increased difficulties in recovering written-off assets from which a significant portion of Shinhan Card s revenues is derived. Any of these developments could have a material adverse effect on our business, financial condition and results of operations.

In addition, recent Government regulations aimed at protecting small- and medium-sized enterprises, such as the reduction of fees chargeable to small- and medium-sized merchants, could have a material adverse effect on our revenues. Starting in 2012, the Government enlarged the definition of a small- and medium-sized merchant to those with annual sales of up to 200 million and lowered fees chargeable to such merchants to 1.8% in January 2012 and further to 1.5% in September 2012. The Government has also recently implemented measures regulating marketing costs in order to control excessive marketing campaigns and curtail undue marketing expenses. While the regulations lowering merchant fees is expected to have a negative impact on Shinhan Card s revenues, we believe that such negative impact will be partially offset by the Government s regulations restricting marketing expenses to reasonable levels. However, the Government may, in the future, impose further reduction in merchant fees chargeable by credit card companies. Furthermore, the Government may also introduce tax incentives and other measures to encourage the use of check cards (akin to debit cards in the United States where all outstanding balances are settled monthly) in lieu of credit cards in an attempt to preempt a potential rise in delinquency among credit card users, and if check cards are widely used in lieu of credit cards, this would reduce interest income from credit cards, which generally have a longer repayment period than that of check cards, and may have an adverse impact on Shinhan Card s revenues and results of operations. In line with industry practice, Shinhan Card restructured certain of its delinquent loan balances. As of December 31, 2012, these restructured loans outstanding amounted to 208 billion.

Competition in the Korean credit card industry is intense and growing market saturation in the credit card sector may adversely affect growth prospects and profitability of Shinhan Card.

Competition in the credit card and consumer finance businesses remains intense as existing credit card companies, commercial banks, consumer finance companies and other financial and mobile telecommunications institutions in Korea have made significant investments and engaged in aggressive marketing campaigns and

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promotions in these areas, notwithstanding the recent introduction of stricter regulatory measures, such as the reduction of merchant fees chargeable by credit card companies and the regulation of their marketing expenses. While the rapid increase in competition has somewhat subsided due to the less favorable regulatory environment engendered by recent implementation of various new laws such as restrictions on excessive marketing expenses and lowering of certain categories of merchant fees, competition remains intense. The growth, market share and profitability of our credit card subsidiary s operations may decline or become negative as a result of market saturation in this sector, interest rate competition, pressure to lower fee rates and incur higher marketing expenses, as well as Government regulation and social and economic developments in Korea, such as changes in consumer confidence levels, spending patterns or public perception of credit card usage and consumer debt. For example, other credit card issuers may compete with Shinhan Card for customers by offering lower interest rates and fees, higher credit limits, different product offerings and/or better customer service, which may lead to a loss by Shinhan Card of accounts and/or account balances to competing credit card issuers. Customer attrition from any or all of Shinhan Card s products, together with any lowering of interest rates or fees that Shinhan Card might implement to retain customers and higher marketing expenses could reduce its revenues and earnings. As the credit card market further matures and becomes more saturated in terms of the number of cardholders and transaction volume, the average credit quality of Shinhan Card s customers may deteriorate if customers with higher credit quality borrow from our competitors rather than Shinhan Card and it may become more difficult for Shinhan Card to attract and maintain quality customers.

Shinhan Card s ability to maintain its market position and continue its asset growth in the future will depend on, among others, its ability to (i) develop and market new products and services that are attractive to its customers, (ii) generate funding at commercially reasonable rates and in amounts sufficient to support preservation of assets and further asset growth, (iii) develop the personnel and systemic infrastructure necessary to manage its growth and increasingly diversified business operations and (iv) manage increasing delinquencies. In addition, external factors such as competition and Government regulation in Korea may limit Shinhan Card s ability to maintain its growth, and economic and social developments in Korea, such as changes in consumer confidence levels or spending patterns, as well as changes in the public perception of credit card usage and consumer debt, could have an adverse impact on the growth of Shinhan Card s credit card assets in the future. Furthermore, if Shinhan Card fails to simultaneously manage its asset quality and its asset growth or sacrifices asset quality in exchange for asset growth, its delinquency ratio may be adversely affected. If the rate of growth of Shinhan Card s assets declines or becomes negative or its delinquency ratio increases, our business, financial condition and results of operations may be adversely affected.

Shinhan Card may not be able to increase consumer and business spending and borrowing on its card products or manage the costs of its cardholder benefits intended to stimulate such use.

Increasing consumer and corporate spending and borrowing on our card products and growth in card lending balances depend in part on Shinhan Card s ability to develop and issue new or enhanced card and prepaid products and increase revenue from such products and services. Shinhan Card s future earnings and profitability also depend on its ability to attract new cardholders, reduce cardholder attrition, increase merchant coverage and capture a greater share of customers total credit card spending in Korea and overseas. Shinhan Card may not be able to manage and expand cardholder benefits in a cost-effective manner or contain the growth of marketing, promotion and reward expenses to a commercially reasonable level. If Shinhan Card is not successful in increasing customer spending or in containing costs or cardholder benefits, its financial condition, results of operations and cash flow could be negatively affected.

Our customers may become victims to voice phishing , other financial scams or cyber security breaches, for which we may be required to make monetary compensation and suffer damage to our business and reputation.

In recent years, financial scams known as voice phishing have been on the rise in Korea. While voice phishing takes many forms and has evolved over time in terms of sophistication, it typically involves the scammer making a phone call to a victim under false pretenses (for example, the scammer pretending to be a member of law enforcement, an employee of a financial institution or even an abductor of the victim s child) and

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luring the victim to transfer money to an untraceable account controlled by the scammer. More recently, voice phishing has increasingly taken the form of the scammer hacking or otherwise wrongfully obtaining personal financial information of the victim (such as credit card numbers or Internet banking login information) over the telephone or other means and illegally using such information to obtain credit card loans or cash advances through automated telephone banking or Internet banking. Reportedly, a substantial number of such scammers belong to international criminal syndicates with bases overseas, such as China, with operatives in Korea.

In response to the growing incidents of voice phishing, regulatory authorities have undertaken a number of steps to protect consumers against voice phishing and other financial scams. However, there is no assurance however that the regulatory activities will have the desired effect of substantially eradicating or even containing the incidents of voice phishing or other financial scams. In addition, in November and December 2011, the Financial Supervisory Service conducted an investigation of major credit card companies, including Shinhan Card, in relation to card loan-related voice phishing, with a focus on whether these companies are in compliance with the related Financial Supervisory Service regulations and the scope of damage suffered by their customers as a result of voice phishing. No official results of such investigation have been made available to us or Shinhan Card to-date.

Pursuant to guidelines set forth by the Credit Finance Association of Korea, credit card companies in Korea, including Shinhan Card, adopted a standard compensation scheme for victims of voice phishing, under which the credit card companies would compensate up to 50% of the damage suffered by such victims, depending on the nature of the victims (for example, more compensation if the victim is handicapped or at the lowest income bracket) and the level of precautionary steps undertaken by the relevant credit card company before approving the credit card loans or cash advances in connection with voice phishing; provided that if the applicant personally made the application, for example, through an ATM terminal or an outcall procedure was undertaken to confirm the personal identity of the applicant, no compensation would be made. The compensation scheme applies to claims of voice phishing received for the period from January 1, 2011 to December 8, 2011. Although the financial institutions are often not legally at fault for the damage suffered by victims of voice phishing, the compensation scheme was adopted largely in consideration of social responsibility among financial institutions and that the financial institutions were not required to, and therefore in many instances did not, confirm the personal identity of the card loan or cash advance applicants prior to the adoption of such scheme. On December 8, 2011, Shinhan Card began implementing a mandatory outcall procedure to verify the personal identity of applicants for card loans and cash advances if not requested in person. In January 2012 financial institutions, Financial Supervisory Service, police and other related institutions formed a joint committee to prevent voice phishing incidents and implemented preventive measures such as enforcing a 10 minute delay for withdrawal of credit card loans of 3 million or more from an automated teller machine.

In 2012, Shinhan Card received 1,361 customer claims in relation to voice phishing in the aggregate amount of 9.5 billion. In 2012, Shinhan Card reserved as other provisioning 0.4 billion to cover potential liability.

Other than voice phishing, the cyber security risks relating to our businesses primarily involve the potential security breaches of our customers personal and financial information and illegal use thereof through system-wide hacking or other means. We are fully committed to maintaining the highest standards of cyber security and consumer protection measures and upgrading them continually. We believe that our ISO 27001-certified security management system is among the best-in-class in the industry. Our security management system continuously monitors for signs of potential cyber attacks, and is designed to provide early warning alerts to enable prompt actions on our part. We also actively provide employee training on cyber security and have adopted advanced security infrastructure for online financial services such as mandatory website certification and keyboard security functions. In addition, in compliance with applicable regulations we have recently obtained insurance to cover cyber security breaches up to 2 billion in relation to our banking business, 3 billion for our securities investment business and 1 billion for our credit card business. In addition, in light of the growing use of smartphones and other mobile devices to access financial services, we have implemented security measures to provide a secure mobile banking service as well as to prevent illegal leakage or sharing of customer data and otherwise enhance customer privacy.

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We do not believe that the currently outstanding claims in relation to voice phishing will have a material adverse impact on our business, financial condition or results of operations. Additionally, other than voice phishing incidents and the recent cyber security attacks as discussed above, we have not experienced any material security breaches in the past. Furthermore, we are actively taking steps to implement preventive and other steps recommended or required by the regulatory authorities in relation to actual and potential financial scams. However, major financial institutions in Korea, including us, have fallen victim to cyber security attacks in the past, and given the unpredictable and continually evolving nature of cyber security threats due to advances in technology or other reasons, we cannot assure you that, notwithstanding our best efforts at maintaining the best-in-class cyber security systems, we will not be vulnerable to major cyber security attacks in the future, which may have a material adverse effect on our business, financial condition and results of operations. In addition, we may be required to incur substantial costs in terms of compensation to victims of cyber security attacks and compliance costs with the present and future regulatory restrictions as well as suffer reputational costs as well as reparation and other costs related to system malfunction in the case of a widespread cyber security breach.

Risks Relating to Our Other Businesses

We may incur significant losses from our investments and, to a lesser extent, trading activities due to market fluctuations.

We enter into and maintain large investment positions in fixed income products, primarily through our treasury and investment operations. We describe these activities in Item 4.B. Business Overview Our Principal Activities Corporate and Investment Banking Services. We also maintain smaller trading positions, including equity and equity-linked securities and derivative financial instruments as part of our operations. Taking these positions entails making assessments about financial market conditions and trends. The revenues and profits we derive from many of these positions and related transactions are dependent on market prices, which are beyond our control. When we own assets such as debt or equity securities, a decline in market prices, for example as a result of fluctuating market interest rates or stock market indices, can expose us to trading and valuation losses. If market prices move in a way that we have not anticipated, we may experience losses. In addition, when markets are volatile and subject to rapid changes in the price directions, the actual market prices may be contrary to our assessments and lead to lower than anticipated revenues or profits, or even result in losses, with respect to the related transactions and positions.

We may generate losses from brokerage and other commission- and fee-based business.

We, through our investment and other subsidiaries, currently provide, and seek to expand the offerings of, brokerage and other commission- and fee-based services. Downturns in stock markets typically lead to a decline in the volume of transactions that we execute for our customers and, therefore, to a decline in our non-interest revenues. In addition, because the fees that we charge for managing our clients portfolios are often based on the size of the assets under management, a downturn in the stock market which has the effect of reducing the value of our clients portfolios or increasing the amount of withdrawals also generally reduces the fees we receive from our securities brokerage, trust account management and other asset management services. Even in the absence of a market downturn, below-market performance by our securities, trust account or asset management subsidiaries may result in increased withdrawals and reduced cash inflows, which would reduce the revenue we receive from these businesses. In addition, protracted declines in asset prices can reduce liquidity for assets held by us and lead to material losses if we cannot close out or otherwise dispose of deteriorating positions in a timely way or at commercially reasonable prices.

Other Risks Relating to Us

Our ability to continue to pay dividends and service debt will depend on the level of profits and cash flows of our subsidiaries.

We are a financial holding company with minimal operating assets other than the shares of our subsidiaries. Our primary source of funding and cash flow is dividends from, or disposition of our interests in, our subsidiaries or our cash resources, most of which are currently the result of borrowings. Since our principal assets are the outstanding capital stock of our subsidiaries, our ability to pay dividends on our common and preferred shares and service debt will mainly depend on the dividend payments from our subsidiaries.

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Companies in Korea are subject to certain legal and regulatory restrictions with respect to payment of dividends. For example, under the Korean Commercial Code, dividends may only be paid out of distributable income, which is calculated by subtracting the aggregate amount of a company s paid-in capital and certain mandatory legal reserves from its net assets, in each case as of the end of the prior fiscal year. In addition, financial companies in Korea, including banks, credit card companies, securities companies and life insurers, such as our subsidiaries, must meet minimum capital requirements and capital adequacy ratios applicable to their respective industries before dividends can be paid. For example, under the Banking Act, a bank also is required to credit at least 10% of its net profit to a legal reserve each time it pays dividends on distributable income until such time when this reserve equals the amount of its total paid-in capital, and under the Banking Act, the Specialized Credit Financial Business Act and the regulations promulgated by the Financial Services Commission, if a bank or a credit card company fails to meet its required capital adequacy ratio or is 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 dividend by such a bank or credit card company. In addition, if our or our subsidiaries capital adequacy ratios fall below the required levels, our ability to pay dividends may be restricted by the Financial Services Commission.

Damage to our reputation could harm our business.

We are one of the largest and most influential financial institutions in Korea by virtue of our financial track records, market share and the size of our operations and customer base. Our reputation is critical to maintaining our relationships with clients, investors, regulators and the general public. Our reputation can be damaged in numerous ways, including, among others, employee misconduct (including embezzlement), cyber or other security breaches, litigation, compliance failures, corporate governance issues, failure to properly address potential conflicts of interest, the activities of customers and counterparties over which we have limited or no control, prolonged or exacting scrutiny from regulatory authorities and customers regarding our trade practices, or uncertainty about our financial soundness and our reliability. If we are unable to prevent or properly address these concerns, we could lose our existing or prospective customers and investors, which could adversely affect our business, financial condition and results of operations.

Our risk management policies and procedures may not be fully effective at all times.

In the course of our operations, we must manage a number of risks, such as credit risks, market risks and operational risks. Although we devote significant resources to developing and improving our risk management policies and procedures and expect to continue to do so in the future, our risk management techniques may not be fully effective at all times in mitigating risk exposures in all market environments or against all types of risk, including risks that are unidentified or unanticipated. For example, from time to time, a limited number of our and our subsidiaries personnel have engaged in embezzlement of substantial amounts for an extended period of time before such activities were detected by our risk management systems. In response to these incidents, we have strengthened our internal control procedures by, among others, implementing a real-time monitoring system, but there is no assurance that such measures will be sufficient to prevent similar employee misconducts in the future. Management of credit, market and operational risk requires, among others, policies and procedures to record properly and verify a large number of transactions and events, and we cannot assure you that these policies and procedures will prove to be fully effective at all times against all the risks we face.

Legal claims and regulatory risks arise in the conduct of our business.

In the ordinary course of our business, we are subject to regulatory oversight and potential legal and administrative liability risk. We are also subject to a variety of other claims, disputes, legal proceedings and government investigations in Korea and other jurisdictions where we are active. These types of proceedings expose us to substantial monetary damages and legal defense costs, injunctive relief, criminal and civil penalties and the potential for regulatory restrictions on our businesses. The outcome of these matters cannot be predicted and they could adversely affect our future business.

Due to a global economic slowdown and a deteriorating Korean stock market in the second half of 2008, investment funds whose performance was tied to domestic and foreign stock market indices experienced a sharp

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fall in their rates of return. Consequently, investors in these funds brought lawsuits against commercial banks in Korea that sold such investment fund products based on the allegation that such banks used defective sales practices in selling such products, such as failing to comply with disclosure requirements or unfairly inducing them to invest in such products. For example, in 2009, we, like other commercial banks that sold similar products, became a defendant in lawsuits in connection with the sale of foreign currency derivatives products known as KIKOs, which stands for knock-in knock-out, to certain of our customers comprised mostly of small- and medium-sized enterprises. The KIKOs, which are intended to be hedging instruments, operate so that if the value of Korean Won increases to a certain level, we are required to pay the purchasers a certain amount, and if the value of Korean Won falls below a certain level, the purchasers of KIKOs are required to pay us a certain amount. As the Korean Won significantly depreciated against the U.S. dollar in the second half of 2008, purchasers of KIKOs were required under the relevant contracts to make large payments to us, and some of such purchasers filed lawsuits to nullify their obligations under the allegation that we did not sufficiently disclose the risks in investing in KIKOs and unfairly induced them to make such investments. As of December 31, 2012, we had won 26 out of 37 KIKO-related cases, lost seven at the lower court level and four cases are pending in the lower court level. If we lose our cases on appeal, the court may nullify the contracts under which KIKO products were sold and order us to return payments received from the customers. As of December 31, 2012, the aggregate amount of the outstanding KIKO-related claims was 205.9 billion, for which we set aside 24.4 billion as allowance. While it is difficult to predict the outcome of each lawsuit against us, as it will ultimately depend on the specific facts and circumstances underlying such lawsuit, if the courts rule against us, the lawsuits may have a material adverse effect on our business, financial condition and results of operations.

In addition to the KIKO-related claims, we have also faced complaints and, to a lesser extent, litigation from customers based on claims of (i) inadequate disclosure of risk related to the potential loss of principal when we sold currency forward contracts designed to hedge against currency risks in overseas mutual fund investments, (ii) approval of customer applications for purchases of our investment products with missing information without first confirming such missing items with customers and (iii) our discretionary liquidation of small-size investment funds as permitted under the Financial Investment Services and Capital Markets Act but without first seeking customer approval. In connection with the foregoing claims, we were defendants in two court proceedings for an aggregate claim amount of 0.8 billion as of December 31, 2012, for which we set aside a minimal amount as allowance. The amount claimed may increase in the course of litigation and there may be other lawsuits that may be brought against us based on similar allegations.

While we plan to rigorously defend our positions in the foregoing lawsuits, it is difficult to predict the final outcome of litigation. The total amount in dispute may increase during the course of litigation and other lawsuits may be brought against us based on similar allegations. Accordingly, these lawsuits, especially if the courts finally rule against us, may have a material adverse effect on our business, financial condition and results of operations. In addition, while in response to the foregoing claims we have implemented extensive employee training and other operational processes and procedures to provide adequate disclosure, prevent unfair inducement and otherwise comply with all relevant laws and regulations, we cannot assure you that, despite due training and other preventive measures, all of our employees in charge of such sales have not breached disclosure requirements, engaged in unfair inducement or committed similar acts or will not do the same in the future and, as a result, we may face additional claims or litigation in the future, which may have a material adverse effect on our business, reputation, financial condition and results of operations.

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

We rely on our information technology systems for our daily operations, including billing, online and offline financial transactions settlement and record keeping. We also upgrade from time to time our group-wide customer data-sharing and other customer relations management systems. We may experience disruptions, delays, cyber or other security breaches or other difficulties relating to our information technology systems, and may not timely upgrade our systems as currently planned. Any of these developments may have an adverse effect on our business and adversely impact our customers confidence in us.

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Our activities are subject to cyber security risk.

Our activities have been, and will continue to be, subject to an increasing risk of cyber attacks, the nature of which is continually evolving. Cyber security risks include unauthorized access to privileged and sensitive customer information, including passwords and account information of our retail and corporate customers. For example, many of our customers increasing rely on our Internet banking services for various types of transactions and while such transactions are protected by encryption and other security programs, they are not free from security breaches. We have made substantial investments to build systems and defenses to address threats from cyber attacks. In March 2013, we experienced a temporary interruption in providing online financial services due to large-scale cyber attacks on the security systems of major broadcasting networks and financial institutions in Korea by sources that have yet to be identified. The interruption of our online financial services lasted approximately 90 minutes, after which our online system resumed without further malfunction. The Financial Supervisory Service is currently conducting an investigation into the incident. We do not believe such incident resulted in any material loss or leakage of customer information or other sensitive data. However, there is no assurance that such or similar incident may not recur in the future, which would result in such material loss or leakage and materially harm our business and reputation.

Risks Relating to Law, Regulation and Government Policy

We are a heavily regulated entity and operate in a legal and regulatory environment that is subject to change, and violations could result in penalties and other regulatory actions.

As a financial services provider, we are subject to a number of regulations that are designed to maintain the safety and soundness of Korea s financial system, to ensure our compliance with economic and other obligations and to limit our risk exposure. These regulations may limit our activities, and changes in these regulations may increase our costs of doing business. Regulatory agencies frequently review regulations relating to our business and implement new regulatory measures, including increasing the minimum required provisioning levels or capital adequacy ratios applicable to us and our subsidiaries from time to time. We expect the regulatory environment in which we operate to continue to change. Changes in regulations applicable to us, our subsidiaries and our or their business or changes in the implementation or interpretation of such regulations could affect us and our subsidiaries in unpredictable ways and could adversely affect our business, results of operations and financial conditions.

For example, under the Financial Investment Services and Capital Markets Act, which became effective as of February 4, 2009, financial institutions, including us and our subsidiaries, may offer a broader range of investment products with novel and complex structures, including by way of hedge funds and private equity funds. Such products may involve greater counterparty risks as well as compliance risks associated with inadequate disclosure of investment risks. In addition, upon implementation of the Financial Consumer Protection Act, which is currently being considered by the Financial Services Commission and Financial Supervisory Service, customers of financial services will be entitled to heightened investor protection measures, including additional remedies in the case of imperfect sales of financial products based on inadequate disclosure or unfair inducement, such as mandatory compensatory damages, right of rescission, class action eligibility and double damages in case of a statutory violation. Furthermore, in an effort to curb the substantial rise recently in retail loans in Korea, the regulators may adopt measures and guidelines designed to limit further growth of our retail lending, in particular mortgage and home equity loans that are deemed to be high-risk (namely, mortgage and home equity loans of over 50 million (i) whose principal and interest are due at maturity, (ii) whose interest is due periodically over the term of the loan but whose principal is due at maturity, or (iii) whose borrower has more than three mortgage and home equity loans from financial institutions). We may also become subject to other restrictions on our operations as a result of future changes in laws and regulations, including the more stringent liquidity and capital requirements under Basel III, which will be adopted in phases in Korea in consideration of, among others, the pace and scope of international adoption of such requirements. Any of these regulatory developments may have a material adverse effect on our ability to expand operations or adequately manage our risks and liabilities.

In addition, violations of law and regulations could expose us to significant liabilities and sanctions. For example, the Financial Services Commission conducts periodic audits on us and, from time to time, we have

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received institutional warnings from the Financial Services Commission. If the Financial Services Commission determines as part of such audit or otherwise that our financial condition, including the financial conditions of our operating subsidiaries, is unsound or that we have violated applicable law or regulations, including Financial Services Commission orders, or if we or our operating subsidiaries fail to meet the applicable requisite capital ratio or the capital adequacy ratio, as the case may be, set forth under Korean law, the Financial Services Commission may order, among others, at the level of the holding company or that of the relevant subsidiary, capital increases or reductions, suspension of officers from performing their duties and appointment of custodians, stock cancellations, consolidations, transfers of business, sales of assets, closures of branch offices, mergers with other financial institutions and/or suspensions of a part or all of our business operations. To date, Shinhan Bank has received two institutional warnings in the past three years. If it receives another institutional warning within a three-year period, it may become subject to aggravated regulatory sanctions, including suspension of part of its business. If any of such measures is imposed on us or on our subsidiaries as a result of unsound financial condition or failure to comply with minimum capital adequacy requirements or for other reasons, it will have a material adverse effect on our business, financial condition and results of operations.

For further details on the principal laws and regulations applicable to us as a holding company and our principal subsidiaries, see Item 4.B. Business Overview Supervision and Regulation.

Increased government involvement in the economy and tighter regulation of the financial services industry in Korea in response to a financial crisis or economic downturn could impose greater restrictions on our business and hurt our profitability.

During the global financial crisis and the ensuing economic downturn starting in 2008, many governments worldwide, including the Government, became involved in providing assistance, including by direct investment, to troubled financial institutions and corporations, typically in exchange for increased government monitoring and guidance of the operations of such entities. In Korea, for example, in 2008 and 2009 several major commercial banks, including Shinhan Bank, applied for Government-backed credit lines, which if drawn down would have imposed greater Government monitoring of their operations. While no drawdown has been made and these programs have since terminated, there is no assurance that if the Korean or global economy were to experience another severe crisis, financial institutions in Korea, including us and our subsidiaries, will not require special assistance from the Government, which would generally impose greater government monitoring and restrictions on our business and operations and may have a material adverse effect on our business, results of operations and financial condition.

In light of the widely held perception that the recent global liquidity crisis is at least partly attributable to deficiencies in the risk management systems and capital adequacy of financial institutions, many governments worldwide have taken or are considering taking measures to increase regulatory oversight in these and other areas. Examples of such measures currently being considered by the Government include proposals to further regulate capital and liquidity of financial institutions in line with Basel II and Basel III. There can be no assurance that such measures will have the desired consequences or not have unintended adverse consequences which could hurt our business, results of operations and financial condition or profitability.

The Korean government may encourage targeted lending to and investment in certain sectors in furtherance of policy initiatives, and we may take this factor into account.

The Government has encouraged and may in the future encourage lending to or investment in the securities of certain types of borrowers and other financial institutions in furtherance of government initiatives. The Government, through its regulatory bodies such as the Financial Services Commission, has in the past announced lending policies to encourage Korean banks and financial institutions to lend to or invest in particular industries or customer segments, and, in certain cases, has provided lower cost funding through loans made by the Bank of Korea for further lending to specific customer segments. While all of our loans or securities investments are reviewed in accordance with our internal credit review policies or internal investment guidelines and regulations, we, on a voluntary basis, may factor the existence of such policies and encouragements into consideration in making loans or securities investments. In addition, while the ultimate decision whether to make loans or securities investments remains with us and is made based on our internal credit approval procedures and risk

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management systems independently of Government policies, the 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 be required to make or may otherwise decide to accept. For example, the Government has taken and is taking various initiatives to support small- and medium-sized enterprises, which were disproportionately affected by the recent downturn in the Korean and global economy.

As an example of such initiatives, Shinhan Bank, like other commercial banks in Korea, entered into a memorandum of understanding in April 2009 with the Financial Supervisory Service under which Shinhan Bank would make efforts to, among others, provide greater liquidity into the general economy by extending a sizable volume of loans to and facilitating export financing for small- and medium-sized enterprises in exchange for government guarantee of a certain amount of foreign currency-denominated borrowings by Shinhan Bank. The memorandum of understanding was terminated on December 31, 2009.

In addition, under the rules of the Bank of Korea, when commercial banks (including Shinhan Bank) make Won-denominated loans to certain start-up, venture, innovative and other strategic small- and medium-sized enterprises specially designated by the Bank of Korea as priority borrowers , the Bank of Korea will provide the underlying funding to these banks at concessionary rates for up to 50% of all such loans made to priority borrowers subject to a monthly-adjusted limit prescribed by the Bank of Korea (currently 5 trillion), provided that if such loans to priority borrowers made by all commercial banks exceed the prescribed limit for a given month, the concessionary funding for the following month will be allocated to each commercial bank in proportion to such bank s lending to priority borrowers two months prior to the time of such allocation, which has the effect that, if a particular bank lags other banks in making loans to priority borrowers, the amount of funding such bank can receive from the Bank of Korea at concessionary rates will be proportionately reduced.

In tandem with providing additional loans to small- and medium-sized enterprises under the memorandum of understanding, Shinhan Bank has taken active steps to mitigate the potential adverse impacts from making bad loans to enterprises with high risk profiles as a result of the foregoing arrangements, such as by strengthening its loan review and post-lending monitoring processes. However, we cannot assure you that the arrangements contemplated under the memorandum of understanding did not or will not, or similar or other government-led initiatives in the future will not, result in a suboptimal allocation of our loan portfolio from a risk-reward perspective compared to what we would have allocated based on purely commercial decisions in the absence of such initiatives. The government may implement similar or other initiatives in the future to spur the overall economy or encourage the growth of targeted industries, particularly in light of the fact that bolstering the role of, and providing additional support to, small- to medium-sized enterprises has been a major campaign pledge and accordingly is likely to become a significant policy initiative of the recently elected presidential administration in Korea. Specifically, the government may introduce lending-related initiatives or enforce existing ones in a heightened fashion during times when small- and medium-sized enterprises on average are facing an increased level of financial distress or vulnerability due to an economic downturn, which makes lending to them in the volume and the manner suggested by the government even riskier and less commercially desirable. Accordingly, making loans to small- and medium-sized enterprises in furtherance of the government-led initiatives may result in enhanced difficulties for us in terms of risk management, deterioration of our asset quality and reduced earnings, compared to what would have been in the absence of such initiatives.

In addition, in light of the sizable non-performing assets from project financings (mostly related to real estate project financings suffering from the persistent slump in the real estate market) by commercial banks (mostly in the lower tier) and merchant banks, in June 2011, the Government established the United PF 1st Recovery Private Equity Fund (the Fund), a joint-stock private equity fund sponsored by United Asset Management Company Ltd. (UAMCO), a government-invested enterprise and the largest purchaser in Korea of non-performing financial assets generally, and eight major commercial and policy banks, namely Woori Bank, Kookmin Bank, Nonghyup Bank, Shinhan Bank, Hana Bank, Korea Exchange Bank, Korea Development Bank and Industrial Bank of Korea.

Shinhan Bank does not have any involvement in the management or day-to-day operations of the Fund. While Shinhan Bank holds a 10.65% equity interest in the Fund, Shinhan Bank is designated as a limited partner,

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and under the Fund s articles of organization the management and day-to-day operations of the Fund are specifically delegated to a general partner designated as the managing partner for the Fund, which is currently UAMCO, a limited liability company established under Korean law whose shareholders are the six banks that have made capital contributions to the Fund. The scope of such delegated management activities are as follows: (i) management and operating of the Fund s assets and liabilities, (ii) selection of investment targets and exercise of investment decisions and redemption decisions, (iii) exercise of rights over investment assets, (iv) issuance and distribution of beneficiary certificates underlying the investment assets, (v) distribution of Fund assets, (vi) accounting and recordkeeping, (vii) payment of expenses and liabilities related to the operation of the Fund and (viii) ancillary activities related to the foregoing. Under the Fund s articles of organization, the activities of the general partner acting as the managing partner are subject to supervision by an advisory committee consisting of representatives of each of the limited partners (which may not be a general partner), and the advisory committee may express a view on the activities of the managing partner. The advisory committee s view is not binding, and serves only as a recommendation with respect to certain activities over which the managing partner is authorized to exercise its discretion under the Financial Investment Services and Capital Markets Act. However, in the event the managing partner breaches law or material articles of the Fund s articles of incorporation, the advisory committee, with the consent from members representing two-thirds or more of the equity interests in the Fund, may suspend (and if applicable, restore) such managing partner s activities relating to the operation and management of the Fund.

The Fund is funded with capital contributions and loans from the aforesaid nine sponsors in the aggregate amount of 1,828 billion (consisting of 1,400 billion in capital contributions and 428 billion in loans) as of December 31, 2012. Of such amounts, under the fund organization documents, Shinhan Bank is obligated to make capital contributions up to 149 billion (representing a 10.65% equity interest in the Fund in the form of common shares) and loans of 19.4 billion (representing 4.5% of the total loans made by the sponsors) as of December 31, 2012, and Shinhan Bank, together with other sponsors, may be requested to make, on a prorated basis based on their relative shareholdings, additional capital contributions and loans upon further purchase by the Fund of non-performing assets from project financings. The amount of funding obligation is proportionate to each sponsor s relative asset size and its exposure to project financings. As of December 31, 2012, Shinhan Bank made capital contributions in the aggregate amount of 118.7 billion and has fulfilled its capital contribution obligations. As for the capital contributions made by Shinhan Bank to-date, these have not been subject to impairment since the underlying assets of the Fund, which primarily consist of impaired loans, are purchased at fair value, and profits have subsequently been realized thereon either in the form of recovery from enhanced collection measures or capital gains upon resale thereof. Shinhan Bank currently does not plan to make additional capital contributions. The terms of the loans, including the interest rate and redemption provisions, are subject to further negotiation among the sponsors.

The objective of the Fund is to purchase non-performing assets from project financing companies, professionally manage such assets and later sell them at a profit once these assets have normalized. By doing so, the Fund is expected to enhance the asset quality of financial institutions with significant exposure to unsound project financings by transferring a part of such exposure from such institutions to the Fund, as well as help to normalize the project financing industry. The Fund is not backed by any government guarantee, and the Fund operates based on mutual agreement of the sponsors. The term of the Fund is five years, which may be extended at a general meeting of the sponsors. Upon liquidation of the Fund, each sponsor will be entitled to a share in the net assets of the Fund at the time of liquidation in proportion to their respective contributions to the Fund.

Following the establishment of the Fund in June 2011 and as of December 31, 2012, Shinhan Bank has sold non-performing project financing assets in the aggregate amount of 179.1 billion to the Fund and recognized from such sales an aggregate loss of 56.2 billion before applying allowance for loan losses allocated to such assets and an aggregate profit of 7.7 billion after applying allowance for loan losses allocated to such assets. Under IFRS, the sale of non-performing project financing assets to the Fund is classified as a true sale, and therefore, gain or loss from such sale is recognized at the time of sale, and no gain or loss is recognized after the time of sale. Subject to market conditions, Shinhan Bank may sell additional non-performing project financing assets to the Fund and use all or part of the proceeds for its future capital contribution or loan requirements. However, given the generally poor asset quality of its non-performing project financing assets, there is no

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assurance that Shinhan Bank will be able to sell such assets held by it on commercially reasonable terms or that the Fund will be able to attain its objective of selling the purchased project financing assets at a profit, in which case Shinhan Bank may not be able to recoup its investment in, or be repaid the loans to, the Fund fully or at all.

The level and scope of government oversight of our lending business, particularly regarding mortgage and home equity loans, may change depending on the economic or political climate.

Curtailing excessive speculation in the real estate market has historically been a key policy initiative for the Government, and it has in the past adopted several regulatory measures, including in relation to retail banking, to affect such policy. Some of the measures undertaken in the past include requiring financial institutions to impose stricter debt-to-income ratio and loan-to-value ratio requirements for mortgage loans for real property located in areas deemed to have engaged in a high level of speculation, raising property tax on real estate transactions for owners of multiple residential units, adopting a ceiling on the sale price of newly constructed housing units and recommending that commercial banks restrain from making further mortgage and home equity lending, among others.

The Government may from time to time take measures to regulate the housing market in order to preempt undue speculation, including by way of imposing restrictions on retail lending, including mortgage and home equity lending. For example, in September 2009, in light of the growing concerns about the rising level of household debt in Korea, which is in large part secured by residential property, the Financial Supervisory Service announced that it would apply stricter debt-to-income ratios for mortgage and home equity lending, and on April 3, 2013, the Financial Services Commission announced that it would adopt measures to curb rapid growth of retail lending and increase the percentage of long-term fixed rate mortgage and home equity lending. Any measure by the Government that is designed to stimulate or curb growth in the real property sector may be premature, result in unintended consequences or contribute to substantial future declines in real estate prices in Korea, which will reduce the value of the collateral securing our mortgage and home equity loans. See Risks Relating to Our Banking Business A decline in the value of the collateral securing our loans or our inability to fully realize the collateral value may adversely affect our credit portfolio. Such measures may also have the effect of limiting the growth and profitability of our retail banking business, especially in the area of mortgage and home equity lending.

Korea s legislation allowing class action suits related to securities transactions may expose us to additional litigation risk.

The Act on Class Actions regarding Securities allows class action suits to be brought by shareholders of companies listed on the Korea Exchange, including ours, for losses incurred in connection with the purchase and sale of securities and other securities transactions arising from (i) false or inaccurate statements provided in registration statements, prospectuses and business reports; (ii) insider trading and (iii) market manipulation. This law permits 50 or more shareholders who collectively hold 0.01% or more of the shares of a company at the time when the cause of such damages occurred to bring a class action suit against us and our subsidiaries and our and their respective directors and officers. It is uncertain how the courts will apply this law, however, as this law has been enacted relatively recently and there are few precedents. Litigation can be time-consuming and expensive to resolve, and can divert valuable management time and attention from the operation of a business. We are not aware of any basis for such suit being brought against us, nor, to our knowledge, are there any such suits pending or threatened. Any such litigation brought against us could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Korea

Unfavorable financial and economic conditions in Korea and globally may have a material adverse impact on our asset quality, liquidity and financial performance.

We are incorporated in Korea, where most of our assets are located and most of our income is generated. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea, and our business, results of operations and financial condition are substantially dependent on developments relating to the Korean

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economy. As Korea s economy is highly dependent on the health and direction of the global economy, and investor s reactions to developments in one country can have adverse effects on the securities price of companies in other countries, we are also subject to the fluctuations of the global economy and financial markets. Factors that determine economic and business cycles in the Korean or global economy are for the most part beyond our control and inherently uncertain. In addition to discussions of recent developments regarding the global economic and market uncertainties and the risks relating to us as provided elsewhere in this section, factors that could hurt Korea s economy in the future include, among others:

- further deterioration of the fiscal and financial crisis in Europe, downgrades in the sovereign or other credit ratings of the governments and financial institutions in Europe and the United States, as well as the slowdown of the Chinese economy, which could have adverse effects on the global, and in turn Korean, credit and financial markets;

- inflation levels, volatility in foreign currency reserve levels, commodity prices (including coal, oil, LNG prices), exchange rates (including fluctuation of U.S. dollar exchange rates or revaluation of the Renminbi), interest rates, and stock markets and inflows and outflows of foreign capital, either directly, into the stock markets, through derivatives or otherwise;

- increased reliance on exports to service foreign currency debts, which could cause friction with Korea s trading partners;

- adverse developments in the economies of countries to which Korea exports goods and services (such as the United States, China and Japan), or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;

- the continued emergence of China, 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 relocation of the manufacturing base from Korea to China);

- social and labor unrest or declining consumer confidence or spending resulting from layoffs, increasing unemployment and lower levels of income;

- uncertainty and volatility in real estate prices arising, in part, from the Government s policy-driven tax and other regulatory measures;

- a decrease in tax revenues and a substantial increase in the Government s expenditures for unemployment compensation and other social programs that together could lead to an increased Government budget deficit;

- political uncertainty or increasing strife among or within political parties in Korea, including as a result of the increasing polarization of the positions of the ruling conservative party and the progressive opposition;

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

- any other developments that has a material adverse effect in the global economy, such as an act of war, a terrorist act, a breakout of an epidemic such as SARS, avian flu or swine flu or natural disasters such as the earthquake and tsunami in Japan in March 2011 and the resulting leakage of nuclear materials, and the related disruptions in the economies of Japan and other countries.

Any future deterioration of the Korean economy could have an adverse effect on our business, financial condition and results of operations.

Tensions with North Korea could have an adverse effect on us, the price of our common stock and our American depositary shares.

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.

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In recent years, there have been heightened security concerns stemming from North Korea s nuclear weapons and long-range missile programs and increased uncertainty regarding North Korea s actions and possible responses from the international community. In April 2009, after launching a long-range rocket over the Pacific Ocean, which led to protests from the international community, North Korea announced that it would permanently withdraw from the six-party talks that began in 2003 to discuss Pyongyang s path to denuclearization. On May 25, 2009, North Korea conducted its second nuclear testing by launching several short-range missiles. In response to such actions, the Republic decided to join the Proliferation Security Initiative, an international campaign aimed at stopping the trafficking of weapons of mass destruction, over Pyongyang s harsh rebuke and threat of war. After the United Nations Security Council passed a resolution on June 12, 2009, to condemn North Korea s second nuclear test and impose tougher sanctions such as a mandatory ban on arms exports, North Korea announced that it would produce nuclear weapons and take resolute military actions against the international community.

There recently has been increased uncertainty about the future of North Korea s political leadership and its implications for the economic and political stability of the region. Shortly after the death of Kim Jong-il, a long-standing former ruler of North Korea, in December 2011 his son, reported to be in his late twenties, Kim Jong-eun, was named North Korea s Supreme Commander of the Armed Forces. Whether Kim Jong-eun will successfully solidify his political power or whether he will implement policies that will successfully assist North Korea in withstanding the many challenges it faces, however, remains uncertain. In addition, 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.

Since the death of the North Korean ruler Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea s political leadership and concern regarding its implications for political and economic stability in the region. However, the eventual outcome of such leadership transition remains uncertain. Furthermore, only limited information is available outside of North Korea about Kim Jong-eun, who is reported to be in his late twenties, and it is unclear which individuals or factions, if any, will share political power with Kim Jong-eun or assume the leadership if the transition is not successful. Accordingly, there is significant uncertainty regarding the policies, actions and initiatives that North Korea might pursue in the future, as North Korea has recently announced its plan to test long-distance missiles, Kwang-myong Sung No. 3, despite the sanction from the United Nations Security Council and objection from the international society including the Nuclear Security Summit which was held in Seoul on March 22 and 23, 2012.

Furthermore, there have been recent military conflicts on the Korean peninsula. On March 26, 2010, the *Cheonan*, a Korean navy ship, sank off the western coast of Korea killing 46 soldiers. An investigation carried out by the Joint Civilian-Military Investigation Group, consisting of investigators from Korea, the United States, Australia, the United Kingdom and Sweden, concluded that the *Cheonan* was sunk by a North Korean torpedo. Also, on November 23, 2010, the North Korean military fired artillery shells onto the Korean island of Yeonpyeong, killing two Korean soldiers and two civilians which set off an exchange of fire between the two sides. Around the end of 2010, the International Criminal Court tentatively concluded that North Korea s sinking of the *Cheonan* and shelling of the island of Yeonpyeong constituted a war crime, and launched a preliminary investigation regarding such incidents.

On August 22, 2011, North Korea unilaterally declared that it will legally dispose of all Korean-owned real estate, equipment and raw materials it seized in April 2010 within the Mt. Geumgang resort area (the Geumgang area), concurrent with its seizure and embargo of Korean supplies and assets and its exit order of all employees who were dispatched from Korea (the 2011 Declaration). It is estimated that the value of the assets, including the real estate, owned by the Government, the Korea Tourism Organization and other private Korean companies in the Geumgang area amount to approximately 484 billion. Tourism in the Geumgang area has effectively been discontinued since a Korean tourist was shot and killed by a North Korean soldier on July 11, 2008. Currently, the Government is in the process of considering various options, including legal and diplomatic

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measures, in response to the 2011 Declaration. On April 13, 2012, North Korea conducted a test of a long-range missile against the protests of many in the international community, including Korea, Japan and the United States. Although the test failed, it has raised tensions on the Korean peninsula. The United Nations Security Council has strongly condemned the tests and the United States has cut off food aid to North Korea. North Korea has responded by issuing a statement that it is free to take necessary retaliatory measures. After Korea announced on October 7, 2012, that it would extend the range of its ballistic missiles from 185 to 500 miles, a distance which could hit the northeast corner of North Korea from launch sites in central Korea, the National Defense Commission (which is the top military body of North Korea) announced it was ready to wage war on the United States and its allies and threatened to launch nuclear weapons in the event the United States or its allies use nuclear weapons against North Korea. On February 12, 2013, North Korea conducted a third nuclear test following the previous two rounds of nuclear tests on October 9, 2006 and May 25, 2009. The regime also heralded further actions after the nuclear test and mentioned a potential fourth nuclear test. In response, the Korean government announced its statement that North Korea s nuclear test was in clear violation of the U.N. resolution and Korea would strengthen the coordination with the international community in order to deter the regime from being armed with nuclear weapons. Further, on February 14, 2013, the National Assembly of Korea adopted a resolution to denounce Pyongyang for its nuclear test. On April 3, 2013, North Korea blocked South Koreans from entering the Kaesong Industrial Complex, an economic cooperation zone within North Korea and on April 26, 2013 South Korea decided to withdraw its workers from the complex. It remains unclear whether or when such complex will resume operation. There can be no assurance that the level of tension and instability in the Korean peninsula will not escalate in the future, or that the political regime in North Korea may not suddenly collapse. Any further increase in tension or uncertainty relating to the military, political or economic stability in the Korean peninsula, including a breakdown of diplomatic negotiations over the North Korean nuclear program, occurrence of military hostilities, heightened concerns about the stability of North Korea s political leadership, a leadership crisis or a breakdown of high-level contacts, could have a material adverse effect on our business, financial condition and results of operations and could lead to a decline in the market value of our common shares and our American depositary shares.

Risks Relating to Our American Depositary Shares

There are restrictions on withdrawal and deposit of common shares under the depositary facility.

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the depositary bank s custodian in Korea and obtain American depositary shares, and holders of American depositary shares may surrender American depositary shares to the depositary bank and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of American depositary shares (including deposits in connection with the initial and all subsequent offerings of American depositary shares and stock dividends or other distributions related to these American depositary shares) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. We have consented to the deposit of outstanding shares of common stock as long as the number of American depositary shares outstanding at any time does not exceed 40,432,628. As a result, if you surrender American depositary shares and withdraw shares of common stock, you may not be able to deposit the shares again to obtain American depositary shares.

Ownership of our shares is restricted under Korean law.

Under the Financial Holding Companies Act, any single shareholder (together with certain persons in a special relationship with such shareholder) may acquire beneficial ownership of up to 10% of the total issued and outstanding shares with voting rights of a bank holding company controlling national banks such as us. In addition, any person, except for a non-financial business group company (as defined below), may acquire in excess of 10% of the total voting shares issued and outstanding of a financial holding company which controls a national bank, provided that a prior approval from the Financial Services Commission is obtained each time such person s aggregate holdings exceed 10% (or 15% in the case of a financial holding company controlling regional banks only), 25% or 33% of the total voting shares issued and outstanding of such financial holding company. The Government and the Korea Deposit Insurance Corporation are exempt from this limit. Furthermore, certain

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non-financial business group companies (i.e., (i) any same shareholder group with aggregate net assets of all non-financial business companies belonging to such group of not less than 25% of the aggregate net assets of all members of such group; (ii) any same shareholder group with aggregate assets of all non-financial business companies belonging to such group of not less than 2 trillion; or (iii) any mutual fund in which a same shareholder group identified in (i) or (ii) above owns more than 4% of the total shares issued and outstanding of such mutual fund) may not acquire beneficial ownership in us in excess of 4% of our outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of up to 10% of our outstanding voting shares with the approval of the Financial Services Commission under the condition that such non-financial business group companies will not exercise voting rights in respect of such shares in excess of the 4% limit. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restrictions on Financial Holding Company Ownership. To the extent that the total number of shares of our common stock that you and your affiliates own together exceeds these limits, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Services Commission may order you to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in a fine of up to 50 million, plus an additional charge of up to 0.03% of the book value of such shares per day until the date of disposal.

Holders of our ADSs will not have preemptive rights in certain circumstances.

The Korean Commercial Code and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage 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 bank, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The depositary bank, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

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

the offering and sale of those shares is exempt from or is not subject to the registration requirements of the U.S. Securities Act.

We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission. If a registration statement is required for you to exercise preemptive rights but is not filed by us, you will not be able to exercise your preemptive rights for additional shares and you will suffer dilution of your equity interest in us.

The market value of your investment in our ADSs may fluctuate due to the volatility of the Korean securities market.

Our common stock is listed on the KRX KOSPI Division of the Korea Exchange, 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 Stock Market Division of the Korea Exchange. The Stock Market Division of the Korea Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the Stock Market Division of the Korea Exchange has prescribed a fixed range in which share prices are permitted to move on a daily basis. 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 promoted mergers to reduce what it considers excess capacity in a particular industry

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and has also encouraged 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.

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.

Investors who purchase the American depositary shares will be required to pay for them in U.S. dollars. Our outstanding shares are listed on the Korea Exchange and are quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the American depositary shares will be paid to the depositary bank in Won and then converted by the depositary bank into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the amounts a registered holder or beneficial owner of the American depositary shares will receive from the depositary bank in respect of dividends, the U.S. dollar value of the proceeds which a holder or owner would receive upon sale in Korea of the shares obtained upon surrender of American depositary shares and the secondary market price of the American depositary shares.

If the Government deems that certain emergency circumstances are likely to occur, it may restrict the depositary bank from converting and remitting dividends in Dollars.

If the Government deems that certain emergency circumstances are likely to occur, it may impose restrictions such as requiring foreign investors to obtain prior Government approval for the acquisition of Korean securities or for the repatriation of interest or dividends arising from Korean securities or sales proceeds from disposition of such securities. These emergency circumstances include any or all of the following:

- sudden fluctuations in interest rates or exchange rates;
- extreme difficulty in stabilizing the balance of payments; and
- a substantial disturbance in the Korean financial and capital markets.

The depositary bank may not be able to secure such prior approval from the government for the payment of dividends to foreign investors when the Government deems that there are emergency circumstances in the Korean financial markets.

Other Risks

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 Securities and Exchange Commission and listed on the New York Stock Exchange, we are, and in the future will be, 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. For significant differences, see Item 16.G. Corporate Governance. 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.

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

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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 holders of the American depository shares to affect 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.

We may become a passive foreign investment company (PFIC), which could result in adverse U.S. tax consequences to U.S. investors.

Based upon the past and projected composition of our income and valuation of our assets, we do not believe that we were a PFIC for 2012, and we do not expect to be a PFIC in 2013 or to become one in the foreseeable future, although there can be no assurance in this regard. If, however, we become a PFIC, such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. For example, if we become a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. Our PFIC status is determined on an annual basis and depends on the composition of our income and assets. Specifically, we will be classified as a PFIC for U.S. tax purposes if either: (i) 75% or more of our gross income in a taxable year is passive income, or (ii) the average percentage of our assets by value in a taxable year which produce or are held for the production of passive income (which generally includes cash) is at least 50%. Special rules treat certain income earned by a non-U.S. corporation engaged in the active conduct of a banking business as non-passive income. See Item 10.E. Taxation Certain United States Federal Income Tax Consequences Passive Foreign Investment Company Rules. We cannot assure you that we will not be a PFIC for 2013 or any future taxable year.

ITEM 4. *INFORMATION ON THE COMPANY*

ITEM 4.A. History and Development of the Company

Introduction

Incorporated on September 1, 2001, Shinhan Financial Group is the first privately-held financial holding company to be established in Korea. Since inception, we have developed and introduced a wide range of financial products and services in Korea and aim to deliver comprehensive financial solutions to clients through a convenient one-portal network. According to reports by the Financial Supervisory Service, we are one of the three largest financial services providers in Korea as measured by total assets as of December 31, 2012 and operate the third largest banking business (as measured by consolidated total assets as of December 31, 2012) and the largest credit card business (as measured by the total credit purchase volume as of December 31, 2012) in Korea.

We have experienced substantial growth through several mergers and acquisitions. Most notably, our acquisition of Chohung Bank in 2003 has enabled us to have one of the three largest banking operations in Korea and enhanced our banking client base by adding Chohung Bank s large corporate clients to our traditional client base of small- and medium-sized enterprises. In addition, our acquisition in March 2007 of LG Card, the then and now largest credit card company in Korea, has significantly expanded our non-banking business capacity and helped us to achieve a balanced business portfolio.

We currently have 13 direct subsidiaries and 18 indirect subsidiaries offering a wide range of financial products and services, including commercial banking, corporate banking, private banking, credit card, asset management, brokerage and insurance services. We believe that such breadth of services will help us to meet the diversified needs of our present and potential clients. We currently serve approximately 18.9 million active customers, which we believe is the largest customer base in Korea, through approximately 20,983 employees at approximately 1,450 network branches group-wide. While substantially all of our revenues have been historically derived from Korea, we aim to serve the needs of our clients through a global network of our 65 offices in the United States, Canada, the United Kingdom, Japan, the People s Republic of China, Germany, India, Hong Kong, Vietnam, Cambodia, Kazakhstan and Singapore.

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Our registered office and corporate headquarters are located at 120, 2-Ga, Taepyung-Ro, Jung-Gu, Seoul 100-102, Korea, and our telephone number is +822 6360 3000.

Our Strategy

Since our inception in 2001, we have pursued the following objectives as the core of our long-term strategy: (i) balanced growth in our banking and non-banking businesses, (ii) continued creation of value by identifying new business opportunities and gaining a competitive edge through differentiating our business model from that of our competitors; and (iii) becoming the market leader in Korea and a world-class financial holding company through enhancement of our management systems and core competencies.

While the immediate ripple effects from the global financial crisis of 2008 and 2009 have somewhat subsided, we believe the world economy, and in turn the Korean economy, continue to face an environment of uncertainty marked by generally low growth among businesses and the continuing volatility in the global financial markets due to the resilient fiscal and financial difficulties in Europe. We believe that this environment has engendered negative popular sentiment against major financial service providers in general, as evidenced by the Occupy Wall Street and similar movements in major urban centers in the world and greater calls for regulatory scrutiny and restrictions in relation to financial activities. In addition, advances in mobile and other technologies are renewing challenges for financial service providers to continually reexamine their existing business models. Combined, these developments require that we continue to seek opportunities to foster customer trust, enhance our social capital and quickly adapt ourselves to the constant changes in our business environment. Accordingly, as a general strategic objective we are striving to re-create ourselves to meet the challenges and capitalize on opportunities presented by the new business environment through selectively identifying new growth opportunities, strengthening risk management, efficient use of resources and encouraging more personalized interaction with our customers.

More specifically, we believe that the recent global financial crisis has engendered a new business environment with the following defining features: (i) stricter financial regulations, (ii) less tolerance for risk in financial products, (iii) demand for reduced debt levels, (iv) greater market acceptability of a business model based on stable growth even if this would result in relatively low levels of return, (v) political demand for greater social responsibility and accountability of financial institutions, and (vi) widespread recognition of the growing importance of emerging markets, particularly in Asia, in world economy.

In recognition of these trends in our business environment, which we expect to continue for the foreseeable future, we have also realigned our mid- to long-term strategic priorities to focus on becoming Korea s number one financial brand by 2015 through emphasis on creation of value to our customers and fostering good growth. We believe that establishing ourselves firmly as the market leader in Korea is critical to realizing our ultimate objective of becoming a world-class financial institution, and our new strategic priority reflects our renewed commitment to sustainable growth, stable profitability and best-class core competencies.

More specifically, we plan to focus on achieving the following four initiatives by 2015:

Solidify our market position as the local best in our core businesses. Currently, our two core businesses of banking and credit cards rank as number one in their respective industries (banking in terms of profitability and credit cards in terms of market share and the number of customers). We seek to solidify our brand and market position in these fields as the indisputable local best in both quantitative and qualitative terms by offering our customers quality service that clearly differentiates us from our competitors. To this end, in our banking business, we will seek to offer a variety of products and services tailored to each customer segment, enhance service capabilities that do not require customers physical presence in our branch offices and increase its distribution network outside the Seoul metropolitan area. As for our credit card business, we seek to further solidify our market leadership position and generate further revenue growth by offering new differentiated services and exploring opportunities in the emerging arena of strategic convergence between financial services providers and telecommunication service providers as well as other potential business opportunities on a selective basis, as well as further improve our cost structure.

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Strengthen fee-earnings businesses. While we will continue to focus on our core, interest income generating business of banking and credit card services, in order to attain a more balanced overall business portfolio as well as in anticipation of a potential rise in interest rates and cost of capital, we plan to strengthen our businesses that generate non-interest fee income, such as asset management, insurance and securities. To this end, our asset management business will focus on building the Shinhan brand through continued customer-oriented product development, our securities business will support our asset management business through developing and distributing new investment products and enhancing marketing channels, and our insurance business will seek to join the top tier in the industry through organic growth.

Enhance synergy through shared focus on the customer. We plan to renew our commitment to our founding principle of emphasizing customer-oriented service by streamlining our business lines to provide a comprehensive financial services package tailored to each customer, as well as enhancing customer access to our diverse product offerings through a more customer-friendly one portal financial service platform. To that end, we are developing a group-wide customer relationship and wealth management systems tailored to customer-specific lifestyles and spending patterns, diversifying customer access channels that do not require customers physical presence to enhance convenience to the customer and encouraging our subsidiaries to increase use of the group-wide shared service platform in order to reduce our overall general and administrative costs.

Gain competitiveness in strategic growth areas. In light of the increasing maturation of the domestic financial services sector, we intend to seek new business opportunities at the group level by sharing group-wide management resources to identify and develop potential strategic growth areas. In particular, we plan to enhance the competitiveness of our investment banking business so as to be on par with our group-wide market leadership by redefining its business model and selectively entering into international markets, with an initial focus on Asia. In addition, we will explore selectively entering into strategic alliances with telecommunications service providers and retail grocery and department store chains to take advantage of new business opportunities generated by technological developments and the growing prominence of retail chains in the distribution of financial services.

In order to effectively achieve the foregoing strategic objectives, we plan to continue to enhance our business fundamentals in the following areas:

continual upgrades to optimize our operation management system;

increased investment in employee training and professional development, with a focus on nurturing leaders for the next generation;

brand promotion and bolstering a unified corporate culture that stresses flexibility and open-mindedness to new objectives and challenges;

balanced risk-return management;

enhancement of our customer relationship management system for better customization of our product offerings to the individual needs of our customers; and

bolstering customer confidence and building up social capital through enhancement of our corporate governance and addressing demand for greater social responsibility by financial institutions.

At the subsidiary level, we plan to implement the following strategies with respect to our core business lines:

in commercial banking, our primary objective is to strengthen our competitive position and become the leading bank in Korea by enhancing customer satisfaction, locking in the loyalty of our existing banking customers and further enlarging our customer base. To this end, we plan to fully leverage the scale of our banking operation afforded by our extensive branch network, emphasize cross-selling non-banking products at our banking network, offer total financial service packages, bolster our brand image and further upgrade our customer service infrastructure, risk management systems and other operating

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processes. We also intend to enter, on a selective basis, into promising new businesses by strengthening our investment banking, private banking and other fee-based businesses, making significant inroads into the retirement pension market, and offering differentiated wealth management strategies and portfolios.

in credit card business, our primary objective is to further solidify our market leadership as the largest credit card service provider in Korea through differentiated and tailored customer service based on a strategy that emphasizes soft and smart aspects of enhancing customer loyalty, brand recognition and revenue expansion. We will also emphasize further optimizing our risk management through preemptive risk prevention, creating new synergy opportunities through collaboration with our other Shinhan affiliates and enhanced use of the group-wide customer relationship management system. As a way of identifying and exploring new potential growth areas, we are also exploring, on a selective basis, entering into strategic alliances with telecommunications service providers and retail grocery and department store chains for further expansion of our distribution network.

in securities business, our primary objective is to establish a solid platform for providing leading brokerage and financial advisory services in Korea in light of the recent deregulations of the securities industries in Korea. We aim to selectively develop competitive business models and capture promising business opportunities, including wealth management and investment advisory services. We have recently merged our investment advisory affiliates to promote economy of scale and solidify our brand recognition in this market. Our near-term strategic objective is to promote cross-selling, and in order to achieve this end, we have implemented strategies to enhance our research and preemptive risk management capabilities and maximize our group-wide synergy base.

in life insurance business, our primary objective is to enhance our market position as one of the leading insurers in Korea. To that end, we aim to maximize the use of our group-wide distribution channels, particularly in banking and credit card businesses, in order to foster direct interaction with customers. We also aim to train specialists and offer differentiated products targeting the fast-growing senior citizen population in Korea.

Our History and Development

On September 1, 2001, we were formed as a financial holding company under the Financial Holding Companies Act, as a result of acquiring all of the issued shares of the following four entities from their former shareholders in exchange for shares of our common stock: (i) Shinhan Bank, a nationwide commercial bank listed on the Korea Exchange, (ii) Shinhan Securities Co., Ltd., a securities brokerage company listed on the Korea Exchange, (iii) Shinhan Capital Co., Ltd., a leasing company listed on the Korea Exchange Korean Securities Dealers Automated Quotations (KRX KOSDAQ), and (iv) Shinhan Investment Trust Management Co., Ltd., a privately held investment trust management company. On September 10, 2001, the common stock of our holding company was listed on what is currently the KRX KOSPI Market.

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Since our inception, we have expanded our operations, in large part, through strategic acquisitions or formation of joint ventures. Our key acquisitions and joint venture formations are described as below:

Date of Acquisition	Entity	Principal Activities	Method of Establishment
April 2002	Jeju Bank	Regional banking	Acquisition from Korea Deposit Insurance Corporation
July 2002	Shinhan Investment Corp.(1)	Securities and investment	Acquisition from the SsangYong Group
August 2002	Shinhan BNP Paribas Investment Trust Management Co., Ltd.(2)	Investment advisory	50:50 joint venture with BNP Paribas
August 2003	Chohung Bank	Commercial banking	Acquisition from creditors
December 2005	Shinhan Life Insurance	Life insurance services	Acquisition from shareholders
March 2007	LG Card	Credit card services	Acquisition from creditors
January 2012	Tomato Mutual Savings Bank(3)	Savings bank	Purchase and assumption of assets and liabilities from creditors
January 2013	Yehanbyoul Savings Bank	Savings bank	Acquisition from Korea Deposit Insurance Corporation

Notes:

(1) Renamed as Shinhan Investment Corp. from Goodmorning Shinhan Securities Co., Ltd. effective August 2009.

(2) In January 2009, SH Asset Management Co., Ltd. and Shinhan BNP Paribas Investment Trust Management merged to form Shinhan BNP Paribas Asset Management Co., Ltd.

(3) Shinhan Hope Co., Ltd. was established on December 12, 2011, to purchase and assume certain assets and liabilities of Tomato Mutual Savings Bank. On December 28, 2011, Shinhan Hope Co., Ltd. obtained a savings bank license, changed its name to Shinhan Savings Bank and became our direct subsidiary.

We list below some of the recent developments relating to our organizational structure.

In March 2012, Shinhan-KT Mobile Card Co., Ltd., a wholly-owned subsidiary of Shinhan Card which had been established to secure the leadership position in the emerging market for mobile phone payment services, was liquidated due to lower than expected consumer demand for mobile payment services and slower than expected development of infrastructure necessary to support such services.

In November 2012, Shinhan Financial Group acquired a 99.79% interest in Shinhan AITAS Co., Ltd., a fund administrator and a former wholly-owned subsidiary of Shinhan Bank, for 49.7 billion from Shinhan Bank in order to promote efficient management and synergy effect on a group-wide level.

In December 2012, we entered into a share purchase agreement with Indonesia s Bank Metro Express an Indonesian commercial bank to acquire a 40% interest of Bank Metro Express. Bank Metro Express holds a foreign exchange license and has 19 branches in Indonesia. Currently, we received approval from the Financial Services Commission and are in the process of obtaining the approval of the transaction by Indonesia s financial supervisory authorities. We expect to receive such approval by the end of 2013.

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In January 2013, we entered into a share purchase agreement with Korea Deposit Insurance Corporation for the acquisition of Yehanbyoul Savings Bank, a savings bank located in Korea, and received regulatory approval to merge Yehanbyoul Savings Bank, a savings bank located in Korea, into our existing subsidiary Shinhan Saving Bank. On April 1, 2013, Shinhan Savings Bank and Yehanbyoul Savings Bank merged into a single entity, with Yehanbyoul Savings Bank being the surviving entity and the newly merged bank named Shinhan Savings Bank.

ITEM 4.B. Business Overview

Unless otherwise specifically mentioned, the following business overview is presented on a consolidated basis under IFRS.

Our Principal Activities

We provide comprehensive financial services, principally consisting of the following:

- commercial banking services, consisting of:
  - retail banking, which primarily focuses on making loans to or receiving deposits from individual customers (including high net-worth individuals and families) and, to a lesser extent, not-for-profit institutions such as hospitals, airports and schools;
  - corporate and investment banking services, which primarily focuses on making loans to or receiving deposits from for-profit corporations, including small- and medium-sized enterprises;
  - international banking, which primarily focuses on management of overseas subsidiaries and branch operations and other international businesses, as well as internal asset and liability management, trading of securities and derivatives, investment portfolio management and other related activities; and
  - other banking, which primarily focuses on administration of banking operations.
- credit card services;
- securities brokerage services;
- life insurance services;
- savings banking services, which are provided to higher-risk customer segments who would not generally qualify for or otherwise do not seek our commercial banking services;
- asset management services, including brokerage and trading of various securities, related margin lending and deposit and trust services, and other asset management services; and

other services, including leasing and equipment financing, investment trust management, regional banking, investment banking advisory and loan collection and credit reporting.

In addition to the above-mentioned business activities, we have a corporate center at the holding company level whose primary function is to support the cross-divisional management of our organization.

Our principal business activities are not subject to any material seasonal trends. While we have a number of overseas branches and subsidiaries, substantially all of our assets are located, and substantially all of our revenues are generated, in Korea.

Deposit-Taking Activities

Principally through Shinhan Bank, we offer many deposit products that target different customer segments with features tailored to each segment s financial and other profile. Our deposit products consist principally of the following:

Demand deposits. Demand deposits do not accrue interest or accrue interest at a lower rate than time or savings deposits and allow the customer to deposit and withdraw funds at any time. If interest-bearing,

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demand deposits have interest accruing at a fixed or variable rate depending on the period and the amount of deposit. Demand deposits constituted approximately 12.7%, 12.1% and 12.6% of our total deposits as of December 31, 2010, 2011 and 2012, respectively. Our demand deposits paid average interest of 0.70%, 0.72% and 0.72% in 2010, 2011 and 2012, respectively.

Savings deposits. Savings deposits allow the customer to deposit and withdraw funds at any time and accrue interest at an adjustable interest rate, which is typically lower than the rate applicable to time or installment deposits. Saving deposits constituted approximately 22.3%, 21.1% and 20.5% of our total deposits as of December 31, 2010, 2011 and 2012, respectively, and paid average interest of 0.98% in each of 2010, 2011 and 2012.

Time deposits. Time deposits generally require the customer to maintain a deposit for a fixed term during which the deposit accrues interest at a fixed rate or a variable rate based on certain financial indexes, including Cost of Funds Index (COFIX). If the deposit is withdrawn prior to the end of the fixed term, the customer is paid a lower interest rate than that originally offered. The term typically ranges from one month to five years. Time deposits constituted approximately 62.6%, 65.0% and 66.1% of our total deposits as of December 31, 2010, 2011 and 2012, respectively, and paid average interest of 3.50%, 3.61% and 3.61% in 2010, 2011 and 2012, respectively.

Other deposits. Other deposits consist mainly of certificates of deposit. Certificates of deposit typically have maturities from 30 days to five years. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market interest rates. Certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificates of deposit. Certificates of deposit constituted approximately 2.4%, 1.8% and 0.8% of our total deposits as of December 31, 2010, 2011 and 2012, respectively. Our certificates of deposit paid average interest of 4.32%, 3.40% and 3.71% in 2010, 2011 and 2012, respectively.

We also offer deposits which provide the customer with preferential rights to housing subscriptions under the Housing Law, and eligibility for mortgage and home equity loans. These products include:

Housing subscription time deposits. These deposit products are special purpose time deposits providing the customer with a preferential right to subscribe for new private apartment units under the Housing Law. This law provides various measures supporting the purchase of houses and the supply of such houses by construction companies. If a potential home-buyer subscribes for these deposit products and holds them for a certain period of time set forth in the Housing Law, such deposit customer obtains the right to subscribe for new private apartment units on a priority basis. Such preferential rights are neither transferable nor marketable in the open market. These products accrue interest at a fixed rate for one year and at an adjustable rate after one year, which are consistent with other time deposits. Required 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 as customers.

Housing subscription installment savings deposits. These deposit products are monthly installment savings products providing the customer with a preferential subscription right for new private apartment units under the Housing Law. Such preferential rights are neither transferable nor marketable in the open market. These deposits require monthly installments of 50,000 to 500,000, have maturities between three and five years and accrue interest at fixed rates depending on the term, which are consistent with other installment savings deposits. These deposit products target low- and middle-income households as customers. For information on our deposits in Korean Won based on the principal types of deposit products we offer, see Description of Assets and Liabilities Funding Deposits.

We offer a range of interest rates on our deposit products depending on average funding costs, the rate of return on our interest-earning assets, prevailing market interest rates among financial institutions and other major financial indicators.

We also offer court deposit services for litigants in Korean courts, which involve providing effectively an escrow service for litigants involved in certain types of legal or other proceedings. Chohung Bank historically was a dominant provider of such services since 1958, and following the acquisition of Chohung Bank, we

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continue to hold a dominant market share in these services. Such deposits typically carry interest rates lower than the market rates (by approximately 1% per annum) and amounted to 5,888 billion, 6,103 billion and 6,150 billion as of December 31, 2010, 2011 and 2012, respectively.

The Monetary Policy Committee of the Bank of Korea imposes a reserve requirement on Won currency deposits of commercial banks which ranges from 0% to 7%, based generally on the term to maturity and the type of deposit instrument. See Supervision and Regulation Principal Regulations Applicable to Banks Liquidity.

The Depositor Protection Act provides for a deposit insurance system where the Korea Deposit Insurance Corporation 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.

Retail Banking Services

Overview

We provide retail banking services primarily through Shinhan Bank, and, to a significantly lesser extent, through Jeju Bank, a regional commercial bank. The retail loans, excluding credit card receivables, amounted to 74,053 billion as of December 31, 2012.

Retail banking services include mortgage and home equity lending and retail lending as well as demand, savings and fixed deposit-taking, checking account services, electronic banking and ATM services, bill paying services, payroll and check-cashing services, currency exchange and wire fund transfer. We believe that providing modern and efficient retail banking services is important to maintaining our public profile and as a source of fee-based income. We believe that our retail banking services and products will become increasingly important in the coming years as the domestic banking sector further develops and becomes more complex.

Retail banking has been and will continue to remain one of our core businesses. Our strategy in retail banking is to provide prompt and comprehensive services to retail customers through increased automation and improved customer service, as well as a streamlined branch network focused on sales. The retail segment places an emphasis on targeting high net worth individuals.

Retail Lending Activities

We offer various retail loan products, consisting principally of household loans, which target different segments of the population with features tailored to each segment s financial profile and other characteristics, including each customer s profession, age, loan purpose, collateral requirements and the duration of the customer s relationship with Shinhan Bank. Retail loans consist principally of the following:

Mortgage and home equity loans, which are mostly comprised of mortgage loans that are used to finance home purchases and are generally secured by the home being purchased; and

Other retail loans, which are loans made to customers for any purpose other than mortgage and home equity loans and the terms of which vary based primarily upon the characteristics of the borrower and which are either unsecured or secured, or guaranteed by deposits or a third party.

As of December 31, 2012, our mortgage and home equity loans and other retail loans accounted for 62.29% and 37.71%, respectively, of our retail loans (excluding credit card loans).

For secured loans, including mortgage and home equity loans, our policy is to lend up to 40% to 60% of the appraisal value of the collateral, after taking into account the value of any lien or other security interest that is prior to our security interest (other than petty claims). The loan-to-value ratio of secured loans is updated on a monthly basis using the most recent appraisal value of the collateral. As of December 31, 2012, the loan-to-value ratio of mortgage and home equity loans of Shinhan Bank was approximately 49.1%. As of December 31, 2012, substantially all of our mortgage and home equity loans were secured by residential property.

Under the Regulation on the Supervision of the Banking Business currently in effect, our banking subsidiaries are (i) subject to limits on loan-to-value ratios ranging from 50% to 60% when extending home

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mortgage loans, depending on the collateral value, loan period, and whether the home provided as collateral is located in the Greater Seoul Metropolitan area; and (ii) required to comply with a limit on debt-to-income ratios ranging from 40% to 75% in making mortgage and home equity loans exceeding 100 million for the purchase of new homes located in Seoul, Incheon and Gyeonggi province, depending on the location of the property, the credit score of the borrower, whether the loan is being repaid on an installment basis, and whether the loan carries interest at a fixed rate or at a floating rate.

In addition, the supervising authorities from time to time issue administrative instructions to banks, which have the effect of regulating the access of borrowers to housing loans and, as such, demand for real estate properties. For example, the Financial Supervisory Service issued administrative instructions to financial institutions to (except in limited circumstances) verify the borrower s ability to repay based on proof of income prior to making a mortgage and home equity loan regardless of the type or value of the collateral or the location of the property, which has had the effect of practically barring the grant of any new mortgage and home equity loans to borrowers without verifiable income.

Our banking subsidiaries are currently extending mortgage and home equity loans in compliance with the applicable regulations and administrative instructions by the relevant supervising authorities.

The following table sets forth the portfolio of our retail loans.

	As of December 31,		
	2010	2011	2012
	(In billions of Won, except percentages)		
Retail loans(1)			
Mortgage and home-equity loans	40,073	44,399	46,128
Other retail loans(2)	24,901	25,052	27,925
Percentage of retail loans to total gross loans	35.26%	35.61%	36.61%

Notes:

(1) Before allowance for loan losses and excludes credit card accounts.

(2) In Korea, construction companies typically require buyers of new homes (including apartment units) to make installment payments of the purchase price well in advance of the title transfer. Commercial banks, including Shinhan Bank, provide advance loans, on an unsecured basis for the time being, to retail borrowers where the use of proceeds is restricted to financing of home purchases. A significant portion of these loans are guaranteed by third parties, which may include the construction company receiving the installment payments, until construction of the home is completed. Once construction is completed and the titles to the homes are transferred to the borrowers, which may take several years, these loans become secured by the new homes purchased by these borrowers. In recognition of the unsecured nature of such loans, we classify such loans as other retail loans.

The total mortgage and home equity loans in the amount of 46,128 billion outstanding as of December 31, 2012 consisted of amortizing loans (where part of the installment payments thereon is applied toward repaying the principal amount of the loans) in the amount of 32,747 billion and non-amortizing loans in the amount of 13,381 billion. In addition, as of December 31, 2012, there were lines of credit in the aggregate outstanding amount of 528 billion for non-amortizing loans.

Pricing

The interest rates on retail loans made by Shinhan Bank are either periodically adjusted floating rates (based on a base rate determined for three-month, six-month or twelve-month periods derived using an internal transfer price system, which reflects the cost of funding in the market, as further adjusted to account for expenses related to lending and the profit margin of the relevant loan products) or fixed rates that reflect the cost of funding, as further adjusted to account for expenses related to lending and the profit margin. Fixed rate loans currently have maturities of 15 years or less and are offered only on a limited basis and at a premium to floating rate loans. For unsecured loans, which we provide on a floating or fixed rate basis, the interest rates thereon take into account a

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margin based on, among other things, the borrower s credit score as determined during our loan approval process. For secured loans, the credit limit is based on the type of collateral, priority with respect to the collateral and the loan-to-value ratio. We can adjust the pricing of these loans to reflect the borrower s current and/or expected future contribution to Shinhan Bank s profitability. The interest rate on our loan products may become adjusted at the time the loan is extended. If a loan is terminated prior to its maturity, the borrower is obligated to pay us an early termination fee of approximately 0.5% to 3.0% of the outstanding principal amount of and accrued and unpaid interest on the loan, depending on the timing of termination, the nature of the loan and the loan amount.

As of December 31, 2012, Shinhan Bank s three-month, six-month and twelve-month base rates were approximately 2.89%, 2.88% and 2.89%, respectively. As of December 31, 2012, Shinhan Bank s fixed rates for mortgage and home equity loans with a maturity of one year, two years and three years were 6.60%, 7.10% and 7.20%, respectively, and Shinhan Bank s fixed rates for other retail loans with a maturity of one year ranged from 6.75% to 13.25%, depending on the credit scores of its customers.

As of December 31, 2012, approximately 76.7% of Shinhan Bank s total retail loans were floating rate loans and approximately 23.3% were fixed rate loans. As of the same date, approximately 75.7% of Shinhan Bank s retail loans with maturity of more than one year were floating rate loans and approximately 24.3% was fixed rate loans.

Prior to February 2010, major commercial banks in Korea, including Shinhan Bank, principally used the certificate of deposit, or CD, rates in determining the base rate for secured housing loans, which represent the substantial majority of retail loans. However, amid concerns that the CD rates do not accurately represent the banks cost of capital as certificates of deposit constitute relatively a minor fraction of the banks liabilities and in light of the substantial variance in recent periods between the CD rates and the actual market rates, beginning in February 2010, the Korean Federation of Banks has published the cost of funding index , or COFIX, which is computed based on the weighted average interest of select funding products (including time deposits, housing and other installment savings deposits, repos, discounted bills and senior non-convertible financial debentures) of nine major Korean banks (comprised of Kookmin Bank, Shinhan Bank, Woori Bank, Hana Bank, Korea Exchange Bank, NH Bank, Industrial Bank of Korea, Citibank Korea and Standard Chartered Bank). Each bank then independently determines the interest rate applicable to its respective customers by adding a spread to the COFIX based on the difference between the COFIX and such bank s general funding costs, administration fees, the customer s credit score, the maturity of the loan and other customer-specific premiums and discounts based on the customer relationship with such bank. These interest rates are typically adjusted on a monthly basis.

Private Banking

Historically, we have focused on customers with high net worth. Our retail banking services include providing private banking services to high net worth customers who seek personal advice in complex financial matters. Our aim in private banking is to help enhance wealth accumulation by, and increase the financial sophistication of, our high net-worth clients by offering them portfolio and fund management, tax consulting and real estate management services, among others.

As of December 31, 2012, Shinhan Bank operated 24 private banking centers nationwide, including 18 in Seoul, two in the suburbs of Seoul and four in cities located in other regions in Korea. As of December 31, 2012, Shinhan Bank had approximately 5,529 private banking customers, who are typically required to have 500 million in deposit with us to qualify for private banking services.

Corporate and Investment Banking Services

Overview

We provide corporate banking services, primarily through Shinhan Bank, to small- and medium-sized enterprises, including enterprises known as SOHO, or small office, home office , which are small enterprises operated by individuals or households, and, to a lesser extent, to large corporations, including corporations that are affiliated with *chaebols*. We also lend to government-controlled enterprises.

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The following table sets forth the balances and percentage of our total lending attributable to each category of our corporate lending business as of the dates indicated.

	As of December 31,					
	2010		2011		2012	
	(In billions of Won, except percentages)					
Small- and medium-sized enterprises loans(1)	51,266	27.82%	52,268	26.80%	51,324	25.37%
Large corporate loans	33,128	17.98%	34,413	17.64%	33,713	16.67%
Others	17,234	9.35%	21,043	10.79%	25,331	12.52%
Total corporate loans	101,628	55.15%	107,724	55.23%	110,368	54.56%

Note:

(1) Represents the principal amount of loans extended to corporations meeting definition of small- and medium-sized enterprises under the Basic Act on Small- and Medium-sized Enterprises and its Presidential Decree.

Shinhan Bank also engages in treasury and securities investment business, which involves, among other things, treasury, or internal asset and liability management, securities investment trading and derivatives trading.

Small- and Medium-sized Enterprises Banking

Under the Basic Act on Small- and Medium-sized Enterprises and its Presidential Decree, 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, as of January 26, 2012, non-profit enterprises with a number of regular employees not exceeding 300 and revenue of less than 30 billion that satisfy certain requirements prescribed in the Basic Act on Small- and Medium-sized Enterprises and its Presidential Decree may qualify as a small- and medium-sized enterprise. As of December 31, 2012, we made loans to 173,379 small- and medium-sized enterprises for an aggregate amount 51,324 billion.

Our small- and medium-sized enterprises banking business has traditionally been and is expected to remain one of our core businesses, subject to prevailing market conditions. For example, since the onset of the global financial crisis and economic downturns in Korea starting in 2008, we have sharply reduced new lending to the small- and medium-sized enterprises and are currently focusing on maintaining the asset quality of existing loans to these enterprises. Depending on the level and scope of economic recovery, we may seek to focus on asset growth for these enterprises on a selective basis.

We believe that Shinhan Bank, whose traditional focus has been on small- and medium-sized enterprises lending, is well-positioned to succeed in the small- and medium-sized enterprises market in light of its marketing capabilities (which we believe have provided Shinhan Bank with significant customer loyalty) and its prudent risk management practices, including conservative credit rating system for credit approval. To maintain or increase its market share of small- and medium-sized enterprises lending, Shinhan Bank:

has positioned itself based on accumulated expertise as to customers and products. We believe Shinhan Bank has a good understanding of the credit risks embedded in this market segment and to develop loan and other products specifically tailored to the needs of this market segment;

operates a relationship management system to provide targeted and tailored customer service to small-and medium-sized enterprises. Shinhan Bank currently has relationship management teams in 145 banking branches, of which two are corporate banking branches and 143 are hybrid banking branches

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designed to serve retail customers and, to a limited extent, corporate customers. These relationship management teams market products and review and approve smaller loans that pose less credit risks; and

continues to focus on cross-selling loan products with other products. For example, when Shinhan Bank lends to small- and medium-sized enterprises, it also explores opportunities to cross-sell retail loans or deposit products to the employees of these enterprises or to provide financial advisory services.

Large Corporate and Investment Banking

Large corporate customers consist primarily of member companies of *chaebols* and financial institutions. Our large corporate loans amounted to 33,713 billion as of December 31, 2012. As large corporate customers tend to have better credit profiles than small- and medium-sized enterprises, since the onset of the global financial crisis and economic downturns in Korea starting in 2008, Shinhan Bank has focused on attracting and retaining large corporate customers as part of its risk management policy.

Shinhan Bank aims to be a one-stop financial solution provider and partner with its corporate clients in their corporate expansion and growth endeavors. To this end and in order to take advantage of the deregulation in the Korean financial industry as a result of the adoption of the Financial Investment Services and Capital Markets Act, Shinhan Bank provides investment banking services, including real estate financing, overseas real estate project financing, large development project financing, infrastructure financing, structured financing, equity investments/venture investments, mergers and acquisitions consulting, securitization and derivatives services, including securities and derivative products and foreign exchange trading. Shinhan Bank, through Shinhan Asia Limited, a subsidiary in Hong Kong, also arranges financing for, and offers consulting services to, Korean companies expanding their business overseas, particularly in Asia.

Electronic Corporate Banking

Shinhan Bank offers to corporate customers a web-based total cash management service through Shinhan Bizbank. Shinhan Bizbank supports all types of banking transactions from basic transaction history inquiries and fund transfers to opening letters of credit, trade finance, payment management, collection management, sales settlement service, acquisition settlement service, business-to-business settlement service, sweeping and pooling. In addition, Shinhan Bank provides customers with integrated and advanced access to its financial services through its Inside Bank program, which combines internet banking, capital management services and enterprise resource planning to better serve corporate customers. The Inside Bank program also seeks to provide customized financial services to meet the comprehensive needs of target corporate customers ranging from conglomerates to small enterprises in various industries, with the goal of enhancing convenience to our corporate customers in accessing our financial services as well as assisting them to strategically manage their funds.

Corporate Lending Activities

Our principal loan products for corporate customers are working capital loans and facilities loans. Working capital loans, which include discounted notes and trade financing, are generally loans used for general working capital purposes. Facilities loans are provided to finance the purchase of equipment and construction of manufacturing plants. As of December 31, 2012, working capital loans and facilities loans amounted to 53,786 billion and 25,518 billion, respectively, representing 67.82% and 32.18% of Shinhan Bank s total Won-denominated corporate loans. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three years in the case of unsecured loans and five years in the case of secured loans. Facilities loans have a maximum maturity of ten years and are typically repaid in installments of at least twice a year, subject to a grace period for the first repayment of not less than one-third of the loan term; provided that facilities loans with a term of three years or less may be paid in full at maturity.

Loans to corporations may be unsecured or secured by real estate, deposits or guaranty certificates. As of December 31, 2012, secured loans and guaranteed loans (including loans secured by guaranty certificates issued by credit guarantee insurance funds) accounted for 56.59% and 10.39%, respectively, of Shinhan Bank s Won-denominated loans to small- and medium-sized enterprises. Approximately 41.61% of the corporate loans were secured by real estate.

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When evaluating whether to extend loans to corporate customers, Shinhan Bank reviews their creditworthiness, credit score, value of any collateral and/or third party guarantee. The value of collateral is computed using a formula that takes into account the appraised value of the collateral, any prior liens or other claims against the collateral and an adjustment factor based on a number of considerations including, with respect to property, the average value of any nearby property sold in a court-supervised auction during the previous year. Shinhan Bank revalues collateral when a secured loan is renewed or if a trigger event occurs with respect to the loan in question.

Pricing

Shinhan Bank determines the price for its corporate loan products based principally on their respective cost of funding and the expected loss rate based on the borrower s credit risk. As of December 31, 2012, 62.24% of Shinhan Bank s corporate loans with outstanding maturities of one year or more had interest rates that were not fixed but were variable by reference to their market rates.

More specifically, the interest rate on Shinhan Bank s corporate loans is generally determined as follows:

Interest rate = (Shinhan Bank s periodic market floating rate *or* reference rate) *plus* transaction cost *plus* a credit spread *plus* risk premium *plus or minus* a discretionary adjustment rate.

Depending on the market condition and the agreement with the borrower, Shinhan Bank may use either its periodic market floating rate or the reference rate as the base rate in determining the interest rate for the borrower. As of December 31, 2012, Shinhan Bank s periodic market floating rates (which are based on a base rate determined for three-month, six-month, one-year, two-year, three-year or five-year periods derived using Shinhan Bank s market rate system) were 2.89% for three months, 2.88% for six months, 2.90% for one year, 2.99% for two years, 3.07% for three years and 3.21% for five years. As of the same date, Shinhan Bank s reference rate was 8.75%. The reference rate refers to the base lending rate used by Shinhan Bank. The reference rate is determined annually by Shinhan Bank s Asset & Liability Management Committee based on, among others, Shinhan Bank s funding costs, cost efficiency ratio and discretionary margin.

Transaction cost is added to reflect the standardized transaction cost assigned to each loan product and other miscellaneous costs, including contributions to the Credit Guarantee Fund, and education taxes. The Credit Guarantee Fund is a statutorily created entity that provides credit guarantees to loans made by commercial banks and is funded by mandatory contributions from commercial banks in the amount of approximately 0.2% of all loans made by them.

The credit spread is added to the periodic floating rate to reflect the expected loss based on the borrower s credit rating and the value of any collateral or payment guarantee. In addition, Shinhan Bank adds a risk premium which takes into account the potential of unexpected loss that may exceed the expected loss from the credit rating assigned to a particular borrower.

A discretionary adjustment rate is added or subtracted to reflect the borrower s current and/or future contribution to Shinhan Bank s profitability. If additional credit is provided by way of a guarantee of another loan, the adjustment rate is subtracted to reflect such change in the credit spread. In addition, depending on the price and other terms set by competing banks for similar borrowers, Shinhan Bank may reduce the interest rate to compete more effectively with other banks.

Treasury

Shinhan Bank s treasury division provides funds to all of Shinhan Bank s business operations and ensures the liquidity of its operation. To secure stable long-term funds, Shinhan Bank uses fixed and floating rate notes, debentures, structured financing, and other advanced funding methods. As for overseas funding, Shinhan Bank closely monitors the feasibility of raising funds in currencies other than the U.S. dollar, such as the Japanese Yen and the Euro. In addition, Shinhan Bank makes call loans and borrows call money in the short-term money market. Call loans are short-term lending among banks and financial institutions in either Korean Won or foreign currencies with a minimum transaction amount of 100 million and maturities of typically one day.

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Securities Investment and Trading

Shinhan Bank invests in and trades securities for its own accounts in order to maintain adequate sources of liquidity and to generate interest income, dividend income and capital gains. Shinhan Bank s trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Korean government agencies, local governments or certain government-invested enterprises, debt securities issued by financial institutions and equity securities listed on the KRX KOSPI Market and KRX KOSDAQ Market of the Korea Exchange. For a detailed description of our securities investment portfolio, see Description of Assets and Liabilities Investment Portfolio.

Derivatives Trading

Shinhan Bank provides to its customers, and to a limited extent trades for its proprietary accounts, a range of derivatives products, which include:

- interest rate swaps, options, and futures relating to Korean Won interest rate risks and LIBOR risks, respectively;
- cross-currency swaps largely for Korean Won against U.S. dollars, Japanese Yen and Euros;
- equity and equity-linked options;
- foreign currency forwards, swaps and options;
- commodity forwards, options and swaps;
- credit derivatives; and
- KOSPI 200 indexed equity options.

Shinhan Bank s outstanding derivatives commitments in terms of notional amount was 242,984 billion, 165,879 billion and 135,976 billion in 2010, 2011 and 2012, respectively. Such derivative operations generally focus on addressing the needs of Shinhan Bank s corporate clients to hedge their risk exposure and back-to-back derivatives entered into to hedge Shinhan Bank s risk exposure that results from such client contracts.

Shinhan Bank also enters into derivative trading contracts to hedge the interest rate and foreign currency risk exposures that arise from its own assets and liabilities. In addition, to a limited extent, Shinhan Bank engages in proprietary trading of derivatives within our regulated open position limits. See Description of Assets and Liabilities Derivatives.

International Business

Shinhan Bank also engages in treasury and investment activities in international capital markets, principally including foreign currency-denominated securities trading, foreign exchange trading and services, trade-related financial services, international factoring services and foreign banking operations through its overseas branches and subsidiaries. Shinhan Bank aims to become a leading bank in Asia and expand its international business by focusing on further bolstering its overseas network, localizing its overseas operations and diversifying its product offerings, particularly in terms of asset management, in order to meet the various financing needs of its current and potential customers overseas.

Trust Account Management Services

Overview

Shinhan Bank s trust account management services involve management of trust accounts, primarily in the form of money trusts. Trust account customers are typically individuals seeking higher rates of return than those offered by bank account deposits. Because deposit reserve requirements do not apply to deposits held in trust accounts as opposed to deposits held in bank accounts, and regulations governing trust accounts tend to be less strict, Shinhan Bank is generally able to offer higher rates of return on trust account products than on bank deposit products. However, in recent years, due to the ongoing low interest environment, Shinhan Bank has not been able to offer attractive rates of return on its trust account products.

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Trust account products generally require higher minimum deposit amounts than those required by comparable bank account deposit products. Unlike bank deposit products, deposits in trust accounts are invested primarily in securities (consisting principally of debt securities and beneficiary certificate for real estate financing) and, to a lesser extent, in loans, as the relative shortage of funding sources require that trust accounts be invested in a higher percentage of liquid assets.

Under the Banking Act, the Financial Investment Services and Capital Markets Act and the Trust Act, assets accepted in trust accounts are required to be segregated from other assets of the trustee bank and are not available to satisfy the claims of the depositors or other creditors of such bank. Accordingly, trust accounts are accounted for and reported separately from the bank accounts. See Supervision and Regulation. Trust accounts are regulated by the Trust Act and the Financial Investment Services and Capital Markets Act, and most national commercial banks offer similar trust account products. Shinhan Bank earns income from trust account management services, which is recorded as net trust management fees.

As of December 31, 2010, 2011 and 2012, Shinhan Bank had total trust assets of 33,240 billion, 30,563 billion and 29,243 billion, respectively, comprised principally of real property investments of 10,104 billion, 10,683 billion and 9,511 billion, respectively; securities investments of 6,274 billion, 5,759 billion and 5,266 billion, respectively; and loans with an aggregate principal amount of 527 billion, 566 billion and 560 billion, respectively. Securities investments consisted of corporate bonds, government-related bonds and other securities, primarily commercial paper. As of December 31, 2010, 2011 and 2012, debt securities accounted for 17.6%, 17.2% and 16.3%, respectively, and equity securities constituted 1.3%, 1.6% and 1.7%, respectively, of Shinhan Bank s total trust assets. Loans made by trust accounts are similar in type to those made by bank accounts, except that they are made only in Korean Won. As of December 31, 2010, 2011 and 2012, approximately 61.6%, 58.5% and 51.9%, respectively, of the amount of loans from the trust accounts were collateralized or guaranteed. In making investment from funds received for each trust account, each trust product maintains investment guidelines applicable to each such product which set forth, among other things, company-, industry- and security-specific limitations.

Trust Products

In Korea, trust products typically take the form of money trusts, which are discretionary trusts over which (except in the case of a specified money trust) the trustees have investment discretion subject to applicable law and is commingled and managed jointly for each type of trust account. The specified money trusts are established on behalf of customers who give specific directions as to how their trust assets should be invested.

Money trusts managed by Shinhan Bank s trust account business amounted to 11,920 billion, 14,000 billion and 15,453 billion as of December 31, 2010, 2011 and 2012, respectively.

Shinhan Bank offers variable rate trust products through its retail branch network. As of December 31, 2010, 2011 and 2012, Shinhan Bank s variable rate trust accounts amounted to 8,553 billion, 10,814 billion and 12,289 billion, respectively, of which principal guaranteed variable rate trust accounts amounted to 3,366 billion, 3,185 billion and 3,163 billion, respectively. Variable rate trust accounts offer their holders variable rates of return on the principal amount of the deposits in the trust accounts and do not offer a guaranteed return on the principal of deposits, except in the limited cases of principal guaranteed variable rate trust accounts, for which payment of the principal amount is guaranteed. Shinhan Bank charges a lump sum or a fixed percentage of the assets held in such trusts as a management fee, and, depending on the trust products, is also entitled to additional fees in the event of early termination of the trusts by the customer. Korean banks, including Shinhan Bank, are currently allowed to guarantee the principal of the following types of variable rate trust account products: (i) existing individual pension trusts, (ii) new individual pension trusts, (iii) existing retirement pension trusts, (iv) new retirement pension trusts, (v) pension trusts and (vi) employee retirement benefit trusts. Shinhan Bank also offers an insignificant amount of guaranteed fixed rate trust products (amounting to 1.0 billion, 1.0 billion and 1.0 billion as of December 31, 2010, 2011 and 2012, respectively), which provide to its holders a guaranteed return of the principal as well as a guaranteed fixed rate of return.

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Credit Card Services

Overview

We currently provide our credit card services principally through our credit card subsidiary, Shinhan Card, and to a limited extent, Jeju Bank. Former Shinhan Card was originally formed as a result of the spin-off of Shinhan Bank s credit card business in June 2002. In April 2006, the credit card division of Chohung Bank was split and merged into former Shinhan Card concurrently with the merger of Chohung Bank and Shinhan Bank. Prior to the merger of former Shinhan Bank and Chohung Bank in April 2006, Chohung Bank had an active credit card business division. Chohung Bank was a member of BC Card Co., Ltd. (BC Card), which is owned by consortium banks. Shinhan Card currently holds an 1.0% equity interest in BC Card. BC Card issues credit cards under the names of the member banks, substantially all of which are licensed to use MasterCard, Visa or JCB. This enables holders of BC Card to use their cards at any establishment which accepts MasterCard, Visa or JCB, as the case may be.

In March 2007, we acquired the controlling equity interest in LG Card. On October 1, 2007, LG Card assumed all of the assets and liabilities of former Shinhan Card and changed its name to Shinhan Card. We believe that the acquisition of LG Card, which was the largest credit card company in Korea in terms of the number of cardholders, has contributed to our having the largest market share in the Korean credit card industry and diversifying our revenue sources by reducing our reliance on our banking operations.

Products and Services

Shinhan Card offers a wide range of credit card and other services, principally consisting of the following:

credit card services, which involve providing cardholders with credit up to a preset limit to purchase products and services. Payment must be made either (i) in full at the end of a monthly billing cycle (the Lump-sum Basis) or (ii) on a revolving basis subject to a minimum monthly payment which is the lesser of (x) 5% to 20% of the amount outstanding (depending on the cardholder s credit) or (y) 30,000. Currently (the Revolving Payment Basis), the remaining outstanding balance generally accrues interest at the effective annual rates of approximately 6.34% to 25.94%.

cash advances, for which payment must be made either on a lump-sum basis or a revolving basis. Currently, the lump-sum cash advances generally accrue interest at the effective annual rates of approximately 7.8% to 28.4% and the revolving cash advances generally accrue interest at a minimum rate of 5% to 20% of the outstanding balance (depending on the cardholder s credit). Cash advances may be made at ATM machines and bank branches.

installment purchases, which provide customers with an option to purchase products and services from select merchants on an installment basis for which payments must be made in equal amounts over a fixed term ranging from two months to 36 months. Currently, the outstanding installment purchase balances generally accrue interest at the effective annual rates of approximately 10.9% to 21.8%.

card loans, which provide customers with generally unsecured loans. Payment must be made generally by (i) repaying principal and interest in equal amounts on an installment basis over a fixed term of two to 36 months, (ii) repaying the principal and interest amounts in full at maturity, or (iii) making interest-only payments during the initial grace period of typically three months and repaying the principal and interest amounts on a monthly installment basis over the remaining period of typically two to 24 months. Currently, the outstanding card loan balances generally accrue interest at the effective annual rates of approximately 7.6% to 26.9%. Delinquent credit card receivables can also be restructured into loans, which we classify as card loans, and these loans generally accrue interest at the effective annual rates of approximately 17.0% to 27.8% over a fixed term whose maximum is 60 months.

Shinhan Card derives revenues from annual membership fees paid by credit cardholders, interest charged on credit card balances, fees and interest charged on cash advances and card loans, interest charged on late and deferred payments and merchant fees paid by retail and service establishments. Merchant fees and interest on cash advances constitute the largest source of revenue.

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The annual membership fees for credit cards vary depending on the type of credit card and the benefits offered thereunder. For its standard credit cards, Shinhan Card charges an annual membership fee ranging from 2,000 to 1,000,000 per credit card, depending on the type of the card and the cardholder profile. Annual membership fees for various affinity and co-branded cards vary from 2,000 to 1,000,000. Shinhan Card also charges cardholders fees charged by financial institutions for cash advances provided through each such financial institution s ATMs.

Any accounts that are unpaid when due are deemed to be delinquent accounts, for which Shinhan Card levies a late charge in lieu of the interest rates applicable prior to default. The late charge bears interest ranging from 23.0% to a maximum rate of 29.5% per annum.

Merchant discount fees, which are processing fees Shinhan Card charges to the merchants, can be up to 2.7% of the purchased amount depending on the merchant used, with the average charge being 1.93% in 2012.

Although making payments on a revolving basis is more common in many other countries, this payment method is still in its early stages of development in Korea. Cardholders in Korea are generally required to repay their purchases within approximately 14 to 44 days of purchase depending on their payment cycle, except in the case of installment purchases where the repayment term is typically three to six months. Accounts that remain unpaid after this period are deemed to be delinquent, and Shinhan Card levies late charges on and closely monitors such accounts. For purchases made on an installment basis, Shinhan Card charges interest on unpaid amounts at rates that vary according the terms of repayment.

Cardholders are required to settle their outstanding balances in accordance with the terms of the credit cards they hold. Accountholders may choose the monthly settlement date. Settlement dates around the end of each month are the most popular since salaries are typically paid at the end of the month. A cardholder is required to select a settlement date when the account is opened. The cardholder may change the settlement date after the account has been opened but no more than once every two months.

In addition to credit card services, Shinhan Card also offers check cards, which are similar to debit cards in the United States and many other countries, to its individual retail customers as well as corporate customers. A check card can be used at any of the merchants that accept credit cards issued by Shinhan Card and the amount charged to a check card is directly debited from the cardholder s designated bank account. Check cards have a low risk of default and there are no procurement costs. Although Shinhan Card does not charge annual membership fees on check cards, merchants are charged fees on the amount purchased using check cards at a rate between 1.0% and 1.85%, depending on the type of business, which is lower than the corresponding fee charged for credit card use.

Credit Card Products

Shinhan Card offers a wide range of credit card products tailored for credit cardholders lives and to satisfy their preferences and needs. Credit card products offered by Shinhan Card include:

- cards that provide additional benefits such as frequent flyer miles and reward program points that can be redeemed by the customer for complementary services, prices and cash;
- gold cards, platinum cards and other preferential members cards, which have higher credit limits and provide additional services in return for higher annual membership fees;
- cards with new features to preferred customers, such as revolving credit cards, travel services and insurance;
- cards with fraud detection and security systems to prevent the misuse of credit cards and to encourage the use of credit cards over the Internet;
- corporate and affinity cards that are issued to employees or members of particular companies or organizations; and

mobile phone cards allowing customers to conduct wireless credit card transactions with their mobile phones using 3G or more advanced technology.

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Customers and Merchants

In addition to internal growth through cross-selling, we also seek to enhance our market position by selectively targeting new customers with high net worth and solid credit quality through the use of a sophisticated and market-oriented risk management system. Shinhan Card screens its credit card applicants and sets individualized credit limits for such applicants according to internal guidelines based on a comprehensive credit scoring system.

The following table sets forth the number of customers of Shinhan Card and the number of merchants at which Shinhan Card can be used for purchases as of the dates indicated.

	As of December 31,		
	2010	2011	2012
	(In thousands, except percentages)		
Shinhan Card:			
Number of credit card holders(1)	15,299	15,540	15,182
Personal accounts	15,183	15,424	15,070
Corporate accounts	116	116	112
Active ratio(2)	79.6%	81.5%	83.6%
Number of merchants	2,552	2,669	2,755

Notes:

(1) Represents the number of cardholders not subject to suspension or termination as of the relevant date.

(2) Represents the ratio of accounts used at least once within the last six months to the total accounts as of year-end.

Installment Finance

Shinhan Card provides installment finance services to customers in connection with purchases of durable consumer goods such as new and used cars, appliances, computers and other home electronics products. Revenues from installment finance operations accounted for 2.3% of Shinhan Card s total operating revenue in 2012. Shinhan Card pays the merchants when Shinhan Card s customers purchase such goods, and the customers remit monthly installment payments to Shinhan Card over a number of months, generally up to 36 months (and, in the case of installment financings for automobile purchases, up to 72 months), as agreed with the customers. For installment finance products for new cars, Shinhan Card charges, in addition to interest, an initial financing fee of up to 9.9% of the purchase price, depending on the customer s credit score, the installment period and installment amount. Shinhan Card has installment financing arrangements with over 10,000 merchants in Korea, including major car dealers, manufacturers and large retailers with nationwide networks, such as electronics goods stores.

Shinhan Card promptly processes installment financing applications and, based on the extensive credit information it possesses or can access, it is able to offer flexible installment payment terms tailored to individual needs of the customers. Shinhan Card also devotes significant efforts to develop and maintain its relationships with merchants, which are the most important source of referrals for installment finance customers. Shinhan Card has developed a system of prompt payments to merchants for goods purchased by the installment finance customers.

Auto Lease

Shinhan Card currently provides auto leasing financing to retail customers and corporations. Revenues from auto lease operations accounted for 1.0% of Shinhan Card s total operating revenue in 2012.

Securities Brokerage Services

Overview

Through Shinhan Investment, we provide a wide range of financial investment services to our diversified customer base including corporations, institutional investors, governments and individuals. Financial investment

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services offered by Shinhan Investment range from securities brokerage to our retail and institutional customers, investment advice and financial planning services to our retail customers, as well as investment banking services such as underwriting and M&A advisory services to our institutional customers.

As of December 31, 2012, according to internal data, Shinhan Investment s annual market share of Korean equity brokerage market was 4.92% (consisting of 2.35% in the retail segment, 0.71% in the institutional segment and 1.86% in the international segment) in terms of total brokerage volume, ranking third among securities firms in Korea, excluding discount brokers such as Mirae Asset Securities and Kiwoom Securities. As of the same date, according to internal data, Shinhan Investment held the fourth largest annual market share in options brokerage segments and the largest annual market share in the KOSPI 200 futures of 4.87% and 6.07%, respectively, in terms of total brokerage volume with respect to these products.

Following the implementation of the Financial Investment Services and Capital Markets Act in 2009, Shinhan Investment has obtained requisite approvals for its existing businesses in investment banking services, securities brokerage services, trust services, investment advisory services and discretionary account asset management services, as well as existing and new derivatives businesses, which enables Shinhan Investment to provide not only its existing services in equity- and stock index-linked derivatives sales and brokerage, but also proprietary trading and brokerage services for futures involving interest rates, currency and commodities as well as foreign exchange margin trading. Shinhan Investment currently provides all of the foregoing services, subject to prevailing market conditions.

Products and Services

Shinhan Investment provides principally the following services:

retail client services. These services include equity and bond brokerage, investment advisory and financial planning services to retail customers, with a focus on high net worth individuals. The fees generated include brokerage commissions for the purchase and sale of securities, asset management fees, interest income from credit extensions (including in the form of stock subscription loans), margin transaction loans and loans secured by deposited securities.

institutional client services:

brokerage services. These services include brokerage of stocks, corporate bonds, futures and options provided to Shinhan Investment s institutional and international customers and sale of institutional financial products. These services are currently supported by a team of 77 research analysts that specialize in equity, bonds and derivatives research.

investment banking services. These services include a wide array of investment banking services to Shinhan Investment s corporate customers, such as domestic and international initial public offerings, mergers and acquisitions advisory services, bond issuances, underwriting, capital increase, asset-backed securitizations, issuance of convertible bonds and bonds with warrants, structured financing, issuance of asset-backed commercial papers and project financings involving infrastructure, real estate and shipbuilding.

Shinhan Investment also engages, to a limited extent, in proprietary trading in equity and debt securities, derivative products and over-the-counter market products.

With respect to brokerage services, in the face of intense competition in the domestic brokerage industry, Shinhan Investment primarily focuses on strengthening profitability through service differentiation and efficient management of its distribution network rather than enlarging its market share indiscriminately through lowering fees and commissions. Shinhan Investment s service differentiation efforts include offering its customers opportunities to purchase stocks in a wide range of countries (currently more than 25 countries), leveraging synergy opportunities afforded by affiliation with other Shinhan entities such as offering brokerage accounts maintained at Shinhan Bank and Shinhan Capital.

With respect to investment banking services, Shinhan Investment provides such services through five divisions consisting of equity capital markets, debt capital markets, private equity, project finance and mergers and acquisitions, as well as four overseas service centers in Hong Kong, Shanghai, Tokyo and Ho Chi Minh City.

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Life Insurance Services

We provide life insurance products and services primarily through Shinhan Life Insurance. Shinhan Life Insurance provides its services through diversified distribution channels consisting of financial planners, telemarketers, agency marketers and bancassurance specialists. As of the end of calendar years ended December 31, 2010, December 31, 2011 and December 31, 2012, Shinhan Life Insurance had total assets of 11,975 billion, 13,977 billion and 16,942 billion and net profits of 213 billion, 237 billion and 209 billion, respectively. During its calendar year 2012, among 24 life insurance companies in Korea, Shinhan Life Insurance ranked fifth in terms of net profit and fifth in terms of insurance premium received, principally due to increased sales force, stable asset portfolio management and prudent risk management. We expect the insurance premium received by Shinhan Life Insurance to increase as a result of growing demands for both investment and annuity products and potential synergy effects from cross-selling between Shinhan Life Insurance and our banking and other subsidiaries.

Asset Management Services

In addition to personalized wealth management services provided as part of our private banking and securities brokerage services, we also provide asset management services through Shinhan BNP Paribas Asset Management, a joint venture with BNP Paribas Investment Partners, of which we and BNP Paribas Investment Partners hold 65:35 interests, respectively. Shinhan BNP Paribas Asset Management was formed on January 1, 2009 through the merger of Shinhan BNP Paribas Investment Trust Management, our 50:50 joint venture with BNP Paribas Investment Partners, and SH Asset Management, our wholly-owned subsidiary, in order to streamline our asset management services capabilities. Shinhan BNP Paribas Asset Management ranked fourth among asset managers in Korea in terms of assets under management as of December 31, 2012, and provides a wide range of investment products, including traditional equity/fixed income funds as well as alternative investment products, to retail and institutional clients. As a joint venture with BNP Paribas Investment Partners, we believe Shinhan BNP Paribas Asset Management has significantly benefited from BNP Paribas s global network of investment professionals and expertise in the asset management industry. As of December 31, 2012, Shinhan BNP Paribas Asset Management had assets under management amounting to approximately 33 trillion. To a limited extent, Shinhan Investment also provides asset management services for discretionary accounts, see Securities Brokerage Services.

In 2013, we expect the activity level in the asset management industry, including fund formation activities, to remain similar to 2012 due to uncertainties surrounding the domestic and international economy, with the exception of the discretionary investment market, which is expected to continue to grow due to expanded use of such services by large institutional investors, such as the National Pension Service.

Other Services

Through our other subsidiaries, we also provide leasing and equipment financing, regional banking and investment banking, advisory services, collective investment management services, private equity investment advisory services, savings banking and system development services.

Leasing and Equipment Financing

We provide leasing and equipment financing services to our corporate customers mainly through Shinhan Capital. Established as a leasing company in 1991, Shinhan Capital provides customers with leasing, installment financing and new technology financing, equipment leasing, and corporate credit financing. Shinhan Capital s strength has traditionally been in leasing of ships, printing machines, automobiles and other specialty items, but also offers other leasing and financing services, such as corporate restructuring services for financially troubled companies and financing provided to real estate development projects and infrastructure investments, and corporate leasing and equipment financing.

Regional Banking Services

We provide regionally focused commercial banking services, primarily in Jeju Island of Korea, through a majority-owned banking subsidiary, Jeju Bank. Jeju Bank provides retail banking, corporate banking, treasury and trust account management services, and has a network of 39 branches as of December 31, 2012.

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Other Investment Banking and Advisory Services

In addition to the investment banking services provided by Shinhan Bank and Shinhan Investment, during the first half of 2010, we also provided a variety of investment banking and advisory services through Shinhan Macquarie Financial Advisory, a 51:49 joint venture with Macquarie Bank of Australia. The advisory services offered by Shinhan Macquarie Financial Advisory included project and infrastructure finance, capital and debt raising, corporate finance advisory, structured finance, mergers and acquisitions, cross-border leasing and infrastructure and specialized fund management advisory services. On July 16, 2010, we decided to disaffiliate Shinhan Macquarie Financial Advisory. On August 19, 2010, we disposed of all our investments in Shinhan Macquarie Financial Advisory through the retirement of shares.

Loan Collection and Credit Reporting

We centralize credit collection and credit reporting operations for our subsidiaries through Shinhan Credit Information Co. Ltd., which also provides similar services to third party customers. We plan to expand Shinhan Credit Information s services to other areas such as credit inquiry, credit card rating, civil application/petition services, lease and rental research and advisory and consulting services related to non-performing loan management.

Collective Investment Administration Services

We provide integrated collective investment administration services through Shinhan AITAS Co., Ltd. which was established in 2000. Shinhan AITAS provides general management service, asset management systems, accounting systems and trading systems to asset management companies and institutional investors. The target customers for our collective investment administration services are asset managers, investment advisors and institutional investors, and we seek to provide Shinhan AITAS a comprehensive service package including the computation of the reference value for funds, evaluation of fund performance, provision of trading systems and fund-related legal administrative services.

Private Equity Investment Advisory Services

We provide investment advisory services in the areas of private equity investments through Shinhan Private Equity Investment Management, which was established in 2004.

Savings Banking

We provide savings banking services in accordance with the Mutual Savings Bank Act to customers that generally would not, due to their credit profile, qualify for our commercial banking services or who seek higher returns on their deposits than those offered by our commercial banking subsidiaries, through Shinhan Savings Bank, which was established in December 2011. Shinhan Savings Bank offers savings and other deposit products with relatively higher interest rates and loans (usually in relatively small amounts and on customer-tailored terms and including loans for which we receive credit support from the Government) primarily to small- to medium-sized enterprises and low income households who would not generally qualify for our commercial banking services. Shinhan Savings Bank has assumed the assets and liabilities of Tomato Savings Bank, which we acquired in January 2012, and has merged into Yehanbyoul Savings Bank, which we acquired in March 2013, with Yehanbyoul Savings Bank as the surviving entity with its name changed to Shinhan Savings Bank. Both Tomato Savings Bank and Yehanbyoul Savings Bank were facing liquidity troubles due to difficulties in the real estate project financing business as a result of the prolonged slump in the Korean real estate market at the time we acquired them. We closely monitor the business activities and product offerings of Shinhan Savings Bank to ensure its financial soundness.

Financial System Development Services

We provide financial system development services through Shinhan Data Systems, which was established in 1991 and offers system integration, system management, IT outsourcing, business process outsourcing and IT consulting services.

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Our Distribution Network

We offer a wide range of financial services to retail and corporate customers through a variety of distribution networks and channels established by our subsidiaries. The following table presents the geographical distribution of our distribution network based on the branch offices and other distribution channels of our principal subsidiaries, as of December 31, 2012.

***Distribution Channels in Korea*(1)**

	Shinhan Bank	Jeju Bank	Shinhan Card	Shinhan Investment	Shinhan Life Insurance	Total
Seoul metropolitan	408	2	10	53	79	552
Kyunggi province	210		7	15	45	277
Six major cities:	175	1	10	19	70	275
Incheon	59		2	3	20	84
Busan	41	1	3	6	17	68
Kwangju	13		1	2	9	25
Taegu	28		2	4	9	43
Ulsan	13		1	2	3	19
Taejon	21		1	2	12	36
Sub-total	793	3	27	87	194	1,104
Others	166	37	13	18	32	266
Total	959	40	40	105	226	1,370

Note:

(1) Includes our main office and those of our subsidiaries.

Banking Service Channels

Our banking services are primarily provided through an extensive branch network, specializing in retail and corporate banking services, as complemented by self-service terminals and electronic banking, as well as an overseas services network.

As of December 31, 2012, Shinhan Bank s branch network in Korea comprised of 949 service centers, consisting of 768 retail banking service centers, 11 corporate banking service centers primarily designed to serve large corporate customers and 170 hybrid banking branches designed to serve retail as well as small-business corporate customers. Shinhan Bank s banking branches are designed to provide one-stop banking services tailored to their respective target customers.

Retail Banking Channels

In Korea, many retail transactions are conducted in cash or with credit cards, and conventional checking accounts are generally not offered or used as widely as in other countries such as the United States. As a result, an extensive retail branch network plays an important role for Korean banks as customers generally handle most transactions through bank branches. Recently, one of the key initiatives at Shinhan Bank has been to target high net worth individuals through private banking. Our private banking services are provided principally through private banking relationship managers who, within target customer groups, assist clients in developing individual investment strategies. We believe that such relationship managers help us foster enduring relationships with our clients. Private banking customers also have access to Shinhan Bank s retail branch network and other general banking products Shinhan Bank offers through its retail banking operations.

Corporate Banking Channels

Shinhan Bank currently provides corporate banking services through corporate banking service centers primarily designed to serve large corporate customers and hybrid banking branches designed to serve retail as

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well as small-business corporate customers. Small- and medium-sized enterprises have traditionally been Shinhan Bank s core corporate customers and we plan to continue to maintain Shinhan Bank s strength vis-à-vis these customers.

Self-Service Terminals

In order to complement its banking branch network, Shinhan Bank maintains an extensive network of automated banking machines, which are located in branches and in unmanned outlets. These automated banking machines consist of ATMs, cash dispensers and passbook printers. As of December 31, 2012, Shinhan Bank had 333 cash dispensers and 7,423 ATMs. Shinhan Bank has actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. We believe that use of Shinhan Bank s automated banking machines has increased in recent years. In 2012, automated banking machine transactions accounted for a substantial portion and a majority of total deposit and withdrawal transactions of Shinhan Bank in terms of the number of transactions and fee revenue generated, respectively.

Electronic Banking

Shinhan Bank s Internet banking services are more comprehensive than those available at the counter, including such services as 24-hour account balance posting, real-time account transfer, overseas remittance and loan requests. Shinhan Bank also offers mobile banking services in order to enable customers to make speedy, convenient and secure banking transactions using mobile phones. As the purpose of electronic banking is primarily cost-saving rather than profit generation, the substantial majority of Shinhan Bank s electronic banking transactions do not generate fee income.

Overseas Distribution Network

The table below sets forth Shinhan Bank s overseas banking subsidiaries and branches as of December 31, 2012.

Business Unit	Location	Year Established or Acquired
Subsidiaries		
Shinhan Asia Ltd.	Hong Kong SAR, China	1982
Shinhan Bank Europe GmbH	Germany	1994
Shinhan Bank America	New York, U.S.A.	2003
Shinhan Bank (China) Limited	Beijing, China	2008
Shinhan Khmer Bank Limited	Cambodia	2007
Shinhan Bank Kazakhstan Limited	Kazakhstan	2008
Shinhan Bank Canada	Toronto, Canada	2009
Shinhan Bank Japan(1)	Tokyo, Japan	2009
Shinhan Bank Vietnam Ltd.(2)	Ho Chi Minh City, Vietnam	2011
Branches		
New York	U.S.A.	1989
Singapore	Singapore	1990
London	United Kingdom	1991
Mumbai	India	1996
Hong Kong	China	2006
New Delhi	India	2006
Vellore	India	2010
Representative Offices		
Mexico Representative Office	Mexico City, Mexico	2008
Uzbekistan Representative Office	Tashkent, Uzbekistan	2009

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Notes:

(1) While Shinhan Bank established the subsidiary in Japan in 2009, Shinhan Bank has provided banking services in Japan through a branch structure since 1986.

(2) On November 28, 2011, two of Shinhan Bank s wholly-owned banking subsidiaries in Vietnam, Shinhan Vina and Shinhan Vietnam, merged to form Shinhan Bank Vietnam. Shinhan Vina, prior to its merger with Shinhan Vietnam, was a 50-50 joint venture established in 2000 between Shinhan Bank and Vietcombank, a state-owned bank of Vietnam. On November 11, 2011, Shinhan Bank acquired Vietcombank s 50% interest in Shinhan Vina to facilitate the merger. Shinhan Vietnam was established in 2009. Shinhan Bank has been providing banking services in Vietnam through a branch since 1995.

Currently, our overseas subsidiaries and branches are primarily engaged in trade financing and local currency funding for Korean companies and Korean nationals in the overseas markets, as well as providing foreign exchange services in conjunction with Shinhan Bank s headquarters. On a limited basis, these overseas branches and subsidiaries also engage in investment and trading of securities of foreign issuers. In the future, as part of our globalization efforts, we plan to expand our coverage of local customers in the overseas markets by providing a wider range of services in retail and corporate banking, and to that end, we have increasingly established subsidiaries in lieu of branches in select markets and in 2011 merged two of our Vietnam banking subsidiaries in order to enhance our presence and enable a greater flexibility in our service offerings in these markets.

Credit Card Distribution Channels

Shinhan Card primarily uses three distribution channels to attract new credit card customers: (i) the banking and credit card branch network, (ii) sales agents, and (iii) business partnerships and affiliations with vendors.

The branch network for our credit card operations consisted of 949 branches as of December 31, 2012 of Shinhan Bank and 12 card sales branches, eight debt collection branches and 16 combined operations branches (which includes card, installment and debt collection services) of Shinhan Card. The use of the established distribution network of Shinhan Bank is part of the group-wide cross-selling efforts of selling credit card products to existing banking customers. In 2012, the number of new cardholders acquired through our banking distribution network accounted for approximately 16.5% of the total number of new cardholders. We believe that the banking distribution network will continue to provide a stable and low-cost venue for acquiring high-quality credit cardholders.

The sales agents represented the most significant source of Shinhan Card s new cardholders in 2012, and the number of new cardholders acquired through sales agents accounted for approximately 62.0% of the total number of Shinhan Card s new cardholders in 2012. As of December 31, 2012, Shinhan Card had 5,408 sales agents, of which 5,008 were independent contractors and 400 were sales agents of Shinhan Card s business partners and affiliates. These sales agents assist prospective customers with the application process and customer service. Compensation of these sales agents is tied to the transaction volume and the repayment patterns of the customers introduced by them, and we believe this system helps to minimize credit risk and enhance profitability.

As a way of acquiring new cardholders, Shinhan Card also has business partnership and affiliation arrangements with a number of vendors, including gas stations, major retailers, airlines and telecommunication and Internet service providers. Shinhan Card plans to continue to leverage its alliances with such vendors to attract new cardholders.

Securities Brokerage Distribution Channels

Our securities brokerage services are conducted principally through Shinhan Investment. As of December 31, 2012, Shinhan Investment had 103 service centers nationwide, and two overseas subsidiaries based in New York and Hong Kong to service our corporate customers.

Approximately 62% of our brokerage branches are located in the Seoul metropolitan area with a focus on attracting high net worth individual customers as well as enhancing synergy with our retail and corporate banking branch network. We plan to continue to explore new business opportunities, particularly in the corporate customer segment, through further cooperation between Shinhan Investment and Shinhan Bank.

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Insurance Sales and Distribution Channels

We sell and provide our insurance services primarily through Shinhan Life Insurance. Shinhan Life Insurance, in addition to distributing bancassurance products through our bank branches, also distributes a wide range of life insurance products through its own branch network, an agency network of financial planners and telemarketers, as well as through the Internet. As of December 31, 2012, Shinhan Life Insurance had 225 branches and 13 customer support centers. These branches are staffed by financial planners, telemarketers, agent marketers and bancassurance to meet the various needs of our insurance and lending customers. Our group-wide customer support centers arrange for policy loans (namely loans secured by the cash surrender value of the underlying insurance policy) for our insurance customers and, to a limited extent, other loans to other customers, and also handle insurance payments.

Information Technology

We dedicate substantial resources to maintaining a sophisticated information technology system to support our operations management and provide high quality customer service. In 2008 we developed a single group-wide enterprise information technology system known as enterprise data warehouse in order to maximize the synergy between our subsidiaries. The enterprise data warehouse, which is being continuously upgraded, serves as the foundation to our enhanced customer relations management capabilities, our risk management system as well as our new data processing center currently under development for target completion by the end of 2014. Since 2009, we have operated our information and technology system at a group-wide level (rather than the previous subsidiary-specific level) based on a comprehensive group-wide information collection and processing.

In addition, we are currently continuing to upgrade the information technology systems for each of our subsidiaries to enhance the quality of our customer service specific to such subsidiary. We have completed the implementation of improved systems for Shinhan Life Insurance in November 2008 and Shinhan Investment in August 2009, and completed the IT integration for LG Card and former Shinhan Card in August 2008. With respect to Shinhan Bank, we have completed upgrading its electronic banking system in February 2012 and have been providing online consultation, expand sales services and customized informational services. In addition, we have enhanced our smartphone banking service by providing a more convenient and secure mobile platform. In addition, we are continuing to upgrade the information technology systems of Shinhan Bank s subsidiaries, on a global basis, to enhance the quality of the customer service specific to each such subsidiary, including the AITHER System, which has been implemented in Shinhan Bank s subsidiaries in Japan, China, the United States, Europe, India, Khmer, Kazakhstan, Canada and Vietnam.

Following the completion of upgrade in October 2012, Shinhan Card s information technology offers greater operational efficiency through enhanced software programs and data processing capabilities and quicker response time to on-floor requests.

During 2010, our information technology initiatives included installing a financial reporting system to comply with IFRS standards, which commenced on January 1, 2011, and is currently monitored to ensure stable operation. Since July 2011, we have operated a group-wide security control tower to enhance the security features of our information management systems on a group-wide level. In addition, in September 2011, we obtained for us and each of our subsidiaries the ISO 27001 certification, which certifies that we meet the international security standards for information management. Our current information technology initiatives include improving our group-wide security management system to further ensure secure financial transactions for our customers. Although we believe our ISO 27001 certified security management system is one of the most sophisticated in the industry, we are continuously upgrading our group-wide security monitoring system in order to preempt and counter evolving external cyber invasions such as distributed denial of service , or DDoS, attacks and security breaches such as that experienced by Nonghyup Bank. In March 2013, we experienced a temporary interruption in providing online financial services due to a large-scale cyber attack on the security systems of major broadcasting networks and financial institutions in Korea by sources that have yet to be identified. Interruption of our online financial services lasted approximately 90 minutes, after which our online system resumed without further malfunction. The Financial Supervisory Service is currently conducting an investigation into the incident, and we plan to adopt additional safety measures once the causes of such cyber attacks are identified. We do not believe such incident resulted in any material loss or loss of customer

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information or other sensitive data. Since 2008, our efforts to improve our information technology security capabilities on a group-wide level include upgrading our security guidelines, establishing an information technology security center, which includes a security help desk open 24 hours, seven days a week, creating a team dedicated to responding to security breaches, increasing investment in our security management system and strengthening our team of security experts. We plan to implement such upgrades in each of our business segments. We regularly diagnose and take appropriate measures to protect our system from potential security threats and maintain a dedicated team for this purpose.

Our information technology system for each of our subsidiaries is currently backed up on a real-time basis. We have established a completely duplicative back-up IT system in different locations in Korea, depending on the subsidiary, to provide a back-up system in the event of any system failure of our primary information technology center located in the suburbs of Seoul. See Item 4.D. Properties. Our information technology system at the group level is currently able to fully resume operation within an hour even in the case of a complete disruption of the information technology system at our headquarters.

Competition

Competition in the Korean financial services industry is, and is likely to remain, intense.

In the banking sector, Shinhan Bank competes principally with other national commercial banks in Korea, but also faces competition from a number of additional banking institutions, including branches and subsidiaries of foreign banks operating in Korea, regional banks, government-owned development banks and Korea s specialized banks, such as Korea Development Bank, the Industrial Bank of Korea and the National Association of Agriculture and Fisheries, as well as various other types of financial service providers, including savings institutions (such as mutual savings and finance companies, credit unions and credit cooperatives), investment companies (such as securities brokerage firms, merchant banking corporations and asset management companies) and life insurance companies. As of December 31, 2012, Korea had seven major nationwide domestic commercial banks (including Citibank and Standard Chartered Bank, both of which are domestic commercial banks acquired by global financial institutions), six regional commercial banks and branches and subsidiaries of 39 foreign banks. We believe that foreign financial institutions, many of which have greater experiences and resources than we do, will continue to enter the Korean market and compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions.

In the small- and medium-sized enterprise and retail banking segments, which have been Shinhan Bank s traditional core businesses, competition is expected to increase further, although in a more limited fashion compared to that prior to the recent global financial crisis. Prior to the crisis, most Korean banks, including Shinhan Bank, focused on enlarging their assets through aggressive loan growth from small- and medium-sized enterprises and retail customers and, to a lesser extent, from large corporate borrowers, while developing fee income businesses, including bancassurance and investment products, as complementary sources of revenue. Following the crisis, the Korean banks, including Shinhan Bank, are increasingly focusing on stable asset growth based on quality credit, such as corporate borrowers with high credit ratings, loans to small- and medium-sized and SOHO customers with high levels of collateralization, and mortgage and home equity loans within the limits of the prescribed loan-to-value ratios and debt-to-income ratios, while reducing their credit exposure to small- and medium-sized enterprises. This shift in focus toward stable growth based on less risky assets is likely to result in lower net interest margin and reduced overall profitability, especially as the banks compete for the same pool of quality credit by engaging in price competition or by other means. Shinhan Bank has traditionally focused, and will continue to focus on, enhancing profitability rather than increasing asset size or market share, and has avoided, to the extent practicable, engaging in price competition by way of lowering lending rates. Therefore, if competing financial institutions seek to expand market share by lowering their lending rates, Shinhan Bank may suffer customer loss, especially among customers who select their lenders principally on the basis of lending rates. In response thereto or for other strategic reasons, Shinhan Bank may subsequently lower their lending rates to stay competitive, which could lead to a decrease in its net interest margins and outweigh any positive impact on the net interest margin from a general rise in market interest rates. Any future decline in Shinhan Bank s customer base or its net interest margins could have an adverse effect on its results of operations and financial condition.

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In the credit card sector, Shinhan Card competes principally with existing monoline credit card companies, credit card divisions of commercial banks, consumer finance companies, other financial institutions and, recently, credit card service providers allied with mobile telecommunications service providers in Korea. Competition has been historically intense in this sector and the market has shown signs of saturation as existing and new credit card service providers, such as credit card companies spun off from KB Financial Group, made significant investments and engaged in aggressive marketing campaigns and promotions to acquire new customers and target customers with high credit quality. While competition has subsided somewhat recently due to stricter government regulations, such as curbs on excessive marketing expenses, competition remains intense and credit card issuers may continue to compete with Shinhan Card for customers by offering lower interest rates and fees, higher credit limits, more attractive promotions and incentives and alternative products such as phone cards, gift cards and low-interest consumer loan products. As a result, Shinhan Card may lose customers or service opportunities to competing credit card issuers and/or incur higher marketing expenses. In addition, recent Government regulations mandating lower merchant fees chargeable to small- and medium-sized businesses are likely to reduce the revenues of credit card companies, including Shinhan Card. Customer attrition, together with any further lowering of fees or reduction in base and market interest rates and/or additional expenses from more extensive marketing and promotional campaigns that Shinhan Card might implement to acquire and retain customers, could reduce its revenues and earnings. Furthermore, the average credit quality of Shinhan Card s customers may decline if customers with higher credit quality borrow from Shinhan Card s competitors rather than from Shinhan Card.

In other financial services sectors, our other subsidiaries also compete in highly fragmented markets. Some of our competitors, particularly the major global financial institutions, have greater experience and resources than we do.

Consolidation among our rival institutions may also add competition in the markets in which we and our subsidiaries conduct business. The Korean banking industry may undergo further consolidation either voluntarily or as part of government-led initiatives. Some of the financial institutions resulting from these developments may, by virtue of their increased size, expanded business scope and more efficient operations, provide greater competition for us. For example, the Government plans to eventually privatize Korea Development Bank, one of the Government s key policy banks. In January 2010, the Government announced its intent to sell its controlling stake in Woori Financial Group, one of the top three financial holding companies in Korea in terms of assets as of December 31, 2012 with a similarly ranked banking operation. If Woori Financial Group or any of its major operating subsidiaries were to be acquired by a rival bank or financial holding company, the consolidated entity will have a greater scale of operations, including a larger customer base, and financial resources than us, which may hurt our ability to compete effectively. In addition, in February 2012, Hana Financial Group, which owns and operates Hana Bank, one of the major commercial banks in Korea, received the regulatory approval to acquire a controlling equity interest in Korea Exchange Bank, another major commercial bank in Korea, from Lone Star Funds, and in April 2013 Korea Exchange Bank became a wholly-owned subsidiary of Hana Financial Group and was delisted. In March 2012, the National Agricultural Cooperative Federation, another policy bank of the Government, was reorganized into a holding company structure pursuant to which several of its financial business units were spun off into separate subsidiaries, including banking, life insurance and non-life insurance units. Furthermore, former specialized banking institutions, such as the National Agricultural Cooperative Federation and Industrial Bank of Korea, are in the course of actively expanding their retail operations. Any of these developments may place us at a competitive disadvantage and outweigh any potential benefit to us in the form of opportunities to acquire new customers who are displeased with the level of services at the newly reorganized entities or to provide credit facilities to corporate customers who wish to maintain relationships with a wide range of banks in order to diversify their sources of funding.

As the Korean economy further develops and new business opportunities arise, more competitors may enter the financial services industry. Recently, banks are beginning to compete for new customers and it is likely that competition between bank-operated credit card companies and independent card companies will increase substantially. For example, in 2009, Hana SK Card was launched through a partnership between Hana Financial Group Inc. and SK Telecom. In addition, in November 2011, BC Card became a subsidiary of KT Group while the KDB Group and Korea Post have recently announced their intentions to enter the credit card industry.

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Furthermore, large non-financial institutions, such as mobile telecommunications companies, have also been reported to be considering entry into the Korean credit card and consumer finance businesses, by way of convergence with the existing and future mobile telephone networks. SK Telecom, Korea Telecom and LG Uplus have been actively providing mobile phone payment services through payment solutions tailored for smartphones. As these companies are the three largest telecommunications service providers in Korea serving a substantial majority of the Korean population, a widespread consumer acceptance of mobile phone payment services in lieu of credit card services could pose a serious competitive threat to the existing credit card service providers, including our credit card subsidiary.

Competition in the Korean financial services industry may also intensify as a result of deregulation. For example, the Financial Investment Services and Capital Markets Act, which became effective in February 2009, promotes integration and rationalization of the Korean capital markets and financial investment products industry by permitting a wider range of financial services providers to engage in a broader sphere of financial activities, including depositary services, and has, to a significant extent, removed the regulatory barriers between securities brokerage, asset management, derivative financial services and trust services in favor of creating financial investment companies that may engage in all of the foregoing activities. Accordingly, the Financial Investment Services and Capital Markets Act enables the creation of large financial institutions that can offer both commercial and investment banking services modeled after the major global financial institutions based in the United States and Europe. In addition, in 2008, the Korean legislature proposed an amendment to the Bank Act, which would permit certain qualified entities to provide online banking services as their primary business without being required to establish a branch network. Such amendment, if passed, may further intensify competition in the Korean banking industry. Recently, in light of the recent global financial crisis, the Government has subjected Korean financial institutions to stricter regulatory requirements and guidelines in areas of asset quality, capital adequacy, liquidity and residential and other lending practices, which has had a dampening effect on competition. However, there is no assurance that these measures will continue to curb competition or that the Government will not reverse or reduce such measures or introduce other deregulatory measures, which may further intensify competition.

If we are unable to compete effectively in the changing business and regulatory environment, our profit margin and market share may erode and our future growth opportunities may become limited, which could adversely affect our business, results of operations and financial condition. See Item 3.D. Risk Factors Risks Relating to Our Overall Business Competition in the Korean financial services industry is intense, and may further intensify as a result of further deregulation and Item 4.B. Business Overview Supervision and Regulation Financial Investment Services and Capital Markets Act.

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Description of Assets and Liabilities

Loans

As of December 31, 2012, our total gross loan portfolio was 202,275 billion, which represented an increase of 3.70% from 195,055 billion at December 31, 2011. The increase in our portfolio primarily reflects a 2.46% increase in corporate loans and a 3.89% increase in mortgages and home equity loans.

Loan Types

The following table presents our loans by type for the periods indicated. Except where specified otherwise, all loan amounts stated below are before deduction for loan loss allowances. Total loans reflect our loan portfolio, including past due amounts.

	As of December 31,		
	2010	2011	2012
		(In billions of Won)	
Corporate			
Corporate loans(1)	95,835	98,598	101,025
Public and other(2)	2,771	4,930	3,107
Loans to banks(3)	1,467	2,557	4,537
Lease financing	1,555	1,639	1,699
Total Corporate	101,628	107,724	110,368
Retail			
Mortgages and home equity	40,073	44,399	46,128
Other retail(4)	24,901	25,052	27,925
Total Retail	64,974	69,451	74,053
Credit cards	17,647	17,880	17,854
Total loans(5)	184,249	195,055	202,275

Notes:

(1) Consists primarily of working capital loans, general purpose loans, bills purchased and trade-related notes and excludes loans to public institutions and commercial banks.

(2) Consists of working capital loans and loan facilities to public institutions and non-profit organizations.

(3) Consists of interbank loans and call loans.

(4) Consists of general unsecured loans and loans secured by collateral other than housing to retail customers.

(5) As of December 31, 2010, 2011 and 2012, approximately 89.25%, 88.76% and 89.56% of our total gross loans, respectively, were Won-denominated.

Loan Portfolio

The total exposure of us or our banking subsidiaries to any single borrower and exposure to any single group of companies belonging to the same conglomerate is limited by law to 20% and 25%, respectively, of the Net Total Equity Capital (as defined in Supervision and Regulation).

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Twenty Largest Exposures by Borrower

As of December 31, 2012, our 20 largest exposures, consisting of loans, securities and guarantees and acceptances, totaled 45,383 billion and accounted for 17.76% of our total exposures. The following table sets forth our total exposures to these top 20 borrowers as of December 31, 2012.

	Loans in Won Currency	Loans in Foreign Currency	Securities	Guarantees and Acceptances	Total Exposure	Impaired Loans and Guarantees and Acceptances
			(In billions of Won)			
Ministry of Strategy and Finance			8,139		8,139	
The Bank of Korea	2,560		4,628		7,188	
Industrial Bank of Korea	503	44	2,885		3,432	
Hyundai Heavy Industries Co., Ltd.	28	109	538	2,739	3,414	
Korea Development Bank	12	92	3,132		3,237	
Korea Finance Corporation			3,028		3,028	
Korea Deposit Insurance Corporation			2,978		2,978	
Korea Land & Housing Corporation			1,842		1,842	
Samsung Heavy Industries Co., Ltd.		82	61	1,484	1,626	
The Korea Securities Finance Corporation	31		1,329		1,360	
Woori Bank	319	39	956	3	1,318	
Nonghyup Bank	90		910		1,000	
POSCO	36	189	712	28	965	
Songdo Cosmopolitan City Development Inc.	888				888	
Samsung C&T Corporation	41	56	461	304	861	
Korea Electric Power Corporation	1		828	8	837	
The Export-Import Bank of Korea			836		836	
Hana Bank	32	42	760		834	
Kookmin Bank	144	5	678		827	
Hyundai Samho Heavy Industries Co., Ltd.		19	50	704	773	
Total	4,685	677	34,751	5,270	45,383	

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Exposure to Main Debtor Groups

As of December 31, 2012, 11.73% of our total exposure was to the 34 main debtor groups, which are largely comprised of *chaebols*. The following table shows, as of December 31, 2012, our total exposures to the ten main debtor groups to which we have the largest exposure.

Main Debtor Groups	Loans in Won Currency	Loans in Foreign Currency	Securities	Guarantees and Acceptances (In billions of Won)	Others	Total Exposure	Amounts of Impaired Loans and Guarantees and Acceptances
Hyundai Heavy Industries	134	207	600	3,731		4,672	
Samsung	338	902	1,196	2,117		4,553	
Hyundai Motors	1,370	1,458	757	334		3,919	
SK	689	774	1,151	1,005		3,618	
LG	1,510	326	275	77		2,188	
POSCO	217	338	830	342		1,726	
Lotte	361	120	684	333	1	1,498	
GS	268	274	227	270		1,040	
LS	189	308	197	309		1,004	
Hyosung	251	463	17	147		878	
Total	5,327	5,170	5,934	8,665	1	25,096	

Loan Concentration by Industry

The following table shows the aggregate balance of our corporate loans by industry concentration as of December 31, 2012.

Industry	Aggregate Loan Balance (In billions of Won)	Percentage of Total Corporate Loan Balance (Percentages)
Manufacturing	33,945	30.77%
Retail and wholesale	13,876	12.57%
Real estate, leasing and service	17,623	15.97%
Construction	4,387	3.97%
Hotel and leisure	4,858	4.40%
Finance and insurance	9,182	8.32%
Transportation, storage and communication	5,562	5.04%
Other service	11,274	10.21%
Other	9,661	8.75%
Total	110,368	100.00%

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Maturity Analysis

The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of December 31, 2012. The amounts below are before deduction of attributable loan loss reserves.

	As of December 31, 2012			
	1 Year or Less	Over 1 Year but Not More Than 5 Years	Over 5 Years	Total
	(In billions of Won)			
Corporate:				
Corporate loans	75,663	20,697	4,665	101,025
Public and other	2,001	990	116	3,107
Loans to banks	3,841	582	114	4,537
Lease financing	617	922	160	1,699
Total corporate	82,122	23,191	5,055	110,368
Retail:				
Mortgage and home equity	8,309	10,547	27,272	46,128
Other retail	22,106	4,020	1,799	27,925
Total retail	30,415	14,567	29,071	74,053
Credit cards	16,360	1,135	359	17,854
Total domestic loans	128,897	38,893	34,485	202,275

We may roll over our corporate loans (primarily consisting of working capital loans and facility loans) and retail loans (to the extent not payable in installments) after we conduct our normal loan reviews in accordance with our loan review procedures. Working capital loans may be extended on an annual basis for an aggregate term of three to five years for unsecured loans and five years for secured loans. Facilities loans, which are generally secured, may generally be extended once for a maximum of five years from the date the relevant loan is initially made. Retail loans may be extended for additional terms of up to 12 months for an aggregate term of ten years for both unsecured loans and secured loans.

Interest Rate Sensitivity

The following table shows our loans by interest rate sensitivity as of December 31, 2012.

	As of December 31, 2012		
	Due Within 1 Year	Due After 1 Year	Total
	(In billions of Won)		
Fixed rate loans(1)	56,585	25,718	82,303
Variable rate loans(2)	69,043	50,929	119,972
Total gross loans	125,628	76,647	202,275

Notes:

(1) Fixed rate loans are loans for which the interest rate is fixed for the entire term of the loan.

(2) Variable or adjustable rate loans are for which the interest rate is not fixed for the entire term of the loan.
For additional information regarding our management of interest rate risk, see Risk Management.

Nonaccrual Loans and Past Due Accruing Loans

Except in the case of repurchased loans, we generally recognize interest income on nonaccrual loans using the rate of interest used to discount the future cash flows of such loans for the purpose of measuring impairment

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loss. Generally, we discontinue accruing of interest on loans (other than repurchased loans) when payment of interest and/or principal becomes past due by 90 days. Loans (other than repurchased loans) are not reclassified as accruing until interest and principal payments are brought current.

We generally do not request borrowers to make immediate repayment of the whole outstanding principal balances and related accrued interest on loans whose interest payments are past due for one to 14 days in case of commercial loans and one to 30 days in case of retail loans.

Interest foregone is the interest due on nonaccrual loans that has not been accrued in our books of account. In 2010, 2011 and 2012 we would have recorded gross interest income of 145 billion, 131 billion and 163 billion, respectively, on loans accounted for on a nonaccrual basis throughout the respective years, or since origination for loans held for part of the year, had the loans been current with respect to their original contractual terms. The amount of interest income on those loans that was included in our net income in 2010, 2011 and 2012 were 52 billion, 66 billion and 70 billion, respectively.

The following table shows, at the dates indicated, the amount of loans that are placed on a nonaccrual basis and accruing loans which are past due one day or more. The term accruing but past due one day includes loans which are still accruing interest but on which principal or interest payments are contractually past due one day or more. We continue to accrue interest on loans where the total amount of loan outstanding, including accrued interest, is fully secured by cash on deposits.

	As of December 31,		
	2010	2011	2012
		(In billions of Won)	
Loans accounted for on a nonaccrual basis(1)			
Corporate	1,813	1,621	1,642
Retail	155	239	416
Credit cards	155	152	215
Sub-total	2,123	2,012	2,273
Accruing loans which are contractually past due one day or more as to principal or interest			
Corporate	263	224	245
Retail	369	482	354
Credit cards	432	576	633
Sub-total	1,064	1,282	1,232
Total	3,187	3,294	3,505

Note:

(1) Represents either loans that are troubled debt restructuring as defined under IFRS or loans for which payment of interest and/or principal became past due by 90 days or more (adjusting for any overlap due to loans that satisfy both prongs so as to avoid double counting).

Troubled Debt Restructurings

The following table presents, at the dates indicated, our loans which are troubled debt restructurings as defined under IFRS. These loans mainly consist of corporate loans that have been restructured through the process of workout, court receivership and composition. See Credit Exposures to Companies in Workout, Court Receivership and Composition. These loans accrue interest at rates lower than the original contractual terms, or involve the extension of the original contractual maturity as a result of a variation of terms upon restructuring.

			As of December 31,		
			2010	2011	2012
				(In billions of Won)	
Loans classified as	troubled debt restructurings	(excluding nonaccrual and past due loans)(1)	193	75	173

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Note:

(1) The total amount of loans classified as troubled debt restructurings, including nonaccrual and past due loans, amounted to 1,275 billion, 1,009 billion and 868 billion for the year ended December 31, 2010, 2011 and 2012, respectively.
For the year ended December 31, 2010, 2011 and 2012, interest income that would have been recorded under the original contract terms of restructured loans amounted to 69 billion, 42 billion and 74 billion, respectively, out of which 31 billion, 14 billion and 20 billion was reflected as our interest income, respectively.

The following table presents a breakdown of the outstanding balance and specific allowance for loan losses as of December 31, 2012 of corporate loans classified as troubled debt restructurings under IFRS by the type of restructuring to which such loans are subject. The table provides a breakdown of the total amount of troubled debt restructurings (including nonaccrual and past due loans) for purposes of enhanced disclosure.

	As of December 31,					
	2010		2011		2012	
	Outstanding Balance	Allowance	Outstanding Balance	Allowance	Outstanding Balance	Allowance
	(In billions of Won)					
Corporate loans classified as troubled debt restructurings (1):						
Workout	1,201	651	752	351	683	276
Court receivership & Composition	73	31	250	38	185	20
Others(2)	1	1	7	5		
Total	1,275	683	1,009	394	868	296

Notes:

(1) Includes nonaccrual and past due loans.

(2) Principally consists of loans subject to corporate turnaround or corporate reorganization pursuant to the Debtor Rehabilitation and Bankruptcy Act (also known as the Consolidated Insolvency Act).

With respect to the retail loans (including nonaccrual and past due loans) subject to workouts under the pre-workout program for retail borrowers (which loans are not part of the aforementioned corporate loans and therefore not included in the table above), the outstanding loan balance and specific allowance for loan losses amounted to 70 billion and 58 billion, respectively, as of December 31, 2010, 68 billion and 54 billion, respectively, as of December 31, 2011 and 60 billion and 46 billion, respectively, as of December 31, 2012. For more information on the pre-workout program, see Credit Exposures to Companies in Workout, Court Receivership or Composition Credit Rehabilitation Programs for Delinquent Consumer and Small- and Medium-sized Enterprise Borrowers.

As of December 31, 2010, 2011 and 2012, the amount of restructured loans that are considered impaired and classified as nonaccrual pursuant to our general interest accrual policy as described below was 1,082 billion, 934 billion and 695 billion, respectively. In 2010, 2011 and 2012, the charge-off on restructured loans amounted to 261 billion, 259 billion and 179 billion, respectively, of which 49 billion, 46 billion and 109 billion, respectively, were related to loans converted into equity securities as part of restructuring.

Credit Exposures to Companies in Workout, Court Receivership or Composition

Our credit exposures to restructuring are managed and collected by our Corporate Credit Collection Department. As of December 31, 2012, 0.4% of our total loans, or 868 billion (of which 695 billion was classified as nonaccrual and 173 billion was classified as accruing), was under restructuring. Restructuring of our credit exposures principally takes the legal form of workout, court receivership or composition.

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Workout

Under the Corporate Restructuring Promotion Act, which was in effect from August 2007 to April 29, 2011, and became reinstated on May 19, 2011 to remain effective until December 31, 2013, all creditors to borrowers that are financial institutions are required to participate in a creditors committee. The Corporate Restructuring Promotion Act mandatorily applies to a wide range of financial institutions in Korea, which include commercial banks, insurance companies, asset management companies, securities companies, merchant banks, the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation. Under this act, the approval of financial institution creditors holding not less than 75% of the total debt outstanding of a borrower is required for such borrower s restructuring plan, including debt restructuring and provision of additional funds, which plan is binding on all the financial institution creditors of the borrower, provided that any financial institution creditor that disagrees with the final restructuring plan approved by the creditors committee has the right to request the creditors committee to purchase its claims at a mutually agreed price. In the event that the creditors committee and the dissenting financial institution creditor fail to come to an agreement, a mediation committee consisting of seven experts is set up to resolve the matter. There is a risk that these procedures may require us to participate in a plan we do not agree with or may require us to sell our claims at prices that we do not believe are adequate. With respect to any workout for which the lead creditor bank called for a meeting of the creditors committee while the old Corporate Restructuring Promotion Act was still effective, the procedures applicable to such creditors committee and the related workout remain subject to the old Corporate Restructuring Promotion Act until the suspension or conclusion of such workout, provided that such workout became subject to the procedures under the reinstated Corporate Restructuring Promotion Act as of its effective date, as opposed to the old Corporate Restructuring Promotion Act, even if such workout began while the old law was in effect. Under the reinstated Corporate Restructuring Promotion Act, if any of our borrowers becomes subject to corporate restructuring procedures, we may be forced to (i) restructure our credits pursuant to restructuring plans approved by other creditor financial institutions holding 75% or more of the total outstanding debt (and 75% or more of the total outstanding secured debt, if the restructuring plan includes the restructuring of existing secured debt) of the borrower or (ii) dispose of our credits to other creditors on unfavorable terms.

The total loan amount currently undergoing workout as of December 31, 2012 was 683 billion.

Court Receivership and Composition

The Debtor Rehabilitation and Bankruptcy Act, which took effect on April 1, 2006, is designed to consolidate all existing bankruptcy-related laws in Korea, namely the Corporate Reorganization Act, the Composition Act, the Bankruptcy Act and the Individual Debtor Recovery Act. Under the Debtor Rehabilitation and Bankruptcy Act, composition proceedings have been abolished and recovery proceedings have been introduced to replace the court receiverships. In a recovery proceeding, unlike court receivership proceedings where the management of the debtor company was vested in a court appointed receiver, the existing chief executive officer of the debtor company may continue to manage the debtor company, provided, that (i) neither fraudulent conveyance nor concealment of assets existed, (ii) the financial failure of the debtor company was not due to gross negligence of such chief executive officer, and (iii) no creditors meeting was convened to request, based on reasonable cause, a court-appointed receiver to replace such chief executive officer. While a court receivership proceeding was permitted only with respect to joint stock companies (*chushik-hoesa*), the recovery proceeding may be commenced by any insolvent debtor. Furthermore, in an effort to meet the global standards, international bankruptcy procedures have been introduced in Korea under which a receiver of a foreign bankruptcy proceeding may, upon receiving Korean court approval of the ongoing foreign bankruptcy proceeding, apply for or participate in a Korean bankruptcy proceeding. Similarly, a receiver in a domestic recovery proceeding or a bankruptcy trustee is allowed to perform its duties in a foreign country where an asset of the debtor is located to the extent the applicable foreign law permits.

Any composition, corporate reorganization, bankruptcy and rehabilitation proceedings for individual debtors pending as of April 1, 2006, the effective date of the Debtor Rehabilitation and Bankruptcy Act, continue to proceed in accordance with the respective applicable laws.

As of December 31, 2012, the total loan amount subject to composition proceedings was 185 billion. No loan amount was subject to court receivership.

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Loans in the process of workout, court receivership or composition are reported as nonaccrual loans on our statements of financial position as described in Nonaccrual Loans and Past Due Accruing Loans above since generally, they are past due by more than 90 days and interest does not accrue on such loans. Restructured loans that meet the definition of a troubled debt restructuring are included within Troubled Debt Restructurings described above. Such restructured loans are disclosed as either loans or securities on our statements of financial position depending on the type of instrument we receive after the restructuring.

Credit Rehabilitation Programs for Delinquent Consumer and Small- and Medium-sized Enterprise Borrowers

In light of the gradual increase in delinquencies in credit card and other consumer 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.

Under the Debtor Rehabilitation and Bankruptcy Act, 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.

In 2008, in order 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 30 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 7 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 20% or more. We did not sell any loans to the Credit Rehabilitation Fund in 2012.

In 2008, the Financial Supervisory Service requested Korean banks, including us, to establish a fast track program to provide liquidity assistance to small- and medium-sized enterprises on an expedited basis. Under the fast track program we established, which is effective until the end of 2013, we provided liquidity assistance 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 us.

In 2009, the Financial Services Commission requested Korean banks, including us, to establish a pre-workout program, including a credit counseling and recovery service, for retail borrowers with short-term outstanding debt. The pre-workout program is expected to be in operation until April 2013. Our pre-workout program is generally available to retail borrowers meeting all of the following requirements: (i) borrowings from at least two financial institutions not exceeding 500 million in the aggregate; (ii) payment default of more than 30 days but less than 90 days; (iii) all borrowings newly made within six months prior to the application for the pre-workout program not to exceed 30% of the applicant s total outstanding borrowings; (iv) the annual aggregate amount of principal and interest payment obligations being 30% or more of the borrower s annual income; (v) assets in possession of less than 600 million as calculated by the National Tax Service; and (vi) a person deemed by the pre-workout committee to be impaired in his or her ability to repay without a pre-workout arrangement due to layoff, unemployment, business closure, disaster or earnings loss. Retail borrowers who fail any of these requirements, have previously participated in the pre-workout program or have lost eligibility in the course of participating in a previous pre-workout program are ineligible to participate in the pre-workout program.

Once a borrower is deemed to be eligible to participate in the pre-workout program, we promptly sell the collateral underlying such borrower s secured loans to mitigate our losses, and we may restructure such borrower s unsecured loans (regardless of their type) as follows:

Extension of maturity: Based on considerations of the type of loan, the total loan amount, the repayment amount and the probability of repayment, the maturity of the loan may be extended by up to 10 years.

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Interest rate adjustment: The interest rate of the loan may be adjusted to 70% of the original interest rate or 5% per annum, whichever is higher; *provided that* if the original interest rate is less than 5% per annum, no adjustment applies. The adjusted interest rate applies to the principal amount following any adjustment thereto as part of the pre-workout program, and no interest accrues on the interest already accrued or fees payable.

Debt forgiveness: Debt forgiveness under the pre-workout program is limited to (i) the default interest accrued prior to the application for the pre-workout program and (ii) the regular and default interest accrued following such application but before the approval of the program.

Deferral: If the foregoing three measures are deemed to be insufficient in terms of providing meaningful assistance to a qualifying borrower due to layoff, unemployment, business closure, disaster or earnings loss, loan repayment may be deferred for a maximum of one year, *provided that* the pre-workout committee may extend such deferral period upon the borrower s application which can be made at a one-month interval. The deferral period is not counted toward the repayment period, and interest accrues at 3% per annum during the deferral period.

In 2010, 2011 and 2012, loans in the aggregate amounts of 70 billion, 70 billion and 60 billion were modified under Shinhan Bank s pre-workout program, respectively. All such modified loans became beneficiaries of maturity extension and interest rate reductions, while a substantially limited portion of such loans also became beneficiaries of debt forgiveness and deferral.

Loan Modification Programs for Loans Under Restructuring

We generally offer the following types of concessions in relation to restructured loans: reduction of interest rate, forgiveness of overdue interest, extension of the term for repayment of principal, conversion of debt into equity or the combination of the foregoing. The nature and degree of such concessions vary depending on, among other things, the creditworthiness of the borrower, the size of loans being restructured, the existing terms of the loans and other factors deemed relevant by the relevant creditors committee. We generally do not restructure an existing loan into multiple new loans (for example, an A Note/B Note structure).

The following table presents a breakdown of the gross amount of loans under restructuring as of December 31, 2010, 2011 and 2012 by our loan modification programs, as further categorized according to the loan category and performing versus nonperforming status.

	2010		
Modification Programs	**Non-performing**	**Performing**	**Total**
		(In billions of Won)	
Extension of due date for principal and interest	20	177	197
Reduction of interest rate	155	241	396
Forgiveness of principal			
Equity conversion	15	10	25
Additional lending(1)	3	233	236
Others(2)	51	370	421
Total	244	1,031	1,275

	2011		
Modification Programs	**Non-performing**	**Performing**	**Total**
		(In billions of Won)	
Extension of due date for principal and interest	43	340	383
Reduction of interest rate	40	213	253
Forgiveness of principal		1	1
Equity conversion		46	46
Additional lending(1)	1	97	98
Others(2)	63	165	228

Total	147	862	1,009

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Modification Programs	2012 Non-performing	Performing	Total
	(In billions of Won)		
Extension of due date for principal and interest	4	142	146
Reduction of interest rate	90	322	412
Forgiveness of principal			
Equity conversion	3		3
Additional lending(1)		179	179
Others(2)	51	77	128
Total	148	720	868

Notes:

(1) Represents additional loans provided to the borrower at favorable terms as part of the restructuring package, which may include extension of the due date or reduction of interest rate, among others.

(2) Principally consists of restructured loans whose restructuring terms were not determined as of December 31, 2012. A loan is deemed to be subject to restructuring upon the commencement of the composition or court receivership proceedings or when the relevant creditors committee or our credit officer determines that the borrower will be subject to workout, and in many cases the restructuring terms for such loans are not determined at the time such loans are deemed to be subject to restructuring.

Debt-to-equity Conversion

We distinguish between loans that we consider to be collectible under modified terms and loans that we consider to be uncollectible regardless of any modification of terms. With respect to a loan that we consider to be uncollectible regardless of any modification of terms, we convert a portion of such loan into equity securities following negotiation with the borrower and charge off the remainder of such loan as further described below. The equity securities so converted are recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable. In 2012, we converted into equity securities restructured loans amounting to 109 billion, of which 84 billion was subsequently treated as charge-off and 25 billion was treated as the new cost basis of the equity securities.

Debt-to-equity conversion has two primary benefits. One, the debt-to-equity conversion reduces the amount of loans and related interest expenses of the borrower, resulting in lesser debt burden and greater liquidity for the borrower, a greater likelihood of its exit from restructuring and the repayment of its obligations to us. Two, in the case of a successful turnaround of the borrower, we are entitled to the upside gains from the increase in the value of the equity securities so converted. Notwithstanding these benefits, however, the resulting impact from the debt-to-equity conversion on our interest income is generally not material as the loans being converted as part of restructuring are generally deemed to be uncollectible regardless any modification of terms. As for the impact on our asset classification, we generally apply the same asset classification standards to both non-restructured and restructured loans. As for restructured loans, we also consider additional factors such as the borrower s adherence to its business plans and execution of the self-help measures, among others, to the extent applicable. In consideration of such criteria, we generally classify loans subject to workout as precautionary . For a general discussion of our loan classifications, see Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

Evaluation of Loan Modification Programs

We currently do not conduct a systematic or quantitative evaluation of the success of any particular concession by type, whether historically, relative to each other or relative to other financial institutions in Korea, although we do monitor on an individual basis the compliance by the borrower with the modified terms of the restructured loans. This is principally due to the following reasons.

One, in the case of large corporations subject to or about to be subject to restructuring, which represents the most significant restructuring cases in Korea, the restructuring process is generally not driven by us, but by a

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creditors committee involving several large creditor financial institutions, and in the case of very large corporations or corporations that are members of large business conglomerates, the process frequently involves the guidance of the Government in light of the potential ripple effects of the restructuring on the general economy. Hence, it is difficult for us to collect data that would help us to evaluate the success of a particular concession based on the credit profile of the borrower and the type of concessions offered.

Two, the unavailability of systematic analysis notwithstanding, our general sense is that the restructuring cases in Korea have, to a large part, been successful as measured in terms of the ability of the borrowers to exit restructuring programs relatively quickly and further that the failed cases have not been particularly material. As a result, to date, we have not found it particularly necessary or helpful to expend the time and resources required to conduct a systematic analysis for purposes of evaluating the success of concessions by the type of a particular concession offered.

We do, however, measure the success of concessions in limited ways, that is, principally in terms of how well the borrower complies with the terms and conditions of the restructuring plan as agreed between the borrower and its creditor institutions. A restructuring plan typically includes a business plan and self-help measures to be undertaken by the borrower. We monitor the borrower s compliance with the restructuring plan on a periodic basis (namely, annual, semiannual or quarterly in accordance with the terms of the restructuring plan) and evaluate the success thereof principally in terms of three attributes: (i) the progress in the execution of the business plan, (ii) the progress in the execution of the self-help measures and (iii) other qualitative factors such as major developments in the general economy, the regulatory environment, the competitive landscape, the quality of senior management and personnel, and transparency in management. We also closely monitor the cash inflows and outflows of the borrower, and the creditors committee typically has the right to participate in decision-making related to major spending and borrowings by the borrower.

Accrual Policy for Restructured Loans

For purposes of our accrual policy, we classify restructured loans principally into (i) loans subject to workout pursuant to the Corporate Restructuring Promotion Act and (ii) loans subject to court receivership or composition pursuant to the Debtor Rehabilitation and Bankruptcy Act, which is the comprehensive bankruptcy-related law in Korea. See Credit Exposures to Companies in Workout, Court Receivership or Composition. As for loans subject to workout, our general policy is to discontinue accruing interest on a loan when payment of principal and/or interest thereon becomes past due by 90 days or more, as described above in Nonaccrual Loans and Past Due Accruing Loans. Interest is recognized on these loans on a cash basis (i.e., when collected) from the date such loan is reclassified as non-accruing, and such loans are not reclassified as accruing until the overdue principal and/or interest amounts are paid in full. This general policy also applies to loans subject to workout even if such loans are restructured loans. In the case of loans subject to court receivership or composition, we discontinue accruing interest immediately upon the borrowers becoming subject to court receivership or composition (notwithstanding the absence of delinquency of such loans) in light of the heightened uncertainty regarding the borrower s ability to repay, interest on such loans are recognized on a cash basis and such loans are not reclassified as accruing until the borrower exits court receivership or composition, as the case may be. Accordingly, under to our accrual policy, the number of payments made on a nonaccrual restructured loan is not a relevant factor in determining whether to reinstate such loan to accrual status.

Determination of Performance of Restructured Loans

In determining whether a borrower has satisfactorily performed under the previous terms of the loan, we principally review the payment history of the borrower, namely whether the borrower has been delinquent by one day or more pursuant to our general interest accrual policy. In determining whether a borrower has shown the capacity to continue to perform under the restructured terms, we primarily rely upon the assessment of our credit officers (or the creditors committee in the case of large corporate borrowers with significant outstanding loans) of the likelihood of the borrower s ability to repay under the restructured terms, which assessment takes into account the size of the loans in question, the credit profile of the borrower, the original terms of the loans and other factors deemed relevant by the relevant credit officers. Depending on various factors such as the size of the loans in question and the credit profile of the borrower, we or the relevant creditors committee, as the case may

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be, sometimes engage an outside advisory firm to perform further due diligence in order to supplement the aforementioned assessment. In certain cases, the borrowers also submit self-help proposals to facilitate obtaining the approval for restructuring, which measures are then also taken into consideration by our credit officers or the relevant creditors committees, as the case may be, in determining their future capacity to continue to perform under the restructured terms.

Charge-off of Restructured Loans

As for loans that we consider to be collectible under modified terms (for example, by extending the due date for the payment of principal and/or interest or reducing the interest rate below the applicable interest rate to a rate below the prevailing market rate, or a combination of the foregoing), we generally restructure such loans under the modified terms and do not charge off any portion of such loans.

As for loans that we consider to be uncollectible regardless of any modification of terms, we negotiate with the borrower to have a portion of such loans converted into equity securities (usually common stock) of the borrower in consideration, among others, of (i) the degree to which such conversion will alleviate the debt burdens and liquidity concerns of the borrower, (ii) our potential upside from the gain in the value of the equity securities compared to the likelihood of collection if the loans were not converted into equity securities, and (iii) the borrower s concerns regarding its shareholding structure subsequent to such conversion. We then charge off the remainder of the loans not so converted into equity securities. The value of the equity securities so converted are recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable.

Since we generally do not accrue interest on loans subject to court receivership or composition while we generally accrue interest on loans subject to workout unless past due by 90 days or more, charge-off is not a relevant factor we consider when determining the accrual status of a particular restructured loan.

We continue to accrue interest on restructured loans if we conclude that repayment of interest and principal contractually due on the entire debt is reasonably assured. Such conclusion is reached only after we have carefully reviewed the borrower s ability to repay based on the assessment, among others, of various factors such as the size of the loans in question and the credit quality of the borrower by our credit officer or the relevant creditors committee as supplemented by the due diligence by outside advisory firms, as the case may be.

Potential Problem Loans

During 2012, in order to enable a more systematic and real-time monitoring of loans with a significant potential of non-repayment, we implemented an early warning system . This system enables our management to determine potential problem loans to include all loans which have caused our management to have serious doubt as to the ability of the borrowers to comply with their respective loan repayment terms.

We classify potential problem loans as loans that are designed as early warning loans and reported to the Financial Services Commission. Early warning loans are extended to borrowers that have been (i) identified by our early warning system as exhibiting signs of credit risk based on the relevant borrower s financial data, credit information and/or transactions with banks and, following such identification and (ii) designated by our loan officers as potential problem loans on their evaluation of known information about such borrowers possible credit problems. Such loans are required to be reported on a quarterly basis to the Financial Services Commission. If a borrower s loans are designated as early warning loans pursuant to the process described above and included in our quarterly report to the Financial Services Commission, we consider such borrowers to have serious doubt as to their ability to comply with repayment terms in the near future. As of December 31, 2012, we had 1,691 billion of potential problem loans.

Provisioning Policy

We conduct periodic and systematic detailed reviews of our loan portfolios to identify credit risks and to establish the overall allowance for loan losses. Our management believes the allowance for loan losses reflects the best estimate of the probable loan losses incurred as of the date of each statement of financial position.

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We first assess whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset s original effective interest rate (i.e., the effective interest rate computed at initial recognition).

If the interest rate of a loan or receivable is a floating rate, the discount rate used to evaluate impairment loss is the current effective interest rate defined in the loan agreement. The present value of estimated future cash flows of secured financial assets is calculated by including cash flows from collateral after deducting costs to acquire and sell the collateral, regardless of the probability of realization of such collateral.

In assessing collective impairment, we rate and classify financial assets based on credit risk assessment or credit rating assessment process that takes into account asset type, industry, regional location, collateral type, delinquency and other relative factors.

Future cash flow of financial assets applicable to collective impairment assessment is estimated by using statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management s judgment as to whether current economic and credit conditions are such that the impairment losses are likely to be greater or less than suggested by historical modeling. In adjusting the future cash flow by historical modeling, the result has to be in line with changes and trends of observable data. Methodologies and assumptions used to estimate future cash flow are evaluated on a regular basis in order to reduce any discrepancy between impairment loss estimation and actual loss. See Item 5.A. Operating Results Critical Accounting Policies Impairment of Financial Assets Allowance for Loan Losses .

Corporate Loans

We review corporate loans annually for potential impairment through a formal credit review. In addition, our loan officers consider the credits for impairment throughout the year if there is an indication that an impairment event has occurred.

Under IFRS, a loan is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and if the loss event had a negative effect on the estimated future cash flows of that asset and can be estimated reliably. We consider, among others, the following loans to be impaired:

- loans whose principal or interest amount is more than 90 days past due;
- loans that by reason of non-performance becomes subject to write-off, charge-off, debt restructuring (including recovery proceedings and work-out) or bankruptcy;
- loans to customers whose credit record shows past instances of delinquency, enforcement of guarantee or subrogation; and
- loans to customers who become finally insolvent by an order to suspend settlement of personal checks, corporate checks or promissory note.

Loan loss allowances for corporate loans are established based on whether a particular loan is impaired. Corporate loans with relatively small balances are evaluated collectively for impairment as they are managed collectively.

Loans individually identified for review and considered impaired

Consistent with the internal credit risk monitoring policies, we evaluate impaired loans with relatively large balances (typically more than 3 billion) individually for impairment. Loan loss allowances for these loans are

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generally established by discounting the estimated future cash flows (both principal and interest) we expect to receive using the loan s effective interest rate. We consider the likelihood of all possible outcomes in determining our best estimate of expected future cash flows. Management consults closely with individual loan officers and reviews the cash flow assumptions used to ensure these estimates are valid.

We establish allowances for impaired corporate loans when the discounted cash flow of the loan is lower than its carrying amount. The allowance is equal to the difference between the discounted cash flow amount of the loan and its carrying amount.

We may also measure impairment by reference to the loan s observable market price; however this information is not commonly available in Korea.

Loans collectively evaluated for impairment

We also establish allowances for impaired corporate loans with relatively small balances (typically 3 billion or less). We manage these loans on a portfolio basis and therefore collectively evaluate them for impairment since it is impractical to analyze each such loan on an individual basis. The allowance for such loans is determined based on loss factors taking into consideration past performance of the portfolio, previous loan loss history and charge-off information.

In 2010, when we reported our financial results using U.S. GAAP, we identified loss factors through a migration model, which uses a statistical tool to monitor the progression of loans through different classifications and historical losses over a one year look-back period. Beginning in 2011, under IFRS, we use a statistical tool with longer look-back periods based on the discounted cash flow (DCF) model. For impaired corporate loans whose amounts are relatively small, we use the collective DCF model. Under the collective DCF model, cash flow projections for the relevant loans are not individually computed for each borrower, but are collectively computed for a group of loans sharing similar characteristics (for example, retail versus corporate, secured versus unsecured, and so forth), except that, when we discount the projected cash flow at the present value, we apply the interest rate effective prior to impairment specific to each borrower.

Loans not specifically identified as impaired

We establish allowances collectively for non-impaired corporate loans to reflect losses incurred within the portfolio which have not yet been specifically identified as impaired. Under U.S. GAAP in 2010, the historical loss rate on migration analysis was calculated from a transition matrix table based on asset quality classification and took into consideration historical loss rates and recovery rates after charge-off. Under IFRS beginning in 2011, the probability of default / loss-given default method (sophisticated approach), also known as the Advanced Internal Rating-Based approach under Basel II, is calculated via measurable long-term risk factors such as probability of default from risk grading and loss given default based on the Basel II framework.

As for the probability of default-based loan grouping, corporate loans are grouped into different risk classes based on the credit rating assigned by the relevant credit evaluation model, and retail loans are grouped into different risk classes based on the type of the loan, maturity structure and the duration of delinquency.

As for the loss given default-based loan grouping, secured loans are grouped into different risk classes based on the type of collateral, the location of the collateral and the loan-to-value ratio to which they are subject, and unsecured loans are grouped into different risk classes based on the type of the loan.

Retail Loans

We consider the following retail loans to be impaired for an individual assessment of impairment:

- loans whose principal or interest amount is more than 90 days past due;

- loans that by reason of non-performance becomes subject to write-off, charge-off, debt restructuring (including recovery proceedings and work-out) or bankruptcy;

loans to customers whose credit record shows past instances of delinquency, enforcement of guarantee or subrogation; and

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loans to customers who become finally insolvent by an order to suspend settlement of personal checks, corporate checks or promissory note.

The provisioning policy for retail loans is similar to that for corporate loans, except that different groupings are used for retail loans for purposes of determining probability of default and loss-given default in that all retail loans, regardless of their size, are collectively (rather than individually) assessed due to difficulties in obtaining personal information, such as personal income and assets.

For loan losses for retail loans, we also establish allowances based on loss factors taking into consideration the historical performance of the portfolio, previous loan loss history and charge-off information over a nine-year look-back period for loans secured by real estate and a four-year look-back period for unsecured loans and other secured loans.

We further adjust the loss factors based on factors that may impact loss recognition which have not been adequately captured by our historical analysis. These factors include:

changes in economic and business conditions such as levels of unemployment and housing price;

changes in the nature and volume of the portfolio, including any concentration of credits; and

external factors such as regulatory or government requirements.

Credit Cards

We establish an allowance for the credit card portfolio using a roll-rate model. A roll-rate model is a statistical tool used to monitor the progression of loans based on aging of the balance and established loss rates. The actual loss rates derived from this model are used to project the percentage of losses within each aging category based on performance over a five-year look-back period.

The expected percentage of loss reflects estimates of both default probability within each loan aging category and severity of loss. Generally, loans that are six months or more past due are charged off. We adjust our loan loss rate for severity of loss when considering historical recovery of charged off credits when establishing the allowance.

We segment our credit card portfolio into several product types and perform separate roll-rate analysis for such product types to reflect the different risks and characteristics of each such product type.

We further adjust the results from the roll-rate analysis based on factors that may impact loss recognition which have not been adequately captured by our historical analysis. These factors include:

delinquency levels of cardholders;

government policies toward the credit card industry; and

key retail performance indicators (such as ratios of household debt to disposable income and household liabilities to financial assets).

The actual amount of incurred loan losses may vary from the estimate of incurred losses due to changes in economic conditions or industry or geographic concentrations. We also monitor differences between estimated and actual incurred loan losses through procedures including detailed periodic assessments by senior management of both individual loans and credit portfolios and the models used to estimate incurred loan losses in those portfolios.

We determine whether credit card loans are impaired using criteria similar to those used for corporate loans, except that when the merchants using our credit card services have closed or shut down, the related credit card loans are deemed impaired.

We consider a credit card or card loan to be delinquent if payment on such account is not received when first due and the amount outstanding is greater than 10,000. Our general policy is to be proactive in its collection procedures. We believe that card accounts which are in early stages of delinquency are easier to collect than those accounts which have been delinquent for a longer period of time and, therefore, we emphasize

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collections at an early stage of delinquency although we increase the level of collection efforts as the delinquency period increases with respect to the relevant account. Efforts to collect from cardholders whose account balances are up to 30 days past due are generally made by our credit support centers at Shinhan Card. Our credit support centers classify delinquent customers based upon three criteria: the expected level of difficulty in collection, the nature of the customer and the customer s contribution to Shinhan Card s profitability. By implementing collection activities tailored to each such category of customers, we seek to maximize efficiency in our collection efforts.

For card accounts with balances that are more than 30 days past due, we generally assign collection to our collection branches. During the first two months of their appointment, these collection branches rely on postal or telephone notice and take measures to locate and provisionally attach accounts receivables or other properties of the delinquent cardholders. After the initial two months period, the collection branches commence compulsory execution procedures against the delinquent cardholders accounts receivables or other properties to secure the amount of outstanding balances. During the entire period managed by branches, we offer restructured card loan and reduction programs. For card accounts that are charged off, we outsource collection to external collection centers such as Shinhan Credit Information, which is our subsidiary, and Mirae Credit Information Services Corp.

Loan Aging Schedule

The following table shows our loan aging schedule (excluding accrued interest) for all loans as of the dates indicated.

As of December 31,	Current Amount	%	Past Due Up to 3 Months Amount	%	Past Due 3-6 Months Amount	%	Past Due More Than 6 Months Amount	%	Total Amount
	(In billions of Won, except percentages)								
2010	181,659	98.59	1,163	0.63	635	0.34	792	0.43	184,249
2011	192,120	98.50	1,519	0.77	597	0.31	819	0.42	195,055
2012	199,017	98.39	1,563	0.77	579	0.29	1,116	0.55	202,275

Non-Performing Loans

Non-performing loans are defined as loans past due by more than 90 days. The following table shows, as of the dates indicated, the amount of the total non-performing loan portfolio and as a percentage of our total loans.

	As of December 31,		
	2010	2011	2012
	(In billions of Won, except percentages)		
Total non-performing loans	1,427	1,416	1,695
As a percentage of total loans	0.77%	0.73%	0.84%

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Analysis of Non-Performing Loans

The following table sets forth, for the periods indicated, the total non-performing loans by the borrower type.

	As of December 31,								
	2010			2011			2012		
	Total Loans	Non-Performing Loans(1)	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans(1)	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans(1)	Ratio of Non-Performing Loans
	(In billions of Won, except percentages)								
Corporate									
Corporate loans	95,835	816	0.85%	98,598	739	0.75%	101,025	769	0.76%
Public and other	2,771	8	0.29	4,930	8	0.16	3,107	9	0.29
Loans to banks	1,467		0.00	2,557		0.00	4,537		0.00
Lease financing	1,555	10	0.64	1,639	5	0.31	1,699	8	0.47
Total corporate	101,628	834	0.82	107,724	752	0.70	110,368	786	0.71
Retail									
Mortgage and home equity	40,073	30	0.07	44,399	55	0.12	46,128	60	0.13
Other retail	24,901	102	0.41	25,052	164	0.65	27,925	315	1.13
Total retail	64,974	132	0.20	69,451	219	0.31	74,053	375	0.51
Credit cards	17,647	461	2.61	17,880	445	2.49	17,854	534	2.99
Total	184,249	1,427	0.77%	195,055	1,416	0.73%	202,275	1,695	0.84%

Note:

(1) Includes unsecured retail loans and credit card loans past due by more than six months. The number of days past due of restructured credit card loans is calculated from the first date of non-payment regardless of subsequent modification of terms.

Non-Performing Loans by Industry

The following table sets forth a breakdown of our non-performing corporate loans by industry as of December 31, 2012.

Industry	Aggregate Non-Performing Corporate Loan Balance (In billions of Won)	Percentage of Total Non-Performing Corporate Loan Balance (Percentages)
Real estate, leasing and service	362	46.07%
Construction	110	13.99
Manufacturing	94	11.96
Retail and wholesale	48	6.11
Transportation, storage and communication	38	4.83
Hotel and leisure	21	2.67

Finance and insurance	6	0.76
Other service(1)	60	7.63
Other(2)	47	5.98
Total	786	100.00%

Notes:

(1) Includes other service industries such as publication, media and education.

(2) Includes other industries such as agriculture, forestry, mining, electricity and gas.

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Top 20 Non-Performing Loans

As of December 31, 2012, our 20 largest non-performing loans accounted for 25.84% of our total non-performing loan portfolio. The following table shows, at the date indicated, certain information regarding our 20 largest non-performing loans.

			As of December 31, 2012	
		Industry	Gross Principal Outstanding	Allowance for Loan Losses
			(In billions of Won)	
1	Borrower A	Real estate, leasing and service	116	26
2	Borrower B	Real estate, leasing and service	71	54
3	Borrower C	Real estate, leasing and service	33	5
4	Borrower D	Real estate, leasing and service	23	8
5	Borrower E	Manufacturing	22	
6	Borrower F	Real estate, leasing and service	20	18
7	Borrower G	Construction	18	1
8	Borrower H	Real estate, leasing and service	18	
9	Borrower I	Construction	17	3
10	Borrower J	Construction	14	
11	Borrower K	Construction	12	2
12	Borrower L	Other service	11	
13	Borrower M	Construction	9	
14	Borrower N	Real estate, leasing and service	9	
15	Borrower O	Other service	9	
16	Borrower P	Transportation, storage, and communication	8	5
17	Borrower Q	Construction	8	
18	Borrower R	Real estate, leasing and service	7	3
19	Borrower S	Transportation, storage, and communication	7	
20	Borrower T	Real estate, leasing and service	6	3
			438	128

Non-Performing Loan Strategy

One of our primary objectives is to prevent our loans from becoming non-performing. Through our corporate credit rating system, which is designed to prevent our loan officers from extending new loans to borrowers with high credit risks based on the borrower s credit rating, we seek to reduce credit risk related to future non-performing loans. Our early warning system is designed to bring any sudden increase in a borrower s credit risk to the attention of our loan officers, who then closely monitor such loans.

If a loan becomes non-performing notwithstanding such preventive mechanism, an officer at the branch level responsible for monitoring non-performing loans will commence due diligence on the borrower s assets, send a notice demanding payment or a notice that we will take or prepare for legal action.

At the same time, we also initiate our non-performing loan management process, which includes:

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

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

to a limited extent, identifying commercial loans subject to normalization efforts based on the cash-flow situation of the borrower.

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Once the details of a non-performing loan are identified, we pursue early solutions for recovery. Actual recovery efforts for non-performing loans are handled by the relevant department, depending on the nature of such loans and the borrower, among others. The officers or agents of the responsible departments and units use a variety of methods to resolve non-performing loans, including:

- making phone calls and paying visits to the borrower to request payment;
- continuing to assess and evaluate assets of our borrowers; and
- if necessary, initiating legal action such as foreclosures, attachment and litigation.

In order to promote speedy recovery on loans subject to foreclosures and litigation, the branch responsible for handling these loans may transfer them to the relevant unit at headquarters.

Our policy is to commence legal action within one month after default on promissory notes and four months after delinquency of payment on other types of loans. For loans to insolvent or bankrupt borrowers or when we conclude that it is not possible to recover through normal procedures, we take prompt legal actions regardless of the grace period.

In addition to making efforts to collect on these non-performing loans, we take other measures to reduce the level of our non-performing loans, including:

- selling non-performing loans to third parties including the Korea Asset Management Corporation;
- entering into asset-backed securitization transactions with respect to non-performing loans;
- managing retail loans that are three months or more past due through Shinhan Credit Information under an agency agreement; and
- using third-party collection agencies including credit information companies such as Solomon Credit Information.

In 2012, we sold non-performing loans in the amount of 106 billion to third parties and transferred 195 billion to the United PF 1st Recovery Private Equity Fund. See Item 3.D. Risk Factors Other Risks Relating to Us The Korean government may encourage targeted lending to and investment in certain sectors in furtherance of policy initiatives, and we may take this factor into account. These loans met the criteria of true sale and were derecognized accordingly.

The following table presents a roll-forward of our nonperforming loans in 2012.

	(In billions of Won)
Non-performing loans as of December 31, 2011	1,416
Additional non-performing loans due to delinquency	1,256
Loans sold	(106)
Loans charged off	(648)
Loans modified and returned to performing	(15)
Other adjustments(1)	(208)

Non-performing loans as of December 31, 2012	1,695

Note:

(1) Represents loans paid down or paid off and loans returned to performing otherwise than as a result of modification. We do not separately collect and analyze data relating to non-performing loans other than those that were sold, charged off, modified and returned to performing, or transferred to held-for-sale investment portfolio.

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Allocation of Allowance for Loan Losses

The following table presents, as of the dates indicated, the allocation of our loan loss allowance by loan type.

	As of December 31,					
	2010		2011		2012	
	Amount	Loans as % of Total Loans	Amount	Loans as % of Total Loans	Amount	Loans as % of Total Loans
	(In billions of Won, except percentages)					
Corporate						
Corporate loans	1,923	67.43%	1,634	63.41%	1,694	60.64%
Public and other	15	0.53	19	0.74	14	0.50%
Loan to banks	32	1.12	13	0.50	11	0.39%
Lease financing	17	0.60	14	0.54	33	1.18%
Total corporate	1,987	69.68	1,680	65.19	1,752	62.71%
Retail						
Mortgages and home equity	17	0.60	19	0.74	23	0.82%
Other retail	178	6.24	202	7.84	274	9.82%
Total retail	195	6.84	221	8.58	297	10.64%
Credit cards	670	23.48	676	26.23	744	26.65%
Total allowance for loan losses	2,852	100.00%	2,577	100.00%	2,793	100.00%

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Analysis of the Allowance for Loan Losses

The following table presents an analysis of our loan loss experience for each of the years indicated.

	2010	2011	2012
		(In billions of Won, except percentages)	
Balance at the beginning of the period	3,114	2,852	2,577
Amounts charged against income	1,301	864	1,325
Gross charge-offs:			
Corporate:			
Corporate loans	1,292	960	846
Public and other	19	1	1
Loan to banks			
Lease financing	18	14	19
Retail:			
Mortgage and home equity	25	1	4
Other retail	76	80	130
Credit cards	429	447	486
Total gross charge-offs	1,859	1,503	1,486
Recoveries:			
Corporate:			
Corporate loans	83	75	78
Public and other			6
Loan to banks			
Lease financing	1	2	2
Retail:			
Mortgage and home equity	2	6	
Other retail	52	37	32
Credit cards	327	283	257
Total recoveries	465	403	375
Other	(169)	(39)	2
Net charge-offs	(1,563)	(1,139)	(1,109)
Balance at the end of the period	2,852	2,577	2,793
Ratio of net charge-offs during the period to average loans outstanding during the period	1.06%	0.78%	0.75%

Loan Charge-offs

Our gross charge-offs decreased from 1,859 billion in 2010 to 1,503 billion in 2011 and 1,486 billion in 2012 primarily due to a decrease in charge-off for retail loans and credit card loans as a result of a slowdown in the deterioration in asset quality in 2011 as compared to 2010 and 2012 as compared to 2011.

In 2012, the charge-off on restructured loans amounted to 179 billion, of which 109 billion was related to loans converted into equity securities as part of restructuring. With respect to a loan that we consider to be uncollectible regardless of any modification of terms, we convert a portion of such loan into equity securities following negotiation with the borrower and charge off the remainder of such loan as previously discussed in Troubled Debt Restructurings Charge-off of Loans Subject to Restructuring. The equity securities so converted are recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable.

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Basic Principles

We attempt to minimize loans to be charged off by practicing a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans.

Loans to be Charged-off

Loans are charged off if they are deemed to be uncollectible by falling under any of the following categories:

- loans for which collection is not foreseeable due to insolvency or bankruptcy, dissolution or the termination of the debtor s business;
- loans for which collection is not foreseeable due to the death or disappearance of debtors;
- loans for which collection expenses exceed the collectable amount;
- loans for which collection is not possible through legal or any other means;
- payments in arrears in respect of credit cards that are overdue for more than six months;
- payments outstanding on unsecured retail loans that are overdue for more than six months;
- payments in arrears in respect of leases that are overdue for more than 12 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

An application for Shinhan Bank s loans to be charged off is submitted by the relevant branch to the Corporate Credit Collection Department in the case of corporate loans and foreign branches, and the Consumer Credit Collection Department in the case of retail loans. An application for charge-off is generally submitted immediately after the relevant loan becomes 180 days past due. The General Manager in charge of review evaluates the application. The General Manager of Audit and Examination Department conducts review of compliance with our internal procedures for charge-offs, and if the review is satisfactory, requests approval from the President of Shinhan Bank. As for Shinhan Card, it generally charges off receivables that are 180 days past due following internal review.

Treatment of Loans Charged-off

Once loans are charged off, they are derecognized from our statements of financial position. We continue collection efforts in respect of these loans through third-party collection agencies including the Korea Asset Management Corporation and Shinhan Credit Information.

Treatment of Collateral

When we determine that a loan collateralized by real estate cannot be recovered through normal collection channels, we generally petition a court to foreclose and sell the collateral through a court-supervised auction within one month after default and insolvency and within four months after delinquency. However, this procedure does not apply to companies under restructuring, composition, workout or other court proceedings where there are restrictions on such auction procedures. Filing of such petition with the court generally encourages the debtor to

repay the overdue loan. If a debtor ultimately fails to repay and the court grants its approval for foreclosure, we sell the collateral and recover the principal amount and interest accrued up to the sales price, net of expenses incurred from the auction. Foreclosure proceedings in under the laws and regulations in Korea typically take seven months to one year from initiation to collection depending on the nature of the collateral.

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Financial Statement Presentation

Our financial statements include as charges-offs all unsecured retail loans, including credit cards, which are overdue for more than six months. Leases are charged off when past due for more than twelve months. For collateral dependent loans, we charge off the excess of the book value of the subject loan over the amount received or to be received from the sale of the underlying collateral when the collateral is sold as part of a foreclosure proceeding and its sale price becomes known through court publication as part of such proceeding.

Investment Portfolio

Investment Policy

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

- maintain the stability and diversification of our assets;
- maintain adequate sources of back-up liquidity to match our funding requirements; and
- supplement income from our core lending activities.

In making securities investments, we take into account a number of factors, including macroeconomic trends, industry analysis and credit evaluation in determining whether to make investments in particular securities.

Our investments in securities are subject to a number of regulatory guidelines, including limitations prescribed under the Financial Holding Companies Act and the Banking Act. Generally, a financial holding company is prohibited from acquiring more than 5% of the total issued and outstanding shares of another company (other than its direct and indirect subsidiaries). Furthermore, under these regulations, Shinhan Bank must limit its investments in shares and securities with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and national government bonds) to 60.0% of the sum of Tier I and Tier II capital (less any deductions) of Shinhan Bank. Generally, Shinhan Bank is also prohibited from acquiring more than 15.0% of the shares with voting rights issued by any other corporation (other than for the purpose of establishing or acquiring a subsidiary). Further information on the regulatory environment governing our investment activities is set out in Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Investments in Property, Principal Regulations Applicable to Banks Restrictions on Shareholdings in Other Companies, Principal Regulations Applicable to Financial Holding Companies Liquidity and Principal Regulations Applicable to Financial Holding Companies Restrictions on Shareholdings in Other Companies.

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Book Value and Market Value

The following table sets out the book value and market value of investments in our investment portfolio as of the dates indicated.

	As of December 31, 2010		As of December 31, 2011		As of December 31, 2012	
	Book Value	Market Value	Book Value	Market Value	Market Value	Market Value
	(In billions of Won)					
Financial assets designated at fair value						
Marketable equity securities	722	722	1,361	1,361	1,732	1,732
Debt securities:						
Korean treasury and governmental agencies	69	69	88	88	88	88
Debt securities issued by financial institutions	161	161	110	110	175	175
Corporate debt securities	179	179	242	242	591	591
Debt securities issued by foreign government	31	31				
Mortgage-backed and asset-backed securities	6	6				
Others	1,040	1,040				
Total Fair Value Through Profit and Loss	2,208	2,208	1,801	1,801	2,586	2,586
Available-for-sale securities						
Marketable equity securities	7,204	7,204	5,038	5,038	5,015	5,015
Debt securities:						
Korean treasury and governmental agencies	6,114	6,114	4,612	4,612	5,052	5,052
Debt securities issued by financial institutions	8,996	8,996	13,690	13,690	13,750	13,750
Corporate debt securities	6,742	6,742	10,046	10,046	11,634	11,634
Debt securities issued by foreign government			218	218	394	394
Mortgage-backed and asset-backed securities	396	396	503	503	483	483
Total Available-for-sale	29,452	29,452	34,107	34,107	36,328	36,328
Held-to-maturity securities						
Debt securities:						
Korean treasury and governmental agencies	6,218	6,444	5,780	6,076	5,612	6,003
Debt securities issued by financial institutions	2,327	2,396	2,064	2,162	1,700	1,758
Corporate debt securities	3,846	3,960	3,887	3,978	4,182	4,358
Debt securities issued by foreign government			90	90	104	104
Mortgage-backed and asset-backed securities	138	141	73	74	60	61
Total Held-to-maturity	12,529	12,941	11,894	12,380	11,658	12,284

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	As of December 31, 2010		As of December 31, 2011		As of December 31, 2012	
	Book Value	Market Value	Book Value	Market Value	Market Value	Market Value
	(In billions of Won)					
Trading Securities						
Marketable equity securities	922	922	1,988	1,988	2,334	2,334
Debt securities:						
Korean treasury and governmental agencies	680	680	698	698	832	832
Financial institutions	3,220	3,220	2,994	2,994	4,405	4,405
Corporations	4,415	4,415	5,843	5,843	5,868	5,868
Mortgage-backed and asset-backed securities	22	22	90	90	141	141
Debt securities issued by foreign governments					2	2
Other trading assets	153	153	341	341	438	438
Total Trading	9,412	9,412	11,954	11,954	14,020	14,020
Total securities	53,601	54,013	59,756	60,242	64,592	65,218

Maturity Analysis

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

	As of December 31, 2012									
	1 Year or Less		Over 1 but within 5 Years		Over 5 but within 10 Years		Over 10 Years		Total	
	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)
	(In billions of Won, except percentages)									
Financial assets designated at fair value:										
Korean treasury securities and government agencies	36	2.78%	52	2.84%		0.00%		0.00%	88	2.82%
Debt securities issued by financial institutions	70	2.95%	105	3.10%		0.00%		0.00%	175	3.04%
Corporate debt securities	95	3.33%	496	3.14%		0.00%		0.00%	591	3.18%
Total	201	3.10%	653	3.10%		0.00%		0.00%	854	2.60%
Available-for-sale securities:										
Korean treasury securities and government agencies	537	5.52%	2,919	3.35%	1,473	3.51%	123	3.34%	5,052	3.63%
Debt securities issued by financial institutions	7,323	3.30%	5,554	3.40%	783	3.77%	90	6.35%	13,750	3.39%
Corporate debt securities	2,446	3.86%	8,181	3.77%	895	3.79%	112	3.41%	11,634	3.79%
Debt securities issued by foreign governments	127	7.12%	252	6.99%	3	5.02%	12	4.99%	394	6.95%
Mortgage-backed securities and asset-backed securities	149	2.48%	239	3.45%	95	3.67%		0.00%	483	3.20%
Total	10,582	3.58%	17,145	3.62%	3,249	3.65%	337	4.23%	31,313	3.62%

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	As of December 31, 2012									
	1 Year or Less		Over 1 but within 5 Years		Over 5 but within 10 Years		Over 10 Years		Total	
	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)
	(In billions of Won, except percentages)									
Held-to-maturity securities:										
Korean treasury securities and government agencies	945	4.96%	3,258	4.79%	692	4.97%	717	3.32%	5,612	4.65%
Debt securities issued by financial institutions	575	3.44%	769	2.99%	266	3.60%	90	3.02%	1,700	3.24%
Corporate debt securities	736	4.55%	2,579	3.64%	427	3.25%	440	3.44%	4,182	3.74%
Debt securities issued by foreign governments	11	10.74%	52	3.90%	41	2.37%		0.00%	104	4.01%
Mortgage-backed securities and asset-backed securities		0.00%		0.00%	20	3.37%	40	3.32%	60	3.34%
Total	2,267	4.47%	6,658	4.13%	1,446	4.12%	1,287	3.34%	11,658	4.11%
Trading securities:										
Korean treasury securities and government agencies	185	2.76%	525	2.88%	73	2.17%	49	3.24%	832	2.81%
Debt securities issued by financial institutions	2,803	2.79%	1,559	2.84%		0.00%	43	3.45%	4,405	2.81%
Corporate debt securities	4,738	3.09%	1,010	3.40%	77	3.60%	43	3.81%	5,868	3.15%
Debt securities issued by foreign governments		0.00%		0.00%	2	3.30%		0.00%	2	3.30%
Mortgage-backed securities and asset-backed securities	112	3.05%	29	3.17%		0.00%		0.00%	141	3.07%
Total	7,838	2.97%	3,123	3.03%	152	2.91%	135	3.50%	11,248	2.99%
Total	20,888		27,579		4,847		1,759		55,073	

Note:

(1) The weighted-average yield for the portfolio represents the yield to maturity for each individual security, weighted using its amortized cost.

Concentrations of Risk

The following table provides securities held by us whose aggregate book value exceeded 10% of our stockholders equity as of December 31, 2012, which was 2,878 billion as of such date.

	As of December 31, 2012	
	Book Value	Fair Value
	(In billions of Won)	
Name of issuer:		
Ministry of Strategy and Finance	8,139	8,386
The Bank of Korea	4,628	4,628
Korea Development Bank	3,137	3,165
Korea Finance Corporation	3,028	3,034
Industrial Bank of Korea	2,888	2,894

All of the above entities are either an agency of the Korean government or an entity controlled by the Korean government.

Credit-Related Commitments and Guarantees

In the normal course of our operations, we make various commitments and guarantees to meet the financing and other business needs of our customers. Commitments and guarantees are usually in the form of, among others, commitments to extend credit, commercial letters of credit, standby letters of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss amount if the account party draws down the commitment or we should fulfill our obligation under the guarantee and the account party fails to perform under the contract.

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The following table sets forth our credit-related commitments and guarantees as of the dates indicated.

	As of December 31,		
	2010	2011	2012
		(In billions of Won)	
Commitments to extend credit	66,009	65,822	70,792
Commercial letters of credit	4,276	3,859	3,115
Other(1)	27,361	28,017	29,272
Total	97,646	97,698	103,179

Note:

(1) Consists of financial guarantees, performance guarantees, liquidity facilities to special purpose entities, acceptances, guarantee on trust accounts and endorsed bills.

We have credit-related commitments that are not reflected on our statements of financial position, which primarily consist of commitments to extend credit and commercial letters of credit. Commitments to extend credit, including credit lines, represent unfunded portions of authorizations to extend credit in the form of loans. These commitments expire on fixed dates and a customer is required to comply with predetermined conditions to draw funds under the commitments. Commercial letters of credit are undertakings on behalf of customers authorizing third parties to draw drafts on us up to a stipulated amount under specific terms and conditions. They are generally short-term and collateralized by the underlying shipments of goods to which they relate and therefore have less risk.

We also have guarantees that are recorded on our statements of financial position at their fair value at inception which are amortized over the life of the guarantees. Such guarantees generally include standby letters of credit, other financial and performance guarantees and liquidity facilities to special purpose entities. Standby letters of credit are irrevocable obligations to pay third-party beneficiaries when our customers fail to repay loans or debt instruments, which are generally in foreign currencies. A substantial portion of these standby letters of credit are secured by collateral, including trade-related documents. Other financial and performance guarantees are irrevocable assurances that we will pay beneficiaries if our customers fail to perform their obligations under certain contracts. Liquidity facilities to special purpose entities are irrevocable commitments to provide contingent liquidity credit lines to special purpose entities established by our customers in the event that a triggering event such as shortage of cash occurs.

The commitments and guarantees do not necessarily represent our exposure since they often expire unused.

Derivatives

As discussed under Business Overview Our Principal Activities Corporate and Investment Banking Services Derivatives Trading above, we engage in derivatives trading activities primarily on behalf of our customers so that they may hedge their risks and also enter into back-to-back derivatives with other financial institutions to cover exposures arising from such transactions. In addition, we enter into derivatives transactions to hedge against risk exposures arising from our own assets and liabilities, some of which are nontrading derivatives that do not qualify for hedge accounting treatment.

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The following shows, as of December 31, 2012, the gross notional or contractual amounts of derivatives held or issued for (i) trading and (ii) nontrading that qualify for hedge accounting.

	As of December 31, 2012		
	Underlying Notional Amount(1)	Estimated Fair Value Assets (In billions of Won)	Estimated Fair Value Liabilities
Trading:			
Foreign exchange derivatives:			
Future and forward contracts	32,580	511	611
Swaps	11,790	362	257
Options	388	25	
Sub-total	44,758	898	868
Interest rate derivatives:			
Future and forward contracts	631		
Swaps	91,314	695	593
Options	5,777	24	33
Sub-total	97,722	719	626
Credit derivatives:			
Swaps	166	1	1
Sub-total	166	1	1
Equity derivatives:			
Swaps and forward contracts	3,092	182	46
Options	6,477	91	163
Future contracts	161		
Sub-total	9,730	273	209
Commodity derivatives:			
Swaps and forward contracts	467	6	5
Options	77	1	
Future contracts	282	5	2
Sub-total	826	12	7
Total	**153,202**	**1,903**	**1,711**
Nontrading:			
Hedge accounting:			
Foreign exchange derivatives:			
Swaps	1,849	1	100
Future and forward contracts	3		
Interest rate derivatives:			
Swaps	8,485	262	90

Total	**10,337**	**263**	**190**

Note:

(1) Notional amounts in foreign currencies were converted into Won at prevailing exchange rates as of December 31, 2012.

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Funding

We obtain funding from a variety of sources, both domestic and foreign. Our principal source of funding is customer deposits obtained from our banking operations, and we from time to time issue equity and debt securities, including preferred shares. In addition, our subsidiaries acquire funding through call money, borrowings from the Bank of Korea, other short-term borrowings, corporate debentures and other long-term debt, including debt and equity securities issuances, asset-backed securitizations and repurchase transactions, to complement, or if necessary, replace funding through customer deposits. For further details relating to funding by us and our subsidiaries, see Item 5.B. Liquidity and Capital Resources.

Deposits

Although the majority of our bank deposits are short-term, the majority of our depositors have historically rolled over their deposits at maturity, providing our banking operation with a stable source of funding.

The following table shows the average balances of our deposits and the average rates paid on our deposits for the periods indicated.

	2010		2011		2012	
	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid
	(In billions of Won, except percentages)					
Interest-bearing deposits:						
Demand deposits	15,905	0.70%	16,517	0.72%	17,233	0.68%
Savings deposits	33,655	0.98	34,234	0.98	35,487	1.00
Time deposits	93,385	3.50	99,654	3.61	109,743	3.63
Other deposits	4,884	4.58	3,513	3.71	1,875	3.26
Total interest-bearing deposits	147,829	2.66%	153,918	2.72%	164,338	2.75%

Note:

(1) Average balances are based on (a) daily balances of Shinhan Bank and (b) quarterly balances for other subsidiaries.
For a breakdown of deposit products, see Our Principal Activities Deposit-taking Activities, except that cover bills sold are reflected on short-term borrowings and securities sold under repurchase agreements are reflected as secured borrowings.

Certificates of Deposit and Other Time Deposits

The following table presents the balance and remaining maturities of certificates of deposit and other time deposits which had a fixed maturity in excess of 100 million or more as of December 31, 2012.

	As of December 31, 2012		
	Certificates of Deposit	Other Time Deposits	Total
		(In billions of Won)	
Maturing within three months	505	26,141	26,646
After three but within six months	169	9,228	9,397
After six but within 12 months	230	38,926	39,156

After 12 months	226	5,743	5,969
Total	1,130	80,038	81,168

A majority of our certificates of deposit accounts and other time deposits issued by our foreign offices is in the amount of US$100,000 or more.

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Short-term Borrowings

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

	2010					2011					2012				
	Balance Out-standing	Average Balance Out-standing(1)	Highest Balances at Any Month-end	Weighted Average Interest Rate(2)	Year-end Interest Rate	Balance Out-standing	Average Balance Out-standing(1)	Highest Balances at Any Month-end	Weighted Average Interest Rate(2)	Year-end Interest Rate	Balance Out-standing	Average Balance Out-standing(1)	Highest Balances at Any Month-end	Weighted Average Interest Rate(2)	Year-end Interest Rate
	(In billions of Won, except for percentages)														
rrowings m															
nk of rea(3)	996	1,321	1,638	1.06%	0.10-1.75%	1,029	1,046	1,240	1.18%	0.10-1.50%	1,510	1,159	1,510	1.20%	0.10-1.50
ll money	1,334	1,649	2,484	3.07	0.15-2.80	1,309	2,212	2,013	4.93	0.14-3.55	1,089	2,402	2,861	4.50	0.07-9.00
her ort-term rrowings(4)	10,727	6,502	13,794	0.74	0.57-10.00%	11,508	7,430	12,022	1.14	0.60-9.26%	9,376	6,965	12,026	1.63	0.00-14.00
	13,057	9,472	17,916	1.19%		13,846	10,688	15,275	1.93%		11,975	10,526	16,397	2.24%	

Notes:

(1) Average balances are based on (a) daily balances of Shinhan Bank and (b) quarterly balances for other subsidiaries.

(2) Weighted-average interest rates are calculated by dividing the total interest expenses 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 included borrowings from trust accounts, bills sold, borrowings in domestic and foreign currencies.
Our short-term borrowings have maturities of less than one year which are generally unsecured with the exception of borrowings from the Bank of Korea.

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Risk Management

Overview

As a financial services provider, we are exposed to various risks relating to our lending, credit card, insurance, securities investment, trading and leasing businesses, our deposit taking and borrowing activities and our operating environment. The principal risks to which we are exposed are credit risk, market risk, interest rate risk, liquidity risk and operational risk. These risks are recognized, measured and reported in accordance with risk management guidelines established at our holding company level and implemented at the subsidiary level through a carefully stratified checks-and-balances system.

We believe that our risk management system has been instrumental to building our reputation as a well-managed and prudent financial service provider and withstanding various external shocks. In particular, during the global financial crisis of 2008-2009, we believe our risk management provided effective early warning signals which helped us to proactively reconfigure our asset portfolio and substantially reduce our exposure to troubled debtors and thereby avoid what could have been a substantially greater credit loss during such crisis and we are carefully upgrading and refining our risk management system in the face of ongoing economic difficulties in Europe and elsewhere.

In particular, our group-wide risk management is guided by the following core principles:

- carrying out all business activities within the prescribed risk tolerance levels and prudently balancing profitability and risk management;
- standardizing risk management process and monitoring compliance on a group-wide level;
- operating a risk management decision making system with active participation by management;
- creating and operating a risk management organization independent of business activities;
- operating a performance management system that enhances clear identification of risks when making business decisions;
- aiming to achieve preemptive and practical risk management; and
- prudent preparation for known and unknown contingencies.

We take the following steps to implement the foregoing risk management principles:

- *risk capital management* Risk capital refers to capital necessary to compensate for losses in case of a potential risk being realized, and risk capital management refers to the process of asset management based on considerations of risk exposure and risk appetite among total assets so that we can maintain an appropriate level of risk capital. As part of our risk capital management, we and our subsidiaries have adopted and maintain various risk planning processes and reflect such risk planning in our business and financial planning. We also maintain a risk limit management system to ensure that risks in our business do not exceed prescribed limits.

- *risk monitoring* We are currently installing a multidimensional risk monitoring system under which we, on a periodic basis, proactively and preemptively review risks that may impact our overall operations. Currently, each of our subsidiaries is required to report to the holding company any factors that could have a material impact on the group-wide risk management, and the holding company reports to

our chief risk officer and other members of our senior management the results of risk monitoring weekly, monthly and on an *ad hoc* basis as needed. In addition, we perform preemptive risk management through a risk dashboard system under which we closely monitor any increase in asset size, risk levels and sensitivity to external factors with respect to the major asset portfolios of each of our subsidiaries, and to the extent such monitoring yields any warning signals, we promptly analyze the causes and, if necessary, formulate and implement actions in response to these warning signals.

risk review Prior to entering any new business, offering any new products or changing any major policies, we review any relevant risk factors based on a prescribed risk management checklist and, in the

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case of changes for which assessment of risk factors is difficult, promote reasonable decision-making in order to avoid taking any unduly risky action. The risk management departments of all our subsidiaries are required to review all new businesses, products and services prior to their launch and closely monitor the development of any related risks following their launch, and in the case of any action that involves more than one subsidiary, the relevant risk management departments are required to consult with the risk management team at the holding company level prior to making any independent risk reviews.

crisis management We maintain a group-wide risk management system to detect the early warnings signals of any crisis and, in the event of a crisis actually happening, to respond on a timely, efficient and flexible basis so as to ensure our survival as a going concern. Each of our subsidiaries maintains crisis planning for three levels of contingencies, namely, alert , imminent crisis and crisis , determination of which is made based on quantitative and qualitative monitoring and consequence analysis, and upon the occurrence of any such contingency, is required to respond according to a prescribed contingency plan. At the holding company level, we maintain and install a crisis detection and response system which is applied consistently group-wide, and upon the occurrence of an imminent crisis or crisis event at a subsidiary level, we directly take charge of the situation so that we manage it on a concerted group-wide basis.

Organization

Our risk management system is organized along the following hierarchy: from the top and at the holding company level, the Group Risk Management Committee, the Group Risk Management Council, the Group Chief Risk Officer and the Group Risk Management Team, and at the subsidiary level, the Risk Management Committees, the Chief Risk Officer and the Risk Management Team of the relevant subsidiary. The Group Risk Management Committee, which is under the supervision of our holding company s board of directors, sets the basic group-wide risk management policies and strategies. Our Group Chief Risk Officer reports to the Group Risk Management Committee, and the Group Risk Management Council coordinates the risk management policies and strategies at the group level as well as at the subsidiary level among each of our subsidiaries. Each of our subsidiaries also has a separate Risk Management Committee, Risk Management Working Committee and Risk Management Team, whose tasks are to implement the group-wide risk management policies and strategies at the subsidiary level as well as to set risk management policies and strategies specific to such subsidiary in line with the group-wide guidelines. We also have the Group Risk Management Team, which supports our Chief Risk Officer in his or her risk management and supervisory role.

In order to maintain the group-wide risk at an appropriate level, we use a hierarchical risk limit system under which the Group Risk Management Committee assigns reasonable risk limits for the entire group and each of our subsidiaries, and the Risk Management Committee and the Risk Management Working Committee of each of our subsidiaries manage the subsidiary-specific risks by establishing and managing risk limits in more detail by type of risk and type of product for each department and division within such subsidiary. Further details follow.

At the holding company level:

Group Risk Management Committee The Group Risk Management Committee consists of three outside directors of our holding company. The Group Risk Management Committee convenes at least once every quarter and may also convene on an *ad hoc* basis as needed. Specifically, the Group Risk Management Committee does the following: (i) establish the overall risk management policies consistent with management strategies, (ii) set reasonable risk limits for the entire group and each of our subsidiaries, (iii) approve appropriate investment limits or allowed loss limits, (iv) enact and amend risk management regulations, and (v) decide other risk management-related issues the board of directors or the Group Risk Management Committee sees fit to discuss. The results of the Group Risk Management Committee meetings are reported to the board of directors of our holding company. The Group Risk Management Committee makes decisions through affirmative votes by a majority of the committee members.

Group Risk Management Council Comprised of the Group Chief Risk Officer, Group Risk Management Team head, and Chief Risk Officers of each of our subsidiaries, the Group Risk

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Management Council provides a forum for risk management executives from each subsidiary to discuss our group-wide risk management guidelines and strategy in order to maintain consistency in the group-wide risk policies and strategies.

Group Chief Risk Officer The Group Chief Risk Officer aids the Group Risk Management Committee by implementing the risk policies and strategies as well as ensuring consistency of risk management systems among our subsidiaries. Furthermore, the Group Chief Risk Officer evaluates the Chief Risk Officers of each subsidiary in addition to monitoring the risk management practices of each subsidiary.

Group Risk Management Team This team provides support and assistance to the Group Chief Risk Officer in carrying out his responsibilities.

At the subsidiary level:

Risk Management Committee In order to maintain the group-wide risk at an appropriate level, we have established a hierarchical risk limit system where the Group Risk Management Committee establishes risk limits for us and our subsidiaries, and each of our subsidiaries establishes and manages risk limits in more detail by type of risk and type of product for each department and division within such subsidiary. In accordance with the group risk management policies and strategies, the risk management committee at the subsidiary level establishes its own risk management policies and strategies in more detail and the respective risk management department implements those policies and strategies.

Risk Management Team The risk management team, operating independently from the business units of each of our subsidiaries, monitors, assesses, manages and controls the overall risk of its operations and reports all major risk-related issues to the Group Risk Management Team at the holding company level, which then reports to the Group Chief Risk Officer.

The following is a flowchart of our risk management system at the holding company level and the subsidiary level.

Credit Risk Management

Credit risk, which is the risk of loss from default by an obligor or counter-party, is our greatest risk. Our credit risk management encompasses all areas of credit that may result in potential economic loss, including not just transactions that are recorded on our balance sheets, but also off-balance-sheet transactions such as guarantees, loan commitments and derivatives transactions. A substantial majority of our credit risk relates to the operations of Shinhan Bank and Shinhan Card.

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Credit Risk Management of Shinhan Bank

Shinhan Bank s credit risk management is guided by the following principles:

- achieve profit level corresponding to the level of risks involved;
- improve asset quality and achieve optimal industrial and rating loan portfolios;
- avoid excessive loan concentration in a particular borrower or sector;
- focus on the borrower s ability to repay the debt; and
- provide financial support to advance the growth of select customers.

Major policies for Shinhan Bank s credit risk management, including Shinhan Bank s overall credit risk management plan and credit policy guidelines, are determined by the Credit Policy Committee of Shinhan Bank, the executive decision-making body for management of credit risk. The Credit Policy Committee is headed by the Chief Risk Officer, and also comprises of the Chief Credit Officer, the heads of each business unit and the head of the Credit Risk Department. In order to separate the loan approval functions from credit policy decision-making, Shinhan Bank has a Credit Review Committee that performs credit review evaluations, which focus on improving the asset quality and profitability from the loans being made, and operates separately from the Credit Policy Committee. Both the Credit Policy Committee and the Credit Review Committee make decisions by a vote of two-thirds or more of the attending members of the respective committees, which must constitute at least two-thirds of the respective committee members to satisfy the respective quorum.

Shinhan Bank complies with credit risk management procedures pursuant to internal guidelines and regulations and continually monitors and improves these guidelines and regulations. Its credit risk management procedures include:

- credit evaluation and approval;
- credit review and monitoring; and
- credit risk assessment and control.

Credit Evaluation and Approval

All loan applicants and guarantors are subject to credit review evaluation before approval of any loans. Credit evaluation of loan applicants are carried out separately by the Credit Officer, Chief Credit Officer and (senior) credit officer committees consisting of loan evaluation specialists from different subject areas. Loan evaluation is carried out by a group rather than at an individual level through an objective and deliberative process. Shinhan Bank uses a credit scoring system for retail loans and a credit-risk rating system for corporate loans.

Each of Shinhan Bank s borrowers is assigned a credit rating, which is based on a comprehensive internal credit evaluation system that considers a variety of criteria. For retail borrowers, the credit rating takes into account the borrower s biographic details, past dealings with Shinhan Bank and external credit rating information, among others. For corporate borrowers, the credit rating takes into account financial indicators as well as non-financial indicators such as industry risk, operational risk and management risk, among others. The credit rating, once assigned, serves as the fundamental instrument in Shinhan Bank s credit risk management, and is applied in a wide range of credit risk management processes, including credit approval, credit limit management, loan pricing and computation of allowance for loan losses. Shinhan Bank has separate credit evaluation systems for retail customers, SOHO customers and corporate customers, which are further segmented and refined to meet Basel II

requirements. See Item 5.A. Operating Results Critical Accounting Policies Impairment of Financial Assets Allowance for Loan Losses .

Retail Loans

Loan applications for retail loans are reviewed in accordance with Shinhan Bank s credit scoring system and the objective statistics models for secured and unsecured loans maintained and operated by Shinhan Bank s Retail Banking Division. Shinhan Bank s credit scoring system is an automated credit approval system used to

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evaluate loan applications and determine the appropriate pricing for the loan, and takes into account factors such as a borrower s personal information, transaction history with Shinhan Bank and other financial institutions and other relevant credit information. The applicant is assigned a score, which is used to determine (i) whether to approve the applicant s loan, (ii) the amount of loan to be granted, and (iii) the interest rates thereon. The applicant s score also determines whether the applicant is approved for credit, conditionally approved, subject to further assessment, or denied. If the applicant becomes subject to further assessment, the appropriate discretionary body, either at the branch level or at the headquarter level, makes a reassessment based on qualitative as well as quantitative factors, such as credit history, occupation and past relationship with Shinhan Bank.

For mortgage and home equity loans and loans secured by real estate, Shinhan Bank evaluates the value of the real estate offered as collateral using a proprietary database, which contains information about real estate values throughout Korea. In addition, Shinhan Bank uses up-to-date information provided by third parties regarding the real estate market and property values in Korea. While Shinhan Bank uses internal staff from the processing centers to appraise the value of the real estate collateral, Shinhan Bank also hires certified appraisers to review the appraisal value of real estate collateral that have an appraisal value exceeding 5 billion, as initially determined by the processing centers. Shinhan Bank also reevaluates internally, on a summary basis, the appraisal value of collateral at least every year.

For loans secured by securities, deposits or other assets other than real estate, Shinhan Bank requires borrowers to observe specified collateral ratios in respect of secured obligations.

Corporate Loans

Shinhan Bank rates all of its corporate borrowers using internally developed credit evaluation systems. These systems consider a variety of criteria (quantitative, qualitative, financial and non-financial) in order to standardize credit decisions and focus on the quality of borrowers rather than the size of loans. The quantitative considerations include the borrower s financial and other data, while the qualitative considerations are based on the judgment of Shinhan Bank s credit officers as to the borrower s ability to repay. Financial considerations include financial variables and ratios based on customer s financial statements, such as return on assets and cash flow to total debt ratios, and non-financial considerations include, among others, the industry to which the borrower s businesses belong, the borrower s competitive position in its industry, its operating and funding capabilities, the quality of its management and controlling stockholders (based in part on interviews with its officers and employees), technological capabilities and labor relations.

In addition, in order to enhance the accuracy of its internal credit reviews, Shinhan Bank also considers reports prepared by external credit rating services, such as Nice Information Service and Korea Enterprise Data, and monitors and improves the effectiveness of the credit risk-rating systems using a database that it updates continually with actual default records.

Based on the scores calculated under the credit rating system, which takes into account the evaluation criteria described above and the probability of default, Shinhan Bank assigns the borrower one of 20 grades (from the highest of AAA to the lowest of D). Grades AA through B are further broken down into +, 0 or -. Grades AAA through B- are classified as normal, grade CCC precautionary, and grades CC through D non-performing. The credit risk-rating model is further differentiated by the size of the corporate borrower and the type of credit facilities.

Loan Approval Process

Loans are generally approved after evaluations and approvals by the relationship manager at the branch level as well as the committee of the applicable business unit at Shinhan Bank. The approval limit for retail loans is made based on Shinhan Bank s automated credit scoring system. In the case of large corporate loans, approval limits are also reviewed and approved by a Credit Officer at the headquarter level. Depending on the size and the importance of the loan, the approval process is further reviewed by the Credit Officer Committee or the Chief Credit Officer Committee. If the loan is considered significant or the amount exceeds the discretion limit of the Chief Credit Officer Committee, further evaluation is made by the Credit Review Committee, which is Shinhan Bank s highest decision-making body in relation to credit approval. The Credit Review Committee s evaluation

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and approval of loan limits vary depending on the credit ratings of the borrowers as determined by Shinhan Bank s internal credit rating system. For example, for borrowers with a credit rating of B-, the Credit Review Committee evaluates and approves unsecured loans in excess of 10 billion and secured loans in excess of 15 billion, whereas for borrowers with a credit rating of AAA, the Credit Review Committee evaluates and approves unsecured loans in excess of 40 billion and secured loans in excess of 90 billion. Meetings to approve applications for large-sized loans whose principal amounts exceed prescribed levels set by the Credit Review Committee are held twice a week.

The chart below summarizes the credit approval process of our banking operation. The Chief Credit Officer and the Head of Business Division do not make individual decisions on loan approval, but are part of the decision-making process at the group level.

The reviewer at each level of the review process may in its discretion approve loans up to a maximum amount per loan assigned to such level. The discretionary loan approval limit for each level of the loan approval process takes into account the total amount of loans extended to the borrower, the credit level of the applicant based on credit review, the existence and value of collateral and the level of credit risk established by the credit rating system. The discretionary loan amount approval limit ranges from 30 million for unsecured retail loans with a credit rating of B-, which are subject to approvals by the retail branch manager, to 90 billion for secured loans with a credit rating of AAA, which are subject to approvals by the Chief Credit Officer Committee. Any loans exceeding the maximum discretionary loan amount approval limit must be approved by the Credit Review Committee.

Credit Review and Monitoring

Shinhan Bank continually reviews and monitors existing credit risks primarily with respect to borrowers. In particular, Shinhan Bank s automated early warning system conducts daily examination for borrowers using over 174 financial and non-financial factors, and the relationship manager and the credit officer must conduct periodic loan review and report to independent loan review team which analyzes in detail the results and adjusts credit rating accordingly. Based on these reviews, Shinhan Bank adjusts a borrower s credit rating, credit limit, applied interest rates and credit policies. In addition, the group credit rating of the borrower s group, if applicable, may be adjusted following a periodic review of the main debtor groups, mostly comprised of *chaebols*, as identified by the Governor of the Financial Supervisory Service based on their outstanding credit exposures, of which 34 were identified as such as of December 31, 2012. Shinhan Bank also continually reviews other factors, such as industry-specific conditions for the borrower s business and its domestic and overseas asset base and operations, in order to ensure that the assigned ratings are appropriate. The Credit Review Department provides credit review reports, independent of underwriting, to Chief Risk Officer on a monthly basis.

The early warning system performs daily checks automatically for borrowers to whom Shinhan Bank has more than 2 billion of exposure. The relationship manager and the Credit Officer monitor those borrowers, and then the Credit Review Department further reviews the results of such monitoring. In addition, Shinhan Bank

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carries out a planned review of each borrower in accordance with changing credit risk factors based on changing economic environment. The results of such planned review are continually reported to the Chief Risk Officer of Shinhan Bank.

Depending on the nature of the items detected by the early warning system, a borrower may be classified as a deteriorating credit and become subject to evaluation for a possible downgrade in rating, or may be initially classified as a borrower showing early warning signs or become reinstated to the normal borrower status. For borrowers classified as showing early warning signs, the relevant relationship manager gathers information and conducts a review of the borrower to determine whether it should be classified as a deteriorating credit or whether to impose management improvement warnings or implement joint creditors management. If the borrower becomes non-performing, Shinhan Bank s collection department directly manages such borrower s account in order to maximize recovery rate, and conducts auctions, court proceedings, sale of assets or corporate restructuring as needed.

Pursuant to the foregoing credit review and monitoring procedures and in order to promptly prevent deterioration of loan qualities, Shinhan Bank classifies potentially problematic borrowers into (i) borrowers that show early warning signals, (ii) borrowers that require precaution, (iii) borrowers that require observation and (iv) normal borrowers, and treats them differentially accordingly.

In order to curtail delinquency among corporate customers, Shinhan Bank has taken primarily the following measures: (i) adoption of a systematic approach in monitoring borrowers with sizable outstanding loans, (ii) heightened monitoring of borrowers with bad credit history and/or belonging to troubled industries, and (iii) assignment of industry-specific lending caps, as adjusted for whether specific industries are particularly sensitive to general business cycles and/or are troubled at a given time.

Systematic monitoring of borrowers with sizable outstanding loans. Shinhan Bank currently applies a heightened monitoring system to corporate borrowers with outstanding loans (other than guaranteed loans and loans secured by specified types of collaterals such as deposits with us or letters of credit) in the aggregate amount of 1 billion or more and borrowers with net outstanding loans (i.e., the outstanding loan amount minus the fair value of collaterals (other than as aforesaid) securing such loans) in the aggregate amount of 0.5 billion or more. Under this monitoring system, each such borrower is assigned one of the following ratings:

Normal borrower a borrower with a credit rating of B- or above that are deemed to carry a low risk of default;

Borrower that requires observation a borrower that carries some risk of potential default and therefore requires periodic monitoring to detect any elevation of such risk;

Borrower that requires precaution a borrower with an elevated risk of default and therefore requires detailed reassessment of the credit quality of such borrower and precaution in extending any further loans;

Borrower with early warning signs a borrower with a high level of default risk; and

Problematic or reorganized borrower a borrower currently in default and either subject to workout or restructuring or showing no signs of recovery.

A periodic monitoring of the foregoing borrowers is carried out at intervals depending on the borrower s credit rating (for example, every 12 months for normal borrowers with a credit rating of AAA to A-, every nine months for normal borrowers with a credit rating of BBB+ to BBB-, every six months for a credit rating of BB+ to B- and every three months for borrowers with a credit rating of CCC or below and borrowers not deemed to be normal). In addition, the loan reviewer may request more frequent monitoring if the borrower is showing signs of deteriorating credit quality. For borrowers with outstanding loan amounts of 2 billion or more, Shinhan Bank also monitors the revenues and earnings of such borrower on a quarterly basis within 10 weeks of the quarter ends.

Heightened monitoring of borrowers with bad credit history and/or belonging to troubled industries. In addition to the systematic monitoring discussed above, Shinhan Bank also carries out additional monitoring for borrowers that, among others, (i) are rated as requiring observation or requiring precaution or with early warning signs as noted above, (ii) have prior history of delinquency or restructuring, or (iii) have borrowings that are classified as substandard or below. Based on the heightened monitoring of these borrowers, Shinhan

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Bank adjusts contingency planning as to how the overall asset quality of a specific industry should change for each phase of the business cycle, how it should limit or reduce its exposure to such borrowers, and how our group-wide delinquency and nonperforming ratio would change, among others.

Assignment of industry-specific lending caps. Shinhan Bank currently classifies loans to corporate borrowers by industry, and cap the aggregate amount of loans to each industry, which amount varies depending on the respective industry forecasts and industry-specific loan default rates, among other factors. By doing so, Shinhan Bank seeks to avoid concentration of loans in risky industries and subject loans to risky industries to heightened monitoring and risk management.

Shinhan Bank further sub-classifies risky industries into two categories: industries that are generally highly sensitive to economic cycles and troubled industries . Currently, the following industries belong to the former category: real estate, leasing and service; retail and wholesale; construction; and hotel and leisure. Shinhan Bank enforces a conservative cap on the aggregate amount of loans to each such industry, and the business units responsible for exceeding such limits are penalized in their performance evaluations, which would have a negative impact on the pay and promotion of the employees belonging to such units.

Credit Risk Assessment and Control

In order to assess credit risk in a systematic manner, Shinhan Bank has developed and upgraded systems designed to quantify credit risk based on selection and monitoring of various statistics, including delinquency rate, non-performing loan ratio, expected loan loss and weighted average risk rating.

Shinhan Bank controls loan concentration by monitoring and managing loans at two levels: portfolio level and individual loan account level. In order to maintain portfolio-level credit risk at an appropriate level, Shinhan Bank manages its loans using value-at-risk (VaR) limits for the entire bank as well as for each of its business units. In order to prevent concentration of risk in a particular borrower or borrower class, Shinhan Bank also manages credit risk by borrower, industry, country and other detailed categories.

Shinhan Bank measures credit risk using internally accumulated data. Shinhan Bank measures expected and unexpected losses with respect to total assets monthly, which Shinhan Bank refers to when setting risk limits for, and allocating capital to, its business groups. Expected loss is calculated based on the probability of default, the loss given default, the exposure at default and the past bankruptcy rate and recovery rate, and Shinhan Bank provides allowance for loan losses accordingly. Shinhan Bank makes provisioning at a level which is the higher of the Financial Supervisory Service requirement or Shinhan Bank s internal calculation. Unexpected loss is predicted based on VaR, which is used to determine compliance with the aggregate credit risk limit for Shinhan Bank as well as the credit risk limit for the relevant department within Shinhan Bank. Shinhan Bank uses the Advanced Internal Rating-Based (AIRB) method as proposed by the Basel Committee for computing VaR. Compared to the previously used simulation method, the AIRB method generally yields more stable and understandable measurements since it enables computation of VaR at even the account-specific level. In addition, the AIRB method is more effective in computing the Risk Adjusted Performance Measurement.

Credit Risk Management of Shinhan Card

Major policies for Shinhan Card s credit risk management are determined by Shinhan Card s Risk Management Council, and Shinhan Card s Risk Management Committee is responsible for approving them. Shinhan Card s Risk Management Council is headed by the Chief Risk Officer, and also comprises of the heads of each business unit, supporting unit and relevant department at Shinhan Card. Shinhan Card s Risk Management Council convenes at least once every month and may also convene on an *ad hoc* basis as needed. Shinhan Card s Risk Management Committee is comprised of three Non-Standing Directors. Shinhan Card s Risk Management Committee convenes at least once every quarter and may also convene on an *ad hoc* basis as needed.

The risk of loss from default by an obligor or counterparty is Shinhan Card s greatest risk. Shinhan Card manages credit risk based on the following principles:

- achieve profit at a level corresponding to the level of risks involved;
- improve asset quality and achieve optimal asset portfolios; and

focus on borrower s ability to repay the debt.

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Credit Card Approval Process

Shinhan Card uses an automated credit scoring system to approve credit card applications or credit card authorizations. The credit scoring system is divided into two sub-systems: the behavior scoring system and the application scoring system. The behavior scoring system is based largely on the credit history, and the application scoring system is based largely on personal information of the applicant. For credit card applicants with whom we have an existing relationship, Shinhan Card s credit scoring system considers internally gathered information such as repayment ability, total assets, the length of the existing relationship and the applicant s contribution to profitability. The credit scoring system also automatically conducts credit checks on all credit card applicants. Shinhan Card gathers information about applicants transaction history with financial institutions, including banks and credit card companies, from a number of third party credit reporting agencies including, among others, National Information & Credit Evaluation Inc. and Korea Credit Bureau. These credit checks reveal a list of the delinquent customers of all the credit card issuers in Korea.

If a credit score awarded to an applicant is above a minimum threshold, the application is approved unless overridden based on other considerations such as delinquencies with other credit card companies. For a credit card application by a long-standing customer with a good credit history, Shinhan Card may, on a discretionary basis, waive the assigned credit score unless overridden by other considerations. All of these factors also serve as the basis for setting a credit limit if Shinhan Card approves the related application.

The following describes the process on how Shinhan Card sets credit limits for credit cards, cash advances and card loans:

*Credit purchase and cash advance limit*s These limits are set based on the applicant s limit request and Shinhan Card s credit screening criteria. Except where an accountholder has requested for reduction in the credit purchase and/or cash advance limit, Shinhan Card is required to provide prior notice to the accountholder for any reduction in such accountholder s limit. However, where the accountholder has defaulted or the accountholder s credit limit is reduced according to the terms of the card agreement, Shinhan Card is entitled to lower the credit limit before notifying the accountholder.

Card loan limit This limit is set monthly by Shinhan Card based on the accountholder s credit rating and transaction history. The card loan limit can be adjusted monthly based on the accountholder s credit standing without prior notification.

Monitoring

Shinhan Card continually monitors all accountholders and accounts using a behavior scoring system. The behavior scoring system predicts a cardholder s payment pattern by evaluating the cardholder s credit history, card usage and amounts, payment status and other relevant data. The behavior score is recalculated each month and is used to manage the accounts and approval of additional loans and other products to the cardholder. Shinhan Card also uses the scoring system to monitor its overall risk exposure and to modify its credit risk management strategy.

Loan Application Review and On-going Credit Review

When reviewing new applications and conducting an on-going credit review for retail loans, installment purchase loans and personal leases, Shinhan Card uses criteria substantially similar to those used in the credit underwriting system and credit review system for credit card customers. For retail loans, installment purchase loans and personal leases to existing cardholders, Shinhan Card reviews their card usage history in addition to other factors such as their income, occupation and assets.

Fraud Loss Prevention

Shinhan Card seeks to minimize losses from the fraudulent use of credit cards issued by it. Shinhan Card focuses on preventing fraudulent uses and, following the occurrence of a fraudulent use, makes investigations in order to make the responsible party bear the losses. Misuses of lost credit cards account for a substantial majority of Shinhan Card s fraud losses. Through its fraud loss prevention system, Shinhan Card seeks to detect, on a real-time basis, transactions that are unusual or inconsistent with prior usage history and calls are made to the relevant

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cardholders to confirm their purchases. A team at Shinhan Card dedicated to investigating fraud losses also examines whether the cardholder was at fault by, for example, not reporting a lost card or failing to endorse the card, or whether the relevant merchant was negligent in checking the identity of the user. Fault may also lie with delivery companies that fail to deliver credit cards to the relevant applicant. In such instances, Shinhan Card attempts to recover fraud losses from the responsible party. To prevent misuse of a card as well as to manage credit risk, Shinhan Card s information technology system will automatically suspend the use of a card (i) when, as a result of ongoing monitoring, fraudulent use or loss of the card is suspected based on the accountholder s credit score, or (ii) at the request of the accountholder.

Approximately 80% of Shinhan Card s cardholders have consented to Shinhan Card accessing their travel records to detect any misuse of credit cards while they are traveling abroad. Shinhan Card also offers cardholders additional fraud protection through a fee-based short message service. At the cardholder s option, Shinhan Card notifies the cardholder of any credit card activity in his or her account by sending a text message to his or her mobile phone. This monitoring service allows customers to quickly and easily identify any fraudulent use of their credit cards.

Credit Risk Management of Shinhan Investment

In accordance with the guidelines of the Financial Supervisory Service, Shinhan Investment assesses its credit risks (including through VaR analyses) and allocates the maximum limit for the credit amount at risk by department. Shinhan Investment also assesses the counterparty risks in all credit-related transactions, such as loans, acquisitions financing and derivative transactions and takes corresponding risk management measures. In assessing the credit risk of a corporate counterparty, Shinhan Investment considers such counterparty s corporate credit rating obtained from Shinhan Bank s internal corporate rating database. Through its risk management system, Shinhan Investment also closely monitors credit risk exposures by counterparty, industry, conglomerates, credit ratings and country. Shinhan Investment conducts credit risk stress tests on a daily basis based on probability of default and also conducts more advanced stress tests from time to time, the results of which are then reported to its management as well as the Group Chief Risk Officer to support group-wide credit risk management.

Market Risk Management

Market risk is the risk of loss generated by fluctuations in market prices such as interest rates, foreign exchange rates and equity prices. The principal market risks to which we are exposed are interest rate risk and, to a lesser extent, foreign exchange risk and equity price risk. These risks stem from our trading and non-trading activities relating to financial instruments such as loans, deposits, securities and financial derivatives. We divide market risk into risks arising from trading activities and risks arising from non-trading activities.

Our market risks arise primarily from Shinhan Bank, and to a lesser extent, Shinhan Investment, our securities trading and brokerage subsidiary, which incurs market risk relating to its trading activities. Shinhan Bank s Asset & Liability Management Committee, or the ALM Committee, acts as the executive decision-making body in relation to market risks in terms of setting the risk management policies and risk limits in relation to market risks and assets and controlling market risks arising from trading and non-trading activities. This Committee consists of seven executive vice presidents, the head of the Risk Management Department and the head of the Treasury Department of Shinhan Bank. At least on a monthly basis, the ALM Committee reviews and approves reports, which include the position and VaR with respect to Shinhan Bank s trading activities and the position, VaR, duration gap and market value analysis and net interest income simulation with respect to its non-trading activities. In addition, Shinhan Bank s Risk Management Department comprehensively manages market risks on an independent basis from Shinhan Bank s operating departments, and functions as the middle office of Shinhan Bank. Shinhan Bank measures market risk with respect to all assets and liabilities in the bank accounts and trust accounts in accordance with the regulations promulgated by the Financial Services Commission.

Shinhan Investment manages its market risk based on its overall risk limit established by its risk management committee as well as the risk limits and detailed risk management guidelines for each product and department established by its Risk Management Working Committee. Shinhan Investment s Risk Management Working Committee is the executive decision-making body for managing market risks related to Shinhan

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Investment, and determines, among other things, Shinhan Investment s overall market risk management policies and strategies, and assesses and approves trading activities and limits. In addition, Shinhan Investment s Risk Management Department manages various market risk limits and monitors operating conditions on an independent basis from Shinhan Investment s operating departments. Shinhan Investment assesses the adequacy of these limits at least annually. In addition, Shinhan Investment assesses the market risks of its trading assets. The assessment procedure is based on the standard procedures set by the Financial Supervisory Service as well as an internally developed model. Shinhan Investment assesses the risk amount and VaR, and manages the risk by setting a risk limit per sector as well as a VaR limit.

Shinhan Life Insurance manages its market risk based on its overall risk limit established by its risk management committee. Shinhan Life Insurance manages market risk in regard to assets that are subject to trading activities and foreign exchange positions.

Shinhan Card does not have any assets with significant exposure to market risks and therefore does not maintain a risk management policy with respect to market risks.

We use IFRS numbers on a separate basis for the market risk management of our subsidiaries and, unless otherwise specified, the numbers presented for quantitative market risk disclosure relating to our subsidiaries have been prepared in accordance with IFRS on a separate basis.

Market Risk Exposure from Trading Activities

Shinhan Bank s trading activities principally consist of:

- trading activities to realize short-term trading profits in debt and stock markets and foreign exchange markets based on Shinhan Bank s short-term forecast of changes in market situation and customer demand, for its own account as well as for the account of the trust accounts of Shinhan Bank s customers; and

- trading activities primarily to realize profits from arbitrage transactions in derivatives such as swap, forward, futures and option transactions, and, to a lesser extent, to sell derivative products to Shinhan Bank s customers and to cover market risk incurred from those trading activities.

Shinhan Investment s trading activities principally consist of trading for customers and for proprietary accounts equity and debt securities and derivatives based on stocks, stock indexes, interest rates, foreign exchange and commodity.

As a result of these trading activities, Shinhan Bank is exposed principally to interest rate risk, foreign exchange risk and equity risk, and Shinhan Investment is exposed principally to equity risk and interest rate risk.

Interest Rate Risk

Shinhan Bank s exposure to interest rate risk arises primarily from Won-denominated debt securities, directly held or indirectly held through beneficiary certificates, and, to a lesser extent, from interest rate derivatives. Shinhan Bank s exposure to interest rate risk arising from foreign currency-denominated trading debt securities is minimal since its net position in those securities is not significant. As Shinhan Bank s trading accounts are marked-to-market daily, it manages the interest rate risk related to its trading accounts using VaR, a market value-based tool.

Shinhan Investment s interest rate risk arises primarily from management of its interest rate-sensitive asset portfolio, which mainly consists of debt securities, interest rate swaps and government bond futures, and the level of such risk exposure depends largely on the variance between the interest rate movement assumptions built into the asset portfolio and the actual interest rate movements and the spread between a derivative product and its underlying assets. Shinhan Investment quantifies and manages the interest rate-related exposure by daily conducting VaR and stress tests on a marked-to-market basis.

Foreign Exchange Risk

Foreign exchange risk arises because of Shinhan Bank s assets and liabilities, including derivatives such as foreign exchange forwards and futures and currency swaps, which are denominated in currencies other than the

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Won. Shinhan Bank manages foreign exchange risk on an overall position basis, including its overseas branches, by covering all of its foreign exchange spot and forward positions in both trading and non-trading accounts.

Shinhan Bank s net foreign currency open position, which is the difference between its foreign currency assets and liabilities as offset against forward foreign exchange positions, is Shinhan Bank s foreign exchange risk. The ALM Committee oversees Shinhan Bank s foreign exchange exposure for both trading and non-trading activities by establishing limits for the net foreign currency open position, loss limits and VaR limits. The management of Shinhan Bank s foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage Shinhan Bank s overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps. Shinhan Bank sets a limit for net open positions by currency and the limits for currencies other than the U.S. Dollar, Japanese Yen, Euro and Chinese Yuan are set in a conservative manner in order to minimize other foreign exchange trading.

Shinhan Investment carries foreign exchange risk in relation to the following product offerings: currency forwards, currency swaps and currency futures. Transactions of such products are centrally monitored and managed by Shinhan Investment s Fixed Income, Currency & Commodities Departments. Shinhan Investment s Risk Management Working Committee, which has been delegated the decision-making authority over the approval of foreign exchange-related transactions and limits on the related open positions, manages the related foreign exchange risk by setting nominal limits on the amounts of foreign exchange-related products and monitoring compliance with such limits on a daily basis. As of December 31, 2012, Shinhan Investment s net open position related to foreign exchange-related products was US$75.6 million, and its open positions related to the sale of U.S. dollar forwards and Won-U.S. dollar futures were US$(176.0) million and US$0 million, respectively.

The net open foreign currency positions held by our other subsidiaries are insignificant. In the case of Shinhan Capital, which incurs a considerable amount of foreign exchange exposure from its leasing business, it maintains its net exposure below US$10 million by hedging its foreign exchange positions using forwards and currency swaps.

The following table shows Shinhan Bank s net foreign currency open positions as of December 31, 2010, 2011 and 2012. Positive amounts represent long exposures and negative amounts represent short exposures.

Currency	As of December 31, 2010	2011	2012
		(In millions of US$)	
U.S. dollars	US$ (621.0)	US$ 162.3	US$ 165.5
Japanese yen	(21.1)	(1.3)	(54.6)
Euro	1.1	(1.3)	2.2
Others	556.6	(624.6)	668.4
Total	US$ (84.4)	US$ 784.2	US$ 781.7

Equity Risk

Equity risk for Shinhan Bank s trading activities results from trading equity portfolios of Korean companies and Korea Stock Price Index futures and options. The trading equity portfolio consists of stocks listed on the KRX KOSPI Market or the KRX KOSDAQ Market of the Korea Exchange and nearest-month or second nearest-month futures contracts under strict limits on diversification as well as limits on positions. Shinhan Bank maintains strict scrutiny of these activities in light of the volatility in the Korean stock market. In addition, Shinhan Bank pays close attention to the loss limits. Although Shinhan Bank holds a substantially smaller amount of equity securities than debt securities in its trading accounts, the VaR of trading account equity risk is generally higher than that of trading account interest rate risk due to high volatility in the value of equity securities. As of December 31, 2010, 2011 and 2012, Shinhan Bank held 67.0 billion, 106.9 billion and 165.4 billion, respectively, of equity securities in its trading accounts (including the trust accounts).

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Equity risk for Shinhan Investment s trading activities also results from the trading of equity portfolio of Korean companies and Korea Stock Price Index futures and options. As of December 31, 2010, 2011 and 2012, the total amount of equity securities at risk held by Shinhan Investment was 15.1 billion, 15.7 billion and 15.8 billion, respectively.

Equity positions held by our other subsidiaries are insignificant.

Management of Market Risk from Trading Activities

The following tables present an overview of market risk, measured by VaR, from trading activities of Shinhan Bank and Shinhan Investment, respectively, for the year ended and as of December 31, 2012. For market risk management purposes, Shinhan Bank includes its trading portfolio in bank accounts and assets in trust accounts for which it guarantees principal or fixed return in accordance with the Financial Services Commission regulations.

	Trading Portfolio VaR for the Year 2012			
	Average	Minimum	Maximum	As of December 31, 2012
		(In billions of Won)		
Shinhan Bank:(1)				
Interest rate	24.1	19.8	32.0	19.8
Foreign exchange(2)	79.4	49.6	95.7	55.2
Equities	26.5	11.1	41.9	12.2
Option volatility(3)	0.3	0.1	0.9	0.3
Less: portfolio diversification(4)	(60.3)	(37.4)	(81.0)	(39.0)
Total VaR(5)	70.0	43.1	89.5	48.6
Shinhan Investment:(1)				
Interest rate	9.1	2.5	15.8	3.5
Equities	2.8	0.9	8.8	8.6
Foreign exchange	2.8	0.1	10.8	1.3
Option volatility(3)	4.5	0.2	11.9	0.7
Less: portfolio diversification(4)	(10.3)	(3.0)	(20.8)	(6.9)
Total VaR	8.9	0.7	26.5	7.2

Notes:

(1) Shinhan Bank and Shinhan Investment s ten-day VaR is based on a 99.9% confidence level.

(2) Includes both trading and non-trading accounts as Shinhan Bank and Shinhan Investment manages foreign exchange risk on a total position basis.

(3) Volatility implied from the option price using the Black-Scholes or a similar model.

(4)

Calculation of portfolio diversification effects may occur on different days scenario for different risk components. Total VaRs are less than the simple sum of the risk component VaRs due to offsets resulting from portfolio diversification.

(5) Includes trading portfolio in Shinhan Bank s bank accounts and assets in trust accounts for which it guarantees principal or fixed return.

Shinhan Bank generally manages its market risk from trading activities of its portfolios on an aggregated basis. To control its trading portfolio market risk, Shinhan Bank uses position limits, VaR limits, stop loss limits, Greek limits and stressed loss limits. In addition, it establishes appropriate limits for investment securities. Shinhan Bank maintains risk control and management guidelines for derivative trading based on the regulations and guidelines promulgated by the Financial Services Commission, and measures market risk from trading activities to monitor and control the risk of its operating divisions and teams that perform trading activities.

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Shinhan Bank manages VaR measurements and limits on a daily basis based on an automatic interfacing of its trading positions into its market risk measurement system. In addition, Shinhan Bank establishes pre-set loss, sensitivity, investment and stress limits for its trading departments and desks and monitors such limits daily.

Value-at-risk analysis. Shinhan Bank uses ten-day and one-day VaRs to measure its market risk. Shinhan Bank calculates 10-day VaRs on a daily basis based on data for the previous 12 months for the holding periods of ten days and one-day VARs on a daily basis based on data for the previous 12 months for the holding periods of one day. A ten-day VaR and one-day VaR are statistically estimated maximum amount of loss that can occur for ten days and one day, respectively, under normal market conditions. If a VaR is measured using a 99% confidence level, the actual amount of loss may exceed the expected VaR, on average, once out of every 100 business days, while if a VaR is measured using a 99.9% confidence level, the actual amount of loss may exceed the VaR, on average, once out of 1,000 business days.

Shinhan Bank currently uses the ten-day 99% confidence level-based VaR and stressed VAR for purposes of calculating the regulatory capital used in reporting to the Financial Supervisory Service. Stressed VaR which reflects the potential significant loss in the current trading portfolio based on scenario derived from a crisis simulation during the preceding 12 months. Shinhan Bank also uses the more conservative ten-day 99.9% confidence level-based VaR for purposes of calculating its economic capital used for internal management purposes, which is a concept used in determining the amount of Shinhan Bank s requisite capital in light of the market risk. In addition, Shinhan Bank uses the one-day 99% confidence level-based VaR on a supplemental basis for purposes of setting and managing risk limits specific to each desk or team in its operating units as well as for back-testing purposes. For Shinhan Bank, the actual amount of losses exceeded VaR at 99% confidence level twice in 2011 and none in 2012.

Shinhan Investment currently uses the ten-day 99.9% confidence level-based historical VaR for purposes of calculating its economic capital used for internal management purposes. In addition, Shinhan Investment applies this VaR as a risk limit for the entire company as well as individual departments and products, and the adequacy of such VaR is reviewed by way of daily back-testing. When computing the VAR, Shinhan Investment does not assume any particular probability distribution and calculates it through a simulation of the full valuation method based on changes of market variables such as stock prices, interest rates, and foreign exchange rates in the past one year. For Shinhan Investment, the actual amount of losses exceeded VaR at 99% confidence level five times in 2011 and none in 2012.

Value-at-risk is a commonly used market risk management technique. However, VaR models have the following shortcomings:

- VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a reliable indicator of future events, particularly potential future events that are extreme in nature;
- VaR may underestimate the probability of extreme market movements;
- Shinhan Bank s VaR models assume that a holding period of generally one to ten days is sufficient prior to liquidating the underlying positions, but the length of the holding period so assumed may actually be insufficient or excessive;
- The 99.9% confidence level does not take into account or make any statement about any losses that might occur beyond this confidence level; and
- VaR does not capture all complex effects of various risk factors on the value of positions and portfolios and could underestimate potential losses.

Currently, Shinhan Bank and Shinhan Investment conduct back-testing of VaR results against actual outcomes on a daily basis.

Shinhan Bank operates an integrated market risk management system which manages Shinhan Bank s Won-denominated and foreign-denominated accounts. This system uses historical simulation to measure both linear risks arising from such products as equity and debt securities and nonlinear risks arising from other products

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including options. We believe that this system enables Shinhan Bank to generate elaborate and consistent VaR numbers and perform sensitivity analysis and back testing to check the validity of the models on a daily basis. Shinhan Life also measure market risks based on a VaR analysis.

Stress test. In addition to VaR, Shinhan Bank performs stress test to measure market risk. As VaR assumes normal market situations, Shinhan Bank assesses its market risk exposure to unlikely abnormal market fluctuations through stress test. Stress test is an important way of supplementing VaR since VaR does not cover potential loss if the market moves in a manner which is outside Shinhan Bank s normal expectations. Stress test projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio.

Shinhan Bank uses seven relatively simple but fundamental scenarios for stress test taking into account four market risk components such as foreign exchange rates, stock prices and Won-denominated and foreign currency-denominated interest rates. For the worst case scenario, we assume instantaneous and simultaneous movements in the four market risk components appreciation of Won by 20%, a decrease in Korea Exchange Composite Index by 30%, and increases in Won-denominated and U.S. dollar-denominated interest rates by 200 basis points and 200 basis points, respectively. Under this worst-case scenario, the market value of Shinhan Bank s trading portfolio declined by 43.2 billion as of December 31, 2012. Shinhan Bank performs stress test on a daily basis and reports the results to the ALM Committee and the Risk Management Committee on a monthly basis.

Shinhan Investment uses nine scenarios for stress tests, taking into account four market risk components: stock prices (both in terms of stock market indices and b-based individual stock prices), interest rates for Won-denominated loans, foreign exchange rates and implied volatility. As of December 31, 2012, under the worst case scenario assuming a 1% point increase in the three-year government bond yield, the market value of Shinhan Investment s trading portfolio fluctuated by 9.46 billion for one day.

Shinhan Life Insurance conducts a stress test annually based on a bad scenario and a worst-case scenario, and the results of the stress test include expected losses and impacts on capital adequacy. Shinhan Life Insurance takes preemptive measures on the basis of the results from its stress tests.

Shinhan Bank sets limits on stress testing for its overall operations. Although Shinhan Life Insurance does not set any limits on stress testing, it monitors the impact of market turmoil or any abnormality. Shinhan Investment sets limits on stress testing for its overall operations as well as at its department level. In the case of Shinhan Bank, Shinhan Investment and Shinhan Life Insurance, if the impact is large, their respective Chief Risk Officer may request a portfolio restructuring or other proper action.

Hedging and Derivative Market Risk

The principal objective of our group-wide hedging strategy is to manage market risk within established limits. We use derivative instruments to hedge our market risk as well as to make profits by trading derivative products within pre-approved risk limits. Our derivative trading includes interest rate and cross-currency swaps, foreign currency forwards and futures, stock index and interest rate futures, and stock index and currency options.

While we use derivatives for hedging purposes, derivative transactions by nature involve market risk since we take trading positions for the purpose of making profits. These activities consist primarily of the following:

- arbitrage transactions to make profits from short-term discrepancies between the spot and derivative markets or within the derivative markets;
- sales of tailor-made derivative products that meet various needs of our corporate customers, principally of Shinhan Bank and Shinhan Investment, and related transactions to reduce their exposure resulting from those sales;
- taking positions in limited cases when we expect short-swing profits based on our market forecasts; and

trading to hedge our interest rate and foreign currency risk exposure as described above.

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Market risk from derivatives is not significant for Shinhan Bank since its derivative trading activities involve primarily arbitrage and customer transactions with limited open trading positions.

In relation to our adoption of IAS 39, *Financial Instruments: Recognition and Measurement*, 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.

Shinhan Bank assesses the adequacy of the fair market value of a new product derived from its internal model prior to the launch of such product. The assessment process involves the following:

- computation of an internal dealing system market value (based on assessment by the quantitative analysis team of the adequacy of the formula and the model used to compute the market value as derived from the dealing system);
- computation of the market value as obtained from an outside credit evaluation company; and
- following comparison of the market value derived from an internal dealing system to that obtained from outside credit evaluation companies, determination as to whether to use the internally developed market value based on inter-departmental agreement.

The dealing system market value, which is used officially by Shinhan Bank after undergoing the assessment process above, does not undergo a sampling process that confirms the value based on review of individual transactions, but is subject to an additional assessment procedure of comparing such value against the profits derived from the dealing systems based on the deal portfolio sensitivity.

Shinhan Investment follows an internal policy as set by its Fair Value Evaluation Committee for computing and assessing the adequacy of fair value of all of its over-the-counter derivative products. Shinhan Investment computes the fair value based on an internal model and internal risk management systems and assesses the adequacy of the fair value through cross-departmental checks as well as comparison against fair values obtained from outside credit evaluation companies.

See Item 5.A. Operating Results Critical Accounting Policies and Note 4 of the notes to our consolidated financial statements.

Market risk from derivatives is not significant since derivative trading activities of Shinhan Bank and Shinhan Investment are primarily driven by arbitrage and customer deals with very limited open trading positions. Market risk from derivatives is also not significant for Shinhan Life Insurance as its derivative trading activities are limited to those within pre-approved risk limits and are subject to heavy regulations imposed on the insurance industry. Market risk from derivatives is not significant for our other subsidiaries since the amount of such positions by our other subsidiaries is insignificant.

Market Risk Management for Non-trading Activities

Interest Rate Risk

Principal market risk from non-trading activities of Shinhan Bank is interest rate risk. Interest rate risk is the risk of loss resulting from interest rate fluctuations that adversely affect the financial condition and results of operations of Shinhan Bank. Shinhan Bank s interest rate risk arises primarily due to differences between the timing of rate changes for interest-earning assets and interest-bearing liabilities.

Interest rate risk affects Shinhan Bank s earnings and the economic value of Shinhan Bank s net assets:

- *Earnings:* interest rate fluctuations have an effect on Shinhan Bank s net interest income by affecting its interest-sensitive operating income and expenses.

Economic value of net assets: interest rate fluctuations influence Shinhan Bank s net worth by affecting the present value of cash flows from the assets, liabilities and other transactions of Shinhan Bank.

Accordingly, Shinhan Bank measures and manages interest rate risk for non-trading activities by taking into account the effects of interest rate changes on both its income and net asset value. Shinhan Bank measures and

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manages interest rate risk on a daily/monthly basis with respect to all interest-earning assets and interest-bearing liabilities in Shinhan Bank s bank accounts (including derivatives denominated in Won which are interest rate swaps for the purpose of hedging) and in the trust accounts, except that it measures VaRs on a monthly basis. Most of Shinhan Bank s interest-earning assets and interest-bearing liabilities are denominated in Won.

Interest Rate Risk Management

The principal objectives of Shinhan Bank s interest rate risk management are to generate stable net interest income and to protect Shinhan Bank s net asset value against interest rate fluctuations. Through its asset and liability management system, Shinhan Bank measures and manages its interest rate risk based on various analytical measures such as interest rate gap, duration gap and net present value and net interest income simulations, and monitors on a monthly basis its interest rate VaR limits, interest rate earnings at risk (EaR) limits and interest rate gap ratio limits. Shinhan Bank measures its interest rate VaR and interest rate EaR based on a simulated estimation of the maximum decrease in net asset value and net interest income in a one-year period based on various scenario analyses of historical interest rates. The ALM Committee sets out Shinhan Bank s interest rate risk limits at least annually and the Risk Management Department monitors Shinhan Bank s compliance with these limits and reports the monitoring results to the ALM Committee on a monthly basis. Shinhan Bank uses interest rate swaps to control its interest rate exposure limits.

Interest rate VaR represents the maximum anticipated loss in a net present value calculation (computed as the present value of interest-earning assets minus the present value of interest-bearing liabilities), whereas interest rate EaR represents the maximum anticipated loss in a net earnings calculation (computed as interest income minus interest expenses) for the immediately following one-year period, in each case, as a result of negative movements in interest rates. Therefore, interest rate VaR is a more expansive concept than interest rate EaR in that the former covers all interest-earning assets and all interest-bearing liabilities, whereas the latter covers only those interest-earning assets and interest-bearing liabilities that are exposed to interest rate volatility for a one-year period.

Hence, for interest rate VaRs, the duration gap (namely, the weighted average duration of all interest-earning assets minus the weighted average duration of all interest-bearing liabilities) can be a more critical factor than the relative sizes of the relevant assets and liabilities in influencing interest rate VaRs. In comparison, for interest rate EaRs, the relative sizes of the relevant assets and liabilities in the form of the one year or less interest rate gap (namely, the volume of interest-earning assets with maturities of less than one year minus the volume of interest-bearing liabilities with maturities of less than one year) is the most critical factor in influencing the interest rate EaRs.

The interest rate VaR limits are set as the sum of (i) the average of the monthly non-trading interest rate VARs as a percentage of interest-bearing assets over a period of one year and (ii) the standard deviation at the 99% confidence level (namely, 2.33 times the standard deviation of the monthly non-trading interest rate VARs as a percentage of interest-bearing assets).

The interest rate EaR limits are set at the maximum decrease in net interest income by (i) assuming that the estimated interest rate gap will expand to the maximum level of manageable (tolerable) situations and (ii) applying the interest rate shock scenario to the annual volatility of interest rates using past 10-year market interest rates.

On a monthly basis, we monitor whether the non-trading positions for interest rate VaR and EaR exceed their respective limits as described above.

Interest rate VaR cannot be meaningfully compared to the ten-day 99% confidence level based VaR (market risk VaR) for managing trading risk principally because (i) the underlying assets are different (namely, non-trading interest-bearing assets as well as liabilities in the case of the interest rate VaR, compared to trading assets in the case of the market risk VaR), and (ii) interest rate VaR is sensitive to interest rate movements only while the market risk VaR is sensitive to interest rate movements as well as other elements such as foreign currency exchange rates, stock market prices and option volatility.

Even if comparison is being made between the interest rate VaR and the interest rate portion only of the market risk VaR, we do not believe such comparison will be meaningful since the interest rate VaR

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examines the impact of interest rate movements on both assets and liabilities (which will likely have offsetting effects), whereas the interest rate portion of the market VaR examines the impact of interest rate movements on assets only.

On a daily/monthly basis, Shinhan Bank uses various analytical methodologies to measure and manage its interest rate risk for non-trading activities, including the following:

Interest Rate Gap Analysis: Interest rate gap analysis measures the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and re-pricing date for a specific time frame.

Duration Gap Analysis: Duration gap analysis measures durations of Shinhan Bank s interest-earning assets and interest-bearing liabilities, which are weighted average maturities of these assets and liabilities calculated based on discounted cash flows from these assets and liabilities using yield curves.

Market Value Analysis: Market value analysis measures changes in the market value of Shinhan Bank s interest-earning assets and interest-bearing liabilities based on the assumption of parallel shifts in interest rates.

Net Interest Income Simulation Analysis: Net interest income simulation analysis uses deterministic analysis methodology to measure changes in Shinhan Bank s annual net interest income (interest income less interest expenses) under the current maturity structure, using different scenarios for interest rates (assuming parallel shifts) and funding requirements.

Interest Rate Gap Analysis

Interest rate gap analysis measures the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and re-pricing date by preparing interest rate gap tables in which Shinhan Bank s interest-earning assets and interest-bearing liabilities are allocated to the applicable time categories based on the expected cash flows and re-pricing dates. On a daily basis, Shinhan Bank performs interest rate gap analysis for Won and foreign currency denominated assets and liabilities in its bank and trust accounts. Shinhan Bank s gap analysis includes Won-denominated derivatives (which are interest rate swaps for the purpose of hedging) and foreign currency-denominated derivatives (which are currency swaps for the purpose of hedging) whose management is centralized at the FX & Derivatives Department. Through the interest rate gap analysis that measures interest rate sensitivity gaps, cumulative gaps and gap ratios, Shinhan Bank assesses its exposure to future interest risk fluctuations. For interest rate gap analysis, Shinhan Bank assumes and uses the following maturities for different assets and liabilities:

with respect to the maturities and re-pricing dates of Shinhan Bank s assets, Shinhan Bank assumes that the maturity of Shinhan Bank s prime rate-linked loans is the same as that of its fixed-rate loans. Shinhan Bank excludes equity securities from interest-earning assets;

with respect to the maturities and re-pricing of Shinhan Bank s liabilities, Shinhan Bank assumes that money market deposit accounts and non-core demand deposits under the Financial Services Commission guidelines have a maturity of one month or less for both Won-denominated accounts and foreign currency-denominated accounts; and

with respect to core demand deposits under the Financial Services Commission guidelines, Shinhan Bank assumes that they have maturities of eight different intervals ranging from one month to five years.

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The following tables show Shinhan Bank s interest rate gaps as of December 31, 2012 for (1) Won-denominated non-trading bank accounts, including derivatives for the purpose of hedging and (2) foreign currency-denominated non-trading bank accounts, including derivatives for the purpose of hedging.

Won-denominated non-trading bank accounts(1)

	As of December 31, 2012						
	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2-3 Years	Over 3 Years	Total
	(In billions of Won, except percentages)						
Interest-earning assets	93,195	38,460	12,983	12,915	5,461	22,093	185,107
Fixed rates	20,519	5,432	9,985	10,109	4,784	13,147	63,975
Floating rates	72,027	32,579	2,133	1,087	407	7,766	115,997
Interest rate swaps	650	450	865	1,720	270	1,180	5,135
Interest-bearing liabilities	85,374	25,023	38,229	11,899	7,454	13,051	181,030
Fixed liabilities	45,120	18,562	37,898	11,790	7,232	12,310	132,912
Floating liabilities	35,419	6,161	331	109	222	740	42,983
Interest rate swaps	4,835	300	0	0	0	0	5,135
Sensitivity gap	7,821	13,437	(25,246)	1,016	(1,993)	9,042	4,077
Cumulative gap	7,821	21,258	(3,988)	(2,971)	(4,965)	4,077	
% of total assets	4.23%	11.48%	(2.15)%	(1.61)%	(2.68)%	2.20%	

Foreign currency-denominated non-trading bank accounts(1)

	As of December 31, 2012					
	0-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Total
	(In millions of US$, except percentages)					
Interest-earning assets	$ 15,668	$ 3,360	$ 1,573	$ 2,772	$ 2,446	$ 25,819
Interest-bearing Liabilities	13,279	2,669	2,789	5,210	2,917	26,865
Sensitivity gap	2,389	690	(1,216)	(2,438)	(471)	(1,046)
Cumulative gap	2,389	3,079	1,863	(575)	(1,046)	
% of total assets	9.25%	11.93%	7.22%	2.23%	(4.05)%	

Note:

(1) Includes merchant banking accounts.

Duration Gap and Market Value Analysis

Shinhan Bank performs a duration gap analysis to measure effects of interest rate risk on the market value of its assets and liabilities. Shinhan Bank measures, on a daily basis and for each operating department, account, product and currency, durations of interest-earning assets and interest-bearing liabilities. Shinhan Bank also measures, on a daily basis, changes in the market value of Shinhan Bank s interest-earning assets and interest-bearing liabilities.

The following tables show duration gaps and market values of Shinhan Bank s Won-denominated interest-earning assets and interest-bearing liabilities in its not-trading accounts as of December 31, 2012 and changes in these market values when interest rate increases by one percentage point.

Duration as of December 31, 2012 (for non-trading Won-denominated bank accounts(1))

	Duration as of December 31, 2012 (In months)
Interest-earning assets	11.32
Interest-bearing liabilities	9.22
Gap	2.47

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Market Value as of December 31, 2012 (for non-trading Won-denominated bank accounts(1))

	Market Value as of December 31, 2012		
	Actual	1% Point Increase	Changes
		(In billions of Won)	
Interest-earning assets	190,634	188,974	(1,660)
Interest-bearing liabilities	183,110	181,835	(1,275)
Gap	7,524	7,139	(385)

Note:

(1) Includes merchant banking accounts and derivatives for the purpose of hedging.

Net Interest Income Simulation

Shinhan Bank performs net interest income simulation to measure the effects of the change in interest rate on its results of operations. Such simulation measures the estimated changes in Shinhan Bank s annual net interest income (interest income less interest expenses) under the current maturity structure, using different scenarios for interest rates and funding requirements. For simulations involving interest rate changes, assuming that there is no change in funding requirements, Shinhan Bank applies three scenarios of parallel shifts in interest rate: (1) no change, (2) a 1% point increase in interest rates and (3) a 1% point decrease in interest rates.

The following tables illustrate by way of an example the simulated changes in Shinhan Bank s annual net interest income for 2012 with respect to Won-denominated interest-earning assets and interest-bearing liabilities, using Shinhan Bank s net interest income simulation model, when it assumes (a) the maturity structure and funding requirement of Shinhan Bank as of December 31, 2012 and (b) the same interest rates as of December 31, 2012 and a 1% point increase or decrease in the interest rates.

	Simulated Net Interest Income for 2012 (For Non-Trading Won-Denominated Bank Accounts(1))						
	Assumed Interest Rates			Change in Net Interest Income		Change in Net Interest Income	
	No Change	1% Point Increase	1% Point Decrease	Amount (1% Point Increase)	% Change (1% Point Increase)	Amount (1% Point Decrease)	% Change (1% Point Decrease)
	(In billions of Won, except percentages)						
Simulated interest income	8,391	9,396	7,386	1,005	11.98%	(1,005)	(11.98)%
Simulated interest expense	4,676	5,520	3,831	845	18.07%	(845)	(18.07)%
Net interest income	3,715	3,875	3,555	160	4.32%	(160)	(4.32)%

Note:

(1) Includes Merchant Banking account and derivatives for the purpose of hedging.

Shinhan Bank s Won-denominated interest earning assets and interest-bearing liabilities in non-trading accounts have a maturity structure that benefits from an increase in interest rates, because the re-pricing periods of the interest-earning assets in Shinhan Bank s non-trading accounts

tend to be shorter than those of the interest-bearing liabilities in these accounts. This is primarily due to a sustained low interest rate environment in the recent years in Korea, which resulted in a significant increase in floating rate loans, resulting in the maturities or re-pricing periods of Shinhan Bank s loans becoming shorter. As a result, Shinhan Bank s net interest income tends to increase when the market interest rates rise.

Interest Rate VaRs for Non-trading Assets and Liabilities

Shinhan Bank measures VaRs for interest rate risk from non-trading activities on a monthly basis. The following table shows, as of and for the year ended December 31, 2012, the VaRs of interest rate mismatch risk

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for other assets and liabilities, which arises from mismatches in the re-pricing dates of Shinhan Bank s non-trading interest-earning assets and interest-bearing liabilities including available-for-sale investment securities. Under the Financial Services Commission regulations, Shinhan Bank includes in calculation of these VaRs interest-earning assets and interest-bearing liabilities in its bank accounts and its merchant banking accounts.

	VaR for the Year 2012(1)			
	Average	Minimum	Maximum	As of December 31
	(In billions of Won)			
Interest rate mismatch non-trading assets and liabilities	342	246	449	373

Note:

(1) One-year VaR results with a 99.9% confidence level.

Interest Rate Risk for Other Subsidiaries

Shinhan Card also monitors and manages its interest rate risk for all its interest-bearing assets and liabilities (including off-balance sheet items) in terms of impact on its earnings and net asset value from changes in interest rates. Shinhan Card primarily uses interest rate VaR and EaR analyses to measure its interest rate risk.

The interest rate VaR analysis used by Shinhan Card principally focuses on the maximum impact on its net asset value from adverse movements in interest rates and comprises of (i) historical interest rate VaR analysis and (ii) interest rate gap analysis. The historical interest rate VaR analysis is made through simulation of net asset value based on the interest rate volatility over a fixed past period to produce expected future interest rate scenarios and computes the maximum value at risk at a 99.9% confidence level by analyzing the net present value distribution under each such scenario. As for interest rate gap analysis, Shinhan Card computes the value at risk based on the duration proxies and interest rate shocks for each time bucket as recommended under the Basel Accord.

The interest rate EaR analysis used by Shinhan Card computes the maximum loss in net interest income for a one-year period following adverse movements in interest rates, based on an interest rate gap analysis using the time buckets and the middle of time band as recommended under the Basel Accord.

In addition, Shinhan Life Insurance monitors and manages its interest rate risk for its investment assets and liabilities based on simulations of its asset-liability management system. These simulations typically involve subjecting Shinhan Life Insurance s current and future assets and liabilities to more than 2,000 market scenarios based on varying assumptions, such as new debt purchases and target investment portfolios, so as to derive its net asset value forecast for the next three years at a 99% confidence level.

Interest rate risk for our other subsidiaries is not materially significant.

Equity Risk

Substantially all of Shinhan Bank s equity risk results from its portfolio of stocks of Korean companies. As of December 31, 2012, Shinhan bank held an aggregate amount of 59 billion of equity interest in unlisted foreign companies (including 39 billion invested in unlisted private equity funds).

The equity securities in Won held in Shinhan Bank s investment portfolio consist of stocks listed on the KRX KOSPI Market or the KRX KOSDAQ Market of the Korea Exchange and certain non-listed stocks. Shinhan Bank measures VaRs for all of these equity securities but does not manage most of the related risk using VaR limits, as most of these securities are held for reasons other than normal investment purposes. As of December 31, 2012, Shinhan Bank held equity securities in an aggregate amount of 3,480 billion in its non-trading accounts, including equity securities in the amount of 598 billion that it held, among other reasons, for management control purposes and as a result of debt-to-equity conversion as a part of reorganization proceedings of the companies to which it had extended loans.

As of December 31, 2012, Shinhan Bank held Won-denominated convertible bonds in an aggregate amount of 16.0 billion and Won-denominated bonds with warrants in an aggregate amount of 6.3 billion, in each

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case, in its non-trading accounts. Shinhan Bank does not measure equity risk with respect to convertible bonds with warrants and the interest rate risk of these bonds are measured together with the other debt securities. As such, Shinhan Bank measures interest rate risk VaRs but not equity risk VaRs for these equity-linked securities.

The following table shows the VaRs of Shinhan Bank s equity risk for listed equity for the year and as of December 31, 2012.

	VaR for the Year 2012(1)			
	Average	Minimum	Maximum	As of December 31
	(In billions of Won)			
Listed equities	20.0	8.4	31.8	9.3

Note:

(1) Ten-day VaR results with a 99.9% confidence level.

Liquidity Risk Management

Liquidity risk is the risk of insolvency, default or loss due to disparity between inflow and outflow of funds, including having to obtain funds at a high price or to dispose of securities at an unfavorable price due to lack of available funds or losing attractive investment opportunities. Each of our subsidiaries seeks to minimize liquidity risk through early detection of risk factors related to the sourcing and managing of funding that may cause volatility in liquidity and by ensuring that it maintains an appropriate level of liquidity through systematic management. At the group-wide level, we manage our liquidity risk by conducting monthly stress tests that compare liquidity requirements under normal situations against those under three types of stress situations, namely, our group-specific internal crisis, crisis in the external market and a combination of internal and external crisis. In addition, in order to preemptively and comprehensively manage liquidity risk, we measure and monitor liquidity risk management using various indices, including the limit management index , early warning index and monitoring index .

Shinhan Bank applies the following basic principles for liquidity risk management:

raise funding in sufficient amounts, at the optimal time at reasonable costs;

maintain risk at appropriate levels and preemptively manage them through a prescribed risk limit system and an early warning signal detection system;

secure stable sources of revenue and minimize actual losses by implementing an effective asset-liability management system based on diversified sources of funding with varying maturities;

monitor and manage daily and intra-daily liquidity positions and risk exposures for timely payment and settlement of financial obligations due under both normal and crisis situations;

conduct periodic contingency analysis in anticipation of any potential liquidity crisis and establish and implement emergency plans in case of a crisis actually happening; and

consider liquidity-related costs, benefits of and risks in determining the pricing of our products and services, employee performance evaluations and approval of launching of new products and services.

Each of our subsidiaries manages liquidity risk in accordance with the risk limits and guidelines established internally as well as by the relevant regulatory authorities. Pursuant to principal regulations applicable to financial holding companies and banks as promulgated by the Financial Services Commission, we, at the holding company, are required to keep specific Won and foreign currency liquidity ratios. These ratios require us to keep the ratio of liquid assets to liquid liabilities above certain minimum levels.

Shinhan Bank manages its liquidity risk within the limits set on Won and foreign currency accounts in accordance with the regulations of the Financial Services Commission. The Financial Services Commission requires Korean banks to maintain a Won liquidity ratio of at least 100.0% and a foreign currency liquidity ratio of at least 85.0%. The Financial Services Commission defines the foreign currency liquidity ratio as foreign currency-denominated liquid assets (including marketable securities) due within three months divided by foreign

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currency-denominated liabilities due within three months. As for the Won liquidity ratio, the Financial Services Commission defines it as all Won-denominated assets divided by all Won-denominated liabilities, in each case, that are on the balance sheet and in off-balance sheet derivative transactions with remaining maturities of less than one month, except that (i) Won-denominated trading and available-for-sale securities with remaining terms of one month or more are included as Won liquid assets at their fair market value to the extent that such securities are marketable and have not been provided as collateral, and (ii) Won-denominated demand deposits with no fixed maturity are included as Won liquid liabilities in an amount equal to the sum of (x) the standard deviation of the monthly weighted average balance during the preceding 12-month period multiplied by 2.33 (such product, the non-core deposits) and (y) 15% of core deposit (meaning the monthly average balance of the most recent month prior to the time of determination), less the non-core deposits.

The monthly weighted average balance for the preceding 12-month period is calculated using the following formula:

The standard deviation of the monthly weighted average balance during the preceding 12-month period is calculated using the following formula:

The weighed period coefficients for the applicable month are set forth below:

Applicable Month	Weighed Period Coefficient
t-11 month	1/78
t-10 month	2/78
t-9 month	3/78
t-8 month	4/78
t-7 month	5/78
t-6 month	6/78
t-5 month	7/78
t-4 month	8/78
t-3 month	9/78
t-2 month	10/78
t-1 month	11/78
t month	12/78
Sum	1

With respect to Won-denominated demand deposits with no fixed maturity, we recognize that a portion of the balance of such demand deposits may be withdrawn at any time and therefore categorize them as core deposits and non-core deposits as defined above.

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The following tables show Shinhan Bank s liquidity status and limits for Won-denominated accounts (including derivatives and merchant banking accounts), together with a breakdown of their respective components, as of December 31, 2012 in accordance with the regulations of the Financial Services Commission.

Shinhan Bank s Won-denominated accounts (including derivatives and merchant banking accounts)

Won-Denominated Accounts	0-1 Months	1-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Sub-standard or Below	Total
	(In billions of Won, except percentages)							
Assets:	56,506	19,268	29,319	42,039	20,892	57,834	1,703	227,562
Cash and deposit	5,775					9		5,784
Available-for-sale securities	32,985					4,323	88	37,397
Loans	8,235	14,029	25,342	37,626	16,423	45,908	1,615	149,178
Other assets	2,864					6,789		9,653
Derivative assets	4,456	5,030	3,678	3,313	3,955	533		20,966
Merchant banking account assets	2,190	210	299	1,100	515	272		4,586
Liabilities:	40,988	23,426	19,774	55,827	15,218	51,998		207,232
Deposits (including certificates of deposit)	21,207	17,360	14,899	49,735	5,769	39,097		148,068
Borrowings	1,571	158	100	175	659	1,699		4,363
Debt securities	601	390	1,370	2,481	5,090	4,711		14,644
Other liabilities	9,794					4,996		14,789
Derivatives liabilities	4,240	5,518	3,404	3,436	3,699	431		20,728
Merchant banking account liabilities	3,576		1			1,063		4,639
Liquidity gap	15,518							
Liquidity ratio	137.86%							
Limit	100.00%							

The breakdown of financial instruments by contractual maturities for purposes of analyzing liquidity risk as set forth in Note 4 to the consolidated financial statements was prepared based on the relevant line items presented in Shinhan Bank s statement of financial position. In comparison, the breakdown of financial instruments by contractual maturities for purposes of analyzing liquidity gap as set forth above was prepared based on the Banking Regulations promulgated by the Financial Services Commission.

For the most part, the criteria used for determining the remaining maturities on these two sections are the same, the primary exception being in respect of demand deposits. Under IFRS, all demand deposits are categorized as having maturities of less than one month; however, under the Banking Regulations, demand deposits are categorized as having maturities of less than one month in an amount equal to the sum of (x) the non-core deposits and (y) 15% of core deposits. Shinhan Bank s total demand deposit balance as of December 31, 2012 was 47,149 billion of which 45,610 billion was classified as core deposits and 9,043 billion was classified as Won liquid liabilities (namely, liabilities with maturities of less than one month based on the formula under the Banking Regulations).

Shinhan Bank s Treasury Department is in charge of liquidity risk management with respect to Shinhan Bank s Won and foreign currency funds. The Treasury Department submits Shinhan Bank s monthly funding and asset management plans to Shinhan Bank s ALM Committee for approval, based on the analysis of various factors, including macroeconomic indices, interest rate and foreign exchange movements and maturity structures of Shinhan Bank s assets and liabilities. Shinhan Bank s Risk Management Department measures Shinhan Bank s liquidity ratio and liquidity gap ratio on a daily basis and reports whether they are in compliance with the limits to Shinhan Bank s ALM Committee on a monthly basis.

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The following tables show Shinhan Bank s liquidity status and limits for foreign currency-denominated accounts (including derivatives and merchant banking accounts) as of December 31, 2012 in accordance with the regulations of the Financial Services Commission.

Shinhan Bank s foreign currencies-denominated accounts (including derivatives and merchant banking accounts)

	As of December 31, 2012							
Foreign Currencies Denominated Accounts:	**7 Days or Less**	**1 Month or Less**	**3 Months or Less**	**6 Months or Less**	**12 Months or Less**	**Total Before Sub-Standard or Below(1)**	**Sub-Standard or Below**	**Total**
	(In millions of US$, except percentages)							
Assets:	$ 8,308	$ 15,522	$ 25,501	$ 34,716	$ 40,544	$ 48,673	$ 141	$ 48,814
Liabilities	6,052	12,206	20,005	26,161	32,768	47,927		47,927
For three months or less:								
Assets			25,501					
Liabilities			20,005					
Liquidity ratio			127.47%					
Limit			85.00%					

Note:

(1) Cumulative total of accounts, including accounts over one year, but excluding accounts that are sub-standard or below.

Shinhan Bank maintains diverse sources of liquidity to facilitate flexibility in meeting its funding requirements. Shinhan Bank funds its operations principally by accepting deposits from retail and corporate depositors, accessing the call loan market (a short-term market for loans with maturities of less than one month), issuing debentures and borrowing from the Bank of Korea. Shinhan Bank uses the funds primarily to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

Shinhan Card manages its liquidity risk according to the following principles: (i) it must be able to provide a sufficient volume of necessary funding in a timely manner at a reasonable cost, (ii) it must establish an overall liquidity risk management strategy, including in respect of liquidity management targets, policy and internal control systems, and (iii) it must manage its liquidity risk in conjunction with other risks based on a comprehensive understanding of the interaction among the various risks. As for any potential liquidity shortage at or near the end of each month, Shinhan Card maintains liquidity at a level sufficient to withstand credit shortage for three months. In addition, Shinhan Card manages liquidity risk by defining and managing various indicators of liquidity risk, such as the actual liquidity gap ratio (in relation to the different maturities for assets as compared to liabilities), the liquidity buffer ratio, the maturity repayment ratio, the ratio of actual funding compared to budgeted funding and the ratio of asset-backed securities to total borrowings, at different risk levels of caution , unstable and at risk , and we also have contingency plans in place in case of any emergency or crisis. In managing its liquidity risks, Shinhan Card focuses on a prompt response system based on periodic monitoring of the relevant early signals, stress testing and contingency plan formulations. Shinhan Card identifies its funding needs on a daily, monthly, quarterly and annual basis based on the maturity schedule of its liabilities as well as short-term liquidity needs, based upon which it formulates its funding plans using diverse sources such as corporate debentures, commercial papers, asset-backed securitizations and credit line facilities. Shinhan Card also has in place master asset-backed securitization arrangements through which it can securitize assets with minimum delay, and when entering into asset-backed securitizations, it provides sufficient credit enhancements to avoid triggering early amortization events. In addition, Shinhan Card formulates long-term funding plans with a time horizon of three years, enters into derivative arrangements to hedge interest rate- and foreign currency-related risks and conducts pre-transaction risk analyses before entering into any new type of derivative arrangements.

Furthermore, Shinhan Card also manages its liquidity risk within the limits set on Won accounts in accordance with the regulations of the Financial Services Commission. Under the Specialized Credit Financial Business Act and the regulations thereunder, credit card companies in Korea are required to maintain a Won liquidity ratio of at least 100.0%.

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The following tables show Shinhan Card s liquidity status and limits for Won-denominated accounts as of December 31, 2012 in accordance with the regulations of the Financial Services Commission.

Shinhan Card s Won-denominated accounts

Won-Denominated Accounts	7 Days or Less	1 Month or Less	3 Months or Less	6 Months or Less	1 Year or Less	Over 1 Year	Total
Assets	2,410	10,672	15,472	17,609	19,544	2,736	22,280
Liabilities	677	2,997	3,421	4,177	6,360	10,187	16,547
Liquidity ratio	356.04%	356.04%	452.28%	421.52%	307.30%	26.86%	134.65%

Shinhan Investment manages its liquidity risk for its Won-denominated accounts by setting a limit of 100 billion on each of its seven-day and one-month liquidity gap, a limit of 110% on its three-months liquidity ratio and a limit of 10 billion on its liquidity VaR. As for its foreign currency-denominated accounts, Shinhan Investment manages the liquidity risk on a quarterly basis in compliance with the guidelines of the Financial Supervisory Service, which requires the one-week and one-month maturity mismatch ratios to be 0% and -10% or less, respectively, and the three months liquidity ratio to be 80% or higher.

Our other subsidiaries fund their operations primarily through call money, bank loans, commercial paper, corporate debentures and asset-backed securities. Our holding company acts as a funding vehicle for long-term financing of our subsidiaries whose credit ratings are lower than the holding company, including Shinhan Card and Shinhan Capital, to lower the overall funding costs within regulatory limitations. Under the Monopoly Regulation and Fair Trade Act of Korea, however, a financial holding company is prohibited from borrowing funds in excess of 200% of its total stockholders equity.

In addition to liquidity risk management under the normal market situations, we have contingency plans to effectively cope with possible liquidity crisis. Liquidity crisis arises when we would not be able to effectively manage the situations with our normal liquidity management measures due to, among other reasons, inability to access our normal sources of funds or epidemic withdrawals of deposits as a result of various external or internal factors, including a collapse in the financial markets or abrupt deterioration of our credit. We have contingency plans corresponding to different stages of liquidity crisis, cautionary stage, near-crisis stage and crisis stage, based on the following liquidity indices:

- indices that reflect the market movements such as interest rates and stock prices;
- indices that reflect financial market psychology such as the size of money market funds; and
- indices that reflect our internal financial condition.

Operational Risk Management

Operational risk is difficult to quantify and subject to different definitions. The Basel Committee defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from other external events. Similarly, we define operational risk as the risks related to our overall management 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 policy and procedures, from fraud or inadequate internal controls and procedures or from environmental changes, resulting in financial and non-financial loss, including reputational loss. We monitor and assess operational risks related to our business operations, including administrative risk, information technology risk, managerial risk, legal risk and reputation risk, with a view to minimizing such losses.

Our holding company s Audit Committee, which consists of four outside directors, two of whom are accounting or financial experts as required by internal control regulations under the Financial Holding Company Act, oversees and monitors our operational compliance with legal and regulatory requirements. The Audit Committee also oversees management s operations and may, at any time it deems appropriate, demand additional operations-related reporting from management and inspect our asset condition. At the holding company level, we define each subsidiary s operational process and establish an internal review system applicable to each subsidiary. Each subsidiary s operational risk is

internally monitored and managed at the subsidiary level and the

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Group Internal Audit Department at our holding company, which reports to our Audit Committee, continuously monitors the integrity of our subsidiaries operational risk management system. Our holding company s board of directors and the Group Risk Management Committee establish our basic policies for operational risk management at the group level. The Group Internal Audit Department at our holding company is directly responsible for overseeing our operational risk management with a focus on legal, regulatory, operational and reputational risks. The Group Internal Audit Department audits both our and our subsidiaries operations and asset condition in accordance to our annual audit plan, which is approved by the Audit Committee, and submits regular reports to the Audit Committee pursuant to our internal reporting system. If the Group Internal Audit Department discovers any non-compliance with operational risk procedures or areas of weaknesses, it promptly alerts the business department in respect of which such non-compliance was discovered and demands implementation of corrective measures. Implementation of such corrective measures is subsequently reviewed by the Group Internal Audit Department.

To monitor and manage operational risks, Shinhan Bank maintains a system of comprehensive policies and has in place a control framework designed to provide a stable and well-managed operational environment throughout the organization. Currently, the primary responsibility for ensuring compliance with our banking operational risk procedures remains with each of the business units and operational teams. In addition, the Audit Department, the Risk Management Department and the Compliance Department of Shinhan Bank also play important roles in reviewing and maintaining the integrity of Shinhan Bank s internal control environment.

The operational risk management system of Shinhan Bank is managed by the operational risk team under the Risk Management Department. The current system principally consists of risk control self-assessment, risk quantification using key risk indicators, loss data collection, scenario management and operational risk capital measurement. Shinhan Bank operates several educational and awareness programs designed to familiarize all of its employees to this system. In addition, Shinhan Bank has a designated operational risk manager at each of its departments and branch offices, serving the role of a coordinator between the operational risk team at the headquarters and the employees in the field and seeking to provide centralized feedback to further improve the operational risk management system.

As of December 31, 2012, Shinhan Bank has conducted risk control self-assessments on its departments as well as domestic and overseas branch offices, from which it collects systematized data on all of its branch offices, and uses the findings from such self-assessments to improve the procedures and processes for the relevant departments or branch offices. In addition, Shinhan Bank has accumulated risk-related data since 2003, improved the procedures for monitoring operational losses and is developing risk simulation models. In addition, Shinhan Bank selects and monitors, at the department level, approximately 183 key risk indicators.

Shinhan Investment, through its operational risk management system, conducts self-assessments of risks, collects loss data and manages key risk indicators. The operational risk management system is supervised by its audit department, compliance department and operational risk management department, as well as a risk management officer in each of Shinhan Investment s departments.

The audit committee of Shinhan Bank, which consists of three outside directors, is an independent inspection authority that supervises Shinhan Bank s internal controls and compliance with established ethical and legal principles. The audit committee performs internal audits of, among other matters, Shinhan Bank s overall management and accounting, and supervises its Audit Department that assists Shinhan Bank s audit committee. Shinhan Bank s audit committee also reviews and evaluates Shinhan Bank s accounting policies and their changes, financial and accounting matters and fairness of financial reporting.

Shinhan Bank s Audit Committee and the Audit Department supervise and perform the following audits:

- general audits, including full-scale audits performed annually for the overall operations, sectional audits of selected operations performed when necessary, and periodic and irregular spot audits;

- special audits, performed when the Audit Committee or standing auditor deems it necessary or pursuant to requests by the chief executive officer or supervisory authorities such as the Financial Supervisory Service;

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day-to-day audits, performed by the standing auditor for material transactions or operations that are subject to approval by the heads of Shinhan Bank s operational departments or senior executives;

real-time monitoring audits, performed by the computerized audit system to identify any irregular transactions and take any necessary actions; and

self-audits as a self-check by each operational department to ensure its compliance with our business regulations and policies, which include daily audits, monthly audits and special audits.

In addition to these audits and compliance activities, Shinhan Bank s Audit Department designates operational risk management examiners to monitor the appropriateness of operational risk management frameworks and the functions and activities of the board of directors, relevant departments and business units, and conducts periodic checks on the operational risk and reports such findings. Shinhan Bank s Audit Department also reviews in advance proposed banking products or other business or service plans with a view to minimizing operational risk.

As for Shinhan Investment, its audit department conducts an annual inspection as to whether the internal policy and procedures of Shinhan Investment relating to its overall operational risk management are being effectively complied. The inspection has a particular focus on the appropriateness of the scope of operational risks and the collection, maintenance and processing of relevant operating data.

General audits, special audits, day-to-day audits and real-time monitoring audits are performed by our examiners, and self-audits are performed by the self-auditors of the relevant operational departments.

In addition to internal audits and inspections, the Financial Supervisory Service conducts general annual audits of our and our subsidiaries operations. The Financial Supervisory Service also performs special audits as the need arises on particular aspects of our and our subsidiaries operations such as risk management, credit monitoring and liquidity. In the ordinary course of these audits, the Financial Supervisory Service routinely issues warning notices where it determines that a regulated financial institution or such institution s employees have failed to comply with the applicable laws or rules, regulations and guidelines of the Financial Supervisory Service. We and our subsidiaries have in the past received, and expect in the future to receive, such notices and we have taken and will continue to take appropriate actions in response to such notices. For example, in June 2010, the Financial Supervisory Service issued a notice to implement certain remedial measures and accordingly, Shinhan Bank implemented a policy to issue balance certificates as part of its Fund Deposit Balance Information Service and improved its operational processes, including establishing more detailed parameters to define each unit manager s internal control responsibilities, scope and periods. In addition, in July 2012, the Financial Supervisory Service issued an institutional warning in relation to an embezzlement case involving Dongah Construction Industrial Co., Ltd. on the grounds that there were misconduct in payment of funds held in the trust account and mismanagement of internal control. For detailed description of the Dongah Construction case, please see Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings.

We consider legal risk as a part of operational risk. The uncertainty of the enforceability of obligations of our customers and counterparties, including foreclosure on collateral, creates legal risk. Changes in laws and regulations could also adversely affect us. Legal risk is higher in new areas of business where the law is often untested in the courts although legal 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. We seek to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers. The Compliance Department operates Shinhan Financial Group s compliance system. This system is designed to ensure that all employees of Shinhan Financial Group and its subsidiaries comply with the law. The compliance system s main function is to monitor the degree of improvement in compliance with the law, maintain internal controls (including ensuring that each department has established proper internal policies and that it complies with those policies) and educate employees about observance of the law. The Compliance Department also supervises the management, execution and performance of self-audits.

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Upgrades of Risk Management System

Shinhan Bank

In order to strengthen risk management of its overseas subsidiaries and effectively comply with local and domestic regulations, Shinhan Bank is in the process of laying out a global risk management system network, which records the risk data of its overseas subsidiaries. Shinhan Bank seeks to leverage the development of this system for further overseas expansion and stable growth of existing overseas subsidiaries. Shinhan Bank completed the development of such system for its subsidiaries in China and Japan in 2012, and plans to expand the application of this system to its other overseas subsidiaries.

Shinhan Bank has also completed development of a system to calculate stressed VaR based on Basel II standards in order to prepare for stress situations such as the global financial crisis in 2008. Shinhan Bank has received approval for such system from the Financial Supervisory Service and has been implemented since 2012.

In 2012, Shinhan Bank also developed a system for improving collection and recovery of bad assets through enhanced loss given default (LGD) data processing. In 2012, Shinhan Bank also upgraded the credit evaluation system to improve assessment of small- and medium size enterprises which are not subject to periodic audit by outside accounting firms. Such upgrade was approved by the Financial Supervisory Service and began implementation since 2012.

Shinhan Bank also upgraded the asset and liability management system in 2012 in order to timely comply with Basel III, IFRS and other regulatory requirements as well as to upgrade the quality of risk-related data.

Shinhan Card

In 2012, Shinhan Card completed a further upgrade to its credit risk measurement system in satisfaction of the Basel II standards, as well as other regulatory requirements and internal needs in order to address the ongoing volatility in the economic and regulatory environment.

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Supervision and Regulation

Principal Regulations Applicable to Financial Holding Companies

General

The Korean financial holding companies and their subsidiaries are regulated by the Financial Holding Companies Act (last amended on June 8, 2010, Law No. 10361). In addition, Korean financial holding companies and their subsidiaries are subject to the regulations and supervision of the Financial Services Commission and the Financial Supervisory Service.

Pursuant to the Financial Holding Companies Act, the Financial Services Commission regulates various activities of financial holding companies. For instance, it approves the application for setting up a new financial holding company and promulgates regulations on the capital adequacy of financial holding companies and their subsidiaries and other regulations relating to the supervision of financial holding companies.

The Financial Supervisory Service is subject to the instructions and directives of the Financial Services Commission and carries out supervision and examination of financial holding companies and their subsidiaries. In particular, the Financial Supervisory Service sets forth liquidity and capital adequacy requirements for financial holding companies and reporting requirements pursuant to the authority delegated to the Financial Supervisory Service under the Financial Services Commission regulations, pursuant to which financial holding companies are required to submit quarterly reports on business performance, financial status and other matters prescribed in the Presidential Decree of the Financial Holding Companies Act.

Under the Financial Holding Companies Act, the establishment of a financial holding company must be approved by the Financial Services Commission. A financial holding company is required to be mainly engaged in controlling its subsidiaries by holding the shares or equities of the subsidiaries in the amount of not less than 50% of aggregate amount of such financial holding company s assets based on the latest balance sheet. A financial holding company is prohibited from engaging in any profit-making businesses other than controlling the management of its subsidiaries and certain ancillary businesses as prescribed in the Presidential Decree of the Financial Holding Companies Act which include the following businesses:

- financially supporting its subsidiaries and the subsidiaries of its subsidiaries (the direct and indirect subsidiaries);
- raising capital necessary for the investment in 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 product and the joint utilization of facilities or IT systems; and
- pursuing any other activities exempted from authorization, permission or approval under the applicable laws and regulations.

The Financial Holding Companies Act requires every financial holding company (other than any financial holding company that is controlled by any other financial holding company) or its subsidiaries to obtain the prior approval from the Financial Services Commission before acquiring control of another company or to file with the Financial Services Commission a report within thirty days after acquiring such control. Permission to liquidate or to merge with any other company must be obtained in advance from the Financial Services Commission. A financial holding company must report to the Financial Services Commission regarding certain events including:

- when there is a change of its officers;
- when there is a change of its largest shareholder;

when there is a change of principal shareholders of a bank holding company;

when the shareholding of the largest shareholder or a principal shareholder as prescribed under the Financial Holding Companies Act or a person who is in a special relationship with such largest or principal shareholder (as defined under the Presidential Decree of the Financial Holding Companies Act) changes by 1% or more of the total issued and outstanding voting shares of the financial holding company;

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when there is a change of its name;

when there is a cause for dissolution; and

when it or its subsidiary ceases to control any of its respective direct and indirect subsidiaries by disposing of the shares of such direct and indirect subsidiaries.

Capital Adequacy

The Financial Holding Companies Act does not provide for a minimum paid-in capital of financial holding companies. All financial holding companies, however, are required to maintain a specified level of solvency. In addition, in its allocation of the net profit earned in a fiscal term, a financial holding company is required to 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 its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

A financial holding company controlling banks or other financial institutions conducting banking business as prescribed in the Financial Holding Company Act (hereinafter, the bank holding company) is required to maintain a minimum consolidated equity capital ratio of 8.0%. Consolidated equity capital ratio is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with the Financial Services Commission requirements that have been formulated based on the 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.

For regulatory reporting purposes, we maintain allowances for credit losses on the following loan classifications that classify corporate and retail loans as required by the Financial Services Commission. In making these classifications, we take into account a number of factors, including the financial position, profitability and transaction history of the borrower, the value of any collateral or guarantee taken as security for the extension of credit, probability of default and loss amount in the event of default. This classification method, and our related provisioning policy, is intended to reflect the borrower s capacity to repay. To the extent there is any conflict between the Financial Services Commission guidelines and our internal analysis in such classifications, we adopt whichever is more conservative.

The following table sets forth loan classifications according to the guidelines of the Financial Services Commission.

Loan Classification	Loan Characteristics
Normal	Loans made to customers whose financial position, future cash flows and nature of business are deemed financially sound. No problems in recoverability are expected.
Precautionary	Loans made to customers whose financial position, future cash flows and nature of business show potential weakness, although there is no immediate risk of nonrepayment.
Substandard	Loans made to customers whose adverse financial position, future cash flows and nature of business have a direct effect on the repayment of the loan.
Doubtful	Loans made to customers whose financial position, future cash flows and nature of business are so weak that significant risk exists in the recoverability of the loan, to the extent the outstanding amount exceeds any collateral pledged.
Estimated loss	Loans where write-off is unavoidable.

In accordance with the Regulations for the Supervision of Financial Institutions, we establish regulatory reserve for loan loss in the amount of the difference between allowance for credit losses as calculated pursuant to

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our provisioning policy in accordance with IFRS and allowance for credit losses based on the loan classifications set forth above as required by the Financial Services Commission. In determining consolidated equity capital ratio, we deduct regulatory reserve for loan loss from equity capital.

Liquidity

All financial holding companies are required to match the maturities of their assets to those of liabilities in accordance with the Financial Holding Companies Act in order to ensure liquidity. Financial holding companies are required to submit quarterly reports regarding their liquidity to the Financial Supervisory Service and must:

- maintain a Won liquidity ratio (defined as Won assets due within one month, including marketable securities, divided by Won liabilities due within three months) of not less than 100%;
- 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% except for financial holding companies with a foreign currency liability to total assets ratio of less than 1%;
- 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 0%, except for financial holding companies with a foreign currency liability to total assets ratio of less than 1%; and
- 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% except for financial holding companies with a foreign currency liability to total assets ratio of less than 1%.

Financial Exposure to Any Single Customer and Major Shareholders

Subject to certain exceptions, the total sum of credit (as defined in the Presidential Decree of the Financial Holding Companies Act, the Bank Act, the Presidential Decree of the Financial Investment Services and Capital Markets Act, the Insurance 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 which are banks, merchant banks or securities companies (Financial Holding Company Total Credit) extended 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 the Net Total Equity Capital.

Net Total Equity Capital for the purpose of the calculation of financial exposure to any single customer and Major Shareholder (as defined below) as applicable to us and our subsidiaries is defined under the Presidential Decree of the Financial Holding Companies Act as

(a) the sum of:

(i) in the case of a financial holding company, the shareholders equity as defined under Article 24-3, Section 7(2) of the Presidential Decree of the Financial Holding Companies Act, which represents the difference between the total assets less total liabilities on the balance sheet as of the end of the most recent quarter;

(ii) in the case of a bank, the shareholders equity as defined under Article 2, Section 1(5) of the Bank Act, which represents the sum of Tier I and Tier II capital amounts determined according to the standards set by the BIS;

(iii) in the case of a financial investment company, the shareholders equity as defined under Article 37, Section 3 of the Presidential Decree of the Financial Investment Services and Capital Markets Act, which represents the total shareholders equity as adjusted as determined by the Financial Services Commission, such as the amount of increase or decrease in paid-in capital after the end of the most recent fiscal year;

(iv) in the case of an insurance company, the shareholders equity as defined under Article 2, Section 15 of the Insurance Act, which represents the sum of items designated by the Presidential Decree, such as paid-in-capital, capital surplus, earned surplus and any equivalent items, less the value of good will and other equivalent items;

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(v) in the case of a mutual savings bank, the shareholders equity as defined under Article 2, Section 4 of the Mutual Savings Bank Act, which represents the sum of Tier I and Tier II capital amounts determined in accordance with the standards set by the Bank for International Settlements; and

(vi) in the case of a credit card company or a specialty credit provider, the shareholders equity as defined under Article 2, Section 19 of the Specialized Credit Financial Business Act, which represents the sum of the items designated by the Presidential Decree, such as paid-in-capital, capital surplus, earned surplus and any equivalent items;

(b) less the sum of:

(i) the amount of shares in direct and indirect subsidiaries held by the financial holding company;

(ii) the amount of shares in the direct and indirect subsidiaries that are cross-held by such subsidiaries; and

(iii) the amount of shares in the financial holding company held by its direct and indirect subsidiaries.

The Financial Holding Company Total Credit to a single individual or legal entity may not exceed 20% of the Net Total Equity Capital.

Furthermore, the total sum of credits (as defined under the Financial Holding Companies Act, the Banking Act and the Financial Investment Services and Capital Markets Act, respectively) of a bank holding company and its direct and indirect subsidiaries (Bank Holding Company Total Credit) extended to a Major Shareholder (together with the persons who have special relationship with such Major Shareholder) (as defined below) generally may not exceed the smaller of (x) 25% of the Net Total Equity Capital and (y) the amount of the equity capital of the financial holding company multiplied by the shareholding ratio of such Major Shareholder, subject to certain exceptions.

Major Shareholder is defined under the Financial Holding Companies Act as follows:

(a) a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Financial Holding Companies Act) in excess of 10% (or in the case of a financial holding company controlling regional banks only, 15%) in the aggregate of the financial holding company s total issued and outstanding voting shares; or

(b) a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Financial Holding Companies Act) more than 4% in the aggregate of the total issued and outstanding voting shares of the financial holding company controlling national banks (other than a financial holding company controlling regional banks only), excluding shares related to the shareholding restrictions on non-financial business group companies as described below, where such shareholder is the largest shareholder or has actual control over the major business affairs of the financial holding company through, for example, appointment and dismissal of the officers pursuant to the Presidential Decree of the Financial Holding Companies Act.

In addition, the total sum of the Bank Holding Company Total Credit extended to all of a bank holding company s Major Shareholder may not exceed 25% of the Net Total Equity Capital. Furthermore, the bank holding company and its direct and indirect subsidiaries that intend to extend the Bank Holding Company Total Credit to the bank holding company s Major Shareholder not less than the lesser of (i) the amount equivalent to 0.1% of the Net Total Equity Capital or (ii) 5 billion, with respect to a single transaction, must obtain prior unanimous board resolutions and then, immediately after the completion of the transaction, must file a report with the Financial Services Commission and publicly disclose the filing of such report (for example, through a website).

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 credit to the financial holding company which directly or indirectly controls such subsidiary. In addition, a direct or indirect subsidiary of a financial holding company may not extend credit to any other single direct or indirect subsidiary of the financial holding company in excess of 10% of its stockholders equity and to any other direct and indirect

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subsidiaries of the financial holding company in excess of 20% of its stockholders equity in the aggregate. The direct or indirect subsidiaries of a financial holding company must obtain an appropriate level of collateral for the credits extended to the other direct and indirect subsidiaries unless otherwise approved by the Financial Services Commission. The appropriate level of collateral for each type of such collateral is as follows:

(i) For deposits and installment savings, obligations of the Korean government or the Bank of Korea, obligations guaranteed by the Korean government or the Bank of Korea, obligations secured by securities issued or guaranteed by the Korean government or the Bank of Korea: 100% of the amount of the credit extended;

(ii) (a) For obligations of local governments under the Local Autonomy Act, local public enterprises under the Local Public Enterprises Act, and investment institutions and other quasi-investment institutions under the Basic Act on the Management of Government-Invested Institution (hereinafter, the public institutions and others); (b) obligations guaranteed by the public institutions and others; and (c) obligations secured by the securities issued or guaranteed by public institutions and others: 110% of the amount of the credit extended; and

(iii) For any property other than those set forth in the above (i) and (ii): 130% of the amount of the credit extended.

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 the direct and indirect subsidiaries in question) in common control by the financial holding company. However, a direct or indirect subsidiary of a financial holding company may invest as a limited partner in a private equity fund that is a direct or indirect subsidiary of the same financial holding company. The transfer of certain assets subject to or below the precautionary criteria between the 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 (i) the transfer to an asset-backed securitization company, typically a special purpose entity, or the entrustment with a trust company, under the Asset-Backed Securitization Act, (ii) the transfer to a mortgage-backed securitization company under the Mortgage-Backed Securitization Company Act, (iii) the transfer or in-kind contribution to a corporate restructuring vehicle under the Corporate Restructuring Investment Company Act or (iv) the acquisition by a corporate restructuring company under the Industrial Development Act.

Disclosure of Management Performance

For the purpose of protecting the depositors and investors in the subsidiaries of the financial holding companies, the Financial Services Commission requires financial holding companies to disclose certain material matters including (i) financial condition and profit and loss of the financial holding company and its direct and indirect subsidiaries, (ii) how capital was raised by the financial holding company and its direct and indirect subsidiaries and how such capital was used, (iii) any sanctions levied on the financial holding company and its direct and indirect subsidiaries under the Financial Holding Companies Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry or (iv) occurrence of any non-performing assets or financial incident which may have a material adverse effect.

Restrictions on Shareholdings in Other Companies

Subject to certain exceptions, a bank holding company may not own more than 5% of the total issued and outstanding shares of another company (other than its direct and indirect subsidiaries). If the financial holding company owns shares of another company (other than its direct and indirect subsidiaries) which is not a finance-related company, the financial holding company is required to exercise its voting rights in the same manner and same proportion as the other shareholders of the company exercise their voting rights in favor of or against any resolutions under consideration at the shareholders meeting of the company.

Restrictions on Shareholdings by Direct and Indirect Subsidiaries

Generally, a direct subsidiary of a financial holding company is prohibited from controlling any other company; *provided* that a direct subsidiary of a financial holding company may control (as an indirect subsidiary

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of the financial holding company): (i) subsidiaries in foreign jurisdiction which are engaged in a financial business, (ii) certain financial institutions which are engaged in the business that the direct subsidiary may conduct without any licenses or permits, (iii) certain financial institutions whose business is related to the business of the direct subsidiary as prescribed under the Presidential Decree of the Financial Holding Companies Act (for example, the companies which a bank subsidiary may control are limited to credit information companies, credit card companies, trust business companies, securities investment management companies, investment advisory companies, futures business companies, and asset management companies), (iv) certain financial institutions whose business is related to financial business as prescribed by the regulations of the Ministry of Strategy and Finance, and (v) 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 Presidential Decree of the Financial Holding Companies Act (e.g. finance-related research company, finance-related information technology company, etc.). Acquisition by the direct subsidiaries of such indirect subsidiaries requires a prior permission from the Financial Services Commission or a report to be submitted to the Financial Services Commission, depending on the types of the indirect subsidiaries and the amount of total assets of the indirect subsidiaries.

An indirect subsidiary of a financial holding company is prohibited from controlling any other company, provided, however, that in the case where a company held control over another company at the time such company initially became an indirect subsidiary of a financial holding company, such indirect subsidiary shall be required to dispose of its interest in such other company within two years after becoming an indirect subsidiary of a financial holding company.

A subsidiary of a financial holding company may invest in a special purpose company as its largest shareholder for purposes of making investments under the Act on Private Investment in Social Infrastructure without being deemed as controlling such special purpose company.

In addition, a private equity fund established in accordance with the Financial Investment Services and Capital Markets Act is not considered to be a subsidiary of a financial holding company even if the financial holding company is the largest investor in the private equity fund unless the financial holding company is the asset management company for the private equity fund.

Restrictions on Transactions Between a Financial Holding Company and its Major Shareholder

A bank holding company and its direct and indirect subsidiaries are prohibited from acquiring (including acquisition by a trust account of its subsidiary bank) shares issued by such bank holding company s Major Shareholder in excess of 1% of the Net Total Equity Capital. In addition, the financial holding company and its direct and indirect subsidiaries which intend to acquire shares issued by such Major Shareholder not less than the lesser of (i) the amount equivalent to 0.1% of the Equity Capital or (ii) 5 billion, with respect to a single transaction, must obtain prior unanimous board resolutions and then, immediately after the acquisition, must file a report with the Financial Services Commission and publicly disclose the filing of such report (for example, through a website).

Restrictions on Financial Holding Company Ownership

Under the Financial Holding Companies Act, foreign financial institutions are permitted to establish financial holding companies in Korea. Pursuant to the Presidential Decree of the Financial Holding Companies Act, a foreign financial institution can control a financial holding company if, subject to satisfying certain other conditions, it, together with its specially-related persons, holds 100% of the total shares in the financial holding company.

In addition, any single shareholder and persons who stand in a special relationship with such shareholder (as defined under the Presidential Decree to the Financial Holding Companies Act) may acquire beneficial ownership of up to 10% of the total issued and outstanding shares with voting rights of a financial holding company controlling national banks (or 15% in the case of a financial holding company controlling regional banks only). The Government and the Korea Deposit Insurance Corporation are not subject to such a ceiling.

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However, non-financial business group companies (as defined below) may not acquire beneficial ownership of shares of a bank holding company in excess of 9% of such financial holding company s outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of up to 10% of such financial holding company s outstanding voting shares with the approval of the Financial Services Commission under the condition that such non-financial business group companies will not exercise voting rights in respect of such shares in excess of the 9% limit. In addition, any person (whether a Korean national or a foreigner), with the exception of non-financial business group companies described above, may also acquire in excess of 10% of total voting shares issued and outstanding of a financial holding company which controls national bank, provided that an approval from the Financial Services Commission is obtained in instances where the total holding exceeds 10% (or 15% in the case of a financial holding company controlling regional banks only), 25% or 33% of the total voting shares issued and outstanding of such bank holding company. Also, in the event a person (whether a Korean national or a foreigner, but excluding persons prescribed under the Presidential Decree to the Financial Holding Companies Act) (i) acquires in excess of 4% of the total voting shares issued and outstanding of any financial holding company (other than a financial holding company controlling regional banks only), (ii) becomes the largest shareholder of such financial holding company in which such person acquired in excess of 4% of the total voting shares issued and outstanding, or (iii) has its shareholding in such financial holding company, in which it had acquired in excess of 4% of the total voting shares issued and outstanding shares, changed by not less than 1% of the total voting share issued and outstanding of such financial holding company, a report as prescribed by the Presidential Decree to the Financial Holding Companies Act shall be filed with the Financial Services Commission.

Non-financial business group companies are defined under the Financial Holding Companies Act as the companies, which include:

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

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

(iii) any mutual fund in which a same shareholder group identified in (i) or (ii) above holds more than 9% of the total shares issued and outstanding of such mutual fund.

Financial Investment Services and Capital Markets Act

General

The Financial Investment Services and Capital Markets Act categorizes capital markets-related business into six different functions, as follows:

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

Accordingly, all financial business relating to financial investment products are reclassified as one or more of the Financial Investment Businesses described above, and financial institutions are subject to the regulations applicable to their relevant Financial Investment Businesses,

irrespective of the type of the financial institution it is. For example, under the Financial Investment Services and Capital Markets Act, derivative businesses conducted by securities companies and future companies will be subject to the same regulations under the Financial Investment Services and Capital Markets Act, at least in principle.

The banking business and insurance business are not subject to the Financial Investment Services and Capital Markets Act and will continue to be regulated under separate laws; provided, however, that they may

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become subject to the Financial Investment Services and Capital Markets Act if their activities involve any financial investment businesses requiring a license based on 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 with a risk of loss in the invested amount (in contrast to deposits, which are not financial investment products for which the invested amount is protected or preserved). Financial investment products are classified into two major categories: (i) securities (relating to financial investment products where the risk of loss is limited to the invested amount) and (ii) derivatives (relating to financial investment products where the risk of loss may exceed the invested amount). As a result of the general and open-ended manner in which financial investment products are defined, any future financial product could potentially fall under the definition of financial investment products, which would enable Financial Investment Companies (as defined below) to handle a broader range of financial products. Under the Financial Investment Services and Capital Markets Act, securities companies, asset management companies, futures companies and other entities engaging in any Financial Investment Business are classified as Financial Investment Companies.

License System

Financial Investment Companies are able to choose what Financial Investment Business to engage in (through the 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 (namely, general investors or professional investors). Licenses will be issued under the specific business sub-categories described above. 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 (iii) only with professional investors.

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, a financial institution licensed as a securities company generally could not engage in the asset management business. In contrast, under the Financial Investment Services and Capital Markets Act, pursuant to the integration of its current business 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 compliance with the relevant regulations, for example, maintaining an adequate Chinese Wall, to the extent required. As to incidental businesses (i.e., 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 system of permitting only the listed activities towards a more comprehensive system. In addition, a Financial Investment Company is permitted (i) to outsource marketing activities by contracting with introducing brokers that are individuals but not employees of the Financial Investment Company, (ii) to engage in foreign exchange business related to their Financial Investment Business and (iii) to 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 broadens the scope of financial businesses in which financial institutions are permitted to engage, a more rigorous investor-protection mechanism is imposed upon Financial Investment Companies dealing in financial investment products. The Financial Investment Services and Capital Markets Act makes a distinction between general investors and sophisticated

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investors and provides new or enhanced protections to general investors. For instance, the Financial Investment Services and Capital Markets Act expressly provides for strict know-your-customer rules for general investors and imposes an obligation on Financial Investment Companies that they should market financial investment products suitable to each general investor considering his or her personal attributes, including investment objective, net worth, and investment experience. Under the Financial Investment Services and Capital Markets Act, a Financial Investment Company can be held liable if a general investor proves (i) damages or losses relating to such general investor s investment in financial investment products solicited by such Financial Investment Company and (ii) absence of explanation, false explanation, or omission of material fact (without having to prove fault or causation). In case there are any conflicts of interest between the Financial Investment Companies and investors, the Financial Investment Services and Capital Markets Act expressly requires (i) disclosure of any conflict of interest to investors and (ii) mitigation of conflicts of interest to a comfortable level or abstention from the relevant transaction.

Other Regulatory Changes Related to Securities and Investments

The Financial Investment Services and Capital Markets Act brought changes to various rules in securities regulations including those relating to public disclosure, insider trading and proxy contests, which had previously been 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 under the Financial Investment Services and Capital Markets Act. For instance, the numbers of events requiring an investor to update its 5% report have increased under the Financial Investment Services and Capital Markets Act. Previously, only a change in the shareholding of 1% or more or in the purpose of shareholding (such as an intention to influence management) could trigger the obligation to update the 5% report. The Government has issued detailed regulations stipulating additional events requiring updates to 5% reports, such as the change in the type of holding and change in any major aspect of the relevant contract. As for the 10% report filing obligation, the initial filing is expected to be required to be made within five business days of the date of the event triggering the 10% reporting obligation, compared to 10 calendar days under the previous law. The due date for reporting a subsequent change after the initial 10% report filing has been reduced from the 10th day of the first month immediately following the month in which such change took place to five business days of the date of such change. Under the previous law, there had been a limitation on the type of investment vehicles that could be used in a collective investment scheme (namely, to trusts and corporations), the type of funds that could be used for collective investments, and the types of assets and investment securities a fund could invest in. However, the Financial Investment Services and Capital Markets Act significantly liberalizes these restrictions, permitting all legal entities, including limited liability companies or partnerships, to be used for the purpose of collective investments, allowing the formation of fund complexes and permitting investment funds to invest in a wide variety of different assets and investment instruments.

Principal Regulations Applicable to Banks

General

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

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

Under the Bank of Korea Act, the Monetary Policy Committee s primary responsibilities are to formulate monetary and credit policies and to determine the operations, management and administration of the Bank of Korea. The Financial Services Commission, established in 1998, regulates commercial banks pursuant to the Banking Act, including establishing guidelines on capital adequacy of commercial banks, and promulgates

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regulations relating to supervision of banks. Furthermore, pursuant to the Amendment to the Government Organization Act and the Banking Act in 1999, the Financial Services Commission, instead of the Ministry of Strategy and Finance, now regulates market entry into the banking business.

The Financial Supervisory Service is subject to the instructions and directives of the Financial Services Commission and carries out supervision and examination of commercial banks. In particular, the Financial Supervisory Service sets requirements both for the prudent control of liquidity and for capital adequacy and establishes reporting requirements pursuant to the authority delegated to it under the Financial Services Commission regulations, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

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

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

capital increases or reductions;

suspension of officers from performing their duties and appointment of custodians;

stock cancellations or consolidations;

transfers of a part or all of business;

sale of assets;

closures of branch offices;

mergers or becoming a subsidiary under the Financial Holding Companies Act of a financial holding company;

acquisition of a bank by a third party;

suspensions of a part or all of business operation; or

assignments of contractual rights and obligations relating to financial transactions.

Capital Adequacy

The Banking Act requires nationwide banks to maintain a minimum paid-in capital of 100 billion and regional banks to maintain a minimum paid-in capital of 25 billion.

In addition to minimum capital requirements, all banks including foreign bank branches in Korea are required to maintain a prescribed solvency position. A bank must also set aside as its legal reserve an amount equal to at least 10% of its net profits after tax each time it pays dividends on net profits earned until such time when the reserve equals the amount of its total paid-in capital.

Under the Banking Act, the capital of a bank is divided into two categories: Tier I and Tier II capital. Tier I capital (core capital) consists of stockholders equity, capital surplus, retained earnings and equity representing new types of equity securities deemed to be functionally equivalent to capital which are designated by the Financial Services Commission. Tier II capital (supplementary capital) consists of revaluation reserves, gain on

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valuation of investment in securities, allowance for bad debts set aside for loans classified as normal or precautionary, perpetual subordinated debt, cumulative preferred shares, redeemable preferred shares (with a right to redeem after the fifth anniversary of the date of issuance) and certain other subordinated debt.

All banks must meet standards regarding minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with the Financial Services Commission requirements that have been formulated based on the Bank for International Settlement (BIS) Standards. These standards were adopted and became effective in 1996. Under these regulations, all domestic banks and foreign bank branches were required to meet the minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%.

Under the Regulation on the Supervision of the Banking Business and the Detailed Regulations promulgated thereunder, Korean banks apply the following risk-weight ratios in respect of their home mortgage loans:

(1) for those banks adopting a standardized approach for calculating credit risk capital requirements, the risk-weight ratio of 35%; and

(2) for those banks adopting 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 in the Detailed Regulations on the Supervision of the Banking Business.

In Korea, Basel II, a convention entered into by the Basel committee in 2004 for the purpose of improving risk management and increasing capital adequacy of banks, was implemented beginning in 2008. Pursuant to Basel II, operational risk, such as inadequate procedure, loss risk by employees, internal system, occurrence of unexpected event, as well as credit risk and market risk, is taken into account in calculating the risk-weighted assets, in addition to maintaining the capital adequacy ratio of 8% for banks. Under Basel II, the capital requirements for credit risk can be calculated by the internal rating based (IRB) approach or the standardized approach.

Under the standardized approach, a home mortgage loan fully secured by a residential property, which is or will be occupied by a borrower, is risk-weighted at 35%.

Under the Regulation on the Supervision of the Banking Business, banks generally must maintain allowances for credit losses in respect of their outstanding loans and other credits (including confirmed guarantees and acceptances and trust account loans) in an aggregate amount covering not less than:

- 0.85% of normal credits (or 0.9% in the case of normal credits comprising loans to certain industries including construction, retail and wholesale sales, accommodations, restaurant, real estate and lease, and 1.0% in the case of normal credits comprising loans to individuals and households, 2.5% in the case of card loan assets and revolving assets and 1.1% in the case of other card assets in the case of claims arising from the use of a credit card, a debit card or a prepaid card (card assets));

- 7% of precautionary credits (or 10% in the case of precautionary credits comprising loans to individuals and households, 50% in the case of card loan assets and revolving assets and 40% in the case of other card assets in the case of card assets);

- 20% of substandard credits (or 65% in the case of card loan assets and revolving assets and 60% in the case of other card assets in the case of card assets);

- 50% of doubtful credits (or 55% in the case of doubtful credits comprising loans to individuals and households, and 75% in the case of card assets); and

- 100% of estimated loss credits.

Furthermore, under the Regulation on the Supervision of the Banking Business, banks must maintain allowances for credit losses in respect of their confirmed guarantees (including confirmed acceptances) and outstanding non-used credit lines as of the settlement date in an aggregate amount calculated at the same rates applicable to normal, precautionary, substandard and doubtful credits comprising their outstanding loans and other credits as set forth above.

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Liquidity

All banks are required to match the maturities of their assets and liabilities in accordance with the Banking Act in order to ensure adequate liquidity. Banks may not invest in excess of an amount exceeding 60% of their Tier I and Tier II capital (less any capital deductions) in stocks and other securities with a period remaining to maturity of over three years. However, this restriction does not apply to government bonds or to Monetary Stabilization Bonds issued by the Bank of Korea.

The Financial Services Commission 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. The Financial Services Commission also requires each Korean bank to (1) maintain a foreign-currency liquidity ratio due within three months (defined as foreign-currency liquid assets due within three months divided by foreign-currency liabilities due within three months) of not less than 85%, (2) maintain a ratio of foreign-currency liquid assets due within seven days (defined as 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% and (3) maintain a ratio of foreign-currency liquid assets due within a month (defined as 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%. The Financial Services Commission also requires each Korean bank to submit monthly reports with respect to its compliance with these ratios.

The Monetary Policy Committee is authorized to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is 7.0% of average balances for Won-denominated demand deposits outstanding, 0.0% of average balances for Won-denominated 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 2.0% of average balances for Won-denominated time and savings deposits, mutual installments, housing installments and certificates of deposit outstanding. For foreign currency deposit liabilities, a 2.0% minimum reserve ratio is applied to savings deposits outstanding and a 7.0% minimum reserve ratio is applied to demand deposits, while a 1.0% minimum reserve ratio is applied for offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Loan-to-Deposit Ratio

In 2009, the Financial Supervisory Service announced that it would introduce a new set of regulations on the loan-to-deposit ratio by amending the Regulation on the Supervision of the Banking Business (RSBB) upon its determination that the overall liquidity of banks in Korea had become unstable due to the ongoing increase in the loan-to-deposit ratio resulting from banks expanding their asset size too competitively by granting mortgages on houses and loans to small- and medium-sized enterprises over the last couple of years. The RSBB, which was amended as of August 18, 2010 and is scheduled to take effect from January 1, 2014, requires banks with Won-denominated loans of more than 2 trillion in value to maintain a ratio of Won-denominated loans to Won-denominated deposits lower than 1:1. In practice, however, the Financial Supervisory Service instructed relevant banks to comply with this newly enacted loan-to-deposit ratio by the end of June 2012. Shinhan Bank s loan-to-deposit ratio as of December 31, 2012 was 98%.

Financial Exposure to Any Single Customer and Major Shareholders

Under the Banking Act, the sum of material credit exposures by a bank, namely, the total sum of its credits to single individuals, legal entities or groups of companies belonging to the same enterprise groups as defined in the Monopoly Regulation and Fair Trade Act that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions), must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions), subject to certain exceptions. Subject to certain exceptions, no bank is permitted to extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and such other transactions which directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital

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deductions) to a single individual or a legal entity, and no bank may 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 that belong to the same enterprise group as defined in the Monopoly Regulations and Fair Trade Act.

Under the Banking Act, certain restrictions apply to extending credits to a major shareholder. The definition of a major shareholder is as follows:

- a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Banking Act) in excess of 10% (or in the case of regional banks, 15%) in the aggregate of the bank s total issued and outstanding voting shares; or

- a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Banking Act) more than 4% in the aggregate of the total issued and outstanding voting shares of a bank (other than a regional bank), where such shareholder is the largest shareholder or is able to actually control the major business affairs of the bank, for example, through appointment and dismissal of the chief executive officer or of the majority of the executives.

Under the Banking Act, banks are prohibited from extending credits in the amount greater than the lesser of (1) 25% of the sum of such bank s Tier I and Tier II capital (less any capital deductions) and (2) 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) to a major shareholder (together with persons who have special relationship with such major shareholder as defined in the Presidential Decree of the Banking Act). Also, no bank is allowed to grant credit to its major shareholders in the aggregate in excess of 25% of its Tier I and Tier II capital (less any capital deductions).

When managing the credit risk of banks, among the methods for providing credit support by banks, a loan agreement, a purchase agreement for asset-backed commercial papers, purchase of subordinate beneficiary certificates, and assumption of liability by providing warranty against default under asset-backed securitization are examples of creating financial exposure to banks.

Interest Rates

Korean banks remain dependent on the acceptance of deposits as their primary source of funds. Currently, there are no legal controls on interest rates on bank loans in Korea except for the cap of 39% on the default interest rate under the Act on Lending Business.

Lending to Small- and Medium-sized Enterprises

When commercial banks (including Shinhan Bank) make Won-denominated loans to certain start-up, venture, innovative and other strategic small- and medium-sized enterprises specially designated by the Bank of Korea as priority borrowers , the Bank of Korea generally provides the underlying funding to these banks at concessionary rates for up to 50% of all such loans made to the priority borrowers subject to a monthly-adjusted limit prescribed by the Bank of Korea (currently 5 trillion) *provided that* if such loans to priority borrowers made by all commercial banks exceed the prescribed limit for a given month, the concessionary funding for the following month will be allocated to each commercial bank in proportion to such bank s lending to priority borrowers two months prior to the time of such allocation, which has the effect that, if a particular bank lags other banks in making loans to priority borrowers, the amount of funding such bank can receive from the Bank of Korea at concessionary rates will be proportionately reduced.

Disclosure of Management Performance

For the purpose of enforcing mandatory disclosure of management performance so that the general public, especially depositors and stockholders, will be in a better position to monitor banks, the Financial Services Commission requires commercial banks to disclose certain matters as follows:

- 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

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the loan exposure to such borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits) except where the loan exposure to a single business group is not more than 4 billion;

occurrence of any financial event involving embezzlement, malfeasance or misappropriation of funds the amount of which exceeds 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 thereof, or the Governor of the Financial Supervisory Service has made a public announcement regarding such an occurrence; and

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 except where the loss is not more than 1 billion.

Restrictions on Lending

According to the Banking Act, commercial banks are prohibited from making any of the following categories of loans:

loans made directly or indirectly on the pledge of a bank s own shares (subject to certain exceptions with respect to financing for infrastructure projects);

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

loans made to any of the bank s officers or employees other than de minimis loans of up to (1) 20 million in the case of a general loan, (2) 50 million in the case of a general loan plus a housing loan, or (3) 60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions.

Restrictions on Investments in Property

A bank may possess real estate property only to the extent necessary for conducting its business; provided that the aggregate value of such real estate property must not exceed 60% of the sum of its Tier I and Tier II capital (less any capital deductions). Any property acquired by a bank (1) through the exercise of its rights as a secured party or (2) the acquisition of which is prohibited by the Banking Act must be disposed of within one year, subject to certain exceptions.

Restrictions on Shareholdings in Other Companies

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

the company issuing such shares is engaged in a business that falls under the category of financial businesses set forth by the Financial Services Commission (including companies which business purpose is to own equity interests in private equity funds); or

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

In the above cases, a bank must satisfy either of the following requirements:

the total investment in companies in which the bank owns more than 15% of the outstanding shares with voting rights does not exceed 15% of the sum of Tier I and Tier II capital (less any capital deductions); or

the acquisition satisfies the requirements determined by the Financial Services Commission.

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

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Restrictions on Bank Ownership

Under the Banking Act, subject to certain exceptions, a single shareholder and persons who stand in a special relationship with such shareholder (as described in the Presidential Decree to the Banking Act) may acquire beneficial ownership of up to 10% of a national bank s total issued and outstanding shares with voting rights and up to 15% of a regional bank s total issued and outstanding shares with voting rights. The government, the Korea Deposit Insurance Corporation and financial holding companies qualifying under the Financial Holding Companies Act are not subject to such ceilings. However, non-financial business group companies namely, (1) any same shareholder group with an aggregate net assets of all non-financial companies belonging to such group of not less than 25% of the aggregate net assets of all corporations that are members of such group; (2) any group with aggregate assets of all non-financial companies belonging to such group of not less than 2 trillion; (3) any mutual fund in which a same shareholder group, as described in items (1) and (2) above, owns more than 9% of the total shares issued and outstanding; (4) a private equity fund (under the Financial Investment Services and Capital Markets Act) where (i) the general partner of such private equity fund, (ii) the limited partner whose equity holding ratio in such private equity fund is 18% or more, or (iii) the limited partners, being member companies of a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act, whose aggregate equity holding ratio in such private equity fund is 36% or more falls under either of item (1) to (3) above; or (5) a special purpose company of a private equity fund where a private equity fund, as described in item (4) above, owns 9% or more of the special purpose company s issued and outstanding shares or has actual control over the major business affairs of the special purpose company through, for example, appointment and dismissal of the officers may not acquire beneficial ownership of shares of a national bank in excess of 9% of such bank s outstanding voting shares, and must obtain the approval of the Financial Services Commission in order to acquire beneficial ownership of shares of a national bank in excess of 4% of such bank s outstanding voting shares if, through such acquisition, the non-financial business group companies become the largest shareholder of such bank or have actual control over the major business affairs of such bank through the methods set out in the Enforcement Decree of the Banking Act such as appointment and dismissal of the officers; provided that such non-financial business group companies may acquire beneficial ownership of:

- up to 10% of a national bank s outstanding voting shares with the approval of the Financial Services Commission under the condition that such non-financial group companies will not exercise voting rights in respect of such shares in excess of the 4% limit; and

- in the event that a foreigner, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a national bank s outstanding voting shares, up to 10% of such bank s outstanding voting shares without the approval of the Financial Services Commission, and in excess of 10%, 25% or 33% of such bank s outstanding voting shares, with the approval of the Financial Services Commission, up to the number of shares owned by such foreigner.

In addition, any person (whether a Korean national or a foreigner), with the exception of non-financial business group companies described above, may also acquire in excess of 10% of a national bank s total voting shares issued and outstanding, provided that an approval from the Financial Services Commission is obtained in instances where the total holding exceeds 10% (or 15% in the case of regional banks), 25% or 33% of the bank s total voting shares issued and outstanding.

Deposit Insurance System

The Depositor Protection Act provides, through a deposit insurance system, insurance for certain deposits of banks in Korea. Under the Depositor Protection Act, all banks governed by the Banking Act, including Shinhan Bank and Jeju Bank, are required to pay to the Korea Deposit Insurance Corporation an insurance premium on a quarterly basis at such rate as determined by the Presidential Decree to the Depositor Protection Act, which shall 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 Korea Deposit Insurance Corporation pays the insured amount, it will acquire the claims of the depositors within the payment amount. Under current rules, the Korea Deposit Insurance Corporation insures only up to a total of 50 million per an individual for deposits and interest in a single financial institution, regardless of when the deposits were made and the size of the deposits.

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Trust Business

A bank that intends to enter into the trust business must obtain the approval of the Financial Services Commission. Trust activities of banks are governed by the Financial Investment Services and Capital Markets Act. Banks engaged in the banking business and trust business are subject to certain legal and accounting procedures requirements, including the following:

- under the Banking Act, the Financial Investment Services and Capital Markets Act and the Trust Act, assets accepted in trust by a bank in Korea must be segregated from its other assets in the accounts of such bank; accordingly, banks engaged in the banking and trust businesses must maintain two separate accounts, the banking accounts and the trust accounts, and two separate sets of records which provide details of their banking and trust businesses, respectively; and

- assets comprising the trust accounts are not available to depositors or other general creditors of such bank in the event the trustee is liquidated or is wound up.

In the event that a bank qualifies and operates as an asset management company, a trustee, a custodian or a general office administrator under the Financial Investment Services and Capital Markets Act, it is required to establish relevant operation and management systems to prevent potential conflicts of interest among the banking business, the asset management business, the trustee or custodian business and general office administration. These measures include:

- prohibitions against officers, directors and employees of one particular business operation from serving as an officer, director and employee in another business operation, except where an officer or a director (1) serving in two or more business operations with no significant conflict of interest in accordance with the Presidential Decree on the Financial Investment Services and Capital Markets Act or (2) serving in a trustee business or a custodian business and simultaneously serving in a general office administrator business in accordance with the Financial Investment Services and Capital Markets Act;

- prohibitions against the joint use or sharing of computer equipment or office equipment; and

- prohibitions against the sharing of information by and among officers, directors and employees engaged in the different business operations.

A bank which qualifies and operates as an asset management company may engage in the sale of beneficiary certificates of investment trusts which are managed by such bank. However, such bank is prohibited from engaging in the following activities:

- acting as trustee of an investment trust managed by such bank;

- purchasing with such bank s own funds beneficiary certificates of an investment trust managed by such bank;

- using in its sales activities of other collective investment securities information relating to the trust property of an investment trust managed by such bank;

- selling through a financial institution established under the Banking Act beneficiary certificates of an investment trust managed by such bank;

establishing a short-term financial indirect investment vehicle; and

establishing a mutual fund.

Laws and Regulations Governing Other Business Activities

To enter the foreign exchange business, a bank must register with the Minister of the Ministry of Strategy and Finance. The foreign exchange business is governed by the Foreign Exchange Transaction Law. To enter the securities business, a bank must obtain the approval of the Financial Services Commission. The securities business is governed by regulations under the Financial Investment Services and Capital Markets Act. Pursuant to the above-mentioned laws, banks are permitted to engage in the foreign exchange business and the underwriting business for government and other public bonds.

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Recently, regulatory authorities are encouraging financial institutions to lower the ATM usage fees in order to decrease the financial expense burden on consumers. Further, in light of the increasing household debt, regulatory authorities are encouraging financial institutions to gradually increase the proportion of the principal of retail loans that are subject to the fixed interest rates from the currently effective proportion of 10% of the principal amount to 15% and 30% by 2012 and 2016, respectively.

Principal Regulations Applicable to Credit Card Companies

General

Any person, including a bank, wishing to engage in the credit card business must obtain a license from the Financial Services Commission. In addition, in order to enter the credit card business, a bank must obtain a license from the Financial Services Commission (hereinafter, a bank which obtains such license is defined as licensed bank engaged in the credit card business). The credit card business is regulated and governed by the Specialized Credit Financial Business Act. Under the Specialized Credit Financial Business Act and regulations thereunder, a company in the same conglomerate group (as defined in the Monopoly Regulation and Fair Trade Act) may engage in the credit card business even though another company in the same conglomerate group is already engaged in such business, which was previously not permitted.

The Specialized Credit Financial Business Act establishes guidelines on capital adequacy and provides for other regulations relating to the supervision of credit card companies. The Specialized Credit Financial Business Act delegates regulatory authority over credit card companies to the Financial Services Commission and its executive body, the Financial Supervisory Service.

A licensed bank engaging in the credit card business is regulated by the Financial Services Commission and the Financial Supervisory Service.

The Financial Services Commission regulates credit card companies and licensed banks engaged in the credit card business by establishing guidelines or regulations on management of such companies. Moreover if the Financial Services Commission deems the financial condition of a credit card company or a licensed bank engaged in the credit card business to be unsound or such companies fail to satisfy the guidelines or regulations, the Financial Services Commission may take certain measures to improve the financial condition of such companies.

Restrictions on Scope of Business

Under the Specialized Credit Financial Business Act, a credit card company may conduct only the following types of business: (i) credit card business as licensed or other specialized credit finance businesses as registered pursuant to the Specialized Credit Financial Business Act; (ii) the businesses ancillary to the credit card business, (for example, providing cash advance loans to existing credit card holders, issuing and settling of debit cards and issuing, selling and settling of pre-paid cards); (iii) provision of unsecured or secured loans; (iv) provision of discount on notes; (v) purchase, management and collection of account receivables originated by companies in the course of providing goods and services; (vi) provision of payment guarantee; (vii) asset management business under the Asset Backed Securitization Act; (viii) credit investigation; and (ix) other incidental businesses related to the foregoing. Under the Specialized Credit Financial Business Act, a credit card company s scope of business includes businesses that utilize existing manpower, assets or facilities in a credit card company, as designated by the Financial Services Commission. Under the current regulation established by the Financial Services Commission, a credit card company may engage in various types of business including, but not limited to, e-commerce, operation of insurance agency, delegation of card issuance, supply of payment settlement system, loan brokerage and brokerage of collective investment securities.

A credit card company s average balance of claim amounts arising from the advance of loans to credit card holders (excluding such claims arising from the re-advance of loans to credit card holders following a change in the maturity or interest rate of such loans as part of a debt restructuring) as of the end of each quarter may not exceed the sum of the following amounts:

Average balance of claims during a quarter arising from the purchase of goods or services by credit card holders with credit cards; and

Amount of debit card usage during a quarter by debit card members.

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Capital Adequacy

The Specialized Credit Financial Business Act provides for a minimum paid-in capital amount of: (i) 20 billion in the case of a specialized credit financial business company which wishes to engage in no more than two kinds of core businesses (i.e. credit card, installment finance, leasing and new technology business) and (ii) 40 billion in the case of an specialized credit financial business company, which wishes to engage in three or more kinds of core businesses.

Under the Specialized Credit Financial Business Act and regulations thereof, a credit card company must maintain a capital adequacy ratio, defined as the ratio of adjusted equity capital to adjusted total asset, of 8% or more and a delinquent claim ratio, defined as the ratio of delinquent claims to total claims as set forth under the regulations relating to the Specialized Credit Financial Business Act, of less than 10%.

Under the Specialized Credit Financial Business Act and regulations thereof, the minimum ratio of allowances for losses on loans, leased assets (except assets subject to an operating lease) and suspense receivables as of the date of accounting settlement (including semiannual preliminary accounts settlement) would be 0.5% of normal assets, 1% of precautionary assets and 20% of substandard assets, 75% of doubtful assets and 100% of estimated loss assets, and the minimum ratio of allowances for losses on card assets would be 1.1% (or 2.5%, in the case of card loan assets and revolving assets) of normal assets, 40% (or 50%, in the case of card loan assets and revolving assets) of precautionary assets, 60% (or 65%, in the case of card loan assets and revolving assets) of substandard assets, 75% of doubtful assets and 100% of estimated loss assets. In addition, a credit card company has to reserve a certain amount calculated according to relevant regulations as loss allowances for unused credit limits.

Liquidity

Under the Specialized Credit Financial Business Act and regulations thereunder, a credit card company must maintain a Won liquidity ratio (Won-denominated current assets/Won-denominated current liabilities) of 100% or more. In addition, once a credit card company is registered as a foreign exchange business institution with the Minister of the Ministry of Strategy and Finance, such credit card company is required to (1) maintain a foreign-currency liquidity ratio within three months (defined as foreign-currency liquid assets due within three months divided by foreign-currency liabilities due within three months) of not less than 80%, (2) maintain a ratio of foreign-currency liquid assets due within seven days (defined as 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 0% and (3) maintain a ratio of foreign-currency liquid assets due within a month (defined as 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%. The Financial Services Commission requires a credit card company to submit quarterly reports with respect to the maintenance of these ratios.

Restrictions on Funding

Under the Specialized Credit Financial Business Act, a credit card company may raise funds using only the following methods: (i) borrowing from financial institutions, (ii) issuing corporate debentures or notes, (iii) selling securities held by the credit card company, (iv) transferring claims held by the credit card company, (v) transferring claims held by the credit card company in connection with its businesses, or (vi) issuing securities backed by the claims held by the credit card company relating to its businesses.

Furthermore, a credit card company may borrow funds from offshore or issue foreign currency denominated securities once it is registered as a foreign exchange business institution with the Minister of the Ministry of Strategy and Finance.

A credit card company must ensure that its total asset does not exceed six times the amount of its equity capital. However, if the credit card company cannot comply with such limit due to the occurrence of unavoidable events such as drastic changes in the domestic and global financial markets, such limit of its total assets compared to the equity capital may be adjusted by a resolution of the Financial Services Commission. A non-credit card company must ensure that its total asset does not exceed ten times the amount of its equity capital.

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Restrictions on Loans to Affiliate Companies

Under the Specialized Credit Financial Business Act and regulations thereof, a credit card company may not provide loans exceeding 100% of its equity capital, in the aggregate, to its specially related persons (as defined under the relevant laws) including, but not limited to, its affiliates.

Restrictions on Assistance to Other Companies

Under the Specialized Credit Financial Business Act, a credit card company may not engage in any of the following acts in conjunction with other financial institutions or companies: (i) holding voting shares under cross shareholding or providing credit for the purpose of avoiding the restrictions on loans to affiliate companies; (ii) acquiring shares under cross shareholding for the purpose of avoiding the limitation on purchase of its treasury shares under the Korean Commercial Code or the Financial Investment Services and Capital Markets Act; or (iii) other acts which are likely to have a material adverse effect on the interests of transaction parties as stipulated by the Presidential Decree to the Specialized Credit Financial Business Act, which are not yet provided.

A credit card company also may not extend credit for enabling another person to purchase the shares of such credit card company or to arrange financing for the purpose of avoiding the restrictions on loans to affiliate companies.

Restrictions on Investment in Real Estate

Under the Specialized Credit Financial Business Act and the regulations thereof, a credit card company may possess real estate only to the extent that such business conduct is designated by such laws and regulations, with certain exceptions such as for the purposes of factoring or leasing or as a result of enforcing its security rights, provided that the Financial Services Commission may limit the maximum amount a credit card company may invest in real estate investments for business purposes up to a percentage equal to or in excess of 100% of its equity capital.

Restrictions on Shareholding in Other Companies

Under the Specialized Credit Financial Business Act and the Act on the Structural Improvement of the Financial Industry, a credit card company and its affiliate financial institutions (together a group) are required to obtain prior approval of the Financial Services Commission if such credit card company, together with its affiliate financial institutions, (i) owns 20% or more of outstanding voting shares of a target company or (ii) owns 5% or more of outstanding voting shares of a target company, and shall be deemed to have control of the target company, including being the largest shareholder of such target company or otherwise.

Disclosure and Reports

Pursuant to the Specialized Credit Financial Business Act and the regulations thereof, the ordinary disclosure requirement for a credit card company is to disclose any material matters relating to management performance, profits and losses, corporate governance, competence of the employees or risk management within three months from the end of each fiscal year and within two months from the end of the first half of the fiscal year. In addition, a credit card company is required to disclose on an on-going basis certain matters such as the occurrence of non-performing loans, a financial incident or losses exceeding certain amounts. In addition, under the regulations issued by the Financial Services Commission, a credit card company or a licensed bank engaging in the credit card business must submit such report as required by the Governor of the Financial Supervisory Service, with certain important matters being reported as frequently as each month. In addition, all companies engaged in the specialized credit financial business under the Specialized Credit Financial Business Act, including, without limitation, credit card companies, must file a report to the Financial Supervisory Service regarding the result of settlement of accounts within one month after the end of its fiscal year. Also, these companies are required to conduct a provisional settlement of accounts for each quarter and file a report to the Financial Supervisory Service within one month after the end of such quarter.

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

Under the Specialized Credit Financial Business Act, upon notice from the holder of a credit card or a debit card of its loss or theft, a credit card company or a licensed bank engaged in the credit card business, as the case may be, is liable for any loss arising from the unauthorized use of credit cards or debit cards thereafter as well as any loss from unauthorized transactions made within 60 days prior to such notice. However, a credit card company or a licensed bank engaged in the credit card business, as the case may be, may transfer to the cardholder all or part of the risks of loss associated with unauthorized transactions made within 60 days prior to such notice, in accordance with the standard terms and conditions agreed between the credit card company or the licensed bank engaged in the credit card business, as the case may be, and the cardholder, provided that the loss or theft must be due to the cardholder s willful misconduct or negligence. Disclosure of a cardholder s password under duress or threat to the cardholder s or his/her family s life or health will not be deemed as the cardholder s willful misconduct or negligence.

Moreover, a credit card company or a licensed bank engaged in the credit card business, as the case may be, is also responsible for any losses resulting from the use of forged or altered credit cards, debit cards and pre-paid cards. However, a credit card company or a licensed bank engaged in the credit card business, as the case may be, may transfer all or part of this risk of loss to holders of credit cards in the event of willful misconduct or gross negligence by holders of such cards if the terms and conditions of the written agreement entered between the credit card company or a licensed bank engaged in the credit card business, as the case may be, and holders of such cards specifically provide for such transfer. For these purposes, disclosure of a customer s password that is made intentionally or through gross negligence, or the transfer of or giving as collateral of the credit card or debit card, is considered willful misconduct or gross negligence.

In addition, the Specialized Credit Financial Business Act prohibits a credit card company from transferring to merchants the risk of loss arising from lost, stolen, forged or altered credit cards, debit cards or pre-paid cards; provided, however, that a credit card company may enter into an agreement with a merchant under which the merchant agrees to be responsible for such loss if caused by the merchant s gross negligence or willful misconduct.

Each credit card company or a licensed bank engaged in the credit card business must institute appropriate measures such as establishing reserves, purchasing insurance or joining a cooperative association in order to fulfill its obligations related to the risk of loss arising from unauthorized use due to lost, stolen, forged or altered credit cards, debit cards or pre-paid cards.

Pursuant to the Specialized Credit Financial Business Act, the Financial Services Commission may either impose a limit or take other necessary measures against a credit card company or a licensed bank engaged in the credit card business including, without limitation, with respect to the following:

- set maximum limits for cash advances on credit cards;
- use restrictions on debit cards with respect to per day or per transaction usage; or
- aggregate issuance limits and maximum limits on the amount per card on pre-paid cards.

Lending Ratio in Ancillary Business

Pursuant to the Presidential Decree to the Specialized Credit Financial Business Act, as amended in December 2003, a credit card company or a licensed bank engaged in the credit card business, as the case may be, must maintain an aggregate quarterly average outstanding lending balance to credit card holders (including cash advances and credit card loans, but excluding restructured loans and revolving cash advances) no greater than its aggregate quarterly average outstanding credit card balance arising from the purchase of goods and services (excluding receivables arising from the purchase of goods and services by specially-related persons using exclusive use card for business purposes, as defined in the Tax Incentives Limitation Act) plus its aggregate quarterly amount of payments made by members using their debit cards.

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Issuance of New Cards and Solicitation of New Card Holders

The Presidential Decree to the Specialized Credit Financial Business Act establishes the conditions under which a credit card company or a licensed bank engaged in the credit card business may issue new cards and solicit new members. Specifically, new credit cards may be issued only to the following persons that meet all of the following criteria: (i) age of 18 years or more at the time of applying for issuance of a credit card, and if younger than 18 years old, capable of evidencing employment as of the day of the credit card application; (ii) monthly discretionary income of at least Won 500,000 and a minimum personal credit score (provided that the minimum personal credit score requirement will not apply to applicants who can provide objective evidence for monthly discretionary income of at least Won 500,000, and (iii) satisfaction of the application scoring system for the relevant credit; and (iv) verification of personal identity.

In addition, a credit card company or a licensed bank engaged in the credit card business, as the case may be, may not engage in the following methods of soliciting credit card holders: (i) providing economic benefits or conditioning such benefits in excess of 10% of the annual credit card fee (in the case of no-annual fee credit cards, the average annual fees will be 10,000) in connection with issuance of credit cards; (ii) solicitation on streets and private roads as prescribed under the Road Act and Private Road Act, public place and corridors used by the general public; (iii) solicitation through visits, except those visits made upon prior consent and visits to a business area; (iv) solicitation through pyramid sales methods; and (v) solicitation through the Internet, as further discussed below.

In addition, a credit card company or a licensed bank engaged in the credit card business is required to check whether the credit card applicant has any delinquent debt owed to any other credit card company or other financial institutions which the applicant is unable to repay, and also require, in principle, with respect to solicitations made through the Internet, the certified electronic signature of the applicant. Moreover, persons who intend to engage in solicitation of credit card applicants must register with the Financial Services Commission, unless the solicitation is made by officers or employees of a credit card company or a company in business alliance with such credit card company.

Compliance Rules on Collection of Receivable Claims

Pursuant to the Specialized Credit Financial Business Act and its regulations, a credit card company or a licensed bank engaged in the credit card business are prohibited from collecting its claims by way of:

exerting violence or threat of violence;

informing 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 liability without just cause;

providing false information relating to the debtor s obligation to the debtor or his or her Related Party;

threatening to sue or suing 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;

visiting or telephoning the debtor during late hours between 9:00 p.m. and 8:00 a.m.; and

utilizing other uncustomary methods to collect the receivables thereby invading the privacy or the peacefulness in the workplace of the debtor or his or her Related Party.

Principal Regulations Applicable to Financial Investment Companies

General

The securities business is regulated and governed by the Financial Investment Services and Capital Markets Act. Financial investment companies are under the regulation and supervision of the Financial Services Commission, the Financial Supervisory Service and the Securities and Futures Commission.

Under the Financial Investment Services and Capital Markets Act, a financial investment company may engage in dealing, brokerage, collective investment, investment advice, discretionary investment management or trust businesses if it has obtained relevant licenses from the Financial Services Commission.

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A financial investment company may also engage in certain businesses ancillary to the primary business or certain other additional businesses by submitting a report to the Financial Services Commission at least seven days prior to the commencement of the business without obtaining any separate license. Approval to merge with any other entity or to transfer all or substantially all of a business must also be obtained from the Financial Services Commission.

Under the Act on the Structural Improvement of the Financial Industry, if the Korean government 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 government may order certain sanctions, including among others, sanctions against a financial investment company or its officers or employees, capital increase or reduction and a suspension or assignment of a part or all of business operation.

Regulations on Financial Soundness Capital Adequacy

The Financial Investment Services and Capital Markets Act sets forth various types of brokerage and/or dealing business licenses based on (i) the scope of products and services that may be provided by each type of the brokerage and/or dealing licensee and (ii) the type of customers to which such products and services may be provided. For example, a financial investment company engaged in the brokerage, dealing and underwriting businesses with retail investors as well as professional investors in connection with all types of securities is required to have a minimum paid-in capital of 53 billion in order to obtain a license for such brokerage, dealing and underwriting businesses.

The financial soundness of a financial investment company is to be assessed, pursuant to the Financial Investment Services and Capital Markets Act and the regulations of the Financial Services Commission, in accordance with the Net Operating Equity Ratio of the company, which is to be calculated as follows and to be expressed as a percentage.

Net Operating Equity Ratio = Net Operating Equity/Total Risk × 100

The terms Net Operating Equity and Total Risk for the purpose of the above-stated formula are defined and elaborated in the regulations of the Financial Services Commission. Generally, the Net Operating Equity and the Total Risk are to be calculated according to the following formula:

Net Operating Equity = Net assets (total assets-total liabilities)-the total of items that may be deducted + the total of items that may be added

Total Risk = market risk + counterparty risk + management risk

The regulations of the Financial Services Commission requires, among other things, financial investment companies to maintain the net operating equity ratio at a level equal to or higher than 150% at the end of the each quarter of the fiscal year.

In addition, all Korean companies, including financial investment companies, are required to set aside, as a legal reserve, 10% of the cash portion of the annual dividend or interim dividend in each fiscal year until the reserve reaches 50% of the stated capital.

Under the Financial Investment Services and Capital Markets Act and regulations thereunder, the minimum ratio of allowances for losses on loans and suspense receivables specified under such regulations is 0.5% of normal assets, 2% of precautionary assets, 20% of substandard assets, 75% of doubtful assets and 100% of estimated loss assets.

Other Provisions on Financial Soundness

The Financial Investment Services and Capital Markets Act, the Presidential Decree of the Financial Investment Services and Capital Markets Act and the regulations of the Financial Services Commission also include certain provisions which are designed to regulate certain types of activities relating to the management of the assets of a securities company, subject to certain exceptions. Such provisions include:

- restrictions on the holdings by a securities company 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 such securities company; and

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restrictions on providing money or credit to the largest shareholder (including specially-related persons of such shareholder), major shareholders, officers and specially-related persons of the securities company.

Principal Regulations Applicable to Insurance Companies

General

Insurance companies are regulated and governed by the Insurance Business Act, as amended (the Insurance Business Act). In addition, insurance companies in Korea are under the regulation and supervision of the Financial Services Commission and its governing entity, the Financial Supervisory Service.

Under the Insurance Business Act, approval to commence an insurance business must be obtained from the Financial Services Commission based on the type of insurance businesses, which are classified as life insurance business, non-life insurance business and third type insurance business. Life insurance business means an insurance business which deals with life insurance policies or pension insurance policies (including retirement insurance policies). Non-life insurance business means an insurance business which deals with fire insurance policies, marine insurance policies, car insurance policies, guaranty insurance policies, reinsurance policies, liability insurance policies or other insurance policies prescribed under the Presidential Decree of the Insurance Business Act. Third type insurance business means an insurance business which deals with injury insurance policies, health insurance policies or nursing care insurance policies. Under the Insurance Business Act, insurance companies are not allowed to engage in both a life insurance business and a non-life insurance business, subject to certain exceptions.

If the Korean government deems an insurance company s financial condition to be unsound or if an insurance company fails to properly manage the business as set forth under relevant Korean law, the government may order certain sanctions including, among others, sanctions against an insurance company or its officers or employees, capital increase or reduction and a suspension or assignment of a part or all of business operation.

Capital Adequacy

The Insurance Business Act requires a minimum paid-in capital of 30 billion for an insurance company; provided, that, the insurance company which intends to engage in only certain types of insurance policies may have a lower paid-in capital pursuant to the Presidential Decree of the Insurance Business Act.

In addition to the minimum capital requirement, an insurance company is required to maintain a Solvency Margin Ratio of 100% or more. Solvency Margin Ratio is the ratio of the Solvency Margin to the Standard Amount of the Solvency Margin. Solvency Margin is the aggregate amount of paid-in capital, reserve for dividends to policyholders, allowance for bad debt and subordinated debt amount and others similar thereto as set out in the regulation of the Financial Services Commission, less non-amortized acquisition costs, goodwill and others similar thereto as appearing in the regulation of the Financial Services Commission. The Standard Amount of Solvency Margin for life insurance companies is defined under the regulation of the Financial Services Commission and is required to comply with the risk based capital regime.

Under the Insurance Business Act, the Presidential Decree and other regulations thereunder, for each accounting period, insurance companies are required to appropriate policy reserve that is earmarked for future payments of insurance money, refund and dividends to policyholders (hereinafter collectively referred to as Insurance Money) for each insurance contract. However, if an insurance company has reinsured a portion of its insurance contracts with a creditworthy reinsurance company in order to lower its overall risk, in principle, the insurance company is not required to appropriate policy reserve for the reinsured contracts. Instead, the reinsurance company is required to appropriate such policy reserve for the reinsured contracts. However, if an insurance company transfers more than 50% of its risk to a reinsurance company, the amount of risk transferred in excess of 50% will be disallowed for purposes of calculating the solvency margin ratio. In particular, if the ratio of the risks transferred to the reinsurance company to the total risks insured by an insurance company exceeds 50%, such insurance company will be required to have net assets in relation to such risks transferred in excess of the 50% threshold for purposes of the solvency margin requirement. The Insurance Business Act was amended on January 24, 2011 to classify the insurance products into two categories: (i) reportable insurance products and (ii) voluntary insurance products. Under this amendment, only the changes to the terms and

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conditions of the reportable insurance products require a prior report and approval from the Financial Supervisory Service and the voluntary insurance products can be sold without prior approval from the Financial Supervisory Service. The policy reserve needs to be appropriated in accordance with the policy reserve calculation method for each insurance product as stipulated in amended Insurance Business Act.

The policy reserve amount consists of the following: (i) premium reserves and prepaid insurance premiums which are calculated under the methods determined by the written calculation methods for insurance premiums and policy reserves by insurance types or by lapses of insurance period, with regard to the contracts for which the causes for payment of the Insurance Money have yet to occur as of the end of each accounting period; (ii) amounts for which a lawsuit is pending on the Insurance Money or amounts for which a payment has been fixed with regard to the contracts for which the causes for payment of Insurance Money have occurred as of the end of each accounting period, and amounts which have not been paid yet due to an unsettled amount for paying the Insurance Money, even if the causes for payment of the Insurance Money have already occurred; and (iii) amounts reserved by an insurance company for allocation to policyholders.

Pursuant to the regulations established by the Financial Services Commission, insurance companies are required to maintain allowances for outstanding loans, accounts receivables and other credits (including accrued income, payment on account, and bills receivables or dishonored) in an aggregate amount covering not less than 0.5% of normal credits, 2% of precautionary credits, 20% of substandard credits, 50% of doubtful credits and 100% of estimated loss credits, provided that the minimum ratio of allowances for certain type of outstanding loans by insurance companies to individuals and households (including, retail loans, housing loans, and other forms of retail loans extended to individuals not registered for business), is increased to 1% of normal credits, 10% of precautionary credits and 55% of doubtful credits . Furthermore, the regulations on insurance companies became more stringent in September 2010 by adding a requirement that insurance companies maintain allowance for bad debts in connection with real estate project financing loans in excess of 0.9% of normal credits and 7% of precautionary credits.

Variable Insurance and Bancassurance Agents

Variable insurance is regulated pursuant to the Insurance Business Act and the Financial Investment Services and Capital Markets Act. In order for an insurance company to sell variable insurance to a policyholder and operate such variable insurance, the insurance company must obtain a license with respect to collective investment business from the Financial Services Commission and register as a selling company with the Financial Services Commission. In this case, according to the Financial Investment Services and Capital Markets Act, an insurance company will be regulated as an investment trust and assets acquired in connection with variable insurance must be held by a trust company that is registered with the Financial Services Commission pursuant to the Financial Investment Services and Capital Markets Act.

According to the Financial Investment Services and Capital Markets Act, insurance companies may operate variable insurance through (i) mandating all of the management and the management instruction business to another asset management company, (ii) operating by way of discretionary investment all of the assets constituting the investment advisory assets out of the investment trust assets, or (iii) operating all of the investment trust assets into other collective investment securities, thereby allowing all of the particular variable insurance assets to be outsourced.

The Insurance Business Act permits banks, securities companies, credit card companies and other financial institutions to register as insurance agents or insurance brokers and engage in the insurance business (the Bancassurance Agents), who are currently permitted to sell all types of life and non-life insurance products, except for protection type insurance products, such as whole life insurance, critical illness insurance and automobile insurance.

Restrictions on Investment of Assets

According to the Insurance Business Act, insurance companies are prohibited from making any of the following investment of assets:

owning any real estate (excluding any real estate owned as a result of enforcing their own security interest) other than real estate for conducting its business as designated by the Presidential Decree. In any

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case, the total amount of real estate owned by an insurance company must not exceed 15% of its Total Assets, provided that investment in real estate for a separate account is limited to 15% of the assets of such separate account;

loans made for the purpose of speculation in commodities or securities;

loans made directly or indirectly to enable a natural or legal person to buy their own shares;

loans made directly or indirectly to finance political campaigns and other similar activities; and

loans made to any of the insurance company s officers or employees other than loans based on insurance policy or de minimis loans of up to (1) 20 million in the case of a general loan, (2) 50 million in the case of a general loan plus a housing loan, or (3) 60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions.

In addition, insurance companies are not allowed to exceed the following limits in making the following investments:

with respect to holding foreign currency under the Foreign Exchange Transaction Act or owning offshore real estate, 30% of its Total Assets; and

with respect to the sum of margins for a futures exchange designated by the Presidential Decree or a foreign futures exchange, and commitment amounts of over-the-counter derivatives must not exceed 6% of its Total Assets, provided that the over-the-counter derivative trades are limited to 3%. The derivatives trades of a separate account are limited to 6% of the assets of separate account, provided that the over-the-counter derivatives trades are limited to 3%.

U.S. Regulations

As substantially all of our, and our subsidiaries , operations are in Korea, we are primarily subject to the regulations and supervision of the Financial Services Commission and the Financial Supervisory Service. Our subsidiaries, however, have limited operations in the United States, and we own a bank in the United States. Therefore, we and our U.S. operations are subject to U.S. supervision, regulation and enforcement by relevant authorities in the United States with regard to our U.S. operations.

U.S. Banking Regulations

Our operations in the United States are subject to a variety of regulatory regimes. Shinhan Bank maintains an uninsured branch in New York, which is licensed by the state banking authority of the State of New York. Shinhan Bank s New York branch is subject to regulation and examination by its licensing authority, the New York State Department of Financial Services (Department). In addition, the Board of Governors of the Federal Reserve System (the Federal Reserve) exercises examination and regulatory authority over Shinhan Bank s U.S. branch. We also own a non-member state chartered bank, Shinhan Bank America, which is regulated by the Department, as its chartering authority, and by the Federal Deposit Insurance Corporation (FDIC), as its primary federal banking regulator and as the insurer of its deposits. Our U.S. branch and U.S. bank subsidiary are subject to restrictions on their respective activities, as well as prudential restrictions, such as limits on extensions of credit to a single borrower, and restrictions on transactions with affiliates, among other things. We are also a financial holding company and a bank holding company under U.S. banking laws and our U.S. operations are subject to regulation, supervision and enforcement by the Federal Reserve.

Shinhan Bank s U.S. Branch

The Department, as the licensing authority of Shinhan Bank s U.S. branch, has the authority, in certain circumstances, to take possession of the business and property of Shinhan Bank located in New York. Such circumstances generally include violations of law, unsafe business practices and insolvency. If the Department exercised this authority over the New York branch of Shinhan Bank, all assets of Shinhan Bank located in New York would generally be applied first to satisfy creditors of the New York branch. Any remaining assets would be applied to satisfy

creditors of other U.S. offices of Shinhan Bank, after which any residual assets of the New York branch would be returned to the principal office of Shinhan Bank, and made available for application pursuant to any Korean insolvency proceeding.

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Financial Holding Company

Because we operate a U.S. branch and have a subsidiary bank in the U.S., our nonbanking activities in the United States are subject to regulation by the Federal Reserve pursuant to the International Banking Act of 1978, the Bank Holding Company Act of 1956 (the BHC Act), and other laws. We have elected to be a financial holding company under the BHC Act. Financial holding companies may engage in a broader spectrum of activities than bank holding companies or foreign banking organizations that are not financial holding companies, including underwriting and dealing in securities. To maintain our financial holding company status, (i) we and our U.S. subsidiary bank located in New York are required to be well capitalized , (ii) our U.S. branch and our U.S. subsidiary bank located in New York are required to meet certain examination ratings, and (iii) our subsidiary bank in New York is required to maintain a rating of at least satisfactory under the Community Reinvestment Act of 1977 (the CRA).

A major focus of U.S. governmental policy relating to financial institutions in recent years has been aimed at fighting money laundering and terrorist financing. Regulations applicable to us and our subsidiaries impose obligations to maintain effective policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identities of clients. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious consequences for the firm, both in legal terms and in terms of our reputation.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was enacted on July 21, 2010 in response to the financial crisis, impacts the financial services industry by addressing, among other issues, systemic risk oversight, bank capital standards, the liquidation of failing systemically significant important institutions, OTC derivatives, the ability of banking entities, including non-U.S. banks with branches in the U.S., like us, to engage in proprietary trading activities and invest in hedge funds and private equity (the so-called Volcker rule), consumer and investor protection, hedge fund registration, securitization, investment advisors, shareholder say on pay, the role of credit-rating agencies, and more. The Dodd-Frank Act requires various federal banking and financial regulatory authorities to adopt a broad range of implementing rules and regulations. Such authorities have significant discretion in drafting the implementing rules and regulations and, consequently, the full impact of the Dodd-Frank Act may not be known for years.

The Dodd-Frank Act provides regulators with tools to impose greater capital, leverage and liquidity requirements and other prudential standards, particularly for financial institutions that pose significant systemic risk and bank holding companies with greater than $50 billion in assets. In imposing such heightened prudential standards on non-U.S. banks such as us, the Federal Reserve Board is directed to take into account the principle of national treatment and equality of competitive opportunity, and the extent to which the foreign bank holding company is subject to comparable home country standards. In December 2012, the Federal Reserve Board issued a notice of proposed rulemaking to apply enhanced prudential standards and an early remediation framework to foreign banking organizations, or FBOs, like us with $50 billion or more in total global consolidated assets. The proposed rule would result in significant changes to the way that the U.S. operations of FBOs are supervised by the Federal Reserve within the United States. In particular, the proposal would:

- require an FBO with both $50 billion or more in total global consolidated assets and combined U.S. assets (excluding the total assets of each U.S. branch and agency) of $10 billion or more to establish a U.S. top-tier intermediate holding company (IHC) over all U.S. bank and nonbank subsidiaries subject to the proposal;

- subject an FBO s IHC to the same capital adequacy standards, including minimum risk based capital and leverage requirements, as those applicable to U.S. bank holding companies;

- require an FBO with combined U.S. assets of $50 billion or more to have its U.S. operations satisfy certain liquidity risk management standards, conduct liquidity stress tests, and maintain a 30-day buffer of highly liquid assets, and an FBO with combined U.S. assets of less than $50 billion would be required to conduct an internal liquidity stress test and report the results to the Federal Reserve Board on an annual basis; and

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subject the largest FBOs with the most significant U.S. operations (*i.e.*, those FBOs with $50 billion or more in total global consolidated assets and $50 billion or more in combined U.S. assets, excluding the assets of their U.S. branch and agency networks) to heightened compliance obligations with respect to capital plans and capital stress testing.

The proposal also includes requirements relating to single-counterparty credit limits, overall risk management, debt-to-equity limits, and early remediation for the U.S. operations of FBOs. FBOs with total global consolidated assets of $50 billion or more as of July 1, 2014 will be subject to the proposed rules starting on July 1, 2015. The full impact of these enhanced prudential requirements on our business will not be known with certainty until final regulations have been adopted.

Shinhan Bank America

Shinhan Bank America, a state chartered bank that is located in New York and is not a member of the Federal Reserve, is subject to extensive regulation and examination by the Department, as its chartering authority, and by the FDIC, as the insurer of its deposits and as its primary federal banking regulator. The federal and state laws and regulations which are applicable to banks regulate, among other things, the activities in which they may engage and the locations at which they may engage in them, their investments, their reserves against deposits, the timing of the availability of deposited funds and transactions with affiliates, among other things. Shinhan Bank America must file reports with the Department and the FDIC concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions, such as establishing branches and mergers with, or acquisitions of, other depository institutions. The Department and the FDIC periodically examine the bank to test Shinhan Bank America s safety and soundness and its compliance with various regulatory requirements. This comprehensive regulatory and supervisory framework restricts the activities in which a bank can engage and is intended primarily for the protection of the FDIC insurance fund and the bank s depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves. Any change in such regulations, whether by the Department, the FDIC or as a result of the enactment of legislation, could have a material adverse impact on Shinhan Bank America and its operations.

Capital Requirements. The FDIC imposes capital adequacy standards on state-chartered banks like Shinhan Bank America. In order to be considered adequately capitalized , the FDIC s current capital regulations require a minimum 3.0% Tier I leverage capital requirement for the most highly-rated state-chartered, non-member banks, with an additional cushion of at least 100 basis points required for all other state-chartered, non-member banks, which effectively will increase the minimum Tier I leverage ratio for such other banks to 4.0%. Under the FDIC s regulation, the highest-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, which are considered a strong banking organization and are rated composite 1 under the Uniform Financial Institutions Rating System. Tier I or core capital is defined as the sum of common stockholders equity (including retained earnings), non-cumulative perpetual preferred stock and related surplus, and minority interests in consolidated subsidiaries, minus all intangible assets other than certain qualifying supervisory goodwill and certain mortgage servicing rights.

The FDIC also requires that banks meet a risk-based capital standard. The current risk-based capital standard for banks requires, in order to be adequately capitalized , the maintenance of a ratio of total capital (which is defined as Tier I capital and supplementary capital) to risk-weighted assets of 8.0% and Tier I capital to risk-weighted assets of 4%. In determining the amount of risk-weighted assets, all assets, plus certain off-balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item. The components of Tier I capital are the same as for the leverage capital standard. The components of supplementary capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and general allowances for loan and lease losses. Allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital.

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In order for our U.S. bank subsidiary to be classified as well-capitalized , which is necessary in order for us to maintain our financial holding company status, it must have a Tier I leverage ratio of at least 5%, a Tier I risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10%. Furthermore, banks are generally encouraged to maintain even higher levels of capital during the current period of economic difficulty.

As of December 31, 2012, Shinhan Bank America exceeded all of the capital ratio standards for a well-capitalized bank with a Tier I leverage ratio of 10.91%, a Tier I risk-based capital ratio of 16.82% and a total risk-based capital ratio of 18.09%.

The current FDIC capital adequacy guidelines will be modified in accordance with Basel III. In June 2012, the Federal Reserve, the FDIC and the Office of the Comptroller of the Currency issued three proposed rules (the Proposed Rules) that would substantially revise the federal banking agencies current capital rules and implement Basel III. The Proposed Rules, if adopted, will, among other things, narrow the definition of capital, and increase capital requirements for specific exposures. They also include higher capital ratio requirements. In addition, consistent with the Dodd-Frank Act, they remove references to, or requirements of reliance on, credit ratings in the capital rules and replace them with alternative standards of creditworthiness. Although the final rules have not been released, based on the Proposed Rules, Shinhan Bank America s current capital ratios are more than sufficient to satisfy any reasonably anticipated increase.

Activities and Investments of New York-Chartered Banks. Shinhan Bank America derives its lending, investment and other authority primarily from the applicable provisions of New York State Banking Law and the regulations of the Department, as well as FDIC regulations and other federal laws and regulations. See Activities and Investments of FDIC-Insured State-Chartered Banks below. These New York laws and regulations authorize Shinhan Bank America to invest in real estate mortgages, consumer and commercial loans, certain types of debt securities, including certain corporate debt securities and obligations of federal, State and local governments and agencies, and certain other assets. A bank s aggregate lending powers are not subject to percentage of asset limitations, but, as discussed below, there are limits on the amount of credit exposure that a bank may have to a single borrower or group of related borrowers. A New York-chartered bank may also exercise trust powers upon approval of the Department. Shinhan Bank America does not have trust powers.

With certain limited exceptions, Shinhan Bank America may not make loans or extend credit for commercial, corporate or business purposes (including lease financing) to a single borrower, the aggregate amount of which would be in excess of 15% of Shinhan Bank America s net worth, on an unsecured basis, and 25% of the net worth if the excess is collateralized by readily marketable collateral or collateral otherwise having a value equal to the amount by which the loan exceeds 15% of Shinhan Bank America s net worth. In calculating the amount of outstanding loans or credit to a particular borrower for this purpose, Shinhan Bank America must include its credit exposure arising from derivative transactions with that borrower.

Activities and Investments of FDIC-Insured State-Chartered Banks. The activities and equity investments of FDIC-insured, state-chartered banks are generally limited to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank may, among other things, (i) acquire or retain a majority interest in a subsidiary that is engaged in activities that are permissible for the bank itself to engage in, (ii) invest as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank s total assets, and (iii) acquire up to 10% of the voting stock of a company that solely provides or reinsures directors , trustees and officers liability insurance coverage or bankers blanket bond group insurance coverage for insured depository institutions. In addition, an FDIC-insured state-chartered bank may not directly, or indirectly through a subsidiary, engage as principal in any activity that is not permissible for a national bank unless the FDIC has determined that such activities would pose no risk to the insurance fund of which it is a member and the bank is in compliance with applicable regulatory capital requirements.

Regulatory Enforcement Authority. Applicable banking laws include substantial enforcement powers available to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against

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banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

Under the New York State Banking Law, the Department may issue an order to a New York-chartered banking institution to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices and to keep prescribed books and accounts. Upon a finding by the Department that any director, trustee or officer of any banking organization has violated any law, or has continued unauthorized or unsafe practices in conducting the business of the banking organization after having been notified by the Department to discontinue such practices, such director, trustee or officer may be removed from office by the Department after notice and an opportunity to be heard. The Department also may take possession of a banking organization under specified statutory criteria.

Prompt Corrective Action. Section 38 of the Federal Deposit Insurance Act (FDIA) provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators powers depends on whether the institution in question is well capitalized , adequately capitalized , undercapitalized , significantly undercapitalized or critica undercapitalized . A bank is deemed to be (i) well capitalized if it has total risk-based capital ratio of 10.0% or more, has a Tier I risk-based capital ratio of 6.0% or more, has a Tier I leverage capital ratio of 5.0% or more and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure, (ii) adequately capitalized if it has a total risk-based capital ratio of 8.0% or more, a Tier I risk-based capital ratio of 4.0% or more and a Tier I leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of well capitalized , (iii) undercapitalized if it has a total risk-based capital ratio that is less than 8.0%, a Tier I risk-based capital ratio that is less than 4.0% or a Tier I leverage capital ratio that is less than 4.0% (3.0% under certain circumstances), (iv) significantly undercapitalized if it has a total risk-based capital ratio that is less than 6.0%, a Tier I risk-based capital ratio that is less than 3.0% or a Tier I leverage capital ratio that is less than 3.0%, and (v) critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. The regulations also provide that a federal banking regulator may, after notice and an opportunity for a hearing, reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category if the institution is in an unsafe or unsound condition or engaging in an unsafe or unsound practice. The federal banking regulator may not, however, reclassify a significantly undercapitalized institution as critically undercapitalized.

An institution generally must file a written capital restoration plan which meets specified requirements, as well as a performance guaranty by each company that controls the institution, with an appropriate federal banking regulator within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. Immediately upon becoming undercapitalized, an institution becomes subject to statutory provisions, which, among other things, set forth various mandatory and discretionary restrictions on the operations of such an institution.

FDIC Insurance. Shinhan Bank America is a member of the FDIC. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the FDIC.

In the past four years, there have been many failures and near-failures among financial institutions. The FDIC insurance fund reserve ratio, representing the ratio of the fund to the level of insured deposits, declined due to losses caused by bank failures and the FDIC then increased its deposit insurance premiums on remaining institutions in order to replenish the insurance fund. The FDIC insurance fund balance increased throughout 2010 and turned positive in 2011. The Dodd-Frank Act requires the FDIC to increase the ratio of the FDIC insurance fund to estimated total insured deposits to 1.35% by September 30, 2020. If bank failures in the future are more costly than the FDIC currently anticipates, then the FDIC will be required to continue to impose higher insurance

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premiums. Such an increase would increase our non-interest expense. Thus, despite the prudent steps Shinhan Bank America may take to avoid the mistakes made by other banks, its costs of operations may increase as a result of those mistakes by others.

As required by the Dodd-Frank Act, the FDIC revised its deposit insurance premium assessment rates. In general, the rates are applied to a bank s total assets less tangible capital, in contrast to the former rule which applied the assessment rate to a bank s amount of deposits. The FDIC believes that while the largest banks will face higher assessments under the new system than they would under the former system, most banks, including Shinhan Bank America, will pay a lower total assessment under the new system than they would have paid under the former system.

As a result of the Dodd-Frank Act, the increase in the standard FDIC insurance limit from $100,000 to $250,000 was made permanent. Since the Dodd-Frank Act also authorized banks to pay interest on commercial demand deposits, commercial depositors currently must choose between earning interest on their demand deposits or having the benefit of unlimited deposit insurance coverage.

The FDIC may terminate the deposit insurance of any insured depository institution, including Shinhan Bank America, if it determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances that would result in termination of Shinhan Bank America s deposit insurance.

Brokered Deposits. Under federal law and applicable regulations, (i) a well capitalized bank may solicit and accept, renew or roll over any brokered deposit without restriction, (ii) an adequately capitalized bank may not accept, renew or roll over any brokered deposit unless it has applied for and been granted a waiver of this prohibition by the FDIC and (iii) an undercapitalized bank may not (x) accept, renew or roll over any brokered deposit or (y) solicit deposits by offering an effective yield that exceeds by more than 75 basis points the prevailing effective yields on insured deposits of comparable maturity in such institution s normal market area or in the market area in which such deposits are being solicited. The term undercapitalized insured depository institution is defined to mean any insured depository institution that fails to meet the minimum regulatory capital requirement prescribed by its appropriate federal banking agency. The FDIC may, on a case-by-case basis and upon application by an adequately capitalized insured depository institution, waive the restriction on brokered deposits upon a finding that the acceptance of brokered deposits does not constitute an unsafe or unsound practice with respect to such institution. Shinhan Bank America had an aggregate amount of $8.1 million of brokered deposits outstanding at December 31, 2012.

Community Reinvestment and Consumer Protection Laws. In connection with its lending activities, Shinhan Bank America is subject to a variety of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. Included among these are the Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, Truth-in-Lending Act, Equal Credit Opportunity Act, Fair Credit Reporting Act and CRA.

The CRA requires FDIC insured banks to define the assessment areas that they serve, identify the credit needs of those assessment areas and take actions that respond to the credit needs of the community. The FDIC must conduct regular CRA examinations of Shinhan Bank America and assign it a CRA rating of outstanding, satisfactory, needs improvement or unsatisfactory. Shinhan Bank America is also subject provisions of the New York State Banking Law which impose similar obligations to serve the credit needs of its assessment areas. The Department and the FDIC each periodically assess a bank s compliance, and make the assessment available to the public. Federal and New York State laws both require consideration of these ratings when reviewing a bank s application to engage in certain transactions, including mergers, asset purchases and the establishment of branch offices. A negative assessment may serve as a basis for the denial of any such application. Shinhan Bank America has received satisfactory ratings from both the Department and the FDIC.

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The Dodd-Frank Act created a new federal Consumer Financial Protection Bureau (Bureau) with broad authority to regulate and enforce consumer protection laws. The Bureau has the authority to adopt regulations under numerous existing federal consumer protection statutes. The Bureau may also decide that a particular consumer financial product or service, or the manner in which it is offered, is an unfair, deceptive, or abusive act or practice. If the Bureau so decides, it has the authority to outlaw such act or practice. The FDIC enforces the regulations of the Bureau with regard to Shinhan Bank America.

Limitations on Dividends. The payment of dividends by Shinhan Bank America is subject to various regulatory requirements. Under New York State Banking Law, a New York-chartered stock bank may declare and pay dividends out of its net profits, unless there is an impairment of capital, but approval of the Superintendent of Banks is required if the total of all dividends declared in a calendar year would exceed the total of its net profits for that year combined with its retained net profits of the preceding two years, subject to certain adjustments.

Assessments. Banking institutions are required to pay assessments to both the FDIC and the Department to fund the operations of those agencies. The assessments are based upon the amount of Shinhan Bank America s total assets. Shinhan Bank America must also pay an examination fee to the Department when they conduct an examination.

Transactions with Related Parties. Shinhan Bank America s authority to engage in transactions with related parties or affiliates (i.e., any entity that controls or is under common control with an institution) or to make loans to certain insiders is limited by Sections 23A and 23B of the Federal Reserve Act. Section 23A limits the aggregate amount of transactions with any individual affiliate to 10% of the capital and surplus of the institution and also limits the aggregate amount of transactions with all affiliates to 20% of the institution s capital and surplus. The term affiliate includes, for this purpose, us and any company that we control other than Shinhan Bank America and its subsidiaries.

Loans to affiliates must be secured by collateral with a value that depends on the nature of the collateral. The purchase of low quality assets from affiliates is generally prohibited. Loans and asset purchases with affiliates, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with nonaffiliated companies. In the absence of comparable transactions, such transactions may only occur under terms and circumstances, including credit standards that in good faith would be offered to or would apply to nonaffiliated companies. Shinhan Bank America s authority to extend credit to executive officers, directors and 10% shareholders, as well as entities controlled by such persons, is currently governed by Regulation O of the Federal Reserve Board. Regulation O generally requires such loans to be made on terms substantially similar to those offered to unaffiliated individuals (except for preferential loans made in accordance with broad based employee benefit plans), places limits on the amount of loans Shinhan Bank America may make to such persons based, in part, on Shinhan Bank America s capital position, and requires certain approval procedures to be followed.

Standards for Safety and Soundness. FDIC regulations require that Shinhan Bank America adopt procedures and systems designed to foster safe and sound operations in the areas of internal controls, information systems, internal and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings and compensation, fees and benefits. Among other things, these regulations prohibit compensation and benefits and arrangements that are excessive or that could lead to a material financial loss. If Shinhan Bank America fails to meet any of these standards, it will be required to submit to the FDIC a plan specifying the steps that will be taken to cure the deficiency. If it fails to submit an acceptable plan or fails to implement the plan, the FDIC will require it to correct the deficiency and until corrected, may impose restrictions on it.

The FDIC has also adopted regulations that require Shinhan Bank America to adopt written loan policies and procedures that are consistent with safe and sound operation, are appropriate for its size, and must be reviewed by its Board of Directors annually. Shinhan Bank America has adopted such policies and procedures, the material provisions of which are discussed above as part of the discussion of our lending operations.

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U.S. regulation of other U.S. operations

In the United States, Shinhan Investment America Inc., our U.S.-registered broker-dealer subsidiary, is subject to regulations that cover all aspects of the securities business, including, sales methods, trade practices among broker-dealers, use and safekeeping of clients funds and securities, capital structure; record-keeping, the financing of clients purchases, and the conduct of directors, officers and employees.

Shinhan Investment America Inc. is regulated by a number of different government agencies and self-regulatory organizations, including the SEC and the Financial Industry Regulatory Authority (FINRA). Each such entity also is regulated by some or all of the NYSE, the Municipal Securities Rulemaking Board, the U.S. Department of the Treasury, the Federal Reserve, the Commodities Futures Trading Commission. In addition, the U.S. states, provinces and territories have local securities commissions that regulate and monitor activities in the interest of investor protection. These regulators have a variety of sanctions available, including the authority to conduct administrative proceedings that can result in censure, fines, the issuance of cease-and-desist orders or the suspension or expulsion of the broker-dealer or its directors, officers or employees.

FINRA is dedicated to investor protection and market integrity through effective and efficient regulation and complementary compliance and technology-based services. FINRA covers a broad spectrum of securities businesses, including, registering and educating industry participants, examining securities firms, writing rules, enforcing those rules and the federal securities laws, informing and educating the investing public, providing trade reporting and other industry utilities, and administering a dispute resolution forum for investors and registered firms. It also performs market regulation under contract for the NASDAQ Stock Market, the American Stock Exchange and the Chicago Climate Exchange.

Many of the provisions of the Dodd-Frank Act discussed above will affect the operation of Shinhan Investment America, as well as our U.S. banking operations. Again, the impact of this statute on our operations will depend on the final regulations ultimately adopted by various agencies and oversight boards in 2011 and 2012.

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ITEM 4.C. Organizational Structure

As of the date hereof, we have 13 direct and 18 indirect subsidiaries. The following diagram provides an overview of our organizational structure, including our significant subsidiaries and our ownership of such subsidiaries as of the date of this annual report:

All of our subsidiaries are incorporated in Korea, except for the following:

Shinhan Asia Limited (incorporated in Hong Kong);

Shinhan Bank America (incorporated in the United States);

Shinhan Bank Canada (incorporated in Canada);

Shinhan Bank (China) Limited (incorporated in the People s Republic of China);

Shinhan Bank Europe GmbH (incorporated in Germany);

Shinhan Bank Kazakhstan Limited (incorporated in Kazakhstan);

Shinhan Bank Japan (incorporated in Japan);

Shinhan Khmer Bank Limited (incorporated in Cambodia);

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Shinhan Bank Vietnam Ltd. (incorporated in Vietnam);

Shinhan Investment Corp., Europe Ltd. (incorporated in the United Kingdom);

Shinhan Investment Corp., USA Inc. (incorporated in the United States);

Shinhan Investment Corp., Asia Ltd. (incorporated in Hong Kong); and

Shinhan BNP Paribas Asset Management (Hong Kong) Limited (incorporated in Hong Kong).

ITEM 4.D. Properties

The following table provides information regarding certain of our properties in Korea.

		Area (In square meters)	
Type of Facility	**Location**	**Building**	**Site (If Different)**
Registered office and corporate headquarters	120, 2-Ga, Taepyung-Ro, Jung-Gu, Seoul 100-102, Korea	59,519	5,418
Shinhan Investment Corp.	23-2, Youido-Dong, Youngdungpo-Gu, Seoul, Korea 150-312	70,170	4,765
Shinhan Centennial Building	117, Samgak-Dong, Jung-Gu, Seoul, Korea	19,697	1,389
Shinhan Bank Gwanggyo Branch	14, 1-Ga, Namdaemun-Ro, Jung-Gu, Seoul, Korea	16,727	6,783
Shinhan Myongdong Branch	53-1, 1-Ga, Myong-Dong, Jung-Gu, Seoul, Korea	8,936	1,014
Shinhan Youngdungpo Branch	57, 4-Ga, Youngdungpo-Dong, Youngdungpo-Gu, Seoul, Korea	6,171	1,983
Shinhan Back Office Support Center	781, Janghang-Dong, Ilsan-Gu, Goyang-Si, Kyunggi Province, Korea	24,496	5,856
Shinhan Bank Back Office and Call Center	731, Yoksam-Dong, Kangnam-Gu, Seoul, Korea	23,374	7,964
Shinhan Bank Back Office and Storage Center	210-12, Bangseo-Dong, Sangdang-Gu, Cheongju-Si, Chungcheongbuk-Do, Korea	6,094	5,376
Shinhan Card Yoksam-Dong Building	790-5, Yoksam-Dong, Kangnam-Gu, Seoul, Korea	7,348	1,185

Our subsidiaries own or lease various land and buildings for their branches and sales offices.

As of December 31, 2012, Shinhan Bank had a countrywide network of 949 branches. Approximately 24.9% of these facilities were housed in buildings owned by us, while the remaining branches were leased properties. As of December 31, 2012, Jeju Bank had 39 branches of which we own 18 of the buildings in which the facilities are located, representing 46% of its total branches. Lease terms are generally from two to three years, and seldom exceed five years.

As of December 31, 2012, Shinhan Card had 40 branches, all but one of which were leased. Lease terms are generally from one to two years. We also lease Shinhan Card s headquarters for a term of five years. As of December 31, 2012, Shinhan Investment had 103 branches of which we own eight of the buildings in which the facilities are located, representing 8% of its total branches. Lease terms are generally from one to two years. As of December 31, 2012, Shinhan Life had 225 branches which we leased for a term of generally two to three years.

The net book value of all the properties owned by us at December 31, 2012 was 2,587 billion. We do not own any material properties outside of Korea.

ITEM 4.E. Unresolved Staff Comments

We do not have any unresolved comments from the staff of the U.S. Securities and Exchange Commission regarding our periodic reports under the Securities Exchange Act of 1934, as amended.

ITEM 5. *OPERATING AND FINANCIAL REVIEW AND PROSPECTS*

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and notes thereto included in this annual report. The following discussion is based on our consolidated financial statements, which have been prepared in accordance with IFRS.

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ITEM 5.A. Operating Results

Overview

We are one of the leading financial institutions in Korea in terms of total assets, revenues, profitability and capital adequacy, among others. Incorporated on September 1, 2001, we are the first privately-held financial holding company to be established in Korea. Since inception, we have developed and introduced a wide range of financial products and services in Korea and aimed to deliver comprehensive financial solutions to clients through a convenient one-portal network. According to reports by the Financial Supervisory Service, we are one of the three largest financial services providers in Korea as measured by total assets as of December 31, 2012 and operate the third largest banking business (as measured by consolidated total assets as of December 31, 2012) and the largest credit card business (as measured by the total credit purchase volume as of December 31, 2012) in Korea.

Most of our assets are located in, and we generate most of our income from, Korea. Accordingly, our business and profitability are largely dependent on the general economic and social conditions in Korea, including interest rates, inflation, exports, personal expenditures and consumption, unemployment, demand for business products and services, debt service burden of households and businesses, the general availability of credit, the asset value of real estate and securities and other factors affecting the financial well-being of our corporate and retail customers. The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. In recent years, the global economy and financial markets experienced hardship, which also had a negative impact on the Korean economy and in turn on our business and profitability. See Item 3.D. Risk Factors Risks Relating to our Banking Business Difficult conditions and turbulence in the Korean and global economy and financial markets may adversely affect our business, asset quality, capital adequacy and earnings .

The ongoing fiscal and financial difficulties affecting Europe and elsewhere in the world and the slow economic recovery in Korea and globally continue to present a number of difficulties and challenges for financial institutions in Korea, including us, particularly in the form of deterioration in asset quality as an increasing number of corporate borrowers face liquidity difficulties and are forced to undergo restructuring, sometimes under the guidance of the Government. For example, Shinhan Bank s delinquency ratio increased from 0.48% as of December 31, 2010 to 0.60% as of December 31, 2011 and 0.61% as of December 31, 2012, primarily as a result of increased delinquency among corporate borrowers (including Kukdong Engineering & Construction Co. and Woongjin Holdings Co., Ltd., both of which applied for court receivership in September 2012), particularly in the construction and real estate leasing business due to the continued slump in the Korean real estate market. In contrast to the corporate section, the ongoing economic sluggishness has had a less severe impact on our retail businesses, particularly in our retail banking and credit card businesses. This was largely because our retail loans are mostly mortgage and home equity loans collateralized by residential properties and individuals and households traditionally are less prone to default on mortgage and home equity loans. Nonetheless, Shinhan Bank s delinquency ratio for the retail sector increased from 0.30% as of December 31, 2010 to 0.39% as of December 31, 2011 and 0.53% as of December 31, 2012 primarily due to increased delinquency among retail borrowers in relation to certain primary housing loans resulting from the sustained slump in the housing market. As for our credit card business, Shinhan Card s delinquency ratio increased from 2.0% as of December 31, 2010 to 2.3% as of December 31, 2011 and 2.6% as of December 31, 2012 due primarily to an increase in its operating assets.

We derive most of our income from interest earned on our corporate and retail loans, net of funding costs (which primarily consist of interest payable on customer deposits). Net interest income is largely a function of the average volume of loans and the net interest spread thereon. Since 2010 as the immediate impact of the recent global financial crisis subsided somewhat, our average volume of loans and deposits increased. The average volume of loans increased largely as we continued to make secured housing loans while reducing exposure to unsecured lending, and corporate customers increasingly came to rely on bank loans as a source of funding due to difficulties in finding alternative sources of funding in capital markets due to the credit crisis and the volatility in financial markets.

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From 2010 to 2011, the average rate on interest-earning assets increased faster than the average yield on interest-bearing liabilities and the volume effect (related to the net changes in the average balance of interest-earning assets relative to that of interest-bearing liabilities) outweighed the rate effect (related to the net changes in the average rate of interest payable on interest-earning assets relative to that of interest-bearing liabilities). Accordingly, Shinhan Bank s net interest income increased from 4,590 billion in 2010 to 4,971 billion in 2011. Net interest income after provision for loan losses increased from 3,464 billion in 2010 to 4,324 billion in 2011 principally due to a decrease in provision for loan losses resulting from a reduction of borrowers subject to restructuring due following a large-scale fast-track restructuring undertaken in 2010 and an overall improvement in asset quality of loans due to Shinhan Bank s enhanced risk management policies. As a result, Shinhan Bank s operating income also increased from 2,193 billion in 2010 to 2,673 billion in 2011.

From 2011 to 2012, both the average yield on interest-earning assets and the average rate on interest-bearing liabilities decreased (with the former decreasing more sharply than the latter due to the relative difference in maturity profiles) while the average balance increased for both interest-earning assets and interest-bearing liabilities. Largely due to the greater decrease in the average yield on interest-earning assets compared to that for the average rate on interest-bearing liabilities, Shinhan Bank s net interest income decreased from 4,971 billion in 2011 to 4,751 billion in 2012. Net interest income after provision for loan losses amounted to 4,325 billion and 3,933 billion in 2011 and 2012, respectively. Shinhan Bank s operating income also decreased from 2,673 billion in 2011 to 2,071 billion in 2012.

As for Shinhan Card, its net interest income is largely dependent on the transaction volume and less sensitive to interest rate movements than our banking business, since merchant fees (representing a fixed percentage of a credit card purchase amount) provide a stable source of income and our credit card business enjoys more diversified sources of funding, including commercial paper, corporate debentures (which have maturities longer than most bank deposit products) and asset-backed securitizations. The credit card transaction volume is largely dependent on the overall trends of the general economy, such as general consumer spending patterns. As a result, operating revenue for Shinhan Card increased from to 4,264 billion in 2010 to 4,526 billion in 2011, largely due to the increased volume of credit card loans, and remained largely stable from 4,526 billion in 2011 to 4,599 billion in 2012, largely due to the increased volume of credit card loans, which was substantially offset by a reduction in merchant fee rates.

The following provides a discussion of the major trends surrounding the general economy and the financial services sector in Korea in 2012 and our current outlook for 2013 as they relate to our core businesses. The following discussion represents the subjective view of our management and may significantly differ from the actual results for 2013.

Recent Developments and Outlook for Korean Economy

In 2012, the Korean economy grew at a slow rate of 2.0% largely due to continued sluggishness in export growth due to the ongoing weakness in major developed economies as well as a cooling in domestic consumption in tandem with an increased level of household debt and continued sluggishness in the real property market. In order to mitigate the impact of deteriorating consumer and investor sentiment and unfavorable exchange rates and to stabilize the Korean economy and financial markets, the Bank of Korea incrementally lowered the base interest rate from 3.25% in 2011 to 3.00% and 2.75% in July and October of 2012, respectively. A decline in interest rates generally results in deterioration of Shinhan Bank s net interest margin. See *Interest Rates* below.

We do not expect the global economy to experience a drastic recovery in 2013. While the U.S. economy has experienced certain positive developments in its economic indicators, it continues to face high levels of unemployment and fiscal uncertainties, which may prevent it from experiencing rapid recovery. Europe is expected to continue to undergo fiscal austerity and deleveraging measures, which may lead to further deepening of the current recession, and there remains substantial uncertainty as to whether the fiscal and financial crisis in Europe will be favorably resolved. Chinese and Indian economies also show symptoms of cooling, and it remains unclear whether other emerging economies will be able to provide a buffer effect against the sluggishness in the major global markets, such as the United States and Europe.

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Given the export-dependent nature of the Korean economy, the uncertainties in the global economic outlook are expected to continue to dampen chances for substantial economic growth in Korea, even if Korea becomes successful in controlling inflation. Accordingly, we expect the Korean economy to continue to post a low growth rate in 2013, and potentially a significantly lower rate compared to 2012, if the fiscal and financial crisis in Europe and elsewhere were to escalate and/or other major economies in the U.S. or China were to remain stagnant.

Recent Developments and Outlook for the Korean Financial Sector

Commercial Banking

In 2012, major commercial banks in Korea experienced a positive growth in total loan volume, but we expect that such growth will be limited in 2013 due to the expected sluggishness in the global, and in turn, Korean, economy. In terms of asset quality and profitability, Korean commercial banks generally experienced negative growth in 2012 due to the continued sluggishness in the real estate and other industries as well as the low interest-rate environment. In 2013, these banks may experience further reduced profitability due to an increase in delinquency and default rates and higher provisioning for loans, especially if the general economy continues to experience limited growth or remain stagnant overall.

On the regulatory side, we expect the Government to continue to introduce measures that are designed to further strengthen the asset quality of commercial banks as well as protect and assist consumers of financial services, including commercial banking services, such as by reducing or eliminating service fees. We believe that such measures will likely reduce asset growth and profitability of commercial banks, including Shinhan Bank.

We expect competition to further intensify in light of the recent acquisition of Korea Exchange Bank by Hana Financial Group and the expansion of retail operations by former specialized policy banks, such as National Agricultural Cooperative Federation and Industrial Bank of Korea. Competition is expected to be particularly intense in the area of asset management as more financial service providers enter into this business area to gain market share.

In light of the expected continuation of slow growth in the Korean economy in 2013, which may result in further deterioration of overall asset quality, coupled with the continued enhancement of regulatory scrutiny, we plan to continue to implement proactive risk management policies by conservatively managing loan growth and focusing on high-quality assets.

Credit Cards

We believe that in 2013, notwithstanding the sluggishness in the general economy and weakened consumer sentiment, the credit card market will likely continue to grow due to inflation and the regulatory incentives for making small purchases. However, profitability may suffer as a result of new regulations requiring reductions in merchant fees charged by credit companies and restrictions on leveraging, as well as a rise in delinquency due to the sluggishness in the general economy.

On the regulatory side, the Government may introduce new measures to restrict issuances of new credit cards and to automatically cancel inactive credit cards, which together may limit the overall credit card limit. In addition, the Government is considering measures to bolster the use of debit cards (in lieu of credit cards) by way of tax incentives, which may curtail interest income generated from credit card use.

As for competition, due to restrictive regulations, competition is unlikely to intensify further but existing credit card companies may adopt more aggressive marketing campaigns to maintain or increase their market share, and new regulations restricting excessive marketing expenses may be ineffective in curtailing such aggressive campaigns.

As a result, we expect the credit card industry to experience a slowdown in revenue growth and profitability, and the ability to attract high quality customers, provide new product offerings, improve efficiency in marketing and customer service, expand incidental services and strengthen our risk management is expected to be key in maintaining revenue and profitability growth in 2013.

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Securities

In 2012, amid increased stock market volatility and low interest-rate environment, the market for asset management services grew substantially as investors sought a more balanced and stable pool of investment products such as portfolio investment products known as wrap accounts, equity and debt linked securities and monthly investment return products. In 2013, we believe securities firms will continue to focus on the asset management services market by offering new products and services. In addition, under changed regulations, the securities industry will also see the introduction of hedge funds and prime brokerage firms in Korea.

In 2013, we believe that the stock market will remain volatile, and there will be a continued focus on investor protection and risk management. In addition, technological advances such as mobile trading systems will continue to undercut brokerage fees charged by existing brokerage firms, which will incentivize securities firms to diversify their business models to increasingly focus on other revenue generating opportunities, such as investment banking and asset management.

On the regulatory side, in order to reduce liquidity risk, the Government continues to apply strict regulations to securities firms relying on call lending for funding purposes, which is likely to increase funding costs for securities companies. In addition, Government is expected to continue to introduce initiatives aimed at strengthening consumer protection, such as reduction of various fees, which may curtail derivative activities and reduce revenue and profit opportunities for securities firms. Furthermore, the Government is expected to delay adopting amendments to securities laws that would facilitate the formation of large-size investment banks, among other deregulatory measures, which may have the effect of impeding related plans prepared by existing securities companies in anticipation of such deregulation.

We believe that continued customer demand for investment products, the expansion of the pension fund market, the growth of the asset management market following the introduction of hedge funds in Korea and an increase in investment bank activities will be key to the continued growth in the securities industry in Korea in 2013.

Life Insurance

In 2013, we expect that life insurance companies will experience growth from increased demand for annuities and health insurance products related to the aging demographics, but that such growth will be limited by the anticipated sluggishness in the general economy, low interest rate environment and volatility in the financial markets.

On the regulatory side, the Government has introduced, or is expected to introduce, several measures that are expected to further improve the business environment for the life insurance industry. Some examples are (i) restrictions on the upfront payouts of commissions payable to insurance brokers on savings-type life insurance products and adoption of an amortized payment schedule of such commissions to streamline the incentives of insurance brokers (including setting a ceiling on the amount of amortizable commissions to of 50% of the upfront commissions paid and requiring the excess commissions paid as current expenses, effective April 2013), (ii) amendments to the Employee Retirement Benefit Security Act effective July 2012, which are expected to further foster growth in the retirement insurance market, namely by enabling individual retirement pension schemes and allowing insurance planners to market on behalf of retirement insurers and (iii) the adoption of the Privacy Act, effective September 2011, which, among others things, expands disclosure requirements for insurance companies, which is expected to curtail imperfect sales and bolster customer confidence in life insurance companies and their products.

Specialized Credit

The specialized credit business was introduced in Korea in August 1997. The specialized credit business generally involves providing a combination of four types of financing: equipment and facilities leasing, installment finance, new technology finance and credit card services, and sources funding primarily by issuing debentures and commercial papers rather than taking customer deposits. The specialized credit business generally targets customers with higher risk profile in return for higher return compared to customers of commercial banks, which makes risk management (including customer screening) a particularly key factor for the commercial success for this business.

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Due, in part, to the variety of services being offered and the broad range of potential customers, specialized credit providers often find it relatively easy to develop new customer segments and provide niche offerings. Due to the relatively low barriers of entry, however, competition is intense and is expected to further intensify as a result of the commencement of auto loan offerings by commercial banks and the expanded entry into personal loan markets by micro lenders.

In response to growing concerns regarding the high levels of household debt and the ability of retail customers to repay credit, the Government is expected to encourage lending at lower interest rates. Furthermore, the provisioning requirements for real-estate project financing by specialized credit providers have become stricter recently. As a result, enhanced risk management in the face of growing competition and more restrictive regulatory environment will be key to the profitability of specialized credit providers in 2013.

Asset Management

In 2012, fund formation activities by domestic asset managers largely stabilized as investor flight significantly subsided in the aftermath of the recent global financial crisis. In addition, due to the increased engagement of third-party investment management services by institutional investors, discretionary investment services experienced continued growth in 2012.

In 2013, we expect the activity level in the investment management industry to remain similar to the previous year due to uncertainties surrounding the domestic and international economy, with the exception of the discretionary investment market, which is expected to continue to grow due to expanded use of such services by large institutional investors, such as the National Pension Service. However, we expect to see further diversification of the services offered by this industry as customer needs continue to differentiate. Accordingly, the ability to offer new products that are tailored to differentiated customer needs, as well as to manage customer expectations for portfolio performance in the face of growing uncertainties in the general economy and financial markets, will be key to the revenue and profitability of asset management service companies.

Private Equity

Since the introduction of private equity funds in Korea at the end of 2004, the number of registered private equity funds with the Financial Supervisory Commission has increased. For example, in 2012, 226 private equity funds with an aggregate fund size of 40 trillion were registered compared to 181 private equity funds with an aggregate fund size of 31.8 trillion registered in 2011. As these funds increase their funding size, we expect them to diversify their investment focus, including to buyouts and restructuring of troubled companies.

On the regulatory side, the Government is expected to implement policies designed to foster the growth of domestic private equity funds. However, due to increasing global regulations in relation to private equity funds, the Government is also expected to adopt measures that will strengthen monitoring and supervision of private equity funds and otherwise enhance risk management in relation to such funds.

Interest Rates

Interest rate movements, in terms of magnitude and timing as well as their relative impacts on our assets and liabilities, have a significant impact on our net interest margins and profitability, particularly with respect to its financial products that are sensitive to such movements. For example, if the interest rates applicable to Shinhan Bank s loans (which are recorded as our assets) decrease or increase at a slower pace or by a thinner margin compared to the interest rates applicable to its deposits (which are recorded as our liabilities), Shinhan Bank s net interest margin will shrink and its profitability will be negatively affected. In addition, the relative size and composition of Shinhan Bank s variable rate loans and deposits (as compared to our fixed rate loan and deposits) may also impact Shinhan Bank s net interest margin. Furthermore, the difference in the average term of Shinhan Bank s interest-earning assets (primarily loans) compared to its interest-bearing liabilities (primarily deposits) may also impact its net interest margin. For example, since Shinhan Bank s deposits tend to have a longer term, on average, than that of its loans, its deposits are on average less sensitive to movements in the base interest rates on which its deposits and loans tend to be pegged, and therefore, an increase in the base interest rates tend to increase its net interest margin while a decrease in the base interest rates tend to have the opposite effect. Since

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Shinhan Bank is one of our principal operating subsidiaries, its net interest margin and profitability have a substantial effect on ours. While we continually manage our assets and liabilities to minimize our exposure to the interest rate volatility, such efforts by us may not mitigate the impact of interest rate volatility in a timely or effective manner.

Prior to February 2010, major commercial banks in Korea, including Shinhan Bank, principally used the certificate of deposit, or CD, rates set by Bank of Korea in determining the base rate for secured housing loans, which represent the substantial majority of retail loans. However, amid concerns that the CD rates do not accurately represent the banks cost of capital as certificates of deposit constitute relatively a minor fraction of the banks assets and in light of the substantial variance in recent periods between the CD rates and the actual market rates, beginning in February 2010, the Korean Federation of Banks publishes the cost of funding index , or COFIX, which is computed based on the weighted average interest of select funding products (including time deposits, housing and other installment savings deposits, repos, discounted bills and senior non-convertible financial debentures) of nine major Korean banks (comprised of Kookmin Bank, Shinhan Bank, Woori Bank, Hana Bank, Korea Exchange Bank, NH Bank, Industrial Bank of Korea, Citibank Korea and Standard Chartered Bank). Each bank then independently determines the interest rate applicable to the customer by adding a spread to the COFIX based on the difference between the COFIX and such bank s general funding costs, administration fees, the customer s credit score, the maturity of the loan and other customer-specific premiums and discounts based on the customer relationship with such bank. These interest rates are typically set on a monthly basis.

The following table shows certain benchmark Won-denominated borrowing interest rates as of the dates indicated.

	Corporate Bond Rates(1)	Treasury Bond Rates(2)	Certificate of Deposit Rates(3)	COFIX Balance-Based(4)	COFIX New Borrowing-Based(5)
June 30, 2008	6.88	5.90	5.37	N/A	N/A
December 31, 2008	7.72	3.41	3.93	N/A	N/A
June 30, 2009	5.39	4.16	2.41	N/A	N/A
December 31, 2009	5.53	4.41	2.86	N/A	N/A
June 30, 2010	4.77	3.86	2.46	3.95	2.89
December 31, 2010	4.27	3.38	2.80	3.72	3.10
June 30, 2011	4.49	3.76	3.57	3.88	3.66
December 31, 2011	4.21	3.34	3.55	3.95	3.69
June 30, 2012	3.87	3.30	3.54	3.91	3.63
December 31, 2012	3.29	2.82	2.89	3.57	3.01

Source: Korea Securities Dealers Association

Notes:

(1) Measured by the yield on three-year AA- rated corporate bonds.

(2) Measured by the yield on three-year treasury bonds.

(3) Measured by the yield on certificates of deposit (with maturity of 91 days).

(4) Measured based on the weighted average of the borrowing rates for the monthly ending balances of the funding made by the commercial banks that are subject of the COFIX reporting.

(5)

Measured based on the weighted average of the borrowing rates for new funding for each month made by the commercial banks that are subject of the COFIX reporting.

Critical Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated annual financial statements, unless otherwise indicated.

We and our subsidiaries have consistently applied these accounting policies.

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Basis of Consolidation

Subsidiaries

Subsidiaries are entities that we control. The financial statements of our subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of our subsidiaries have been changed when necessary to align them with the policies we have adopted.

SPEs

We have established a number of special purpose entities (SPEs) for trading and investment purposes. We do not have any direct or indirect ownership in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with us and the SPE s risks and rewards, we conclude that we control the SPE.

Investments in Associates and Jointly Controlled Entities (Collectively, Associates)

Associates are those entities in which we have significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when we hold between 20% and 50% of the voting power of another entity or in excess of 15% if the other entity is classified as a subsidiary under the Banking Act. Joint ventures are those entities over whose activities we have joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates are accounted for using the equity method and are recognized initially at cost. Our investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include our share of the income and expenses and equity movements of associates, after adjustments to align their accounting policies with ours, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When our share of losses exceeds our interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that we have an obligation or are otherwise required to make payments on behalf of the investee.

Transactions Eliminated on Consolidation

Intra-group balances, transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated against the investment to the extent of our interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Foreign Currency

Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of us and our subsidiaries at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Won at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated into Won at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income in the translation reserve.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Hedge of Net Investment in Foreign Operations

We apply hedge accounting to foreign currency differences arising between the functional currency of the foreign operations and the parent entity s functional currency (namely, Korean Won), regardless of whether the net investment is held directly or through an intermediate parent.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by us in the management of our short-term commitments.

Non-derivative Financial Assets

Financial assets are classified into financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity financial assets. Financial assets are recognized in the consolidated financial statements when we become a party to the contractual provisions of the instrument.

A financial asset is measured initially at its fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition of the financial asset.

Financial Assets at Fair Value through Profit or Loss

A financial asset is classified as held for trading or designated at fair value through profit or loss upon initial recognition. These financial assets are measured at fair value after initial recognition and changes in the fair value are recognized through profit or loss of the period. Costs attributable to the acquisition are immediately expensed in the period.

Held-to-maturity Financial Assets

Held-to-maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that we have the positive intent and ability to hold to maturity. They are carried at amortized cost using the effective interest method after their initial recognition.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

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For non-collateral dependent loans, impairment is measured using a discount cash flow analysis under which allowances are established when the discounted cash flow of the loan is lower than its carrying amount. The allowance is equal to the difference between the discounted cash flow amount of the loan and its carrying amount. With respect to collateral dependent loans, our discount cash flow analysis considers, among other things, the fair value of the collateral underlying the subject loan. When the carrying amount of the subject loan is higher than the fair value of the collateral, the carrying amount is written down to the fair value of the collateral. The fair value of the collateral is determined as the present value of the estimated realizable value of the collateral at the expected time of the sale of such collateral. Once the valuation report of the court-appointed appraiser becomes publicly available as part of a foreclosure proceeding, we use the appraisal value for the collateral indicated in such report as the estimated realizable value of the collateral. However, until such publication, we use the valuation amount for the collateral as determined by outside independent appraisers at the time that the subject loan was initially approved, with adjustments made for the change in value from the effect of time passage and current market circumstances that may impact the value of the collateral.

As a general rule, we obtain updated appraisal on an annual basis for all collateral dependent loans and therefore, adjust the appraisal value of loans every 12 months. We estimate the fair value of collateral with outdated appraisal value primarily on the basis of the publicly available standard reference prices as officially published by the government (or (x) in the case of collateral in the form of apartment units, the real estate market price database maintained by Kookmin Bank for apartment units, (y) in the case of collateral in the form of other communal housing units, the publicly available standard reference prices as officially published by the Ministry of Land, Transport and Maritime Affairs or (z) in the case of commercial buildings, the publicly available standard reference prices as officially published by the National Tax Service), except that (i) if there are bid prices for such collateral, we use as the fair value the lowest bid price deemed to be credible as to the bidder s intent to purchase based on the written bid submitted by such purchaser and (ii) in the circumstances where we deem that the aforesaid reference prices do not accurately reflect the true value of such land, for example, due to a downturn in the relevant real estate market, we hire an outside appraiser to obtain an independent valuation, which valuation is typically derived from 90% or lower of the lowest of two or more sale prices from recent sales of similar types of collateral in the vicinity, and we use such valuation as the fair value for such collateral. Other than in the case of a bid price which is higher than the original appraisal value, we design our fair value estimation system so that the adjusted fair value does not exceed the original appraisal value and hence, in the absence of a higher bid price, the adjustments made have the effect of assigning a fair value lower than the original appraisal value. Since the magnitude of adjustments is principally dependent on reference prices maintained by the Government or bid prices, which are in turn dependent on the market prices, it varies case by case and is therefore difficult to compute the average adjustments made to outdated appraisals. After making such adjustments, we also internally appraise each collateral at least annually in order to ensure that the adjusted value is fair and reasonable.

We implement the following procedures to minimize the potential for outdated appraisal values being reflected in allowance for loan losses: (i) the date of appraisal is assigned next to the appraisal value to facilitate identification of an appraisal value as being outdated, (ii) our internal audit department constantly monitors the status of appraisal values, and (iii) the loan-to-value ratio, usually 60%, is strictly enforced when making the original loan so that the value of collateral typically stays above the outstanding loan amount during the life of the loan even in the case of an adjustment to the original appraisal value. If in the limited circumstances where the adjusted fair value of collateral falls below the outstanding loan amount, if the loan is impaired, we promptly set aside allowance for loan losses for such difference in amount.

Available-for-sale Financial Assets

Available-for-sale financial assets are the non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. They are measured at fair value after their initial recognition.

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Derecognition of Financial Assets

We derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or we transfer the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that we create or retain is recognized as a separate asset or liability.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, we have a legal right to offset the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Impairment of Financial Assets

We assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets except for financial assets at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that financial assets are impaired includes significant financial difficulty of the borrower or issuer, default or delinquency in interest or principal payments, restructuring of a loan or a concession granted by us, which we would not otherwise consider, indications that a borrower or issuer will enter bankruptcy or other financial reorganization, or observable data such as an increased number of delayed payments indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

Loans and Receivables

We first assess whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset s original effective interest rate (i.e., the effective interest rate computed at initial recognition).

If the interest rate of loans and receivables is a floating rate, the discount rate used to evaluate impairment loss is the current effective interest rate defined in an agreement. The present value of estimated future cash flows of secured financial assets is calculated by including cash flows from collateral after deducting costs to acquire and sell the collateral, regardless of the probability of realization of such collateral.

In assessing collective impairment, we rate and classify financial assets, based on a credit risk assessment or credit rating assessment process that takes into account asset type, industry, regional location, collateral type, delinquency and other relative factors.

Future cash flow of financial assets applicable to collective impairment assessment is estimated by using statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management s judgment as to whether current economic and credit conditions are such that the impairment losses are likely to be greater or less than suggested by historical modeling. In adjusting the future cash flow by historical modeling, the result has to be in line with changes and trends of observable data (e.g., impairment loss of collective assets and unemployment rate, asset price, commodity price, payment status

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and other variables representing the size of implement loss). Methodologies and assumptions used to estimate future cash flow are reviewed on a regular basis in order to narrow down discrepancy between impairment loss estimation and actual loss.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss of the period.

Allowance for Loan Losses

Our methodology for determining allowance for loan losses has changed in 2011.

Under both the previous and current methodology, determining allowance for loan losses involves determination both at the individual level and on the aggregate basis. While there is no material difference between our previous and current methodology in determining allowance for loan losses at the individual level except for differences in its recognition of loan losses as a result of subsequent events, there are certain differences when determining the allowance on the aggregate basis.

When determining allowance for loan losses, under the previous methodology, Shinhan Bank, which accounts for the substantial majority of loans held by Shinhan Financial Group, used a migration model, while under the current methodology, Shinhan Bank used a probability of default / loss-given default (PD/LGD) model. Certain differences may arise in allowances for loan losses calculated under the previous migration model and the current PD/LGD model.

Under the previous migration model, when determining allowance for loan losses, Shinhan Bank, which accounts for the substantial majority of loans held by Shinhan Financial Group, applied a migration model based on loan classifications. Shinhan Bank identified the probability of default for corporate loans through a migration model, which uses a statistical tool to monitor the progression of loans through nine different classifications over recent one year, while retail loans uses five different classifications over recent one year and are segmented into the two product types for the purposes of credit risk evaluation, namely, mortgage and home equity loans, and other retail loans (consisting of unsecured and secured retail loans). Loss given default for corporate loans is derived by the loss rate of individually evaluated impaired loans, while retail loans is derived by the historical charge-off and recovery information of the portfolio.

Under the current PD/LGD model, Shinhan Bank calculates the aggregate allowance for loan losses by multiplying (x) the probability of default for each class of borrowers that have been assigned the same credit rating by (y) the loss given default for such class of borrowers. A particular credit rating is assigned individually to each borrower based on (i) the borrower type (namely, household, corporate, SOHOs or high-risk borrowers) and (ii) its particular risk and credit profile within such type, using our proprietary credit evaluation model.

Our current PD/LGD model determines the probability of default for each class of borrowers having the same credit rating as follows. First, we determine the projected probability of default for such class of borrowers using the longer look-back periods under IFRS. However, at least annually (and more frequently during times of heightened systemic risks), we test such projected probability of default against the actual rate of default among such class of borrowers in the 12-months period immediately preceding such testing date. If based on such test the actual rate of default exceeds the mean or the maximum value of projected probability of default, we reassess, on an individual basis and using more conservative metrics, the credit rating assigned to each borrower within such class. Such credit rating reassessment generally has the effect of lowering the credit rating for a substantial number of borrowers that initially belonged to such class, which in turn has the effect of increasing the allowance of losses on an aggregate basis since the pool of borrowers having high credit ratings will have shrunk (and the pool of borrowers having lower credit ratings will have expanded) as the result of the individualized credit rating reassessment. Hence, such recalibration has the effect of reflecting the effects of current conditions in our final determination of the probability of default.

The migration and PD/LGD methods described above also have other differences. Under the previous migration method, the historical loss rate on migration analysis is calculated from a transition matrix table based on asset quality classification and takes into consideration historical loss rates and recovery rates after charge-off,

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whereas the current PD/LGD method (sophisticated approach), also known as Advanced Internal Rating-Based approach under Basel II, is calculated via measurable long-term risk factors such as probability of default from risk grading and loss given default based on the Basel II framework.

We believe that our current PD/LGD model has the following advantages compared to the previous migration model:

Statistically more robust while reflecting effects of current condition. From a statistical perspective, we believe our current PD/LGD model enables a more robust and reliable analysis by adopting a longer look-back period based on the Continuous Time Marcov Chain Rating Transition Approach than the one-year migration model does. While adopting a longer look-back period may have the effect of undervaluing the effects of current conditions, our model largely compensates for such potential undervaluation through the annual calibration process discussed above.

Analytically more fine-tuned. Our previous migration model analyzed the probability of default based on the following criteria only: retail vs. corporate and secured vs. unsecured. Under our current PD/LGD model, we examine the probability of default based on more granular classification as follows: households, corporate, small-office/home-office (SOHOs) and special high-risk borrowers. In addition, our current PD/LGD model also analyzes loss given default in greater detail, including location, types of collateral, loan-to-value ratios and (in the case of unsecured loans) types of loans.

More versatile use and improved reliability through greater internal scrutiny. The previous migration model was used only for the purpose of determining the probability of default in connection of computing allowance for losses based on asset classification. In comparison, our current PD/LGD model is being used for substantially all areas of our credit risk evaluation, including credit ratings, loan review and computation of capital adequacy. Given the more versatile use of our current PD/LGD model and the greater impact on system-wide risk arising from its misuse, we devote greater resources to ensuring the accuracy of this model through heightened scrutiny over its design, implementation and evaluation.

Available-for-sale Financial Assets

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Held-to-maturity Financial Assets

An impairment loss in respect of held-to-maturity financial assets measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset s original effective interest rate and is recognized in profit or loss. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Derivative Financial Instruments

Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

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Hedge Accounting

We hold derivative financial instruments to hedge our foreign currency and interest rate risk exposures. On initial designation of the hedge, we formally document the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. We make an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the consolidated statements of comprehensive income as the hedged item).

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. Any adjustment to a hedged item up to the point for which the effective interest method is used, is amortized to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Cash Flow Hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the consolidated statements of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Separable Embedded Derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

Other Non-trading Derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

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Property and Equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. We elect to measure land and buildings at fair value at the date of transition and use those fair values as their deemed costs.

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to us and its cost can be measured reliably. The carrying amount of the replaced cost is derecognized. The cost of the day to day servicing of property and equipment are recognized in profit or loss as incurred.

Land is not depreciated. Other property and equipment are depreciated on a straight-line basis over their estimated useful life, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance lease are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives for the current and comparative periods are as follows:

Descriptions	Depreciation Method	Useful Lives
Buildings	Straight-line	40 years
Other properties	Straight-line	4~5 years

Depreciation methods, useful lives and residual value are reassessed at each fiscal year-end and any adjustment is accounted for as a change in accounting estimate.

Intangible Assets

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity method accounted investee.

Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and we intend to and have sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

Intangible Assets such as Club Memberships with Indefinite Useful Lives

There are no foreseeable limits to the periods over which club memberships are expected to be available for use. This intangible asset is determined as having indefinite useful lives and not amortized.

The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

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Other Intangible Assets

Other intangible assets with finite useful lives that we acquire are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Descriptions	Useful Lives
Software, capitalized development cost	5 years
Other intangible assets	5 years or contract periods

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes.

Investment property is measured initially at cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment loss.

Leased Assets

Classification of a Lease

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of the leased asset from the lessor to the lessee; title to the asset may or may not transfer under such a lease. An operating lease is a lease other than a finance lease.

Lessee

Under a finance lease, the lessee recognizes the leased asset and a liability for future lease payments. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Under an operating lease, the lessee recognizes the lease payments as expense over the lease term and does not recognize the leased asset in the consolidated statements of financial position.

Lessor

Under a finance lease, the lessor recognizes a finance lease receivable. Over the lease term the lessor accrues interest income on the net investment. The receipts under the lease are allocated between reducing the net investment and recognizing finance income, so as to produce a constant rate of return on the net investment.

Under an operating lease, the lessor recognizes the lease payments as income over the lease term and the leased asset in the consolidated statements of financial position.

Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before

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classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with our accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Impairment of Non-financial Assets

The carrying amounts of our non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset s recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit , or CGU).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

Non-Derivative Financial Liabilities

Depending on commitments in a contract and definition of financial liabilities, the non-derivative financial liabilities are categorized as either at fair value through profit or loss or other financial liabilities.

Our equity-linked securities are hybrid financial products that combine features of debt securities and equity options. Their returns are based on the interest earned on the debt securities plus the gains or losses from the equity options. Equity-linked securities can be offered in Korea only by specially licensed brokers dealing in over-the-counter derivative products, and we offer these products through Shinhan Investment.

Under the accounting principle of fair value option, we measure the fair value of the equity-linked securities and reflect the changes in such fair value in net income. We compute the fair value of these securities primarily internally based on the Black and Scholes option pricing model, except that in the case of overseas stocks, overseas stock indexes or other underlying assets, we use the average of valuations by two outside valuation firms hired by us.

Financial Liabilities at Fair Value through Profit or Loss

The financial liabilities at fair value through profit or loss include a financial liability held for trading or designated at fair value through profit or loss upon initial recognition. These financial liabilities are measured at fair value after initial recognition and changes in the fair value are recognized through profit or loss of the period. Costs attributable to the issuance or acquisition are immediately expensed in the period.

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Other Financial Liabilities

The financial liabilities not classified as at fair value through profit or loss are classified into other financial liabilities. The liabilities are measured at a fair value minus cost relating to issuance upon initial recognition. Then, they are carried at amortized cost, using the effective interest rate method.

Only when financial liabilities become extinct, or obligations in a contract are cancelled or terminated, are they derecognized from our consolidated statements of financial position.

Equity Instrument

Capital Stock

Capital stock is classified as equity. Incremental costs directly attributable to the transaction of stock are deducted, net of tax, from the equity.

Preference Share Capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at our option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by our shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

Hybrid Bond

We classify issued financial instrument, or its component parts, on initial recognition as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. Hybrid bonds, in which we have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, are classified as equity instruments and presented in equity.

Non-controlling Interest

Non-controlling interest, which means the equity is a subsidiary not attributable, directly or indirectly, to a parent, consists of the amount of those non-controlling interests at the date of the original combination calculated in accordance with IFRS No. 1103 *Business Combination* and the non-controlling interests share of changes in equity since the date of the combination.

Employee Benefits

Short-term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if we have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Other Long-term Employee Benefits

Our net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of our obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

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Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Our net obligation in respect of defined benefit pension plans is calculated in aggregate for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of our obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to us, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in us. An economic benefit is available to us if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

We recognize all actuarial gains and losses arising from defined benefit plans in profit or loss.

Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Termination Benefits

Termination benefits are recognized as an expense when we are committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if we have made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Share-based Payment Transactions

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

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Provisions

A provision is recognized if, as a result of a past event, we have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Financial Guarantee Contract

Financial guarantees are contracts that require us to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

Financial Income and Expense

Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, we estimate future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Recognition of Interest Income on Impairment Losses

Once an impairment loss has been recognized on a loan, although the accrual of interest in accordance with the contractual terms of the instrument is discontinued, interest income is recognized at the rate of interest that was used to discount estimated future cash flows for the purpose of measuring the impairment loss.

Fees and Commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Dividends

Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

Customer Loyalty Program

For customer loyalty programs, the fair value of the consideration received or receivable in respect of the initial sale is allocated between award credits (points) and other components of the fee and commission

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income. The Group provides awards, in the form of price discounts and by offering a variety of gifts. The fair value allocated to the points is estimated by reference to the fair value of the monetary and/or non-monetary benefits for which they could be redeemed. The fair value of the benefits is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and recognized as unearned revenue. Unearned revenue is recognized only when the points are redeemed and the Group has fulfilled its obligations to provide the benefits. The amount of revenue recognized in those circumstances is based on the number of points that have been redeemed in exchange for benefits, relative to the total number of points that are expected to be redeemed.

Income Tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences associated with investments in subsidiaries, associates, and interests in joint ventures, to the extent that we are able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

We file our national income tax return with the Korean tax authorities under the consolidated corporate tax system, which allows us to make national income tax payments based on our and our wholly owned domestic subsidiaries consolidated profits or losses. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected profits or losses of eligible companies in accordance with the consolidated corporate tax system. Consolidated corporate tax amounts, once determined, are allocated to each of our subsidiaries and are used as a basis for the income taxes to be recorded in their separate financial statements.

Accounting for Trust Accounts

We account for trust accounts separately from our group accounts under the Financial Investment Services and Capital Markets Act and thus the trust accounts are not included in the consolidated financial statements except guaranteed fixed rate money trusts controlled by us, based on an evaluation of the substance of its relationship with us and the special purpose entity s risks and rewards. Funds transferred between a group account and a trust account are recognized as borrowings from trust accounts in other liabilities with fees for managing the accounts recognized as non-interest income by us.

Earnings per Share

We present basic and diluted earnings per share (EPS) data for our ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to an ordinary shareholder by the weighted average number

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of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Average Balance Sheet and Volume and Rate Analysis

Average Balance Sheet and Related Interest

The following table shows our average balances and interest rates, as well as the net interest spread, net interest margin and asset liability ratio, in 2010, 2011 and 2012.

	Year Ended December 31,								
	2010			2011			2012		
	Average Balance(1)	Interest Income/ Expense	Yield / Rate	Average Balance(1)	Interest Income/ Expense	Yield / Rate	Average Balance(1)	Interest Income/ Expense	Yield / Rate
	(In billions of Won, except percentages)								
Assets:									
Interest-earning assets									
Due from banks	11,197	169	1.51%	11,111	249	2.24%	11,975	242	2.02%
Trading assets	11,709	358	3.06	11,285	414	3.67	14,824	412	2.78
Loans(2)									
Retail loans	63,673	3,416	5.36	66,953	3,750	5.60	70,424	3,820	5.42
Corporate loans	93,720	5,134	5.48	99,734	5,349	5.36	102,723	5,274	5.13
Public and other loans	2,519	130	5.18	3,516	193	5.50	3,591	195	5.43
Loans to banks	3,646	96	2.63	3,750	102	2.72	5,197	153	2.93
Credit card loans	16,278	1,795	11.03	17,740	1,887	10.64	17,508	1,834	10.48
Total loans	179,836	10,571	5.88	191,693	11,281	5.88	199,442	11,275	5.65
Securities(3)									
Available-for-sale financial assets	24,674	962	3.90	26,626	1,026	3.85	30,540	1,154	3.78
Held-to-maturity financial assets	12,894	687	5.33	12,307	643	5.22	11,793	595	5.04
Total securities	37,568	1,649	4.39	38,933	1,669	4.29	42,332	1,749	4.13
Other interest-earning assets		162			168			179	
Total interest-earning assets	240,310	12,909	5.37%	253,022	13,781	5.45%	268,574	13,857	5.16%
Non-interest-earning assets									
Cash and due from banks	2,983			2,390			2,661		
Derivative assets	4,574			2,951			2,092		
Available-for-sale financial assets	4,919			4,760			4,372		
Property and equipment and intangible assets	7,007			6,981			7,302		
Other non-interest-earning assets	13,367			15,551			13,988		
Total non-interest-earning assets	32,850			32,633			30,415		
Total assets	273,160	12,909		285,655	13,781		298,990	13,857	

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	Year Ended December 31,								
	2010			2011			2012		
	Average Balance(1)	Interest Income/ Expense	Yield / Rate	Average Balance(1)	Interest Income/ Expense	Yield / Rate	Average Balance(1)	Interest Income/ Expense	Yield / Rate
	(In billions of Won, except percentages)								
Liabilities:									
Interest-bearing liabilities									
Deposits									
Demand deposits	15,905	111	0.70%	16,517	119	0.72%	17,233	118	0.68%
Savings deposits	33,655	331	0.98%	34,234	335	0.98%	35,487	356	1.00
Time deposits	93,385	3,270	3.50%	99,654	3,597	3.61%	109,743	3,980	3.63
Other deposits	4,884	224	4.58%	3,513	130	3.71%	1,875	61	3.26
Total interest-bearing deposits	147,829	3,936	2.66%	153,918	4,181	2.72%	164,338	4,515	2.75
Trading liabilities									
Borrowings	18,549	390	2.10%	19,733	485	2.46%	21,667	544	2.51
Debt securities issued	41,054	2,041	4.97%	40,048	1,943	4.85%	39,950	1,740	4.36
Other interest-bearing liabilities	1,669	69	4.13%	1,715	92	5.34%	1,602	84	5.25
Total interest-bearing liabilities	209,101	6,436	3.08%	215,414	6,701	3.11%	227,557	6,883	3.02%
Non-interest-bearing liabilities									
Non-interest-bearing deposits	2,979			2,570			2,459		
Derivatives liabilities	3,829			2,569			1,811		
Insurance liabilities	8,199			9,940			12,053		
Other non-interest-bearing liabilities	23,142			26,693			26,943		
Total non-interest-bearing liabilities	38,149			41,772			43,266		
Total liabilities	247,250	6,436		257,186	6,701		270,823	6,883	
Total equity attributable to equity holder of the Group	23,444			26,008			25,703		
Non-controlling interest	2,466			2,461			2,464		
Total liabilities and equity	273,160	6,436		285,655	6,701		298,990	6,883	
Net interest spread(4)			2.29%			2.34%			2.13%
Net interest margin(5)			2.69%			2.80%			2.60%
Average asset liability ratio(6)			114.93%			117.46%			118.03%

Notes:

(1) Average balances are based on (a) daily balances for Shinhan Bank and (b) quarterly balances for other subsidiaries.

(2) Non-accruing loans are included in the respective average loan balances. Income on such non-accruing loans is no longer recognized from the date the loan is placed on nonaccrual status. We reclassify loans as accruing when interest (including default interest) and principal payments are current.

(3) Represents the average balance and yield on securities based on amortized cost. The yield on the available-for-sale portfolio is based on average historical cost balances. Accordingly, the yield information does not give effect to changes in fair value that are reflected as a component of stockholders equity.

(4) Represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities.

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

(6) Represents the ratio of average interest-earning assets to average interest-bearing liabilities.

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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 between changes in volume and changes in rates for (i) 2012 compared to 2011 and (ii) 2011 compared to 2010. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest-earning assets and average interest-bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to the absolute volume and rate change.

	From 2011 to 2012		
	Volume	Interest Increase (Decrease) Due to Change in Rate (In billions of Won)	Change
Increase (decrease) in interest income			
Due from banks	19	(25)	(6)
Trading assets	112	(114)	(2)
Loans:			
Retail loans	191	(120)	70
Corporate loans	157	(233)	(75)
Public and other loans	4	(3)	1
Loans to banks	42	9	51
Credit card loans	(25)	(29)	(54)
Total loans	370	(376)	(7)
Securities:			
Available-for-sale financial assets	148	(20)	129
Held-to-maturity financial assets	(26)	(22)	(48)
Total securities	122	(41)	80
Other interest-earning assets	0	11	11
Total interest income	622	(546)	76
Increase (decrease) in interest expense			
Deposits:			
Demand deposits	5	(6)	(1)
Savings deposits	12	9	21
Time deposits	366	17	383
Other deposits	(55)	(14)	(69)
Total interest-bearing deposits	328	6	334
Trading liabilities	0	0	0
Borrowings	48	10	58
Debt securities issued	(5)	(198)	(203)
Other interest-bearing liabilities	(6)	(1)	(7)
Total interest expense	366	(184)	182
Net increase (decrease) in net interest	256	(362)	(106)

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	From 2010 to 2011 Interest Increase (Decrease) Due to Change in		
	Volume	Rate	Change
	(In billions of Won)		
Increase (decrease) in interest income			
Due from banks	(1)	81	80
Trading assets	(13)	69	56
Loans:			
Retail loans	180	154	334
Corporate loans	324	(109)	215
Public and other loans	54	9	63
Loans to banks	3	3	6
Credit card loans	157	(65)	92
Total loans	718	(8)	710
Securities:			
Available-for-sale financial assets	75	(11)	64
Held-to-maturity financial assets	(31)	(13)	(44)
Total securities	44	(24)	20
Other interest-earning assets		6	6
Total interest income	748	124	872
Increase (decrease) in interest expense			
Deposits:			
Demand deposits	4	4	8
Savings deposits	6	(2)	4
Time deposits	224	103	327
Other deposits	(56)	(38)	(94)
Total interest-bearing deposits	178	67	245
Trading liabilities			
Borrowings	26	69	95
Debt securities issued	(49)	(49)	(98)
Other interest-bearing liabilities	2	21	23
Total interest expense	157	108	265
Net increase (decrease) in net interest	591	16	607

Results of Operations

2012 Compared to 2011

The following table sets forth, for the periods indicated, the principal components of our operating income.

Year Ended December 31,

	2011	2012	% Change
	(In billions of Won, except percentages)		
Net interest income	7,080	6,974	(1.5)%
Net fees and commission income	1,759	1,572	(10.6)
Net other operating income (expense)	(4,666)	(5,352)	14.7
Operating income	4,173	3,194	(23.4)%

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Net Interest Income

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

	Year Ended December 31,		
	2011	2012	% Change
	(In billions of Won, except percentages)		
Interest income:			
Cash and due from banks	249	242	(2.8)%
Trading assets	394	387	(1.8)
Financial assets designated at fair value through profit or loss	20	26	30.0
Loans	11,282	11,275	(0.1)
Available-for-sale financial assets	1,026	1,154	12.5
Held-to-maturity financial assets	643	595	(7.5)
Other interest income	167	178	6.6
Total interest income	13,781	13,857	0.6%
Interest expense:			
Deposits	4,181	4,515	8.0%
Borrowings	485	544	12.2
Debt securities issued	1,943	1,740	(10.4)
Other interest expense	92	84	(8.7)
Total interest expense	6,701	6,883	2.7%
Net interest income	7,080	6,974	(1.5)%
Net interest margin(1)	2.80%	2.60%	

Note:

(1) Represents the ratio of net interest income to average interest-earning assets. See Average Balance Sheet and Volume and Rate Analysis Average Balance Sheet and Related Interest.

Interest income. The moderate 0.6% increase in interest income was due primarily to the stable level of interest on loans coupled with a 12.5% increase in interest on available-for-sale financial assets. The increase in interest on available-for-sale financial assets largely resulted from a 14.7% increase in the average balance of our available-for-sale financial assets from 26,626 billion in 2011 to 30,540 billion in 2012 due to our active investment in debt securities as a source of profit in the face of sluggishness of the general economy, which was partially offset by a decrease in the average interest rates for available-for-sale financial assets from 3.85% in 2011 to 3.78% in 2012 due a general decrease in market interest rates.

Interest on loans remained largely stable, having decreased by 0.1% from 11,282 billion in 2011 to 11,275 billion in 2012, primarily as a result of a decrease in the average lending rate from 5.89% in 2011 to 5.65% in 2012 largely as a result of a general decrease in market interest rates in reflection of the lowering of the base rate by the Bank of Korea and the ample liquidity in the Korean financial sector, which was substantially offset by a 4.0% increase in the average balance of total loans from 191,693 billion in 2011 to 199,442 billion in 2012 due to an increase in the average balance of both retail and corporate loans following targeted loan growth in select strategic customer segments.

Interest on retail loans increased by 1.9% from 3,750 billion in 2011 to 3,820 billion in 2012, which was primarily due to a 5.2% increase in the average balance of retail loans from 66,953 billion in 2011 to 70,424 billion in 2012, which was partially offset by a decrease in the average lending rate for such loans from 5.60% in 2011 to 5.42% in 2012. The average balance of retail loans increased principally as a result of a net

increase in the volume of mortgage and home equity loans in 2012 largely due to a decrease in the lending rates in the second half of 2012 which more than offset the prolonged downturn in the real estate market, as well an

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increase in specialized lending to police officers and other government employees with relatively strong job security and stable credit profiles as part of our tailored strategic marketing efforts. The average lending rate for retail loans decreased largely as a result of a decrease in the base rate set by the Bank of Korea, which largely determines the market rates for certificates of deposit, which in turn largely determines our lending rates for a substantial majority of our retail loans.

Interest on corporate loans decreased by 1.4% from ₩5,349 billion in 2011 to ₩5,274 billion in 2012, which was primarily due to a decrease in the average lending rate for corporate loans from 5.36% in 2011 to 5.13% in 2012, which was partially offset by a 3.0% increase in the average balance of such loans from ₩99,734 billion in 2011 to ₩102,723 billion in 2012. The average lending rate for corporate loans decreased largely as a result of a general decrease in market interest rates in reflection of the lowering of the base rate by the government and the ample liquidity in the Korean financial sector. The average balance of corporate loans increased principally as a result of an increase in the volume of facility loans as well as an increase in the volume of loans to small-office, small-home sole proprietorship borrowers (SOHOs) and other quality small- to medium-sized enterprises with strong credit profiles as part of our tailored strategic marketing efforts, which was partially offset by a decrease in the volume of working capital loans following the redemption by Korea Deposit Insurance Corporation of working capital loans in the aggregate amount of ₩1,982 billion in the first half of 2012 in connection with the restructuring of savings banks.

Interest expense. Interest expense increased by 2.7% from ₩6,701 billion in 2011 to ₩6,883 billion in 2012, due primarily to a 8.0% increase in interest expense on deposits from ₩4,181 billion in 2011 to ₩4,515 billion in 2012 and a 12.2% increase in interest expense on borrowings from ₩485 billion in 2011 to ₩544 billion in 2012, which was partially offset by a 10.4% decrease in interest expense on debt securities issued from ₩1,943 billion in 2011 to ₩1,740 billion in 2012.

The increase in interest expense on deposits was due to a 6.8% increase in the average balance of deposits from ₩153,918 billion in 2011 to ₩164,338 billion in 2012 and a slight increase in the average interest rate payable on deposits from 2.72% in 2011 to 2.75% in 2012. The increase in the average balance of deposits was primarily due to a 10.1% increase in the average balance of time deposits from ₩99,654 billion in 2011 to ₩109,743 billion in 2012, which was partially offset by a 46.6% decrease in the average balance of other deposits from ₩3,513 billion in 2011 to ₩1,875 billion in 2012. The overall increase in the average balance of deposits was largely due to the increasing preference among consumers for bank deposits (and particularly, time deposits, which generally offered the highest interest rates among our deposit products) as safe investment products amid the continued uncertainty in the general economy and the sustained slump in the housing market. The average balance of other deposits, which principally consist of certificates of deposit, decreased primarily as a result of our efforts to replace a portion of certificates of deposit with regular customer deposits in order to improve our loan-to-deposit ratio since the former are not classified as deposits for purposes of computing such ratio. The slight increase in the average interest rate payable on deposits resulted mainly from an increase in the average interest rate payable on time deposits from 3.61% in 2011 to 3.63% in 2012, which more than offset the decrease in the average interest rate payable on other deposits from 3.71% in 2011 to 3.26% in 2012. The average interest rate payable on time deposits increased largely as a result of increasing competition among commercial banks (as well as Korea Development Bank which launched retail banking services in 2012) for customer deposits to secure stable funding, strengthen customer loyalty and reduce the loan-to-deposit ratio, which more than offset the impact from the increase in the base rate set by the Bank of Korea, which tends to have a lag effect compared to lending rates due to the differential maturity profiles of our customer deposits compared to our loans.

The increase in interest expense on borrowings was due to a 9.8% increase in the average balance of borrowings from ₩19,733 billion in 2011 to ₩21,667 billion in 2012 and an increase on the average interest rate payable on borrowings from 2.46% in 2011 to 2.51% in 2012, which resulted primarily from an increase in the average balance of bonds sold under repurchase agreements, which bear relatively higher interest rates, from ₩3,675 billion in 2011 to ₩5,060 billion in 2012 as part of our effort to expand the customer base for Shinhan Investment in this type of product offering.

The decrease in interest expense on debt securities issued was due to a decrease in the average interest rate payable on debt securities from 4.85% in 2011 to 4.36% in 2012, and to a lesser extent, a 0.2% decrease in the

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average balance of debt securities from 40,048 billion in 2011 to 39,950 billion in 2012. The average interest rate payable on debt securities issued decreased largely as a result of a general decrease in market interest rates in reflection of the lowering of the base rate by the Bank of Korea and the ample liquidity in the Korean financial sector. The average balance of debt securities issued decreased largely as a result of the increase in the average balance of deposits, which reduced our need to source funding through issuance of debt securities, which bear higher interest rates.

Net interest margin. Net interest margin represents the ratio of net interest income to the average balance of interest-earning assets. Our overall net interest margin decreased by 20 basis points from 2.80% in 2011 to 2.60% in 2012, due to a decrease by 21 basis points in net interest spread from 2.34% in 2011 to 2.13% in 2012, which more than offset a 6.1% increase in the average volume of interest-earning assets from 253,022 billion in 2011 to 268,574 billion in 2012. Net interest spread, which represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities, decreased from 2011 to 2012 primarily due to a 29 basis points decrease in the average rate of interest receivable on interest-earning assets (principally consisting of loans) from 5.45% in 2011 to 5.16% in 2012 primarily resulting from the decrease in base interest rates set by the Bank of Korea in 2012 from 3.25% in 2011 to 2.75% in 2012, which more than offset a nine basis points decrease in the average rate of interest paid on interest-bearing liabilities from 3.11% in 2011 to 3.02% in 2012 primarily due to a decrease in the average interest rate payable on debt securities issued from 4.85% in 2011 to 4.36% in 2012, which was partially offset by an increase in the average interest rate payable on deposits from 2.72% in 2011 to 2.75% in 2012, in each case, for reasons discussed above. In general, as was the case in 2012, a decrease in the base rates set by the Bank of Korea tend to decrease our net interest margin since our deposits (on which we pay interest) have, on average, a longer maturity profile than our loans (from which we receive interest) do and are therefore less sensitive to movements in base and market interest rates. See Overview Interest Rates .

Fees and Commission Income (Expense), Net

The following table shows, for the periods indicated, the principal components of our net fees and commission income.

	Year Ended December 31,		
	2011	2012	% Change
	(In billions of Won, except percentages)		
Fees and commission income:			
Credit placement fees	50	58	16.0%
Commission received as electronic charge receipt	145	134	(7.6)
Brokerage fees	495	354	(28.5)
Commission received as agency	115	240	108.7
Investment banking fees	69	70	1.4
Commission received in foreign exchange activities	162	148	(8.6)
Asset management fees	68	67	(1.5)
Credit card fees	2,020	2,071	2.5
Others	433	372	(14.1)
Total fees and commission income	3,557	3,514	(1.2)%
Fees and commission expense:			
Credit-related fees	25	38	52.0%
Credit card fees	1,544	1,678	8.7
Others	229	226	(1.3)
Total fees and commission expense	1,798	1,942	8.0
Net fees and commission income	1,759	1,572	(10.6)%

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Net fees and commission income decreased by 10.6% from 1,759 billion in 2011 to 1,572 billion in 2012, primarily as a result of a 28.5% decrease in brokerage fees income from 495 billion in 2011 to 354 billion in 2012 and a 8.7% increase in credit card fees expenses from 1,544 billion in 2011 to 1,678 billion in 2012, which was substantially offset by a 108.7% increase in commission received as agency.

The decrease in brokerage fees income was principally attributable to decreases in the balance of indirect investment products and the trading volume in the Korean stock market due to increased investor preference for low risk investments in the face of uncertainty in the general economy as well as a decrease in the brokerage fee rates due to intensifying competition for brokerage services primarily brought by the prevalence of Internet-based and mobile trading services for which minimal brokerage fee is charged. Commission received as agency primarily represents fees received for sale of bancassurance products, and its increase was largely due to increased sales of certain tax-exempt insurance and annuity products due to changes in tax law. The increase in credit card fee expense was principally attributable to an increase in the expenses related to the reward points systems and membership services for Shinhan Card largely as a result of enhanced marketing efforts to maintain and expand our credit card customers. Credit card fee income remained largely stable, having increased by 2.5% from 2,020 billion in 2011 to 2,071 billion in 2012 largely due to an increase in average credit card balances, which was largely offset by a decrease in the rate of fees we charge on merchants.

Other Operating Income (Expense), Net

The following table shows, for the periods indicated, the principal components of our net operating expense.

	Year Ended December 31,		
	2011	**2012**	**% Change**
	(In billions of Won, except percentages)		
Net insurance gain	(119)	(209)	75.6%
Dividend income	209	176	(15.8)
Net trading income (loss)	(132)	596	N/M
Net foreign currency transaction gain	14	280	N/M
Net gain (loss) on financial instruments designated at fair value through profit or loss	172	(532)	N/M
Net gain on sale of available-for-sale financial assets	846	537	(36.5)
Impairment loss on financial assets	(983)	(1,416)	44.0
General and administrative expenses	(4,135)	(4,060)	(1.8)
Others	(538)	(724)	34.6
Other operating income (expense)	(4,666)	(5,352)	14.7%

N/M = not meaningful

Net other operating expenses increased by 14.7% from 4,666 billion in 2011 to 5,352 billion in 2012, primarily as a result of an increase in impairment loss on financial assets, recording a net loss on financial instruments designated at fair value through profit or loss in 2012 compared to recording net such gain in 2011 and a decrease in net gain on sale of available-for-sale financial assets, which more than offset recording net trading income in 2012 compared to net trading loss in 2011, in each case, as further explained below.

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Impairment Loss on Financial Assets

The following table sets forth for the periods indicated the impairment loss by type of financial asset.

	Year Ended December 31,		
	2011	2012	% Change
	(In billions of Won, except percentages)		
Loans:			
Retail	66	177	168.2%
Corporate	647	860	32.9
Credit card	166	295	77.7
Others	(15)	(7)	(53.3)
Subtotal	864	1,325	53.4
Securities(1)	87	101	16.1
Others	32	(10)	N/M
Total impairment loss on financial assets	983	1,416	44.0%

N/M = not meaningful

Note:

(1) Consist of available-for-sale financial assets and held-to-maturity financial assets

Impairment loss on financial assets increased by 44.0% from 983 billion in 2011 to 1,416 billion in 2012 principally due to a 53.4% increase in impairment on loans from 864 billion in 2011 to 1,325 billion in 2012, which mainly resulted from:

- an increase in impairment loss on retail loans by 168.2% from 66 billion in 2011 to 177 billion in 2012 principally due to an increase in delinquency among collective loans for apartment pre-sales as a result of a continued slump in the housing market, particularly in respect of sales of newly constructed apartment units;
- an increase in impairment loss on corporate loans by 32.9% from 647 billion in 2011 to 860 billion in 2012 principally due to the deteriorating financial soundness of construction companies resulting from the continued slump in the housing market and the increase in allowance for losses on loans made by Shinhan Capital to shipbuilders as a result of continued difficulty in the shipbuilding industry; and
- an increase in impairment loss on credit card loans by 77.7% from 166 billion in 2011 to 295 billion in 2012 principally due to an increase in the delinquency rate and a reduction in recovery for credit card loans that were written off.

We recorded net loss on financial instruments designated at fair value through profit or loss of 532 billion in 2012 compared to net such gain of 172 billion in 2011, largely as a result of valuation losses on equity-linked securities issued by us. However, the net economic effect from such loss is negligible since we hedge substantially all of our equity-linked securities and such loss is therefore offset for the most part by net trading income from valuation gains from related derivative products.

Net gain on sale of available-for-sale financial assets decreased by 36.5% from 846 billion in 2011 to 537 billion in 2012 principally due to the gain on sale of shares in Hyundai Construction and BC Card in 2011 in the amount of 352 billion and 89 billion, respectively.

We recorded net trading income of 596 billion in 2012 compared to net trading loss of 132 billion in 2011, largely as a result of valuation gains on derivative products used for hedging equity-linked securities issued by us.

General and administrative expenses decreased by 1.8% from 4,135 billion in 2011 to 4,060 billion in 2012 principally due to our cost reduction efforts, including less advertising and a reduced payout of performance-related bonuses.

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Income Tax Expense

Income tax expense decreased by 19.7% from 920 billion in 2011 to 739 billion in 2012 as a result of the decrease in our taxable income. Our effective rate of income tax increased from 21.9% in 2011 to 22.9% in 2012 largely as a result of a decrease in tax refunds in 2012 compared to 2011.

Net Income for the Period

As a result of the foregoing, our net income for the period decreased by 23.8% from 3,273 billion in 2011 to 2,494 billion in 2012.

Other Comprehensive Income for the Period

	Year Ended December 31,		
	2011	2012	% Change
	(In billions of Won, except percentages)		
Foreign currency translation differences for foreign operations	16	(85)	N/M
Net change in fair value of available-for-sale financial assets	(461)	12	N/M
Equity in other comprehensive income of associates	3	4	33.3%
Net change in unrealized fair value of cash flow hedges	1	15	N/M
Other Comprehensive income (loss) of separate account			N/M
Total other comprehensive loss, net of income tax	(441)	(54)	(87.8)%

N/M = not meaningful

Other comprehensive loss decreased by 87.8% to 54 billion in 2012 from 441 billion in 2011, principally due to the absence of divestment of Hyundai Engineering & Construction Co., Ltd. shares in 2011.

2011 Compared to 2010

The following table sets forth, for the periods indicated, the principal components of our operating income.

	Year Ended December 31,		
	2010	2011	% Change
	(In billions of Won, except percentages)		
Net interest income	6,473	7,080	9.4%
Net fees and commission income	1,757	1,759	0.1
Net other operating income (expense)	(4,678)	(4,666)	(0.3)
Operating income	3,552	4,173	17.5%

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Net Interest Income

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

	Year Ended December 31,		
	2010	2011	% Change
	(In billions of Won, except percentages)		
Interest income:			
Cash and due from banks	169	249	47.3%
Trading assets	346	394	13.9
Financial assets designated at fair value through profit or loss	12	20	66.7
Loans	10,571	11,282	6.7
Available-for-sale financial assets	962	1,026	6.7
Held-to-maturity financial assets	687	643	(6.4)
Other interest income	162	167	3.1
Total interest income	12,909	13,781	6.8%
Interest expense:			
Deposits	3,936	4,181	6.2%
Borrowings	390	485	24.4
Debt securities issued	2,041	1,943	(4.8)
Other interest expense	69	92	33.3
Total interest expense	6,436	6,701	4.1%
Net interest income	6,473	7,080	9.4%
Net interest margin(1)	2.69%	2.80%	

Note:

(1) Represents the ratio of net interest income to average interest-earning assets. See Average Balance Sheet and Volume and Rate Analysis Average Balance Sheet and Related Interest.

Interest income. The 6.8% increase in interest income was due primarily to a 6.7% increase in interest on loans. The increase in interest on loans largely resulted from an increase in the volume of loans made. The average balance of our loans increased by 6.6% from 179,836 billion in 2010 to 191,693 billion in 2011, principally due to increases in the average balances of retail loans and corporate loans and, to a lesser extent, credit card loans. The average lending rate on our loans remained largely stable from 5.88% in 2010 to 5.89% in 2011, principally due to an increase in the average lending rate for retail loans, which was substantially offset by the decreases in the average lending rates for corporate loans and credit card loans.

More specifically, the increase in interest income was due to the following:

a 9.8% increase in interest on retail loans from 3,416 billion in 2010 to 3,750 billion in 2011, which was primarily due to an increase in the average balance of retail loans from 63,673 billion in 2010 to 66,953 billion in 2011 and an increase in the average lending rate for such loans from 5.36% in 2010 to 5.60% in 2011. The average balance for retail loans increased largely as a result of an increase in the volume of housing loans taken by households to pay for an increase in housing sales in the first half of 2011 as well as the general increase in long-term deposit required for the majority of rental housing in Korea due to an increasing shortage of available housing in

Seoul. The average lending rate for retail loans increased largely as a result of an increase in the base rate set by the Bank of Korea, which largely determines the market rates for certificates of deposit, which in turn largely determines our lending rates for a substantial majority of our retail loans.

a 4.2% increase in interest on corporate loans from 5,133 billion in 2010 to 5,349 billion in 2011, which was primarily due to an increase in the average balance of corporate loans from 93,720 billion in

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2010 to 99,734 billion in 2011, which was partially offset by a decrease in the average lending rate for such loans from 5.48% in 2010 to 5.36% in 2011. The average balance of corporate loans increased principally as a result of increases in working capital lending to large corporations and facilities lending to small- to medium-sized enterprises largely due to the continued export-led growth of the Korean economy. The average lending rate for corporate loans decreased largely due to our concerted efforts to increase the proportion of corporate loans with strong asset quality (but for which we offer lower lending rates) as part of our enhanced risk management policy; and

a 5.1% increase in interest on credit card loans from 1,795 billion in 2010 to 1,887 billion in 2011, which was primarily due to an increase in the average balance of credit card loans from 16,278 billion in 2010 to 17,740 billion in 2011, which was partially offset by a decrease in the average lending rate for credit card loans from 11.03% in 2010 to 10.64% in 2011. The average balance for credit card loans increased largely as a result of an increase in consumer confidence and consumer spending. The average lending rate for credit cards decreased largely due to our concerted efforts to decrease the proportion of cash advances (which yield higher interest rates but carry a greater risk of delinquency) as part of our enhanced risk management policy.

Interest expense. Interest expense increased by 4.1% from 6,436 billion in 2010 to 6,701 billion in 2011, due primarily to a 6.2% increase in interest expense on deposits from 3,936 billion in 2010 to 4,181 billion in 2011 and a 24.4% increase in interest expense on borrowings from 390 billion in 2010 to 485 billion in 2011, which was partially offset by a 4.8% decrease in interest expense on debt securities issued from 2,041 billion in 2010 to 1,943 billion in 2011.

The increase in interest expense on deposits was due to a 4.1% increase in the average balance of deposits from 147,829 billion in 2010 to 153,918 billion in 2011 and an increase in the average interest rate payable on deposits from 2.66% in 2010 to 2.72% in 2011. The increase in the average balance of deposits was primarily due to a 6.7% increase in the average balance of time deposits from 93,385 billion in 2010 to 99,654 billion in 2011, which was partially offset by a 28.1% decrease in the average balance of other deposits from 4,884 billion in 2010 to 3,513 billion in 2011. The overall increase in the average balance of deposits was largely due to the increasing preference among consumers for bank deposits as safe investment products in light of the continued volatility in the stock markets, and time deposits were especially popular among consumers as they generally offered the highest interest rate among our deposit products. The average balance of other deposits, which principally consist of certificates of deposit, decreased primarily as a result of our efforts to replace a portion of certificates of deposit with regular customer deposits in order to improve our loan-to-deposit ratio since the former are not classified as deposits for purposes of computing such ratio. The increase in the average interest rate payable on deposits resulted mainly from the increase in the average interest rate payable on time deposits from 3.50% in 2010 to 3.61% in 2011, which more than offset the decrease in the average interest rate payable on other deposits from 4.58% in 2010 to 3.71% in 2011. The average interest rate payable on time deposits increased largely as a result of increasing competition among commercial banks for customer deposits to secure stable funding and strengthen customer loyalty.

The increase in interest expense on borrowings was due to an increase on the average interest rate payable on borrowings from 2.10% in 2010 to 2.46% in 2011 and, to a lesser extent, a 6.4% increase in the average balance of borrowings from 18,549 billion in 2010 to 19,733 billion in 2011. The average interest rate payable on borrowings increased largely as a result of the general increase in the base rate set by the Bank of Korea.

The decrease in interest expense on debt securities issued was due to a 4.8% decrease in the average balance of debt securities from 41,054 billion in 2010 to 40,048 billion in 2011, and to a lesser extent, a decrease in the average interest rate payable on debt securities from 4.97% in 2010 to 4.85% in 2011. The average balance of debt securities issued decreased largely as a result of the increase in the average balance of deposits, which reduced our need to source funding through issuance of debt securities, which bear higher interest rates. The average interest rate payable on debt securities issued decreased largely as a result of a decrease in market interest rates principally due to enhanced liquidity in the Korean financial market attributable to the Government s expansionary monetary policy in the aftermath of the recent financial crisis as well as a net inflow of foreign capital following Korea s relatively speedy recovery therefrom.

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Net interest margin. Net interest margin represents the ratio of net interest income to the average balance of interest-earning assets. Our overall net interest margin increased by 11 basis points from 2.69% in 2010 to 2.80% in 2011, due to a 5.3% increase in the average volume of interest-earning assets from 240,310 billion in 2010 to 253,022 billion in 2011 and an increase by four basis points in net interest spread from 2.29% in 2010 to 2.34% in 2011. Net interest spread, which represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities, increased from 2010 to 2011 primarily due to the increase in the average rate of interest receivable on interest-earning assets (principally consisting of loans) resulting from the increase in base interest rates set by the Bank of Korea in 2011 to 3.25% from 2.0% in 2010. Customer deposits generally bear lower interest rates than debt securities issued. The increase in the proportion of customer deposits relative to than debt securities issued was largely due to the increasing attractiveness to consumers of bank deposits relative to other investments, such as stock investments, due to the volatility in the stock markets. The average rate of interest paid on interest-bearing liabilities increased by three basis points largely due to an increase in short-term interest rates paid on time deposits, which comprised a substantial portion of our customer deposits, to 3.61% in 2011 from 3.50% in 2010 in reflection of the increase in base interest rates set by the Bank of Korea in 2011, which was partially offset by a decrease in long-term interest rates paid on debt securities issued.

Fees and Commission Income (Expense), Net

The following table shows, for the periods indicated, the principal components of our net fees and commission income.

	Year Ended December 31,		
	2010	2011	% Change
	(In billions of Won, except percentages)		
Fees and commission income:			
Credit placement fees	48	50	4.2%
Commission received as electronic charge receipt	142	145	2.1
Brokerage fees	510	495	(2.9)
Commission received as agency	112	115	2.7
Investment banking fees	84	69	(17.9)
Commission received in foreign exchange activities	158	162	2.5
Asset management fees	68	68	0.0
Credit card fees	1,895	2,020	6.6
Others	380	433	13.9
Total fees and commission income	3,397	3,557	4.7%
Fees and commission expense:			
Credit-related fees	14	25	78.6%
Credit card fees	1,388	1,544	11.2
Others	238	229	(3.8)
Total fees and commission expense	1,640	1,798	9.6
Net fees and commission income	1,757	1,759	0.1%

Net fees and commission income remained largely stable, having increased only by 0.1% from 1,757 billion in 2010 to 1,759 billion in 2011, primarily as a result of a 6.6% increase in credit card fees income from 1,895 billion in 2010 to 2,020 billion in 2011 and a 13.9% increase in other fees and commission income from 380 billion in 2010 to 433 billion in 2011, which was substantially offset by a 11.2% increase in credit card fees expenses. The increase in credit card fees income is principally attributable to the increase in the average balance of credit card loans, which more than offset the decrease in the average rate of merchant fees charged to merchants for the use of our credit card services as a result of regulatory changes. The increase in other fees and commission income is principally attributable to an increase in fee income generated

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by the special accounts of our insurance business. The increase in credit card fees expense is principally attributable to an increase in the expenses related to our points systems and membership services largely as a result of our enhanced marketing efforts to maintain and expand our credit card customers.

Other Operating Income (Expense), Net

The following table shows, for the periods indicated, the principal components of our net operating expense.

	Year Ended December 31,		
	2010	2011	% Change
	(In billions of Won, except percentages)		
Net insurance gain	(76)	(119)	56.6%
Dividend income	217	209	(3.7)
Net trading income (loss)	334	(132)	N/M
Net foreign currency transaction gain	117	14	(88.0)
Net gain (loss) on financial instruments designated at fair value through profit or loss	(125)	172	N/M
Net gain on sale of available-for-sale financial assets	652	846	29.8
Impairment loss on financial assets	(1,336)	(983)	(26.4)
General and administrative expenses	(3,848)	(4,135)	7.5
Others	(613)	(538)	(12.2)
Other operating income (expense)	(4,678)	(4,666)	(0.3)%

N/M = not meaningful

Other operating expenses decreased by 0.3% from 4,678 billion in 2010 to 4,666 billion in 2011, primarily as a result of a decrease in impairment loss on financial assets, recording net gain on financial instruments designated at fair value through profit or loss in 2011 compared to recording net such loss in 2010 and an increase in net gain on sale of available-for-sale financial assets, which more than offset recording net trading income in 2010 compared to net trading loss in 2011 and an increase in general and administrative expenses.

Impairment Loss on Financial Assets

The following table sets forth for the periods indicated the impairment loss by type of financial asset.

	Year Ended December 31,		
	2010	2011	% Change
	(In billions of Won, except percentages)		
Loans:			
Retail	49	66	34.7%
Corporate	1,201	647	(46.1)
Credit card	28	166	N/M
Others	22	(15)	N/M
Subtotal	1,300	864	(33.5)
Securities(1)	66	87	31.8
Others	(30)	32	N/M
Total impairment loss on financial assets	1,336	983	(26.4)%

N/M = not meaningful

Note:

(1) Consist of available-for-sale financial assets and held-to-maturity financial assets

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Impairment loss on financial assets decreased by 26.4% from 1,336 billion in 2010 to 983 billion in 2011 principally due to a 33.5% decrease in impairment on loans from 1,300 billion in 2010 to 864 billion in 2011, which mainly resulted from:

- a decrease in impairment loss on corporate loans by 46.1% from 1,201 billion in 2010 to 647 billion in 2011 principally due to the absence in 2011 of large-scale fast-track restructuring programs in 2010 for troubled companies in the shipbuilding, shipping and construction industries, as well as our concerted efforts to focus on sound asset quality when extending or renewing corporate loans

which were partially offset by:

- a significant increase in impairment loss on credit card loans from 28 billion in 2010 to 166 billion in 2011 principally due to the increase in the average balance of credit card loans, overall deterioration of asset quality for credit card loans and a reduction in recovery for credit card loans that were written off,

- an increase in impairment loss on retail loans by 34.7% from 49 billion in 2010 to 66 billion in 2011 principally due to the increase in the average balance of retail loans, and

- an increase in impairment loss on securities by 31.8% from 66 billion in 2010 to 87 billion in 2011 principally due to impairment loss on our shares in Kumho Industries and other companies due to fluctuations in share prices of these companies.

We recorded net gain on financial instruments designated at fair value through profit or loss of 172 billion in 2011 compared to net such loss of 125 billion in 2010, largely as a result of a general downturn in the Korean stock market in 2011. However, as noted previously, the net economic effect from such gain is negligible since we hedge substantially all of our equity-linked securities and such gain is therefore offset for the most part by net trading loss from valuation losses from related derivative products.

Net gain on sale of available-for-sale financial assets increased by 29.8% from 652 billion in 2010 to 846 billion in 2011 principally due to the gain on sale of shares in Hyundai Construction and BC Card in 2011 in the amount of 352 billion and 89 billion, respectively.

We recorded net trading loss of 132 billion in 2011 compared to net trading income of 334 billion in 2010, largely as a result of valuation loss of derivative products used for hedging equity-linked securities issued by us.

General and administrative expenses increased by 7.5% from 3,848 billion in 2010 to 4,135 billion in 2011 principally due to the wage increase for employees at Shinhan Bank and Shinhan Card and an increase in severance and retirement benefits as a result of an increase in the number of employees opting for voluntary retirement in 2011.

Income Tax Expense

Income tax expense increased by 61.4% from 570 billion in 2010 to 920 billion in 2011 as a result of the increase in our taxable income. Our effective rate of income tax increased from 16.6% in 2010 to 21.9% in 2011 largely as a result of a tax refund of 197 billion received in 2010 in relation to overpayments of corporate income taxes made in prior years.

Net Income for the Period

As a result of the foregoing, our net income for the period increased by 14.5% from 2,859 billion in 2010 to 3,273 billion in 2011.

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Other Comprehensive Income for the Period

	Year Ended December 31,		
	2010	2011	% Change
	(In billions of Won, except percentages)		
Foreign currency translation differences for foreign operations	(18)	16	N/M
Net change in fair value of available-for-sale financial assets	175	(460)	N/M
Equity in other comprehensive income of associates	21	3	(85.7)%
Net change in unrealized fair value of cash flow hedges	13	1	(92.3)
Other Comprehensive income (loss) of separate account	2	(1)	N/M
Total other comprehensive loss, net of income tax	193	(441)	N/M

N/M = not meaningful

We recorded other comprehensive loss of 441 billion in 2011 compared to other comprehensive income of 193 billion in 2010, principally due to a negative net change in fair value of available-for-sale financial assets, principally due to a sharp decrease in accumulated other comprehensive income following the divestment of Hyundai Engineering & Construction Co., Ltd. shares in 2011.

Results by Principal Business Segment

As of December 31, 2012, we were organized into eight major business segments as follows:

the following banking services, which are principally provided by Shinhan Bank:

retail banking;

corporate and investment banking;

international banking; and

other banking services;

credit card services, which are provided by Shinhan Card;

securities brokerage services, which are provided by Shinhan Investment;

life insurance services, which are provided by Shinhan Life Insurance; and

other.

Our senior management regularly makes decisions about resources to be allocated to these activities and assesses performance of the activities using this information, and consequently this forms the basis of our segment reporting included in Note 7 in the notes to our consolidated financial statements included in this annual report.

Operating Income by Principal Business Segment

Effective January 1, 2012, in order to enhance operational efficiency, Shinhan Bank reorganized its business operations which resulted in a partial adjustment of segmentation of its principal businesses.

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The table below provides the income statement data for our principal business segments for the periods indicated. For purposes of facilitating comparability of segment results in 2011 compared to 2012, the segment results for 2011 for purposes of such comparison were adjusted to reflect the adjusted business segments.

	Year Ended December 31, 2011	2012	% Change 2011/2012
	(In billions of Won, except percentages)		
Banking:			
Retail banking	870	704	(19.1)%
Corporate and investment banking	834	887	6.4
International banking	73	211	189.0
Others	932	308	(67.0)
Subtotal	2,709	2,110	(22.1)
Credit card	1,073	952	(11.3)
Securities	123	68	(44.7)
Life insurance	319	271	(15.0)
Others(1)	(68)	(244)	N/M
Consolidation adjustment(2)	17	37	117.6
Total operating income	4,173	3,194	(23.5)%

N/M = not meaningful

Notes:

(1) Prior to 2012, the Others segment included our holding company s income for the period on a non-consolidated basis, which consisted of dividends from our subsidiaries on account of our ownership of stock in our subsidiaries, interest income from loans extended to our subsidiaries and fees and commissions received from our subsidiaries for the use of the group brands and logos, interest expense and administrative costs. Starting in 2012, the Others segment no longer includes dividends from our subsidiaries on account of our ownership of stock in our subsidiaries. The Others segment results for 2010 and 2011 have also been so adjusted retroactively for comparability purposes.

(2) Consolidation adjustment consists of unrealized operating income in respect of related party transactions and adjustment difference of individual asset and liability price in respect of consolidated and nonconsolidated financial statements.

	Year Ended December 31, 2010	2011	% Change 2010/2011
	(In billions of Won, except percentages)		
Banking:			
Retail banking	883	1,016	15.1%
Corporate and investment banking	1,535	1,577	2.7
International banking	57	165	189.5
Others	(266)	(49)	(81.6)
Subtotal	2,209	2,709	22.6
Credit card	1,009	1,073	6.3

Securities	184	123	(33.2)
Life insurance	290	319	10.0
Others(1)	(100)	(68)	(32.0)
Consolidation adjustment(2)	(40)	17	
Total operating income	3,552	4,173	17.5%

Notes:

(1) Prior to 2012, the Others segment included our holding company s income for the period on a non-consolidated basis, which consisted of dividends from our subsidiaries on account of our ownership of stock

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in our subsidiaries, interest income from loans extended to our subsidiaries and fees and commissions received from our subsidiaries for the use of the group brands and logos, interest expense and administrative costs. Starting in 2012, the Others segment no longer includes dividends from our subsidiaries on account of our ownership of stock in our subsidiaries. The Others segment results for 2010 and 2011 have also been so adjusted retroactively for comparability purposes.

(2) Consolidation adjustment consists of unrealized operating income in respect of related party transactions and adjustment difference of individual asset and liability price in respect of consolidated and nonconsolidated financial statements.

For segment reporting purposes, each segment result reflects provision for loan losses that are allocated based on the ending balances of loans for each segment in order to show a meaningful comparison of performance within such segment and compared to other segments.

We allocate provision for loan losses as follows: (i) first, each of our operating segments is allocated up to 100% of the expected loss from loans made by such segment (namely, with respect to a particular loan, 80% of the expected loss for such loan on a daily basis based on the daily ending balance of such loan and the remaining 20% upon the occurrence of insolvency for such loan, and (ii) the difference between the actual incurred loss and the expected loss for a given operating segment is in the Others (Banking) segment. Accordingly, the total provision of losses recorded for our banking business is a sum of expected loss for each banking segment and any amounts by which actual incurred loss exceeds expected loss allocated for a loan for which a borrower has become insolvent, which is recorded as provision of loan losses for the Others (Banking) segment.

Retail Banking

The retail banking segment primarily consists of banking and other services provided by Shinhan Bank and Jeju Bank s retail banking branches to the branch customers, which principally consist of individuals and households. The retail banking products principally consist of mortgage and home equity loans and other retail loans, deposits and other savings products and fees earned from the sale of investment and bancassurance products.

The table below provides the income statement data for the retail banking segment for the periods indicated. For purposes of facilitating comparability of segment results in 2011 compared to 2012, the segment results for 2011 for purposes of such comparison were adjusted to reflect the adjusted business segment.

	Year Ended December 31,		% Change
	2011	2012	2011/2012
	(In billions of Won, except percentages)		
Net interest income (expense)	2,671	2,513	(5.9)%
Net fees and commission income (expense)	624	600	(3.8)
Net other income (expense)	(2,425)	(2,409)	(0.7)
Operating income (expense)	870	704	(19.1)%

	Year Ended December 31,		% Change
	2010	2011	2010/2011
	(In billions of Won, except percentages)		
Net interest income (expense)	2,320	2,656	14.5%
Net fees and commission income (expense)	647	635	(1.9)
Net other income (expense)	(2,084)	(2,275)	9.2
Operating income (expense)	883	1,016	15.1%

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Comparison of 2012 to 2011

Operating income for retail banking decreased by 19.1% from 870 billion in 2011 to 704 billion in 2012.

Net interest income for retail banking decreased by 5.9% from 2,671 billion in 2011 to 2,513 billion in 2012 due to an increase in funding costs arising from the increase in the volume of deposits amidst consumers continuing preference for bank deposits, the increase in the rates offered on deposits to attract customer deposit in light of the increased competition among commercial banks for customer deposits, as well as the decrease in the average lending rates for retail loans in reflection of the abundant market liquidity in Korea, which more than offset an increase in the volume of retail loans (particularly as a result of the introduction of specialized loan products for police officers and other government employees) and mortgage loan products. The decrease in net interest income for retail banking was also attributable to a gradual deterioration of Shinhan Bank s net interest spread, which resulted from a general decrease in market interest rates largely driven by the incremental decrease in the base interest rate set by the Bank of Korea to 2.75% in 2012 from 3.25% in 2011, which had a greater impact on the average interest rate on Shinhan Bank s loans relative to the average interest rate on Shinhan Bank s deposits due to the shorter repricing periods for the former and increased rate competition among commercial banks for retail loans and customer deposits.

Net fees and commission income decreased by 3.8% from 624 billion in 2011 to 600 billion in 2012 primarily due to reduced demand for indirect investment products offered by Shinhan Bank s retail banking branches as a result of the continued stagnation in domestic stock markets.

Net other expense remained largely stable, having decreased by 0.7% from 2,425 billion in 2011 to 2,409 billion in 2012 primarily due to an increase in selling and administrative expenses resulting from an increase in severance and retirement benefits which was substantially offset by a decrease in expenses related to court deposit service.

Comparison of 2011 to 2010

Operating income for retail banking increased by 15.1% from 883 billion in 2010 to 1,016 billion in 2011.

Net interest income for retailing banking increased by 14.5% from 2,320 billion in 2010 to 2,656 billion in 2011 primarily due to an increase in the volume of retail loans, mainly in the form of mortgage and home equity lending related to housing loans taken by households to pay for an increase in housing sales in the first half of 2011 as well as the general increase in long-term deposit required for the majority of rental housing in Korea due to an increasing shortage of available housing in Seoul, which more than offset an increase in funding costs arising from the increase in the volume of time deposits amidst consumers growing preference for bank deposits in lieu of other investment products due to the overall stagnation of the domestic stock market in 2011. The increase in net interest income for retail banking was also attributable to the improvement in net interest spread, which was largely due to the increase in the base interest rate set by the Government in 2011, which generally has a greater impact on the average interest rate on our loans relative to the average interest rate on our deposits, as the former generally has shorter repricing periods than the latter.

Net fees and commission income decreased by 1.9% from 647 billion in 2010 to 635 billion in 2011 primarily due to decreased demand for indirect investment products offered by Shinhan Bank s retail banking branches as a result of the general stagnation in domestic stock markets in light of the ongoing European financial crisis.

Net other expense increased by 9.2% from 2,084 billion in 2010 to 2,275 billion in 2011 primarily due to an increase in selling and administrative expenses resulting from an increase in severance and retirement benefits due to an increase in the number of employees at Shinhan Bank s retail banking branches opting for voluntary retirement in 2011. The increase in other expense was partially offset by a decrease in provision for loan losses as the asset quality of retail loans improved due to Shinhan Bank s active policy to increase the proportion of quality assets, such as mortgage and home equity loans, as part of our enhanced risk management policy in response to the uncertainty in global economic prospects.

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Corporate and Investment Banking

The corporate and investment banking segment primarily consists of banking and other services provided by Shinhan Bank s corporate banking branches to their corporate customers, most of which are small- and medium-sized enterprises and large corporations, including members of the *chaebol* groups, such as general lending and providing overdrafts and other credit facilities.

The table below provides the income statement data for the corporate and investment banking segment for the periods indicated. For purposes of facilitating comparability of segment results in 2011 compared to 2012, the segment results for 2011 for purposes of such comparison were adjusted to reflect the adjusted business segment.

	Year Ended December 31,		% Change
	2011	2012	2011/2012
	(In billions of Won, except percentages)		
Net interest income (expense)	1,014	1,049	3.5%
Net fees and commission income (expense)	279	275	(1.4)
Net other income (expense)	(459)	(437)	(4.8)
Operating income (expense)	834	887	6.4%

	Year Ended December 31,		% Change
	2010	2011	2010/2011
	(In billions of Won, except percentages)		
Net interest income (expense)	2,081	2,059	(1.1)%
Net fees and commission income (expense)	240	210	(12.5)
Net other income (expense)	(786)	(692)	(12.0)
Operating income (expense)	1,535	1,577	2.7%

Comparison of 2012 to 2011

Operating income for corporate and investment banking increased by 6.4% from 834 billion in 2011 to 887 billion in 2012.

Net interest income increased by 3.5% from 1,014 billion in 2011 to 1,049 billion in 2012 primarily due to an increase in the volume of corporate loans to quality SOHO and small- and medium-sized enterprise borrowers as a result of from Shinhan Bank s ongoing efforts to attract and maintain quality corporate borrowers as part of Shinhan Bank s tailored strategic marketing efforts as well as enhanced risk management policy in response to the uncertainty in global economic prospects, and a decrease in funding costs resulting from the decrease in the base interest rate set by the Bank of Korea.

Net fees and commission income decreased by 1.4% from 279 billion in 2011 to 275 billion in 2012 primarily due to a decrease in investment advisory fees resulting from decreased investment banking activities in light of the continued weakness in the Korean and global economies.

Net other expense decreased by 4.8% from 459 billion in 2011 to 437 billion in 2012 primarily due to a decrease in the expected loss from corporate loans made resulting from a slowdown in the growth of corporate loans in 2012 compared to 2011, which was partially offset by an increase in selling and administrative expenses for reasons similar to that for retail banking as discussed above and an increase in provision for loan losses attributable to the increase in the proportion of insolvent borrowers in the construction industry and, to a lesser extent, the shipbuilding and shipping industries, as a result of the continued slump in such industries in 2012.

Comparison of 2011 to 2010

Operating income for corporate and investment banking increased by 2.7% from 1,535 billion in 2010 to 1,577 billion in 2011.

Net interest income decreased by 1.1% from 2,081 billion in 2010 to 2,059 billion in 2011 primarily due to a decrease in average lending rates for corporate loans, which mainly resulted from Shinhan Bank s

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ongoing efforts to attract corporate borrowers with lower lending rates as part of our enhanced risk management policy in response to the uncertainty in global economic prospects, and an increase in funding costs resulting from an increased shift in cash management policy among corporate borrowers to deposit their funds in time deposits rather than commercial papers, reflecting in part the enhanced liquidity among Korean corporations in 2011.

Net fees and commission income decreased by 12.5% from 240 billion in 2010 to 210 billion in 2011 primarily due to a decrease in investment advisory fees resulting from a continued slowdown of domestic merger and acquisition and real estate project financing activities following the recent global financial crisis.

Net other expense decreased by 12.0% from 786 billion in 2010 to 692 billion in 2011 primarily due to a decrease in provision of loan losses resulting from the absence of major restructuring programs for corporate borrowers in 2011 as compared to 2010, as well as an increase in quality corporate assets resulting from Shinhan Bank s ongoing emphasis on lending to quality corporate customers as part of its enhanced risk management policy in response to the uncertainty in global economic prospects, which was partially offset by an increase in selling and administrative expenses for reasons similar to that for retail banking as discussed above.

International Banking

The international banking segment primarily consists of the results of operations of Shinhan Bank s overseas subsidiaries and branches, as well as Shinhan Bank s non-deposit funding activities, including trading of, and investment in, debt securities and, to a lesser extent, equity securities for its own accounts, handling its treasury activities, such as inter-segment lending and borrowing, entering into derivatives transactions and investment banking. The table below provides the income statement data for the international banking segment for the periods indicated.

The table below provides the income statement data for the international banking segment for the periods indicated. For purposes of facilitating comparability of segment results in 2011 compared to 2012, the segment results for 2011 for purposes of such comparison were adjusted to reflect the adjusted business segment.

	Year Ended December 31,		% Change
	2011	2012	2011/2012
	(In billions of Won, except percentages)		
Net interest income (expense)	259	289	11.6%
Net fees and commission income (expense)	46	47	2.2
Net other income (expense)	(232)	(125)	(46.1)
Operating income (expense)	73	211	189.0%

	Year Ended December 31,		% Change
	2010	2011	2010/2011
	(In billions of Won, except percentages)		
Net interest income (expense)	231	282	22.1%
Net fees and commission income (expense)	42	45	7.1
Net other income (expense)	(216)	(162)	(25.0)
Operating income (expense)	57	165	189.5%

Comparison of 2012 to 2011

Operating income for international banking increased by 189.0% from 73 billion in 2011 to 211 billion in 2012.

Net interest income increased by 11.6% from 259 billion in 2011 to 289 billion in 2012 primarily due to export-import and other loan growth and improved net interest margins for Shinhan Bank s subsidiaries in key overseas markets due to Shinhan Bank s efforts to increase the synergy between Shinhan Bank s domestic and overseas activities, including through enhanced trade financing.

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Net fees and commission income increased by 2.2% from 46 billion in 2011 to 47 billion in 2012 primarily due to an increase in fees earning from export-import related remittances.

Net other expense decreased by 46.1% from 232 billion in 2011 to 125 billion in 2012 primarily due to a gain on disposal of trading assets.

Comparison of 2011 to 2010

Operating income for international banking increased by 189.5% from 57 billion in 2010 to 165 billion in 2011.

Net interest income increased by 22.1% from 231 billion in 2010 to 282 billion in 2011 primarily due to export-import and other loan growth and improved net interest margins for our subsidiaries in key overseas markets, such as Vietnam, due to our efforts to increase the synergy between our domestic and overseas activities, including through enhanced trade financing.

Net fees and commission income increased by 7.1% from 42 billion in 2010 to 45 billion in 2011 primarily due to an increase in fees earned from export-import related remittances as a result of an increase in our trade financing.

Net other expense decreased by 25.0% from 216 billion in 2010 to 162 billion in 2011 primarily due to a decrease in bad debt expense due to reduced delinquency and non-performing loan ratios in our key overseas markets such as Vietnam, China, Japan and the United States.

Others (Banking)

This segment primarily consists of Shinhan Bank s back-office functions, including management of non-performing loans and restructured loans and consolidated adjustments within Shinhan Bank. The table below provides the components of operating expense for the other banking segment for the periods indicated.

The table below provides the income statement data for the others (banking) segment for the periods indicated. For purposes of facilitating comparability of segment results in 2011 compared to 2012, the segment results for 2011 for purposes of such comparison were adjusted to reflect the adjusted business segment.

	Year Ended December 31,		% Change
	2011	2012	2011/2012
	(In billions of Won, except percentages)		
Net interest income (expense)	1,110	986	(11.2)%
Net fees and commission income (expense)	(50)	(55)	10.0
Net other income (expense)	(128)	(623)	N/M
Operating income (expense)	932	308	(67.0)%

	Year Ended December 31,		% Change
	2010	2011	2010/2011
	(In billions of Won, except percentages)		
Net interest income (expense)	40	58	45.0%
Net fees and commission income (expense)	(32)	8	N/M
Net other income (expense)	(274)	(115)	(58.0)
Operating income (expense)	(266)	(49)	(81.6)%

N/M = not meaningful

Comparison of 2012 to 2011

Operating income for the other banking segment decreased by 67.0% from 932 billion in 2011 to 308 billion in 2012.

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Net interest income decreased by 11.2% from 1,110 billion in 2011 to 986 billion in 2012 primarily due to a decrease in interest earned on asset-backed securitization bonds, which resulted mainly from the expiry of the securitization or redemption of the related bonds.

Net fees and commission expense increased by 10.0% from 50 billion in 2011 to 55 billion in 2012 primarily due to increased consulting fees for the other banking segment.

Net other expense increased significantly from 128 billion in 2011 to 623 billion in 2012 primarily due to a one-time gain realized from the sale of shares in Hyundai Construction & Engineering in 2011.

Comparison of 2011 to 2010

Operating income for the other banking segment decreased by 81.6% from 266 billion in 2010 to 49 billion 2011.

Net interest income increased by 45.0% from 40 billion in 2010 to 58 billion in 2011 primarily due to a decrease in interest payable on asset-backed securitization bonds, which resulted mainly from the expiry of the securitization or redemption of the related bonds.

The other banking segment recorded net fees and commission income of 8 billion in 2011 compared to net fees and commission expense of 32 in 2010 primarily due to a decrease in outside consulting fees as part of our cost-saving efforts.

Net other expense decreased by 58.0% from 274 billion in 2010 to 115 billion in 2011 primarily due to gain realized from the sale of shares in Hynix Semiconductors and a decrease in impairment of shares held by Shinhan Bank due to improvements in fair values assigned to such shares in 2011.

Credit Card Services

The credit card services segment consists of the credit card business of Shinhan Card, including its installment finance and automobile leasing businesses.

	Year Ended December 31,			% Change	
	2010	2011	2012	2010/2011	2011/2012
	(In billions of Won, except percentages)				
Income statement data					
Net interest income (expense)	1,256	1,360	1,410	8.3%	3.7%
Net fees and commission income (expense)	350	320	246	(8.6)	(23.1)
Net other income (expense)	(597)	(606)	(704)	1.5	16.2
Operating income (expense)	1,009	1,073	952	6.3%	(11.3)%

Comparison of 2012 to 2011

Operating income for the credit card business decreased by 11.3% from 1,073 billion in 2011 to 952 billion in 2012.

Net interest income increased by 3.7% largely as a result of a decrease in funding costs due to a general decrease in the market interest rates and the required overall funding amount due to a decrease in the volume of credit card loans, which more than offset a decrease in the average balance of credit card loans. The decrease in the average balance of credit card loans was principally attributable to reduced use of card loans and cash advances by customers in light of the ample liquidity in the Korean financial sector and the resulting increase in the availability of lower-cost loans and other financing options.

Net fees and commission income decreased by 23.1% due primarily to a decrease in card loans and cash advances, lowering of merchant fee rates in compliance with new regulatory requirements and an increase in fees and commissions payable as a result of increased use of membership points by Shinhan Card s credit card customers as part of enhanced marketing efforts.

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Net other expense increased by 16.2% due to an increase in provision for loan losses in anticipation of rising delinquency as a result of the increased level of household debt and a decrease in recovery from delinquent loans primarily due to a decrease in the outstanding balance of bad debt to be recovered as well as increased difficulties in collection due to the ageing of such loans with the passage of time.

Comparison of 2011 to 2010

Operating income for the credit card business increased by 6.3% from 1,009 billion in 2010 to 1,073 billion in 2011.

Net interest income increased by 8.3% due primarily to an increase in the average balance of credit cards largely resulting from an increase in consumer spending amid our active marketing campaigns and a decrease in funding costs due to a decrease in the market interest rates.

Net fees and commission income decreased by 8.6% due primarily to an increase in fees and commission expense relating to customer incentive and service programs, which was partially offset by an increase in fees and commission income resulting from the increase in the average balance of credit cards.

Net other expense increased by 1.5% due primarily to an increase in provision for loan losses resulting from a decrease in recovery from delinquent loans and an increase in delinquency largely as a result of the ongoing economic difficulties, which was substantially offset by the proceeds from the sale of Shinhan Card s interest in BC Card for a gain of 88.8 billion and a reversal of 22 billion of provision for unused credits.

Securities Brokerage Services

Securities brokerage services segment primarily reflects securities brokerage and dealing services on behalf of customers, which is conducted by Shinhan Investment, our principal securities brokerage subsidiary.

	Year Ended December 31,			% Change	
	2010	2011	2012	2010/2011	2011/2012
	(In billions of Won, except percentages)				
Income statement data					
Net interest income (expense)	155	231	248	49.0%	7.4%
Net fees and commission income (expense)	327	319	237	(2.4)	(25.7)
Net other income (expense)	(298)	(427)	(417)	43.3	(2.3)
Operating income (expense)	184	123	68	(33.2)%	(44.7)%

Comparison of 2012 to 2011

Operating income for securities brokerage services decreased by 44.7% from 123 billion in 2011 to 68 billion in 2012.

Net interest income increased by 7.4% due primarily to an increase of our holdings of financial bonds following the purchase of such bonds from the proceeds of additional issuances of equity-linked securities.

Net fees and commission income decreased by 25.7% due primarily to a decrease in brokerage fee resulting from a decrease in the trading volume in the Korean stock market due to increased investor preference for low risk investments in the face of uncertainty in the general economy as well as a decrease in the brokerage fee rates due to intensifying competition for brokerage services primarily brought by the prevalence of Internet-based and mobile trading services for which minimal brokerage fee is charged.

Net other expense decreased from by 2.3% due primarily to a decrease in general administrative expense.

Comparison of 2011 to 2010

Operating income for securities brokerage services decreased by 33.2% from 184 billion in 2010 to 123 billion in 2011.

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Net interest income increased by 49.0% due primarily to an increase in interest income largely resulting from an increase in the volume of cash deposits made and securities purchased from the proceeds from the sale of equity-linked securities, the sales volume of which increased in 2011 due to the general downturn in the Korean stock market.

Net fees and commission income decreased by 2.4% due primarily to an increase in fees paid for the use of the Group brand and logos.

Net other expense significantly increased from 298 billion to 427 billion due primarily to an increase in transaction costs related to equity-linked securities. We recorded provision for loan losses of 8 billion in 2011 compared to reversal of provision for loan losses of 11 billion in 2010, which resulted from the collection of receivables in respect of put options relating to the Daewoo Construction shares held by us in 2010, and a decrease in the gain on valuation and disposition of trading securities in 2011 as compared to 2010.

Life Insurance Services

Life insurance services segment consists of life insurance services provided by Shinhan Life Insurance.

	Year Ended December 31,			% Change	
	2010	2011	2012	2010/2011	2011/2012
	(In billions of Won, except percentages)				
Income statement data					
Net interest income (expense)	468	524	567	12.0%	8.2%
Net fees and commission income (expense)	24	28	35	16.7	25.0
Net other income (expense)	(202)	(233)	(331)	15.3	42.1
Operating income (expense)	290	319	271	10.0%	(15.0)%

Comparison of 2012 to 2011

Operating income for life insurance services decreased by 15.0% from 319 billion in 2011 to 271 billion in 2012.

Net interest income increased by 8.2% due primarily to an increase in interest on insurance loans and cash balances resulting from an increase in insurance premium collected largely due to an increase in tax-exempt insurance policies and annuities sold following a change in tax law.

Net fees and commission income increased by 25.0% due primarily to increase in fees resulting from an increase in the volume of insurance policies sold for reasons noted above.

Net other expense increased by 42.1% from 233 billion in 2011 to 331 billion in 2012 due primarily to an increase in provision for policy reserves due to an increase in the volume of insurance policies and annuities sold and an increase in provision for loan losses related to the increase in loans purchased with premium from the new insurance contracts.

Comparison of 2011 to 2010

Operating income for life insurance services increased by 10.0% from 290 billion in 2010 to 319 billion in 2011.

Net interest income increased by 12.0% due primarily to an increase in medium- to long-term debt securities held by us as a result of increased funding needs to match the increase in insurance policies sold by us.

Net fees and commission income increased by 16.7% due primarily to an increase in management fees resulting from higher margins in variable insurance products primarily due to improvements in portfolio allocation in response to the increased volatility in the financial markets and an increase in fees derived from insurance loans largely as a result of our concerted efforts to increase the amount of such loans and collect fees thereon in order to boost our margins for our overall insurance products.

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Net other expense increased from 202 billion in 2010 to 233 billion in 2011 due primarily to an increase in provision for policy reserves due to an increase in the volume of insurance policies sold and an increase in provision for loan losses related to the increase in loans.

Others

Other segment primarily reflects all other activities of Shinhan Financial Group, as the holding company, and our other subsidiaries, including the results of operations of Shinhan Capital, Cardif Life Insurance Company, Shinhan Credit Information, Shinhan BNP Paribas Asset Management, Shinhan Private Equity, Shinhan Savings Bank and back-office functions maintained at the holding company.

	Year Ended December 31,			% Change	
	2010	2011	2012	2010/2011	2011/2012
	(In billions of Won, except percentages)				
Net interest income (expense)	(80)	(96)	(96)	20.0%	%
Net fees and commission income (expense)	229	219	204	(4.4)	(6.8)
Net other income (expense)	(249)	(191)	(352)	(23.3)	84.3
Operating income (expense)	(100)	(68)	(244)	(32.0)%	N/M

N/M = not meaningful

Comparison of 2012 to 2011

Operating expense increased significantly from 68 billion in 2011 to 244 billion in 2012 primarily due to Shinhan Capital s recording operating income of 50 billion in 2011 to operating expense of 12 billion in 2012 and the recording of operating expense by Shinhan Savings Bank s of 23 billion in 2012, its first year of operation.

Net interest expense remained stable at 96 billion primarily due to Shinhan Savings Bank s recording net interest income of 64 billion in 2012, which was offset by increase in net interest expense due to a substantial decrease in interest-bearing assets following the redemption by our financial holding company of all Series 10 redeemable preferred shares and Series 11 redeemable convertible preferred shares in the aggregate amount of 3,573 billion in January 2012.

Net fees and commission income decreased by 6.8% primarily due to a decrease in the fee that our financial holding company collects from its subsidiaries relating to the use of the Shinhan brand and a decrease in Shinhan BNP Paribas Asset Management s net fees and commission income largely as a result of a net withdrawal of fund assets by investors in light of the stagnant stock markets in Korea.

Net other expenses increased by 83.3% primarily due to an increase in allowance for loan losses for Shinhan Capital from 46 billion in 2011 to 120 billion in 2012 primarily in relation to loans to borrowers in the shipbuilding industry which continues to face difficulties, as well as recording of allowance for loan losses of 59 billion in 2012 for Shinhan Savings Bank.

Comparison of 2011 to 2010

Operating expenses decreased by 32.0% from 100 billion in 2010 to 68 billion in 2011 primarily due to an increase in our financial holding company s operating expense on a non-consolidated basis from 205 billion in 2010 to 158 billion in 2011, which was partially offset by a decrease in Shinhan BNP Paribas Asset Management s operating income from 54 billion in 2010 to 49 billion in 2011. Shinhan Capital s operating income remained relatively stable at 50 billion in 2010 and 2011.

Net interest expense increased by 20.0% primarily due to an increase in interest expense for the debt securities issued by our financial holding company resulting from the increase in market interest rates for debt securities in general.

Net fees and commission income decreased by 4.4% primarily due to the increasing customer preference to deposit their money in bank deposits rather than stocks or other types of investment, largely as a result of the increased volatility of the stock and other financial markets.

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Net other expense decreased by 23.3% primarily due to an increase in net trading income of our holding company. Our holding company net trading assets increased from 251 billion in 2010 to 1,857 billion in 2011 due to our holding company s need to build up cash reserves in anticipation of the scheduled redemption of all Series 10 redeemable preferred shares and Series 11 redeemable convertible preferred shares in the aggregate amount of 3,573 billion in January 2012.

Financial Condition

Assets

The following table sets forth, as of the dates indicated, the principal components of our assets.

	As of December 31,			% Change	
	2010	2011	2012	2010/2011	2011/2012
	(In billions of Won, except percentages)				
Cash and due from banks	11,822	14,731	13,394	24.6%	(9.1)%
Trading assets	9,412	11,954	14,019	27.0	17.3
Financial assets designated at fair value through profit or loss	2,208	1,801	2,585	(18.4)	43.5
Derivative assets	3,159	2,319	2,165	(26.6)	(6.6)
Loans	181,347	192,573	199,656	6.2	3.7
Available-for-sale financial assets	29,452	34,106	36,328	15.8	6.5
Held-to-maturity financial assets	12,529	11,895	11,659	(5.1)	(2.0)
Property and equipment	2,976	2,994	3,047	0.6	1.8
Intangible assets	4,073	4,203	4,191	3.2	(0.3)
Investments in associates	300	249	299	(17.0)	20.1
Deferred tax assets	65	29	96	(55.4)	N/M
Current tax assets	11	9	14	(18.2)	55.6
Investment property	286	275	247	(3.8)	(10.2)
Assets held for sale	21	16	54	(23.8)	N/M
Other assets	9,949	10,888	13,094	9.4	20.3
Total assets	267,610	288,042	300,848	7.6%	4.4%

N/M = not meaningful

2012 Compared to 2011

Our assets increased by 4.4% from 288,042 billion as of December 31, 2011 to 300,848 billion as of December 31, 2012, principally due to increases in loans, trading assets, available-for-sale financial assets and other assets.

Our loans increased by 3.7% from 192,573 billion as of December 31, 2011 to 199,656 billion as of December 31, 2012, principally as a result of our risk management and tailored strategic marketing policy which emphasized increasing the proportion of high quality assets such as retail loans to police officers and other government employees and corporate loans to quality SOHO and small- to medium-sized enterprise customers.

Our trading assets increased by 17.3% from 11,954 billion in 2011 to 14,019 billion in 2012 and available-for-sale financial assets increased by 6.5% from 34,106 billion in 2011 to 36,328 billion in 2012, in each case, largely due to an increased purchase of debt securities issued by corporations and financial institutions as a part of our cash management.

Our other assets increased by 20.3% from 10,888 billion as of December 31, 2011 to 13,094 billion as of December 31, 2012, principally due to an increase in transitional accounts such as spot exchange receivables

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(which are foreign currency exchange recognized as receivables from the trading date to the settlement date) and domestic exchange settlement debits (which are receivables recognized in respect of domestic inter-bank transactions).

Our cash and due from banks decreased by 9.1% from 14,731 billion as of December 31, 2011 to 13,394 billion as of December 31, 2012, principally due to the redemption of the Series 10 redeemable preferred shares and the Series 11 redeemable convertible preferred shares in the aggregate amount of 3,765 billion in January 2012.

Deferred tax assets increased significantly from 29 billion as of December 31, 2011 to 96 billion as of December 31, 2012, principally due to an increase of the present value of defined benefit obligations.

2011 Compared to 2010

Our assets increased by 7.6% from 267,610 billion as of December 31, 2010 to 288,042 billion as of December 31, 2011, principally due to increases in loans, available-for-sale financial assets, cash and due from banks and trading assets.

Our loans increased by 6.2% from 181,347 billion as of December 31, 2010 to 192,573 billion as of December 31, 2011, as a result of our risk management policy which emphasized increasing the proportion of high-quality assets such as working capital loans to large corporate customers and loan facilities to small- and medium-sized enterprises and an increase in mortgage and home equity loans.

Our available-for-sale financial assets increased by 15.8% from 29,452 billion in 2010 to 34,106 billion in 2011 largely due to the increased purchase of debt securities issued by financial institutions for purposes of safe and sound cash management, which was partially offset by the sale of our shares in Hyundai Construction and BC Card and the valuation losses of available-for-sale securities held by us as a result of the general downturn of the Korean stock market in 2011.

Our other assets increased by 9.4% from 9,949 billion as of December 31, 2010 to 10,888 billion as of December 31, 2011, principally due to an increase in transitional accounts such as spot exchange receivables (which are foreign currency exchange recognized as receivables from the trading date to the settlement date) and domestic exchange settlement debits (which are receivables recognized in respect of domestic inter-bank transactions).

Our cash and due from banks increased by 24.6% from 11,822 billion as of December 31, 2010 to 14,731 billion as of December 31, 2011, principally due to the need to hold substantial cash in anticipation of the scheduled redemption of the Series 10 redeemable preferred shares and the Series 11 redeemable convertible preferred shares in the aggregate amount of 3,765 billion in January 2012.

Our trading assets increased by 27.0% from 9,412 billion as of December 31, 2010 to 11,954 billion as of December 31, 2011, principally due to an increase in beneficiary certificates related to short-term cash management.

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Liabilities and Equity

The following table sets forth, as of the dates indicated, the principal components of our liabilities.

	As of December 31,			% Change	
	2010	2011	2012	2010/2011	2011/2012
	(In billions of Won, except percentages)				
Deposits	149,417	163,016	170,096	9.1%	4.3%
Trading liabilities	823	704	1,371	(14.5)	94.7
Financial liabilities designated at fair value through profit or loss	1,954	3,298	4,822	68.8	46.2
Derivative liabilities	2,588	1,972	1,904	(23.8)	(3.4)
Borrowings	18,085	20,033	18,891	10.8	(5.7)
Debt securities issued	40,286	39,737	38,840	(1.4)	(2.3)
Liability for defined benefit obligations	170	275	214	61.8	(22.2)
Provisions	859	870	747	1.3	(14.1)
Current tax liabilities	251	568	252	126.3	(55.6)
Deferred tax liabilities	184		20	(100)	
Insurance liabilities	8,986	10,867	13,419	20.9	23.5
Other liabilities	16,812	19,843	21,493	18.0	8.3
Total liabilities	240,415	261,183	272,069	8.6	4.2
Total equity attributable to equity holder of the Group	24,734	24,397	26,310	(1.4)	7.8
Non-controlling interest	2,461	2,462	2,469	0.0	0.3
Total equity	27,195	26,859	28,779	(1.2)	7.1
Total liabilities and equity	267,610	288,042	300,848	7.6%	4.4%

2012 Compared to 2011

Our total liabilities increased by 4.2% from 261,183 billion as of December 31, 2011 to 272,069 billion as of December 31, 2012, primarily due to an increase in deposits (which principally consist of customer deposits) and, to a lesser extent, an increase in insurance liabilities.

Our deposits increased by 4.3% from 163,016 billion as of December 31, 2011 to 170,096 billion as of December 31, 2012, primarily due to continuing preference among customers for safe investment products in light of the lingering uncertainties surrounding the general economy, the continued slump in the real estate market and the stagnant stock markets.

Our insurance liabilities increased by 23.5% from 10,867 billion as of December 31, 2011 to 13,419 billion as of December 31, 2012, primarily due to an increase in policy reserve related to increases in the volume of insurance policies newly sold as well as the cumulative volume of existing insurance policies.

Total equity increased by 7.1% from 26,859 billion as of December 31, 2011 to 28,779 billion as of December 31, 2012, largely due to net income attributable to equity holders in the amount of 2,323 billion and the issuance of hybrid bonds in the amount of 299 billion, which more than offset a dividend payout of 630 billion in 2012.

2011 Compared to 2010

Our total liabilities increased by 8.6% from 240,415 billion as of December 31, 2010 to 261,183 billion as of December 31, 2011, primarily due to an increase in deposits (which principally consist of customer deposits) and, to a lesser extent, an increase in other liabilities.

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Our deposits increased by 9.1% from 149,417 billion as of December 31, 2010 to 163,016 billion as of December 31, 2011, primarily due to the continuing preference among customers for safe investment products in light of the increased volatility of the domestic stock market.

Our other liabilities, which primarily consist of other accounts payable and accrued expenses, increased by 18.0% from 16,812 billion as of December 31, 2010 to 19,843 billion as of December 31, 2011, primarily due to the recognition as accrued expenses of the redemption amounts payable in January 2012 in respect of the Series 10 and Series 11 preferred shares as a result of sending the relevant redemption notice in December 2011.

Total equity decreased by 1.2% from 27,195 billion as of December 31, 2010 to 26,859 billion as of December 31, 2011, largely due to the scheduled redemption of all Series 10 redeemable preferred shares and Series 11 redeemable convertible preferred shares in the aggregate amount of 3,573 billion and dividend payout of 586 billion in 2011, which more than offset the effect of the issue of Series 12 redeemable preferred shares in the amount of 1,110 billion and our net income attributable to equity holders of 3,100 billion in 2011.

ITEM 5.B. Liquidity and Capital Resources

We are exposed to liquidity risk arising from the funding of our lending, trading and investment activities and in the management of trading positions. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all of our liability repayments on time and fund all investment opportunities. For an explanation of how we manage our liquidity risk, see Item 4.B. Business Overview Risk Management Market Risk Management Market Risk Management for Non-trading Activities Liquidity Risk Management. In our opinion, the working capital is sufficient for our present requirements.

The following table sets forth our capital resources as of December 31, 2012.

	As of December 31, 2012 (In billions of Won)
Deposits	170,096
Long-term debt	41,453
Call money	1,089
Borrowings from the Bank of Korea	1,510
Other short-term borrowings	9,376
Asset securitizations	5,190
Stockholders equity(1)	2,645
Total	231,359

Note:

(1) Includes Series 12 redeemable preferred stock. See Note 30 of the notes to our consolidated financial statements included in this annual report.

We obtain funding from a variety of sources, both domestic and foreign. Our principal source of funding is customer deposits obtained from our banking operations, and we from time to time issue equity and debt securities. In addition, our subsidiaries acquire funding through call money, borrowings from the Bank of Korea, other short-term borrowings, corporate debentures, other long-term debt and asset-backed securitizations.

Our primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail customer deposits. Customer deposits accounted for 70.8% of our total funding as of December 31, 2010, 72.2% of our total funding as of December 31, 2011 and 73.5% of our total funding as of December 31, 2012. Historically, except in limited circumstances, largely due to the lack of alternative investment opportunities for individuals and households in Korea, especially in light of a low interest rate environment and volatile stock market conditions, a substantial portion of such customer deposits were rolled over upon maturity and accordingly provided a stable source of funding

for our banking subsidiaries. However, in the face of attractive alternative investment opportunities such as during a bullish run of the stock market,

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customers may transfer a significant amount of bank deposits to alternative investment products in search of higher returns, which may result in temporary difficulties in finding sufficient funding on commercial terms favorable to us.

While our banking subsidiaries generally have not faced, and currently are not facing, liquidity difficulties in any material respect, if we or our banking subsidiaries are unable to obtain the funding we need on terms commercially acceptable to us for an extended period of time for reasons of Won devaluation or otherwise, we may not be able to ensure our financial viability, meet regulatory requirements, implement our strategies or compete effectively. See Item 3.D. Risk Factors Risks Related to Our Overall Business Changes in interest rates, foreign exchange rates, bond and equity prices, and other market factors have affected and will continue to affect our business.

As of December 31, 2010, 2011 and 2012, 5,888 billion, 6,103 billion and 6,150 billion, or 4.22%, 4.33% and 3.68%, respectively, of Shinhan Bank s total deposits in Korean Won were deposits made by litigants in connection with legal proceedings in Korean courts. Court deposits carry interest rates, which are generally lower than market rates.

In addition, we obtain funding through borrowings and the issuances of debt and equity securities, primarily through Shinhan Bank. Our borrowings consist mainly of borrowings from financial institutions, the Korean government and Korean government-affiliated funds. Call money, which is available in both Won and foreign currencies, is obtained from the domestic call loan market, a short-term loan market for loans with maturities of less than one month. As for our long-term debt, it is principally in the form of corporate debt securities issued by Shinhan Bank. Since 1999, Shinhan Bank has actively issued and continues to issue long-term debt securities with maturities of over one year in the Korean fixed-income market. Shinhan Bank and we have maintained one of the highest credit ratings in the domestic fixed-income market since their inception in 1999 and 2001, respectively. As Shinhan Bank maintains one of the highest debt ratings in the fixed-income market in Korea, we believe that Shinhan Bank will be able to obtain replacement funding through the issuance of long-term debt securities. Shinhan Bank s interest rates on long-term debt securities are in general 20 to 30 basis points higher than the interest rates offered on their deposits. However, since long-term debt is not subject to premiums paid for deposit insurance and the Bank of Korea reserves, we estimate that our funding costs on long-term debt securities are generally on par with our funding costs on deposits. In addition, we, Shinhan Bank and Shinhan Card, may also issue long-term debt securities denominated in foreign currencies in overseas markets, and Shinhan Bank and Shinhan Card have global medium term notes programs under which foreign currency-denominated notes may be issued with an aggregate program limit of US$8 billion. As of December 31, 2010, 2011 and 2011, our long-term debt amounted to 42,279 billion, 42,670 billion and 41,677 billion, respectively.

We also have funding requirements for our credit card activities. We obtain funding for our credit card activities from a variety of sources, primarily in Korea. The principal sources of funding for Shinhan Card are debentures, commercial papers (including call money), borrowings from the holding company and third-parties, which amounted to 10,923 billion, 1,043 billion, 700 billion, 170 billion, or 85.1%, 8.1%, 5.5% and 1.3%, respectively, of the funding for our credit card activities, as of December 31, 2012. Unlike other credit card companies, Shinhan Card has the benefit of obtaining funding at favorable rates through loans from Shinhan Financial Group, which currently maintains the highest credit rating assigned by local rating agencies. Shinhan Card aims to further diversify its funding sources and more actively tap the domestic and international capital markets to ensure access to liquidity as needed.

Credit ratings affect the cost and other terms upon which we and our subsidiaries are able to obtain funding. Domestic and international rating agencies regularly evaluate us and our subsidiaries and their ratings of our and our subsidiaries long-term debt are based on a number of factors, including our financial strength as well as conditions affecting the financial services industry generally.

Our holding company does not receive credit ratings from international rating agencies since it has not engaged in debt financing from overseas sources to date.

There can be no assurance that that we or our subsidiaries will maintain our current credit ratings if, among other reasons, the global or Korean economy were to face another downturn, there any changes in our corporate

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governance or our businesses significantly deteriorate. Our failure to maintain current credit ratings and outlooks could increase the cost of our funding, limit our access to capital markets and other borrowings, and require us to post additional collateral in financial transactions, any of which could adversely affect our liquidity, net interest margins and profitability.

Secondary funding sources also include call money, borrowings from the Bank of Korea and other short-term borrowings which amounted to 13,057 billion, 13,846 billion and 11,976 billion as of December 31, 2010, 2011 and 2012, respectively, each representing 6.2%, 6.1% and 5.3%, respectively, of our total funding as of such dates.

We may also from time to time obtain funding through issuance of equity securities. For example, in the first quarter of 2009, we conducted a rights offering in the face of an expanding global credit crisis commencing in the second half of 2008 in order to enhance our capital position to prepare for potential contingencies, despite having fully met the required capital adequacy ratios required under applicable laws and regulations and not facing any significant liquidity constraints or financial distress. As a result of such offering, which was substantially fully subscribed and resulted in a capital increase of approximately 16.4%, we raised approximately 1,310 billion (before underwriting commissions and other offering expenses). The proceeds from the rights offering was used to support our existing business operations and other general corporate purposes.

In limited situations, we may also issue redeemable preferred shares and redeemable convertible preferred shares which are convertible into our common shares, for example, to help fund major acquisitions such as Chohung Bank and LG Card, as well as to finance the redemption of existing preferred shares. For example, in August 2003, in order to partly fund our acquisition of Chohung Bank, we raised a total of 2,552 billion through domestic private placements of redeemable preferred shares and redeemable convertible preferred shares to domestic financial institutions and governmental entities in Korea, all of which shares have since been redeemed or converted. In addition, in January 2007, partly to fund the acquisition of LG Card, we raised a total of 3,750 billion through domestic private placements of redeemable preferred shares and redeemable convertible preferred shares, all of which have been redeemed as of the date hereof, and in April 2011, we issued redeemable preferred shares to fund redemption of such securities. For further details on the terms of these preferred shares, including scheduled redemption dates, dividend rates and conversion ratios, see Item 10.B. Memorandum and Articles of Incorporation Description of Preferred Stock.

Pursuant to laws and regulations in Korea, we may redeem our preferred stock to the extent of our retained earnings of the previous fiscal year, net of certain reserves. At this time, we expect that cash from our future operations would be adequate to provide us with sufficient capital resources to enable us to redeem our preferred stock on or prior to their scheduled maturities. In the event there is a short-term shortage of liquidity to make the required cash payments for redemption as a result of, among other things, failure to receive dividend payments from our operating subsidiaries on time or as a result of significant expenditures resulting from future acquisitions, we plan to raise cash liquidity through the issuance of long-term debt in the Korean fixed-income market in advance of the scheduled maturity on our preferred stock. To the extent we need to obtain additional liquidity, we plan to do so through the issuance of long-term corporate debentures or further preferred stock and/or the use of our other secondary funding sources.

We generally may not acquire our own shares except in certain limited circumstances including, without limitation, a reduction in capital. However, pursuant to the Financial Investment Services and Capital Markets Act and regulations under the Financial Holding Companies Act, we may purchase our own shares on the KRX KOSPI Market of the Korea Exchange or through a tender offer, or retrieve our own shares from a trust company upon termination of a trust agreement subject to the restrictions that (1) the aggregate purchase price of such shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year less the amounts of dividends and reserves for such fiscal year, subtracted by the sum of (a) the purchase price of treasury stock acquired if any treasury stock has been purchased after the end of the preceding fiscal year pursuant to the Commercial Act or the Financial Investment Services and Capital Markets Act, (b) the amount subject to a trust contract, and (c) the amount of dividends approved at the ordinary general shareholders meeting after the end of the preceding fiscal year and the amount of retained earnings reserve required under the Commercial Act; plus if any treasury stock has been disposed of after the end of the preceding fiscal year, the acquisition cost of such treasury stock, and (2) the purchase of such shares shall meet the requisite ratio under the

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Financial Holding Companies Act and regulations thereunder. We may purchase our own shares for the purpose of cancellation with profits through the KRX KOSPI Market of the Korea Exchange, or through a tender offer acquire interests in our own shares through agreements with trust companies, subject to the same restrictions on the purchase price as described in this paragraph. In addition, pursuant to the Financial Investment Services and Capital Markets Act, in certain limited circumstances, dissenting holders of shares have the right to require us to purchase their shares.

Contractual Obligations, Commitments and Guarantees

In the ordinary course of our business, we have certain contractual cash obligations and commitments which extend for several years. As we are able to obtain liquidity and funding through various sources as described in Liquidity and Capital Resources above, we do not believe that these contractual cash obligations and commitments will have a material effect on our liquidity or capital resources.

Contractual Cash Obligations

The following table sets forth our contractual cash obligations as of December 31, 2012.

	As of December 31, 2012 Payments Due by Period(1)						
	Less than 1 Month	1-3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 Years	Total
	(In billions of Won)						
Deposits	70,013	19,778	17,426	57,969	10,246	860	176,292
Borrowings	9,270	2,085	1,391	1,416	4,227	821	19,210
Debt securities issued	1,070	1,949	2,922	6,559	27,084	4,321	43,905
Total	80,353	23,812	21,739	65,944	41,557	6,002	239,407

Note:

(1) All estimated contractual interest payments due on our interest-bearing deposits, borrowings and debt securities issued are already reflected, and the estimated contractual interest payments on borrowings and debt securities that are on a floating rate basis as of December 31, 2012 were computed as if the interest rate used on the last applicable date (for example, the interest payment date for such floating rate loans immediately preceding the determination date) were the interest rate applicable throughout the remainder of the term.

Commitments and Guarantees

In the normal course of business, our subsidiaries make various commitments and guarantees to meet the financing needs of our customers. Commitments and guarantees are usually in the form of, among others, commitments to extend credit, commercial letters of credit, standby letter of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss amount if the counterparty draws down the commitment or we should fulfill our obligation under the guarantee and the counterparty fails to perform under the contract. See Item 4.B. Business Overview Description of Assets and Liabilities Credit-Related Commitments and Guarantees.

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The following table sets forth our commitments and guarantees as of December 31, 2012. These commitments, apart from certain guarantees and acceptances, are not included within our consolidated statements of financial position.

	As of December 31, 2012 Commitment Expiration by Period			
	Less than 1 Year	1-5 Years	More than 5 Years	Total
	(In billions of Won)			
Commitments to extend credit(1)	67,860	2,709	222	70,791
Commercial letters of credit(2)	3,034	81		3,115
Financial guarantees(3)	820	518	31	1,369
Performance guarantees(4)	7,247	2,499	17	9,763
Liquidity facilities to SPEs(5)	898	327	548	1,773
Acceptances(6)	510	2		512
Guarantee on trust accounts(7)	488	840	1,834	3,162
Endorsed bills(8)	11,523			11,523
Other	820	176	175	1,171
Total	93,200	7,152	2,827	103,179

Notes:

(1) Commitments to extend credit represent unfunded portions of authorizations to extend credit in the form of loans. The commitments expire on fixed dates and a customer is required to comply with predetermined conditions to draw funds under the commitments.

(2) Commercial letters of credit are undertakings on behalf of customers authorizing third parties to draw drafts on us up to a stipulated amount under specific terms and conditions. These are generally short-term and collateralized by the underlying shipments of goods to which they relate. Commitments to extend credit, including credit lines, are in general subject to provisions that allow us to withdraw such commitments in the event there are material adverse changes affecting an obligor.

(3) Financial guarantees are contracts that require us to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

(4) Performance guarantees are issued to guarantee customers tender bids on construction or similar projects or to guarantee completion of such projects in accordance with contractual terms. They are also issued to support a customer s obligation to supply products, commodities, maintenance or other services to third parties

(5) Liquidity facilities to SPEs represent irrevocable commitments to provide contingent credit lines including commercial paper purchase agreements to special purpose entities for which we serve as the administrator.

(6) Acceptances represent guarantees by us to pay a bill of exchange drawn on a customer. We expect most acceptances to be presented, but reimbursement by the customer is normally immediate.

(7) Guarantees on trust accounts represent guarantee of principal issued to trust fund investors.

(8) Endorsed bills represent notes transferred to third parties by us. We are obligated to fulfill the duty of payment if the person primarily liable does not honor the bill on the due date.

See also Note 44 of the notes to our consolidated financial statements included in this annual report.

ITEM 5.C. Research and Development, Patents and Licenses

Not applicable.

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ITEM 5.D. Trend Information

These matters are discussed under Items 4.B., 5.A. and 5.B. above where relevant.

ITEM 5.E. Off-Balance Sheet Arrangements

We have several types of off-balance sheet arrangements, including guarantees for loans, debentures, trade financing arrangements, guarantees for other financings, credit lines, letters of credit and credit commitments. In the normal course of our banking activities, we make various commitments and guarantees to meet the financing needs of our customers. Commitments and guarantees are usually in the form of, among others, commitments to extend credit, commercial letters of credit, standby letters of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss amount if the account party draws down the commitment or we should fulfill our obligation under the guarantee and the account party fails to perform under the contract. See Item 4.B. Business Overview Description of Assets and Liabilities Credit-Related Commitments and Guarantees.

Details of our off-balance sheet arrangements are provided in Note 44 in the notes to our consolidated financial statements included in this annual report.

ITEM 5.F. Tabular Disclosure of Contractual Obligations

See Item 5.B. Liquidity and Capital Resources Contractual Obligations, Commitments and Guarantees.

ITEM 6. *DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES*

ITEM 6.A. Directors and Senior Management

Executive Directors

Our executive director is as follows:

Name	Age	Position	Director Since	Date Term Ends(1)
Dong Woo Han	64	Chairman and Chief Executive Officer	March 23, 2011	March 2014

Note:

(1) The date on which each term will end will be the date of the general stockholders meeting in the relevant year.

Dong Woo Han is our Chairman and Chief Executive Officer. Prior to being elected to his current position on March 23, 2011, he was the Vice-Chairman of Shinhan Life Insurance from 2007 to 2009 and also served as Chief Executive Officer of Shinhan Life Insurance in 2002, Vice President of Shinhan Bank in 1999, Managing Director of Shinhan Bank in 1995 and Director of Shinhan Bank in 1993. Mr. Han received a LL.B. degree from the College of Law, Seoul National University.

Non-Executive and Outside Directors

Non-executive directors are directors who are not our employees and do not hold executive officer positions with us. Outside directors are non-executive directors who also satisfy the requirements set forth under the Financial Investment Services and Capital Markets Act to be independent of our major shareholders, affiliates and the management. Our non-executive directors are selected based on the candidates talents

and skills in diverse areas, such as law, finance, economy, management and accounting. Currently, 11 non-executive directors are in office, all of whom were nominated by our board of directors.

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Our non-executive directors are as follows:

Name	Age	Position	Director Since	Date Term Ends(1)
Jin Won Suh	62	Non-Executive Director	March 23, 2011	March 2015
Taeeun Kwon	72	Outside Director	March 23, 2011	March 2014
Kee Young Kim	75	Outside Director	March 23, 2011	March 2014
Seok Won Kim	66	Outside Director	March 23, 2011	March 2014
Hoon Namkoong	65	Outside Director and Chairman of Board of Directors	March 23, 2011	March 2014
Ke Sop Yun	67	Outside Director	March 17, 2009	March 2014
Boo In Ko	71	Outside Director	March 28, 2013	March 2015
Jung Il Lee	60	Outside Director	March 23, 2011	March 2014
Sang-Kyeong Lee	67	Outside Director	March 29, 2012	March 2014
Haruki Hirakawa	48	Outside Director	March 23, 2011	March 2014
Philippe Aguignier	55	Outside Director	March 24, 2010	March 2014

Note:

(1) The date on which each term will end will be the date of the general stockholders meeting in the relevant year.

Jin Won Suh has been our non-executive director since March 23, 2011. Mr. Suh currently also serves as the President and Chief Executive Officer of Shinhan Bank. Prior to his current position, Mr. Suh served as the Chief Executive Officer of Shinhan Life Insurance in 2007, the Deputy President of Shinhan Financial Group in 2006 and the Deputy President of Shinhan Bank in 2004. Mr. Suh received a bachelor s degree in Historical Science from Korea University.

Taeeun Kwon has been our outside director since March 23, 2011. Mr. Kwon served as the former Dean of the Department of Global Business at the School of Contemporary International Studies, Nagoya University of Foreign Studies from 2010 to 2012, the Chief Executive Officer of Nam Bu Ham Co., Ltd. from 1983 to 2010, a committee member of the Korea Residents Union HQ in Japan from 1997 to 2009 and Counsel and Director of the Korea Education Foundation from 1991 to 2008. Mr. Kwon also was a professor of the Department of Global Business at the School of Contemporary International Studies, Nagoya University of Foreign Studies from 2004 to 2012. Mr. Kwon received a Ph.D. in Business Administration from Nanzan University.

Kee Young Kim has been our outside director since March 23, 2011. Mr. Kim currently also serves as the President of Kwangwoon University. Prior to his current position, Mr. Kim served as an outside director of GS Holdings Corp. from 2004 to 2009 and an Outside Director of KTB Networks, currently KTB Investment & Securities Co., Ltd. in 2003. Mr. Kim also was the Dean of the Graduate School of Information, Yonsei University in 2000 and a professor at the School of Business, Yonsei University from 1979 to 2003. Mr. Kim received a Ph.D. in Business Administration from Washington University.

Seok Won Kim has been our outside director since March 23, 2011. Mr. Kim served as the former Chairman of Credit Information Companies Association from 2009 to 2012, the Chairman of the Korea Federation of Savings Banks from 2006 to 2009, an Outside Director at Woori Bank in 2005, the Vice President of Korea Deposit Insurance Corporation from 2002 to 2005 and the Head of the Korea-OECD Multilateral Tax Center from 1999 to 2001. Mr. Kim received a Ph.D. in Economics from Kyung Hee University.

Hoon Namkoong has been our outside director since March 23, 2011 and is currently the Chairman of the Board of Directors. Mr. Namkoong currently also serves as the Outside Director of Samsung Electro-Magnetics Co., Ltd. Mr. Namkoong served as the Outside Director of Korea Real Asset Management Company (KORAMCO) form 2009 to 2011, the Chairman of Korea Life Insurance Association from 2005 to 2008, a member of the Monetary Policy Committee of the Bank of Korea from 2000 to 2004 and the Chairman and President of the Korea Deposit Insurance Corporation from 1999 to 2000. Mr. Namkoong received a master s degree Public Administration from the University of Wisconsin at Madison.

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Ke Sop Yun has been our outside director since March 17, 2009. Mr. Yun is currently a professor emeritus of business administration at Seoul National University and also serves as the Chairman of the Seoul Economist Club. Mr. Yun received a Ph.D. in Business Administration from the graduate school of Seoul National University.

Boo In Ko has been our outside director since March 28, 2013. Mr. Ko is currently the Chief Executive Officer of Sansei Co., Ltd. Mr. Ko served as the Outside Director of Shinhan Financial Group from 2009 to 2010, the Outside Director of Jeju Bank from 2005 to 2009, the Director of Jeju International Convention Center in 2002, an advisor to the National Unification Advisory Council in 1998 and the Vice Chairman of the Korea Chamber of Commerce and Industry in Tokyo in 1998. Mr. Ko received a bachelor s degree from Meiji University.

Jung Il Lee has been our outside director since March 23, 2011. Mr. Lee currently serves as the Chief Executive Officer of Hirakawa Shoji Co., Ltd. Prior to his current position, Mr. Lee served as an Outside Director of Shinhan Financial Group in 2009. Mr. Lee received a bachelor s degree in political science and economics from Meiji University.

Sang-Kyeong Lee has been our outside director since March 29, 2012. Mr. Lee currently serves as the Representative Attorney of the law firm WONJON. Prior to his current position, Mr. Lee served as the Chief Judge of the Constitutional Court of Korea. Mr. Lee received a bachelor s degree in law from Chung-Ang University.

Haruki Hirakawa has been our outside director since March 23, 2011. Mr. Hirakawa currently serves as the Chief Executive Officer of Hirakawa Shoji Co., Ltd. Prior to his current position, Mr. Hirakawa served as the Chief Executive Officer of Shinei Shoji Co., Ltd. and Kokusai Kaihatus Co., Ltd. Mr. Hirakawa received a bachelor s degree in political science and economics from Kinki University.

Philippe Aguignier has been our outside director since March 24, 2010. Mr. Aguignier was nominated by BNP Paribas and elected to our board of directors pursuant to the alliance agreement dated December 2001 between us and BNP Paribas. See Item 7.B. Related Party Transactions. Mr. Aguignier is currently the Head of BNP Paribas Asia Retail Banking. Mr. Aguignier received a Ph.D. in Far Eastern Studies from Universite Paris III (Inalco).

Any director wishing to enter into a transaction with Shinhan Financial Group including the subsidiaries in his or her personal capacity is required to obtain the prior approval of our Board of Directors. The director having an interest in the transaction may not vote at the meeting of our Board of Directors at which the relevant transaction is subject to vote for approval.

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Executive Officers

In addition to the executive directors who are also our executive officers, we currently have the following executive officers.

Name	Age	Position	In Charge of
Buhmsoo Choi	56	Deputy President and Chief Strategic Officer	Strategic Planning Team Global Business Strategy Team Shinhan FSB Research Institute
Sung Ho Wi	54	Deputy President	Wealth Management Planning Office
Dong Hwan Lee	53	Deputy President	Corporate & Investment Banking Planning Office
Jae Gwang Soh	51	Deputy President	Synergy Management Team Information and Technology Planning Team Audit Team Smart Finance Team
Jung Kee Min	54	Deputy President and Chief Financial Officer	Finance Management Team Investor Relations Team Human Resource Team
Sin Gee Lee	56	Deputy President	Public Relations Team Corporate Social Responsibility and Culture Management Team General Affairs Team

None of the executive officers have any significant activities outside Shinhan Financial Group.

Buhmsoo Choi has been our Deputy President and Chief Strategic Officer since May 28, 2007. Mr. Choi previously served as vice president of Korea Credit Bureau. Mr. Choi also serves as an outside director of Shinhan BNPP Asset Management. Mr. Choi received a bachelor s degree in economics from Seoul National University and a Ph.D. in economics from Yale University.

Sung Ho Wi has been our Deputy President since January 26, 2012. Mr. Wi also serves as a deputy president of Shinhan Bank and a non-executive director of Shinhan Investment. Mr. Wi received a bachelor s degree in economics from Korea University.

Dong Hwan Lee has been our Deputy President since April 18, 2011. Mr. Lee previously served as deputy vice president of Shinhan Bank in charge of capital markets and held various posts at Shinhan Bank and Shinhan Financial Group. Mr. Lee also currently serves as an outside director of Shinhan Investment. Mr. Lee received a bachelor s degree in business management from Yonsei University.

Jae Gwang Soh has been our Deputy President since April 18, 2011. Mr. Soh previously served as deputy president of Shinhan Card in charge of risk management and held various posts at Shinhan Card and LG Card. Mr. Soh also currently serves as an outside director of Shinhan Card and Shinhan Savings Bank and a non-executive director of Shinhan Capital. Mr. Soh received a bachelor s degree in business management from Korea University.

Jung Kee Min has been our Deputy President since August 25, 2010 and our Chief Financial Officer since April 2011. Mr. Min previously served as head of the large corporate financing center of Shinhan Bank and held various posts at Shinhan Financial Group and Chohung Bank. Mr. Min also currently serves as a non-executive director of Shinhan Bank and Shinhan AITAS and an outside director of Shinhan Life Insurance. Mr. Min received a bachelor s degree in German language from Seoul National University.

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Sin Gee Lee has been our Deputy President since January 2, 2013. Mr. Lee previously served as Executive Vice President of Shinhan Bank from 2011 to 2013. Mr. Lee also currently serves as a non-executive director of Shinhan Data System and Jeju Bank and an outside director of Shinhan Investment. Mr. Lee received a bachelor s degree in commerce and trade from Yeungnam University.

There are no family relationships among our directors and/or executive officers.

ITEM 6.B. Compensation

The aggregate remuneration and benefits-in-kind paid by us to our chairman, our executive directors, our non-executive directors and our executive officers for the year ended December 31, 2012 was 3.7 billion, consisting of 2.6 billion in salaries and wages and 1.2 billion in bonus payments.

We do not have service contracts with any of our directors or executive officers providing for benefits upon termination of their employment with us. We do not pay any severance payment to our chairman or directors upon their retirement, but we do, however, pay fixed sums of severance payment to other members of senior management pursuant to internal guidelines on severance payments to members of senior management. In 2012, we accrued 0.1 billion for retirement bonus.

Prior to April 1, 2010, we granted stock options to our chairman, our president and chief executive officer and other directors and executive officers as described below in Item 6.E. Share Ownership Stock Options. For options granted prior to March 19, 2008, we are required to pay in cash the difference between the exercise and the market price at the date of exercise. These options are subject to a vesting period of two or three years from the grant date and require continued employment for two to three years. Upon vesting, options may be exercised during a period commencing two or three years from the grant date and ending four years thereafter. In December 2008 and March 2009, in light of growing concerns relating to the global financial crisis, our and our subsidiaries directors and officers voluntarily returned stock options exercisable into a total of 85,840 shares and 614,735 shares, respectively, which were subsequently rescinded. All stock options granted in 2009 have been returned. As of December 31, 2012, we recognized 0.4 billion as accrued expense for the stock options granted to our directors and management under our incentive stock option plan. Effective April 1, 2010, we ceased granting stock options.

Since March 20, 2007, we have granted performance units to certain high-ranking officers of select group companies. These performance units are performance-based cash compensation, the per-unit value of which is initially determined at the time of grant subject to adjustment after a fixed number of years based on the operating and financial performance of the relevant group company over the same or another fixed term, at the end of which a cash amount equal to the adjusted number of the performance units is paid out. For performance units granted prior to April 1, 2010, the performance review period was three years, and the payout was made at the end of the three-year term. For performance units granted on or after April 1, 2010, the performance review period has been extended principally to four years (and to a limited extent, five years), and the payment is made at the end of such four- or five-year term.

Since April 1, 2010, in addition to the performance units, we also grant performance shares to certain high-ranking officers of select group companies. The performance shares are conceptually similar to the performance units granted since April 1, 2010, in that the number of performance shares are based on the operating and financial performance of the relevant group company, except that an adjustment to the number of performance shares is also made on the basis of the movements in the market price of our shares. In addition, while the performance shares are paid out in cash at the end of the adjustment period, the grantee is contractually required to use the payout solely to purchase our shares in the market at the then-prevailing market price.

Currently, the aggregate amount of performance units and performance shares granted to a given grantee is generally equal to the expected incentive compensation payable to such grantee for three years of service starting from the date of the grant, which initial amount is computed based on the expected performance of the grantee s company and the expected price movements of our shares over the adjustment period. If the grantee is no longer employed by us or our subsidiaries during the adjustment period, a pro rata amount is paid out at the time of termination of employment. Neither the performance units nor the performance shares are granted to outside directors.

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As of December 31, 2012, we recognized 2.6 billion and 3.1 billion as accrued expenses for performance units and performance shares, respectively.

ITEM 6.C. Board Practices

Board of Directors

Our board of directors, which currently consists of one executive director, one non-executive director and ten outside directors, has the ultimate responsibility for the management of our affairs.

Our Articles of Incorporation provide for no less than three but no more than 15 directors, the number of outside directors must be more than 50% of the total number of directors, and we must maintain at least three outside directors. All directors are elected for a term not exceeding three years as determined by the shareholders meeting, except that outside directors are elected for a term not exceeding two years, provided that the term of re-election shall not exceed 1 year and the term cannot be extended in excess of 5 years.

Terms are renewable and are subject to the Korean Commercial Code, the Financial Holding Companies Act and related regulations. See Item 6.A. Directors and Senior Management above for information concerning the terms of office of our directors and executive officers.

Our board of directors meets on a regular basis to discuss and resolve material corporate matters. Additional extraordinary meetings may also be convened at the request of the president and chief executive officer or a director designated by the board.

Currently, there are no outstanding service contracts between any of our directors or executive officers and us or any of our subsidiaries providing for benefits upon termination of employment by such director or executive officer.

Committees of the Board of Directors

We currently have seven management committees that serve under the board:

- the Board Steering Committee;
- the Risk Management Committee;
- the Audit Committee
- the Outside Director Recommendation Committee;
- the Compensation Committee;
- the Audit Committee Member Recommendation Committee; and
- the Corporate Governance and Chief Executive Officer Recommendation Committee.

Each committee member is appointed by the board of directors, except for members of the Audit Committee, who are elected at the general meeting of shareholders.

Board Steering Committee

The Board Steering Committee currently consists of five directors, namely Boo In Ko, Kee Young Kim, Seok Won Kim and Haruki Hirakawa and the Chairman of our group. The committee is responsible for ensuring the efficient operations of the board and the facilitation of the board s functions. The committee s responsibilities also include reviewing and assessing the board s structure and the effectiveness of that structure in fulfilling the board s fiduciary responsibilities. The committee holds regular meetings every quarter.

Risk Management Committee

The Risk Management Committee currently consists of three directors, namely Kee Young Kim, Hoon Namkoong and Philippe Aguignier. The committee oversees and makes determinations on all issues relating to our comprehensive risk management function. In order to ensure our stable financial condition and to maximize

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our profits, the committee monitors our overall risk exposure and reviews our compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions, reviews risk-based capital allocations, and reviews the plans and evaluation of internal control. The committee holds regular meetings every quarter.

Audit Committee

The Audit Committee currently consists of four outside directors, namely Ke Sop Yun, Taeeun Kwon, Seok Won Kim and Sang-Kyeong Lee. The committee oversees our financial reporting and approves the appointment of and interaction with our independent auditors and our internal audit-related officers. The committee also reviews our financial information, audit examinations, key financial statement issues and the administration of our financial affairs by the board of directors. In connection with the general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors for each general meeting of stockholders. The committee holds regular meetings every quarter.

Compensation Committee

The Compensation Committee currently consists of four directors, namely Sang-Kyeong Lee, Hoon Namkoong, Ke Sop Yun and Jung Il Lee. At least one-half of the members of this committee must be outside directors. This committee is responsible for reviewing and approving the management s evaluation and compensation programs. The committee meetings are called by the chairman of this committee, who must be an outside director.

Corporate Governance and Chief Executive Officer Recommendation Committee

The Corporate Governance and Chief Executive Officer (CEO) Recommendation Committee was established in March 2012 and currently consist of six directors, namely Tae-eun Kwon, Kee Young Kim, Hoon Namkoong, Philippe Aguignier, Boo In Ko and the Chairman of our group. This committee is responsible for reviewing and making recommendations in relation to the overall corporate governance of our group (including any aspects of corporate governance relating to code of ethics and other code of behavior, size of the board of directors and other matters necessary for improving our overall corporate governance structure), as well as recommendation of the nominees for the president and/or chief executive officer of our group and development, operation and review of our management succession plan, including setting the qualifications for the CEO, evaluating CEO candidate pool and recommending CEO candidates. The chairperson of the committee must be an outside director, and the incumbent CEO may be restricted from participating and voting on matters related to the CEO selection.

Outside Director Recommendation Committee

Members of this committee will be appointed by our board of directors if and only to the extent necessary to recommend and nominate candidates for our outside director positions and related matters. The committee meetings are called by the chairman of this committee, who must be an outside director.

Audit Committee Member Recommendation Committee

Members of this committee will be appointed by our board of directors if and only to the extent necessary to recommend and nominate candidates for our audit committee member positions and related matters. This committee recommends candidates for the members of the Audit Committee and is required to act on the basis of a two-thirds vote of the members present.

ITEM 6.D. Employees

At the holding company level, we had 136, 148 and 147 regular employees as of December 31, 2010, 2011 and 2012, respectively, almost all of whom are employed within Korea. Our subsidiaries had 17,394, 17,932 and 20,197 regular employees as of December 31, 2010, 2011 and 2012, respectively, almost all of whom are

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employed within Korea. In addition, we had nine, ten and nine non-regular employee at the holding company level as of December 31, 2010, 2011 and 2012, respectively, and 4,095, 4,780 and 3,343 non-regular employees at the subsidiary level as of December 31, 2010, 2011 and 2012, respectively. Of the total number of regular and non-regular employees at both the holding company and subsidiaries, approximately 0.24% were managerial or executive employees.

8,244 employees of Shinhan Bank, 310 employees of Jeju Bank and 1,555 employees of Shinhan Investment were members of the Korea Securities Trade Union as of December 31, 2012. 2,607 employees of Shinhan Card and 1,049 employees of Shinhan Life were members of the Korean Federation of Clerical and Financial Labor Union as of December 31, 2012.

Under Korean law, we may not terminate full time employees except under certain circumstances.

Since our acquisition of Chohung Bank in 2003, we have not experienced any general employee work stoppages and consider our employee relations to be good.

Under the Korean National Pension Law, we annually contribute an amount equal to 4.5% of employee wages and contribute 4.5% of employees wages which are deducted from such wages to the National Pension Management Corporation. In addition, pursuant to the Employee Retirement Security Act, we operate a retirement pension system under which we make annual contributions to pension funds managed by financial institutions (which replaced our former retirement pension system under which we managed the pension fund in-house) that provide employees both regular pension payments and a lump sum payment upon termination of employment. We believe that our retirement pension system confers the following benefits: (1) insulation of employees from the risk of default on their pension payments as the pension funds are deposited with large financial institutions; (2) offer of varied forms of payment, i.e., regular pension payments and a lump sum payment, upon termination of employment; (3) offer to employees the option to make investment decisions for his or her individual pension account and (4) elimination of the ability of employees to cash in his or her retirement fund prematurely, thereby guaranteeing such employee a lump sum payment upon termination of employment. Under this retirement pension system, we and our subsidiaries can opt for either a defined benefit plan or a defined contribution plan, or a combination of both. Under the defined benefit plan, the amount of pension payable upon an employee s retirement is fixed in advance, and the employer is responsible for making the requisite payments to the pension fund and making investment decisions in relation to the fund assets. Under the defined contribution plan, the employee sets aside a fixed percentage or amount of his salaries to the pension fund and exercises investment decisions for his or her individual pension account. As of December 31, 2010, 2011 and 2012, we recognized liabilities for defined benefit obligations of 170 billion, 275 billion and 214 billion, respectively. See Note 26 of the notes to our consolidated financial statements.

ITEM 6.E. Share Ownership

As of December 31, 2012, the persons who are currently our directors or executive officers, as a group, beneficially held an aggregate of 3,730,129 shares of our common stock representing approximately 0.79% of our outstanding common stock as of such date. None of these persons individually held more than 1% of our outstanding common stock as of such date.

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Stock Options

We have granted stock options to certain of the directors and officers of the holding company and its subsidiaries. For all such options that are currently outstanding, we pay in cash the difference between the exercise and the market price at the date of exercise. The following table is the breakdown of outstanding stock options with respect to our common stock that we have granted to our directors and officers, describing the grant dates, positions held by such directors and officers, exercise period, price and the number of options as of April 10, 2013.

		Exercise Period				
	Grant Date	From	To	Exercise Price (In Won)	Number of Granted Options	Number of Options Outstanding
Shinhan Financial Group						
Dong Woo Han (Chairman & Chief Executive Officer)	3/20/2007	3/20/2010	3/19/2014	54,560	21,911	21,911
Buhmsoo Choi (Deputy President)	3/19/2008	3/19/2011	3/18/2015	49,053	9,466	9,466
Jae Gwang Soh (Deputy President)	3/19/2008	3/19/2011	3/18/2015	49,053	5,989	5,989
Shinhan Bank						
Jin Won Suh	3/20/2007	3/20/2010	3/19/2014	54,560	10,379	10,379
(President & Chief Executive Officer)	3/19/2008	3/19/2011	3/18/2015	49,053	17,600	17,600
Sung Ho Wi	3/20/2007	3/20/2010	3/19/2014	54,560	3,000	3,000
(Deputy President)	3/19/2008	3/19/2011	3/18/2015	49,053	7,100	7,100
Dong Dae Lee	3/20/2007	3/20/2010	3/19/2014	54,560	3,000	3,000
(Deputy President)	3/19/2008	3/19/2011	3/18/2015	49,053	3,311	3,311
Dong Hwan Lee (Deputy President)	3/20/2007	3/20/2010	3/19/2014	54,560	3,000	3,000
Young Suk Lim (Executive Vice President)	3/20/2007	3/20/2010	3/19/2014	54,560	2,500	2,500
Hyun Ju Seo (Executive Vice President)	3/20/2007	3/20/2010	3/19/2014	54,560	3,000	3,000
Shinhan Card						
Jae Woo Lee	3/20/2007	3/20/2010	3/19/2014	54,560	10,379	10,379
(President & Chief Executive Officer)	3/19/2008	3/19/2011	3/18/2015	49,053	17,567	17,567
Jae Jeong Lee (Deputy CEO)	3/19/2008	3/19/2011	3/18/2015	49,053	2,495	2,495
O Heum Kwon (Deputy CEO)	3/19/2008	3/19/2011	3/18/2015	49,053	2,495	2,495
Jong Sik Im (Deputy CEO)	3/20/2007	3/20/2010	3/19/2014	54,560	3,000	3,000
Sung Ha Cho	3/20/2007	3/20/2010	3/19/2014	54,560	1,800	1,800
(Deputy CEO)	3/19/2008	3/19/2011	3/18/2015	54,560	2,495	2,495

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		Exercise Period				
	Grant Date	From	To	Exercise Price (In Won)	Number of Granted Options	Number of Options Outstanding
Shinhan Investment Corp.						
Kyeong Ho Chu	3/20/2007	3/20/2010	3/19/2014	54,560	3,889	3,889
(Vice President)	3/19/2008	3/19/2011	3/18/2015	49,053	2,131	2,131
Shinhan Life Insurance						
Jeum Joo Gweon	3/20/2007	3/20/2010	3/19/2014	54,560	7,089	7,089
(President & Chief Executive Officer)	3/19/2008	3/19/2011	3/18/2015	49,053	9,366	9,366
Byung Chan Lee	3/20/2007	3/20/2010	3/19/2014	54,560	8,217	8,217
(Vice President)	3/19/2008	3/19/2011	3/18/2015	49,053	7,425	7,425
Jae Gun Bae	3/20/2007	3/20/2010	3/19/2014	54,560	1,800	1,800
(Vice President)						
Cheon Sik Lee	3/20/2007	3/20/2010	3/19/2014	54,560	1,800	1,800
(Vice President)						
Sang Jin Kim	3/20/2007	3/20/2010	3/19/2014	54,560	3,000	3,000
(Vice President)						
Total					**175,204**	**175,204**

In addition, members of the employee stock ownership association have certain pre-emptive rights in relation to our shares that are publicly offered under the Financial Investment Services and Capital Markets Act. As of December 31, 2012, the employee stock ownership association owned 18,787,067 shares of our common stock.

ITEM 7. *MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS*

ITEM 7.A. Major Shareholders

The following table sets forth certain information relating to the beneficial ownership of our common shares as of December 31, 2012.

Name of Shareholder	Number of Common Shares Beneficially Owned	Beneficial Ownership %
National Pension Service	34,506,886	7.28%
BNP Paribas Group	30,106,276	6.35%
Shinhan Financial Group Employee Stock Ownership Association	18,787,067	3.96%
Citibank, N.A. (ADR Department)	17,749,492	3.74%
Saudi Arabian Monetary Agency	15,710,506	3.31%
The Lazard Funds Inc.	10,521,024	2.22%
The Government of Singapore	8,028,920	1.69%
Mizuho	5,955,000	1.26%
Abu Dhabi Investment Authority	5,678,900	1.20%
Dimensional Emerging Markets Value Fund	5,415,719	1.14%
Samsung Asset Management	5,297,255	1.12%
Samsung Life Insurance	5,247,995	1.11%
Norges Bank	5,245,702	1.11%
Others	305,948,845	64.51%
Total	474,199,587	100.00%

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Other than those listed above, no other person or entity known by us, jointly or severally, directly or indirectly own more than 1% of our issued and outstanding voting securities or otherwise exercise control or could exercise control over us. None of our shareholders have different voting rights.

As of the date hereof, our total authorized share capital is 1,000,000,000 shares, par value 5,000 per share.

As of December 31, 2012, 474,199,587 common shares and 11,100,000 Series 12 redeemable preferred shares are currently issued and outstanding. See Item 10.B. Memorandum and Articles of Incorporation Description of Preferred Stock.

As of December 31, 2012, the latest date on which we closed our shareholders registry, 457 shareholders of record were chartered as U.S. persons, holding in the aggregate 21.39% of our then total outstanding shares (including Citibank, N.A., as the depositary for our American depositary shares, each representing one shares of our common stock effective October 15, 2012, prior to which each American depositary share represented two common shares).

ITEM 7.B. Related Party Transactions

Since the beginning of the preceding three financial years, none of our directors or officers has or had any transactions with us that are or were unusual in their nature or conditions or significant to our business, other than as set forth below and also described in note 46 to our consolidated financial statements included in this annual report.

In December 2001, BNP Paribas acquired 4.00% of our common stock in return for an investment of approximately 155 billion in cash pursuant to an alliance agreement. Under the terms of the alliance agreement, for so long as BNP Paribas does not sell or otherwise transfer (except to any of its wholly-owned subsidiaries) any portion of its ownership interest in our common stock and maintains, after any issuances of new shares by us from time to time, its shareholding percentage of not less than 3.5% of our issued common stock, we are required to call a meeting of our shareholders to recommend that one nominee of BNP Paribas be elected to our board of directors. In addition, under the alliance agreement, BNP Paribas has the right to subscribe for new issuances of our common shares in the event that such new issuances would result in the dilution of the shareholding percentage of BNP Paribas below 3.5%. As of December 31, 2012, BNP Paribas Group held 30,106,276 shares, or 6.35%, of our total common stock.

As of December 31, 2010, 2011 and 2012, we had principal loans outstanding to our directors, executive officers and their affiliates in the principal amount of 1.7 billion, 2.1 billion and 3.2 billion, which were made in the ordinary course of business on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectability or present other unfavorable features.

ITEM 7.C. Interests of Experts and Counsel

Not applicable.

ITEM 8. *FINANCIAL INFORMATION*

ITEM 8.A. Consolidated Statements and Other Financial Information

See Item 18. Financial Statements and our consolidated financial statements included in this annual report.

Legal Proceedings

As of December 31, 2012, we and our subsidiaries were defendants in pending lawsuits (including any government proceedings) in the aggregate claim amount of 754 billion, for which we recorded a provision of 136 billion.

During the global economic slowdown and a downturn in the Korean stock market in the second half of 2008, investment funds whose performance was tied to domestic and foreign stock market indexes experienced a

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sharp fall in their rates of return. Consequently, investors in these funds brought lawsuits against commercial banks in Korea that sold such investment fund products based on the allegation that such banks used defective sales practices in selling such funds, such as failing to comply with disclosure requirements or unfairly inducing them to invest in the funds. For example, in 2009, we, like other commercial banks that sold similar products, became a defendant in lawsuits in connection with the sale of foreign currency derivatives products known as KIKOs, which stands for knock-in knock-out, to certain of our customers comprised mostly of small- and medium-sized enterprises. The KIKOs, which are intended to be hedging instruments, operate so that if the value of Korean Won increases to a certain level, we are required to pay the purchasers a certain amount, and if the value of Korean Won falls below a certain level, the purchasers of KIKOs are required to pay us a certain amount. As the Korean Won significantly depreciated against the U.S. dollar in the second half of 2008, purchasers of KIKOs were required under the relevant contracts to make large payments to us, and some of such purchasers filed lawsuits to nullify their obligations under the allegation that we did not sufficiently disclose the risks in investing in KIKOs and unfairly induced them to make such investments. As of December 31, 2012, we had won 26 out of 37 KIKO-related cases at the lower court level. If we lose our cases on appeal, the court may nullify the contracts under which KIKO products were sold and order us to return payments received from the customers. As of December 31, 2012, the aggregate amount of the outstanding KIKO-related claims was 205.9 billion, for which we set aside 24.4 billion as allowance.

In addition to the KIKO-related claims, we have also faced complaints and, to a lesser extent, litigation from customers based on claims of (i) inadequate disclosure of risk related to the potential loss of principal when we sold currency forward contracts designed to hedge against currency risks in overseas mutual fund investments, (ii) approval of customer applications for purchases of our investment products with missing information without first confirming such missing items with customers and (iii) our discretionary liquidation of small-size investment funds as permitted under the Financial Services and Capital Markets Act but without first seeking customer approval. In connection with the foregoing claims, we were defendants in two court proceedings for an aggregate claim amount of 0.8 billion as of December 31, 2012, for which we set aside a minimal amount as allowance.

In November 2005, Shinhan Bank purchased the shares of Shinho Paper Co., Ltd. (currently known as Artone Paper Co., Ltd.) (Shinho) held by Aram Corporate Restructuring Association (Aram) from Choong-Shik Lee, an executive member of the Aram, who allegedly sold such shares against the will of the other members of Aram in an act of embezzlement (the Embezzlement). Chung Wook Uhm, who was then in charge of the management of Shinho, brought claim for damages against Shinhan Bank on the grounds that (i) Shinhan Bank was aware of the Embezzlement when it bought the shares and (ii) Shinhan Bank caused forfeiture of Chung Wook Uhm s management rights when it exercised its voting rights in favor of Kuk- Il Paper MFG Co., Ltd. (Kuk-Il), which had announced its intention to attempt a hostile takeover of Shinho. In our rebuttal, we argued that we did not participate in the alleged Embezzlement since Shinhan Bank properly purchased the shares through a block trade on the Korea Exchange during trading hours. In September 2011, the Seoul Central District Court ruled in favor of Chung Wook Uhm, ordering Shinhan Bank and Choong-Shik Lee to jointly and severally compensate approximately 25 billion to Chung Wook Uhm as damages for his loss of management rights on the grounds that (i) Shinhan Bank either knew or could have known the Embezzlement and (ii) Shinhan Bank either participated in or aided and abetted the Embezzlement by exercising its voting rights in favor of Kuk-Il. We have appealed and such appeal is currently pending at the Seoul High Court.

In March 2008, the Korea Federation of Banks, together with 16 banks, including Shinhan Bank, brought a joint claim against the Fair Trade Commission of Korea (the FTC) in the Seoul High Court for an order invalidating the FTC s recent measures recommending banks to use a revised standard contract for loan transactions (the FTC Recommendation). On April 6, 2011, the Seoul High Court dismissed the claim for invalidation on the grounds that (i) the terms of the previous standard contract, which provide that banks and customers shall mutually agree on the party responsible for bearing the stamp duty, costs and expenses associated with the establishment and registration of the mortgage in connection with bank loans, are unfair and (ii) the revised standard contract recommended by the FTC Recommendation, which expressly sets out the specific parties responsible for bearing each of the itemized costs and expenses associated with bank loans, is fair and legitimate. In particular, the Seoul High Court noted that the previous standard form contract is unfair

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because a bank may abuse its advantageous position as a lender by requiring customers to bear the costs that should have be borne by the bank in loan transactions. Since July 1, 2011, banks in Korea have been using the revised standard form contract pursuant to the FTC Recommendation, the terms of which require the costs and expenses associated with the establishment and registration of the right to collateral security in connection with bank loans to be borne by a specified party (either the bank or the customer) depending on the nature of the costs and expenses. Certain of Shinhan Bank s customers have filed lawsuits against Shinhan Bank which are currently pending, 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. As of December 31, 2012, there were 109 such cases outstanding for a total amount in dispute of 11.3 billion. There is no assurance that additional lawsuits will not be filed against Shinhan Bank on similar or other grounds, and the final outcome of the existing and any such new litigation remains uncertain.

In May 2011, Shinhan Bank commenced an action against Dongah Construction Industrial Co., Ltd. (Dongah) and two of its employees in connection with such employees embezzlement of 89.8 billion from funds held in a trust account managed by Shinhan Bank on behalf of Dongah s creditors. Through the action, Shinhan Bank sought, among other things, a declaratory judgment finding that Shinhan Bank is not liable for the embezzlement on the basis that Shinhan Bank properly remitted the trust funds at issue in accordance with the release instruction duly executed by the employees of Dongah. Shinhan Bank further claimed compensation for damages from the employees of Dongah in the amount of 89.8 billion. Dongah, in its counterclaim, alleged that Shinhan Bank should reinstate the embezzled funds on the grounds that Shinhan Bank, as the trustee, did not manage the trust account properly and thereby caused reduction in trust funds. In May 2011, the Seoul Central District Court dismissed Shinhan Bank s claim, ruling that Shinhan Bank s transfer of the funds was not in accordance with the terms of the trust agreement and therefore, inappropriate. The court concurrently admitted Dongah s counterclaim and ordered Shinhan Bank to restore the embezzled trust funds by depositing 89.8 billion, while accepting Shinhan Bank s claim for compensatory damages against the employees of Dongah in the amount of 89.8 billion and interest accrued thereon (except the claim for loss incurred by delay). Shinhan Bank appealed to the Seoul High Court alleging that Shinhan Bank is not liable for the embezzlement or, in the alternative, that Dongah should reinstate 42.7 billion as unjust profits since such funds were eventually credited to the account of Dongah by its employees and pay damages to Shinhan Bank in the amount of 18.8 billion for Dongah s failure to properly manage and supervise its employees. In April 2012, the Seoul High Court dismissed Shinhan Bank s claim that it was not liable for the embezzlement and ordered Shinhan Bank to restore the embezzled trust funds by depositing 96.2 billion (representing the principal amount of the embezzled funds and profit that would have been earned by the trust account through March 13, 2012 absent the embezzlement) and paying interest on such deposit amount until the date on which such amount is deposited in full. The Seoul High Court, however, admitted Shinhan Bank s alternative claim and ordered Dongah to pay 61.5 billion (representing the sum of 42.7 billion and 18.8 billion claimed by Shinhan Bank as described above) and interest accrued thereon to Shinhan Bank. Pursuant to the ruling of the Seoul High Court, Shinhan Bank has deposited 96.8 billion to the trust account managed by Shinhan Bank on behalf of Dongah s creditors. Shinhan Bank subsequently appealed to the Supreme Court of Korea. In addition, the Financial Supervisory Service commenced an investigation of Shinhan Bank in connection with this incident, and, in July 2012, issued the institutional warnings against Shinhan Bank. The above lawsuit is currently pending in the Supreme Court of Korea.

Our management believes that these lawsuits will not have a material adverse effect on our financial condition, equity or results of operations. For further details of these and other litigations, see Note 44 of the notes to our consolidated financial statements.

Dividend Policy

For a detailed description on the dividend policy, please see Item 10.B. Memorandum and Articles of Incorporation Description of Share Capital Dividends.

ITEM 8.B. Significant Changes

Not applicable.

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ITEM 9. ***THE OFFER AND LISTING***

ITEM 9.A. Offer and Listing Details
Market Prices of Common Stock and American Depositary Shares

The principal trading market for our common shares is the KRX KOSPI Market Division of the Korea Exchange, where our common shares were listed on September 10, 2001. Our American depositary shares have been listed on the New York Stock Exchange since September 16, 2003 and are identified by the symbol SHG.

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 Korea Exchange for our common stock since 2008, and their high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our American depositary shares since 2008.

	Korea Exchange			New York Stock Exchange		
	Closing Price per Common Stock		Average Daily Trading Volume (Shares)	Closing Price per ADS		Average Daily Trading Volume (ADSs)
	High	Low		High	Low	
2008	58,900	25,600	2,206,295	118.35	32.68	79,215
2009	49,550	20,500	3,219,298	86.42	26.25	115,649
2010	53,600	39,250	1,830,799	93.82	66.31	53,391
First Quarter	45,700	39,250	1,761,349	81.37	66.37	69,387
Second Quarter	49,100	41,050	1,649,918	88.35	66.31	54,948
Third Quarter	49,200	42,300	1,733,324	84.91	72.77	40,880
Fourth Quarter	53,600	41,950	2,162,985	93.82	73.38	49,150
2011	53,800	36,150	1,749,097	101.33	61.77	51,671
First Quarter	53,800	46,350	1,696,713	95.65	82.76	43,879
Second Quarter	52,500	46,250	1,970,879	97.40	85.29	58,282
Third Quarter	52,900	36,150	1,842,548	101.33	61.77	58,528
Fourth Quarter	46,250	37,300	1,487,274	84.00	62.92	45,640
2012(1)	47,000	33,350	1,161,923	42.22	29.27	65,487
First Quarter	47,000	38,650	1,280,826	84.44	67.34	44,454
Second Quarter	44,650	37,000	1,031,253	79.08	62.79	28,073
Third Quarter	40,900	33,350	1,356,098	72.84	58.54	31,853
Fourth Quarter	38,950	33,550	968,017	36.64	31.25	53,217
October	38,700	36,750	807,902	34.97	33.07	46,402
November	38,000	33,550	920,284	34.84	31.25	51,113
December	38,950	34,100	1,213,158	36.64	31.42	62,581
2013 (through April 10)	42,650	37,650	1,043,760	39.32	33.60	75,990
January	42,150	38,900	1,023,687	39.01	37.02	75,987
February	42,650	39,200	1,015,231	38.86	35.89	68,122
March	42,650	37,650	1,214,126	39.32	33.60	88,502
April (through April 10)	40,600	38,650	740,806	36.26	33.61	63,402

Source: Korea Exchange; New York Stock Exchange

Note:

(1) Effective October 15, 2012, the exchange rate of ADRs per common share was changed from 2:1 to 1:1. As supplemental information, the high price, low price and average daily trading volume of our ADRs was US$84.44, US$58.54 and 34,778 ADRs, respectively, for the period from January to September 2012 (prior to the ratio change) and US$36.64, US$31.25 and 53,217 ADRs,

respectively, for the period from October to December 2012.

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ITEM 9.B. Plan of Distribution

Not applicable.

ITEM 9.C. Markets

The Korea Exchange

Pursuant to the Korea Stock and Futures Exchange Act, as of January 27, 2005, the Korea Stock Exchange, which began its operations in 1956, the KRX KOSDAQ, which began its operation in July 1, 1996, and the Korea Futures Exchange (as an exchange operating futures market and options market), which began its operation in February 1, 1999, were unified to form the Korea Exchange.

The Korea Exchange was established in a form of a limited liability stock company in accordance with the Korean Commercial Code with the minimum paid-in capital of 100 billion in accordance with the Financial Investment Services and Capital Markets Act. The Korea Exchange is presently the only exchange in Korea that serves as a spot market and a futures market. It operates and supervises three market divisions, the KRX KOSPI Market Division, the KRX KOSDAQ Market Division, and the KRX Futures Market Division. It has its principal office in Busan.

As of December 31, 2012, the aggregate market value of equity securities listed on the KOSPI was approximately 1,154.3 trillion. The average daily trading volume of equity securities for 2012 was approximately 486.5 million shares with an average transaction value of 4,823.6 billion.

Even though the Financial Investment Services and Capital Markets Act prescribed that the Korea Exchange be established in a form of a limited liability stock company, the Korea Exchange is expected to play a public role as a public organization. In order to safeguard against a possible conflict, the Financial Investment Services and Capital Markets Act has placed restrictions on the ownership and operation of the Korea Exchange as follows:

- Any person s ownership of shares in the Korea Exchange is limited to 5% or less except for an investment trust company or investment company established under the Financial Investment Services and Capital Markets Act, or the Korean government. However, upon prior approval from the Financial Services Commission, more than 5% ownership in Korea Exchange is permitted if necessary for forming strategic alliance with a foreign stock or futures exchange;

- The number of outside directors on the board of directors of the Korea Exchange shall be more than half of the total number of directors;

- Any amendment to the Articles of Incorporation, transfer or consolidation of business, spin off, stock swap in its entirety or transfer of shares in its entirety of the Korea Exchange will receive prior approval from the Financial Services Commission; and

- In the event the Financial Services Commission determines that the chief executive officer of the Korea Exchange is not appropriate for the position, the Financial Services Commission can request the Korea Exchange upon reasonable cause, within one month from the chief executive officer s election, to dismiss the chief executive officer. Subsequently, the chief executive officer will be suspended from performing his duties and the Korea Exchange will elect a new chief executive officer within two months from the request.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security. The Korea Exchange 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 Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector of the Korean economy and its actions may depress or boost the stock market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

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The Korea Exchange publishes the Korea Composite Stock Price Index (KOSPI) every ten seconds, which is an index of all equity securities listed on the Korea Exchange. Historical movements in KOSPI are set out in the following.

	Opening(1)	High	Low	Closing
2001	503.31	715.93	463.54	693.70
2002	698.00	943.54	576.49	627.55
2003	633.03	824.26	512.30	810.71
2004	821.26	939.52	713.99	895.92
2005	893.71	1,383.14	866.17	1,379.37
2006	1,389.27	1,464.70	1,192.09	1,434.46
2007	1,435.26	2,085.45	1,345.08	1,897.13
2008	1,853.45	1,901.13	892.16	1,124.47
2009	1,157.40	1,723.17	992.69	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 10)	2,031.10	2,031.10	1,918.69	1,935.58

Source: Korea Exchange

Note:

(1) The figures represent the daily closing price of the first trading day of the respective year.
Shares are quoted ex-dividend on the first trading day of the relevant company s accounting period. Ex-dividend refers to a share no longer carrying the right to receive the following dividend payment because the settlement date occurs after the record date for determining which shareholders are entitled to receive dividends. Ex-rights refers to shares no longer carrying the right to participate in the following rights offering or bonus issuance because the settlement date occurs after the record date for determining which shareholders are entitled to new shares. 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 Korea Exchange to 15% of the previous day s closing price of the shares, rounded down as set out below:

Previous Day s Closing Price	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
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

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 Korea Exchange by the financial investment companies with brokerage licenses. 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

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representing rights to subscribe for shares on the Korea Exchange. A special agricultural and fishery tax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10.E. 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.

		Total Market Capitalization		Average Daily Trading Volume, Value		
Year	Number of Listed Companies	(Millions of Won)	(Thousands of Dollars)(1)	Thousands of Shares	(Millions of Won)	(Thousands of Dollars)(1)
2000	704	188,041,490	148,414,751	306,163	2,602,211	2,053,837
2001	689	255,850,070	194,784,979	473,241	1,997,420	1,520,685
2002	683	258,680,756	218,056,778	857,245	3,041,598	2,563,937
2003	684	355,362,626	298,123,008	542,010	2,216,636	1,859,594
2004	683	412,588,139	398,597,371	372,895	2,232,109	2,156,419
2005	702	655,074,595	648,588,708	467,629	3,157,662	3,126,398
2006	731	704,587,508	757,620,976	279,096	3,435,180	3,693,742
2007	746	951,917,907	1,017,223,666	363,846	5,540,151	5,920,229
2008	765	576,927,703	457,153,489	355,440	5,190,180	4,112,663
2009	770	887,935,183	763,060,356	485,657	5,795,552	4,980,495
2010	777	1,141,885,458	1,009,981,831	380,859	5,619,768	4,970,607
2011	791	1,041,999,162	899,438,206	353,760	6,863,146	5,924,166
2012	784	1,154,294,167	1,085,638,395	486,480	4,823,643	4,536,739
2013 (through April 10)	776	1,122,790,871	988,938,099	405,919	4,017,467	3,538,527

Source: Korea Exchange

Note:

(1) Converted at the Noon Buying Rate at the end of the periods indicated.

The Korean securities markets are principally regulated by the Financial Services Commission and the Financial Investment Services and Capital Markets Act. The law imposes restrictions on insider trading and price manipulation, 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 shareholders holding substantial interests.

Protection of Customer s Interest in Case of Insolvency of Financial Investment Companies

Under Korean law, the relationship between a customer and a financial investment company 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 securities company) 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, the customer of the financial investment company is entitled to the proceeds of the securities sold by the financial investment company. In addition, the Financial Investment Services and Capital Markets Act recognizes the ownership of a customer in securities held by a financial investment company in such customer s account.

When a customer places a sell order with a financial investment company which is not a member of the Korea Exchange and this financial investment company places a sell order with another financial investment company which is a member of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company. Likewise, 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

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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.

In addition, under the Financial Investment Services and Capital Markets Act, the Korea Exchange 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 which is a member of the Korea Exchange breaches its obligation in connection with a buy order, the Korea Exchange 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.

As the cash deposited with a financial investment company is regarded as belonging to the financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the financial investment company if a bankruptcy or reorganization procedure is instituted against the financial investment company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay each investor up to 50 million per financial institution in case of the financial investment company s bankruptcy, liquidation, cancellation of securities business license or other insolvency events. The premiums related to this insurance are paid by financial investment companies. Pursuant to the Financial Investment Services and Capital Markets Act, a financial investment company with a dealing or brokerage license is required to deposit the cash received from its customers 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 securities companies with the Korea Securities Finance Corporation is prohibited. In addition, in the event of bankruptcy or dissolution of the financial investment company, the cash so deposited shall be withdrawn and paid to the customer prior to payment to other creditors of the financial investment company.

Restrictions Applicable to ADSs

No Korean governmental approval is necessary for the sale and purchase of our ADSs in the secondary market outside Korea or for the withdrawal of shares of our common stock underlying the ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service as described below. The acquisition of the shares by a foreigner must be immediately reported to the governor of the Financial Services Commission, either by the foreigner or by his standing proxy in Korea.

Persons who have acquired shares of our common stock as a result of the withdrawal of shares underlying our ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further Korean governmental approval.

Under current Korean laws and regulations, the depositary is required to obtain our prior consent for the number of shares of our common stock to be deposited in any given proposed deposit that exceeds the difference between:

(1) the aggregate number of shares of our common stock deposited by us for the issuance of our ADSs (including deposits in connection with the initial issuance and all subsequent offerings of our ADSs and stock dividends or other distributions related to these ADSs); and

(2) the number of shares of our common stock on deposit with the depositary at the time of such proposed deposit. We have agreed to grant such consent to the extent that the total number of shares on deposit with the depositary would not exceed 40,432,628 at any time.

Reporting Requirements for Holders of Substantial Interests

Under the Financial Investment Services and Capital Markets Act, any person whose direct or beneficial ownership of our common stock with voting rights, whether in the form of shares of common stock or ADSs, certificates representing the rights to subscribe for shares and equity-related debt securities including convertible

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bonds and bonds with warrants (which we refer to collectively as Equity Securities), together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of the total outstanding shares (including Equity Securities of us held by such persons) is required to report the status of the holdings and the purpose of the holdings (for example, whether intending to seek management control) to the Financial Services Commission and the Korea Exchange within five business days after reaching the 5% ownership level. In addition, any change in the ownership interest subsequent to the report that equals or exceeds 1% of the total outstanding Equity Securities or change in the purpose of the holdings is required to be reported to the Financial Services Commission and the Korea Exchange within five business days from the date of the change (within ten days of the end of the month in which the change occurred, in the case of a person with no intent to seek management control and within ten days of the end of the quarter in which the change occurred, in the case of an institutional investor prescribed by the Financial Services Commission).

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and/or a loss of voting rights with respect to the portion of ownership of Equity Securities exceeding 5% of the total outstanding shares. In addition, the Financial Services Commission may order the disposal of the unreported Equity Securities. Any persons who reports management control as the purpose for its holdings is prohibited from acquiring additional shares or from exercising voting rights during the following five days following the reporting date.

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 shares (which we refer to as a major stockholder) must report the status of his/her shareholding to the Korea Securities Futures Commission and the Korea Exchange within five days after he/she becomes a major stockholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Korea Securities Futures Commission and the Korea Exchange within five days after the change occurred. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment. Any single stockholder or persons who have a special relationship with such stockholder that jointly acquire more than 10% (4% in case of non-financial business group companies) of the voting stock of a Korean financial holding company who controls national banks will be subject to reporting or approval requirements pursuant to the Financial Holding Company Act. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restrictions on Financial Holding Company Ownership.

Restrictions Applicable to Shares

Under the Foreign Exchange Transaction Laws and Financial Services Commission regulations, as amended (collectively, the Investment Rules), foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the Stock Market Division of the Korea Exchange or on the KOSDAQ Market Division of the Korea Exchange, unless prohibited by specific laws. Foreign investors may trade shares listed on the Stock Market Division of the Korea Exchange or on the KOSDAQ Market Division of the Korea Exchange only through the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange, except in limited circumstances, including:

- odd-lot trading of shares;
- acquisition of shares (which we refer to as Converted Shares) by exercise of 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;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of stockholders rights, including preemptive rights or rights to participate in free distributions and receive dividends;
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded subject to certain exceptions; 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.

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For over-the-counter transactions of shares between foreigners outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a securities company licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange must involve a licensed securities company in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions 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 Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange (including Converted Shares and shares being issued for initial listing on the Stock Market Division of the Korea Exchange or on KOSDAQ Market Division of the Korea Exchange) to register its identity with the Financial Supervisory Service prior to making any such investment. The registration requirement does not, however, apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition. Upon registration, the Financial Supervisory Service will issue to the foreign investor an investment registration card, which must be presented each time the foreign investor opens a brokerage account with a securities company. Foreigners 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 Korean Securities and Exchange Act. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea for the purpose of investment registration. However, a foreign corporation or depositary issuing depositary receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor s purchase of shares through the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor s acquisition or sale of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the governor of the Financial Supervisory Service at the time of each such acquisition or sale. A foreign investor must ensure that any acquisition or sale by it of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange in the case of trades in connection with a tender offer, odd-lot trading of shares, trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the governor of the Financial Supervisory Service by himself or his standing proxy, or, in the case of 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. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), asset management companies, futures trading companies and internationally recognized custodians which will act as a standing proxy to exercise stockholders rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to his shares or perform any tasks related thereto on his behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed inevitable 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 custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), the Korea Securities Depository, asset management companies, futures trading companies and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits his shares with the Korea Securities Depository. However, a foreign investor may be exempted from

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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 home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person in their articles of incorporation. Currently, Korea Electric Power Corporation is the only designated public corporation that has set such a ceiling. Furthermore, an investment by a foreign investor in 10% or more of the issued and outstanding shares with voting rights of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the Ministry of Commerce, Industry and Energy of Korea. The acquisition of shares of a Korean company by a foreign investor may also 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 such restrictions applicable to Korean banks, see Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Bank Ownership.

ITEM 9.D. Selling Shareholders

Not applicable.

ITEM 9.E. Dilution

Not applicable.

ITEM 9.F. Expenses of the Issue

Not applicable.

ITEM 10. *ADDITIONAL INFORMATION*

ITEM 10.A. Share Capital

Not applicable.

ITEM 10.B. Memorandum and Articles of Incorporation

We are a financial holding company established under the Financial Holding Company Act. As set forth in our Articles of Incorporation, our objects and purposes as a financial holding company are, among others, to operate and manage financial companies or companies engaged in similar lines of business, to provide financial support to, or investments in, our subsidiaries and to develop and jointly sell products with our subsidiaries. We are registered with the commercial registry office of Seoul Central District Court.

Our articles of incorporation, which was last amended on March 29, 2012 to reflect an amendment to the Korean Commercial Code, the laws and enforcement decrees of the Act on External Audit of Stock Companies as well as the establishment of a corporate governance and chief executive officer recommendation committee, is annexed to this annual report as Exhibit 1.1.

Description of Share Capital

This section provides information relating to our capital stock, including brief summaries of material provisions of our Articles of Incorporation, the Korean Commercial Code, the Financial Investment Services and Capital Markets Act, the Financial Holding Companies Act and certain

related laws of Korea, all as currently in effect. The following summaries are intended to provide only summaries and are subject to the full text of the Articles of Incorporation and the applicable provisions of the Financial Investment Services and Capital Markets Act, the Korean Commercial Code, and certain other related laws of Korea.

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General

As of December 31, 2012 and as of the date hereof, our authorized share capital is 1,000,000,000 shares. Our Articles of Incorporation provide that we are authorized to issue shares of preferred stock up to one-half of all of the issued and outstanding shares. Furthermore, through an amendment of the Articles of Incorporation, we have created new classes of shares in addition to the common shares and the preferred shares. See Description of Preferred Stock Redeemable Preferred Stock (Series 10) and Description of Preferred Stock Redeemable Convertible Preferred Stock (Series 11). As of December 31, 2012 and as of the date hereof, the number of our issued and outstanding common shares was 474,199,587.

On January 25, 2007, we issued 28,990,000 Series 10 redeemable preferred shares and 14,721,000 Series 11 redeemable convertible preferred shares as part of our funding for the acquisition of LG Card, all of which were redeemed as of January 25, 2012.

On April 20, 2011, as part of funding for partial redemption of the Series 10 redeemable preferred stock and the Series 11 redeemable convertible preferred stock, we issued 11,100,000 shares of the Series 12 non-voting redeemable preferred stock. See Description of Preferred Stock Redeemable Preferred Stock (Series 12) . Other than as described above, there are no other preferred shares authorized, issued or outstanding as of the date hereof.

All of the issued and outstanding shares are fully-paid and non-assessable, and are in registered form. As of the date hereof, our authorized but unissued share capital consists of 373,684,849 shares. We may issue the unissued shares without further shareholder approval but subject to a board resolution as provided in the Articles of Incorporation. See Distribution of Free Shares. Share certificates are issued in denominations of one, five, ten, 50, 100, 500, 1,000 and 10,000 shares. The par value of our common shares per share is 5,000.

Dividends

Dividends are distributed to shareholders in proportion to the number of shares of the relevant class of capital stock owned by each shareholder following approval by the shareholders at an annual general meeting of shareholders. We pay full annual dividends on newly issued shares (such as the common shares representing the American depositary shares (ADSs)) for the year in which the new shares are issued. We declare our dividend annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. Once declared, the annual dividend must be paid to the stockholders of record as of the end of the preceding fiscal year within one month after the annual general meeting unless otherwise resolved thereby. Annual dividends may be distributed either in (i) cash or (ii) shares provided that 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 dividends (including dividends in shares). In addition to the annual dividend, we may also distribute cash dividends to the stockholders of record as of the end of March, June and September of each year upon a resolution by the board of directors. Under the Korean Commercial Code we do not have an obligation to pay any annual dividend unclaimed for five years from the scheduled payment date.

In addition, under the Korean Commercial Code and our Articles of Incorporation, we may pay interim dividends once during each fiscal year (in addition to the annual dividends). Interim dividends may be paid upon the resolution of the board of directors and are not subject to shareholder approval. The interim dividends, if any, will be paid to the shareholders of record at 12:00 a.m. midnight, July 1 of the relevant fiscal year in cash. Under the Korean Commercial Code, an interim dividend may not be more than the net assets on the balance sheet of the immediately preceding fiscal period, after deducting (i) the capital of the immediately preceding fiscal period, (ii) the sum of the capital reserve and legal reserve accumulated up to the immediately preceding fiscal period, (iii) the amount of earnings for dividend payment approved at the general shareholders meeting of the immediately preceding fiscal period, (iv) other special reserves accumulated up to the immediately preceding fiscal period, either pursuant to the provisions of our Articles of Incorporation or to the resolution of the general meeting of shareholders, and (v) amount of legal reserve that should be set aside for the current fiscal period following the interim dividend payment.

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Under the Financial Holding Companies Act and the regulations thereunder, a financial holding company may not pay an annual dividend unless it has set aside as its legal reserve an amount equal to at least one-tenth of its net income after tax and shall set aside such amount as its legal reserve until its legal reserve reaches at least the aggregate amount of its stated capital.

Other than as set forth above and the dividend rights granted to preferred shareholders as further described in Description of Preferred Shares, our articles of incorporation do not provide special rights to our common or preferred shareholders to share in our profits. For information regarding Korean taxes on dividends, see Taxation Korean Taxation.

Distribution of Free Shares

In addition to permitting dividends in the form of shares to be paid out of retained or current earnings, the Korean Commercial Code permits a company to distribute to its shareholders, in the form of free shares, an amount transferred from the capital surplus or legal reserve to stated capital. These free shares must be distributed to all of the shareholders pro rata. Our Articles of Incorporation require the same types of preferred shares to be distributed to the holders of preferred shares in case of distribution of free shares. For information regarding the treatment under Korean tax laws of free share distributions, see Item 10.E. Taxation Korean Taxation Taxation of Dividends on Shares of Common Stock or American Depositary Shares.

Preemptive Rights and Issuance of Additional Shares

Unless otherwise provided in the Korean Commercial Code, a company may issue authorized but unissued shares at such times and upon such terms as the board of directors of the company may determine. The company must offer the new shares on uniform terms to all shareholders who have preemptive rights and who are listed on the shareholders register as of the record date. Our shareholders are entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. However, as provided in the Articles of Incorporation, we may issue new shares by resolution of board of directors to persons other than existing shareholders if those shares are (1) publicly offered (where the number of such shares so offered may not exceed 50% of our total number of issued and outstanding shares); (2) preferentially allocated to the members of the ESOA pursuant to relevant provisions of the Financial Investment Services and Capital Markets Act; (3) issued for the purpose of issuing depositary receipts pursuant to relevant provisions of the Financial Investment Services and Capital Markets Act (where the number of such shares so issued may not exceed 50% of our total number of issued and outstanding shares); (4) issued to directors or employees as a result of exercise of stock options we granted to them pursuant to the Korean Commercial Code; (5) issued to a financial investment company, a private equity fund or a special purpose company under the Financial Investment Services and Capital Markets Act; or (6) issued to any specified foreign investors, foreign or domestic financial institutions or alliance companies for operational needs such as introduction of advanced financial technology, improvement of its or subsidiaries financial structure and funding or strategic alliance (where such number of shares so issued may not exceed 50% of our total number of issued and outstanding shares). Under the Korean Commercial Code, a company may vary, without stockholders approval, the terms of such preemptive rights for different classes of shares. Public notice of the preemptive rights to new shares and the transferability thereof must be given not less than two weeks (excluding the period during which the shareholders register is closed) prior to the record date. We will notify the shareholders who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If a shareholder fails to subscribe on or before such deadline, the shareholder s preemptive 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 amended Korean Commercial Code, if an enterprise intends to issue new shares by way of a third party allotment, it must also notify its stockholders or make public notice of the conditions and other details of such new shares not less than two weeks prior to their subscription payment date.

Under the Financial Investment Services and Capital Markets Act, members of a company s employee stock ownership association, whether or not they are shareholders, have a preemptive right, subject to certain exceptions, to subscribe for up to 20% of the shares publicly offered pursuant to the Financial Investment Services and Capital Markets Act. However, this right is exercisable only to the extent that the total number of

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shares so acquired and held by such members does not exceed 20% of the total number of shares to be newly issued and shares then outstanding. As of December 31, 2012, the ESOA owned 18,787,067 shares of our common stock.

General Meeting of Shareholders

There are two types of general meetings of shareholders: 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 shareholders may be held when necessary or at the request of our audit committee. In addition, under the Korean Commercial Code, an extraordinary general meeting of shareholders may be held at the request of the shareholders holding shares for at least 6 months of an aggregate of 1.5% or more of the outstanding shares with voting rights of the listed company, subject to a board resolution or court approval. Furthermore, under the Financial Holding Companies Act of Korea, an extraordinary general meeting of shareholders may be held at the request of the shareholders holding shares for at least 6 months of an aggregate of 1.5% (0.75% in the case of a financial holding company (i) whose total assets at the end of the latest fiscal year is 5 trillion or more and (ii) who is in control of two or more subsidiaries, each with total assets of 2 trillion or more) or more of the outstanding shares of the company, subject to a board resolution or court approval. Holders of non-voting shares may be entitled to request a general meeting of shareholders only to the extent the non-voting shares have become enfranchised as described under Voting Rights below (hereinafter referred to as enfranchised non-voting shares). Meeting agendas are determined by the board of directors or proposed by holders of an aggregate of 3% or more of the outstanding shares with voting rights by way of a written proposal to the board of directors at least six weeks prior to the meeting. In addition, under the Korean Commercial Code, the meeting agenda may be proposed by the shareholders holding shares for at least 6 months of an aggregate of 1% (0.5% in the case of a listed company whose capital at the end of the latest operating year is 100 billion or more) or more of the outstanding shares of the listed company. Furthermore, under the Financial Holding Companies Act, the meeting agenda may be proposed by the shareholders holding shares for at least 6 months of an aggregate of 0.5% (0.25% in the case of a financial holding company (i) whose total assets at the end of the latest fiscal year is 5 trillion or more and (ii) who is in control of two or more subsidiaries, each with total assets of 2 trillion or more) or more of the outstanding shares of the company. Written notices stating the date, place and agenda of the meeting must be given to the shareholders at least two weeks prior to the date of the general meeting of shareholders; provided, that, notice may be given to holders of 1% or less of the total number of issued and outstanding shares which 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 or by using an electronic method defined under the Korean Commercial Code and related regulations at least two weeks in advance of the meeting. Currently, we use *The Korea Economic Daily* and *Maeil Business Newspaper* for the publication of such notices. Shareholders who are not on the shareholders register as of the record date are not entitled to receive notice of the general meeting of shareholders, and they are not entitled to attend or vote at such meeting. Holders of enfranchised non-voting shares who are on the shareholders register as of the record date are entitled to receive notice of the general meeting of shareholders and they are entitled to attend and vote at such meeting. Otherwise, holders of non-voting shares are not entitled to receive notice of or vote at general meetings of shareholders.

The general meeting of shareholders is held at our executive office (which is our registered executive office) or, if necessary, may be held anywhere in the vicinity of our executive office.

Voting Rights

Holders of common shares are entitled to one vote for each share. However, voting rights with respect to common shares that we hold and common shares that are held by a corporate shareholder, more than one-tenth of the outstanding capital stock of which is directly or indirectly owned by us, may not be exercised. Unless stated otherwise in a company s Articles of Incorporation, the Korean Commercial Code permits holders of an aggregate of 3% (1%, in case of a company whose total assets as at the end of the latest fiscal year is 2 trillion or more) or more of the outstanding shares with voting rights to request cumulative voting when electing two or more directors. Our Articles of Incorporation currently do not prohibit cumulative voting. In addition, under the

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Korean Commercial Code, in case of appointment of an audit committee member who is an outside director, any shareholder holding more than 3% of the outstanding shares with voting rights shall not exercise its voting rights with respect to any portion of its shares exceeding the 3% limit; and in case of appointment of an audit committee member who is a non-outside director, the largest shareholder (together with certain related persons) holding more than 3% of the outstanding shares with voting rights shall not exercise its voting rights with respect to any portion of its shares exceeding the 3% limit.

The Korean Commercial Code and our Articles of Incorporation provide that an ordinary resolution may be adopted if approval is obtained from the holders of at least a majority of those common shares present or represented at such meeting and such majority also represents at least one-fourth of the total of our issued and outstanding common shares. 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 shareholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. If our general shareholders meeting resolves not to pay to holders of preferred shares the annual dividend as determined by the board of directors at the time of issuance of such shares, the holders of preferred shares will be entitled to exercise voting rights from the general shareholders meeting immediately following the meeting adopting such resolution until the end of the meeting to declare to pay such dividend with respect to the preferred shares. Holders of such enfranchised preferred shares have the same rights as holders of common shares to request, receive notice of, attend and vote at a general meeting of shareholders.

The Korean Commercial Code provides that to amend the Articles of Incorporation (which is also required for any change to the authorized share capital of the company) and in certain other instances, including removal of a director of a company, dissolution, merger or consolidation of a company, transfer of the whole or a significant part of the business of a company, acquisition of all of the business of any other company or issuance of new shares at a price lower than their par value, a special resolution must be adopted by the approval of the holders of at least two-thirds of those shares present or represented at such meeting and such special majority must also represent at least one-third of the total issued and outstanding shares with voting rights of the company.

In addition, in the case of amendments to the Articles of Incorporation or any merger or consolidation of a company or in certain other cases which affect the rights or interest of the shareholders of the preferred shares, a resolution must be adopted by a separate meeting of shareholders of the preferred shares. Such a resolution may be adopted if the approval is obtained from shareholders of at least two-thirds of the preferred shares present or represented at such meeting and such preferred shares also represent at least one-third of the total issued and outstanding preferred shares of the company.

A shareholder may exercise his voting rights by proxy given to another shareholder. If a particular shareholder intends to obtain proxy from another shareholder, a reference document specified by the Financial Supervisory Service must be sent to the shareholder giving proxy, with a copy furnished to the company s executive office or the branch office, transfer agent and the Financial Services Commission. The proxy must present the power of attorney prior to the start of the general meeting of shareholders.

Rights of Dissenting Shareholders

Pursuant to the Financial Investment Services and Capital Markets Act, in certain limited circumstances (including, without limitation, if we transfer all or any significant part of our business or if we merge or consolidate with another company), dissenting holders of shares have the right to require us to purchase their shares. Pursuant to the Financial Holding Companies Act, the Financial Investment Services and Capital Markets Act and the Korean Commercial Code, if a financial holding company acquires a new direct or indirect subsidiary through the exchange or transfer of shares except in limited circumstances, the dissenting holders of such shares have the right to require us to purchase their shares. To exercise such a right, shareholders must submit to us a written notice of their intention to dissent prior to the general meeting of shareholders. Within 20 days (or 10 days under certain circumstances according to the Financial Holding Companies Act) after the date on which the relevant resolution is passed at such meeting, such dissenting shareholders must request in writing that we purchase their shares. We are obligated to purchase the shares of dissenting shareholders within one month after the end of such request period at a price to be determined by negotiation between the shareholder

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and us. If we cannot agree on a price with the shareholder through such negotiations, the purchase price will be the arithmetic mean of (1) the weighted average of the daily closing share prices on the KRX KOSPI Market of the Korea Exchange for two months prior to the date of the adoption of the relevant board of directors resolution, (2) the weighted average of the daily closing share prices on the KRX KOSPI Market of the Korea Exchange for one month prior to the date of the adoption of the relevant board of directors resolution and (3) the weighted average of the daily closing share prices on the KRX KOSPI Market of the Korea Exchange for one week prior to the date of the adoption of the relevant board of directors resolution. If we or the dissenting shareholder who requested purchase of their shares do not accept such purchase price, we or the shareholder may request to the court to adjust such purchase price.

Register of Shareholders and Record Dates

We maintain the register of our shareholders at our transfer agent s office in Seoul, Korea. The Korea Securities Depository as our transfer agent, registers transfers of shares on the register of shareholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, the register of shareholders may be closed for the period from January 1 of each year up to January 15 of such year. Further, the Korean Commercial Code and the Articles of Incorporation permit us upon at least two weeks public notice to set a record date and/or close the register of shareholders for not more than three months for the purpose of determining the shareholders entitled to certain rights pertaining to the shares. The trading of shares and the delivery of certificates in respect thereof may continue while the register of shareholders is closed.

Other Shareholder Rights

Our articles of incorporation do not have sinking fund provisions or provisions creating liability to further capital calls. Other than to amend our articles of incorporation in accordance with the Korean Commercial Code, no particular action is necessary to change the rights of holders of our capital stock. In addition, our articles of incorporation do not have specific provisions for governing changes in capital or which would have an effect of delaying, deferring or preventing a change in control of us and that would operate only with respect to a merger, acquisition or corporate restructuring involving us or any of our subsidiaries.

Directors

Under the Korean Commercial Code and our articles of incorporation, any director wishing to enter into a transaction with us or our subsidiaries in his or her personal capacity is required to obtain the prior approval of the Board of Directors, and any director having an interest in the transaction may not vote at the meeting of the Board of Directors to approve the transaction.

Neither our articles of incorporation nor applicable Korean laws have provisions relating to (i) the directors power, in the absence of an independent quorum, to vote compensation to themselves or any members of their body (ii) borrowing powers exercisable by the directors and how such borrowing powers can be varied; (iii) retirement or non-retirement of directors under an age limit requirement; or (iv) the number of shares required for a director s qualification.

Description of Preferred Stock

Redeemable Preferred Stock (Series 10)

On January 25, 2007, as part of funding our acquisition of LG Card, we issued 28,990,000 Series 10 non-voting redeemable preferred shares. These shares are currently entitled to dividends at the following rate: (i) for each year until and including 2011, 7.00% of the subscription price per share; (ii) for 2012, 7.00% of the subscription price per share multiplied by the number of days elapsed from January 1, 2012 to January 25, 2012 and divided by 365, plus R % of the subscription price, multiplied by the number of days from January 26, 2012 through December 31, 2012 and divided by 365, where R% means the sum of (A) the five-year treasury rate effective on January 25, 2011, (B) 100 basis points and (C) a spread equal to 7.00% less the five-year treasury

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rate effective on January 25, 2007; and (iv) for 2013 and each year thereafter, R% of the subscription price. The dividend right held by holders of these shares rank senior to the dividend right held by holders of our common shares. If in any fiscal year we do not pay any dividend as provided above, the holders of these shares are entitled to receive such accumulated unpaid dividend prior to the holders of our common shares from the dividends payable in respect of the next fiscal year. If dividends are not paid to the holders of these shares, voting rights attach to such shares. See Voting Rights. We may redeem these shares at any time during the period commencing on the fifth anniversary of the issuance date until the 20th anniversary of the issuance date to the extent that distributable profits are available for such redemption. None of these shares may be redeemed except during the redemption period. There is no maturity date for these shares.

On January 25, 2012, we redeemed all of the Series 10 preferred shares.

Redeemable Convertible Preferred Stock (Series 11)

On January 25, 2007, as part of funding our acquisition of LG Card, we issued 14,721,000 Series 11 non-voting redeemable convertible preferred shares. These shares are currently entitled to dividends at the following rate: (i) for each year until and including 2011, 3.25% of the subscription price per share; (iii) for 2012, 3.25% of the subscription price per share multiplied by the number of days elapsed from January 1, 2012 to January 25, 2012 and divided by 365, plus R % of the subscription price, multiplied by the number of days from January 26, 2012 through December 31, 2012 and divided by 365, where R% means the sum of (A) the five-year treasury rate effective on January 25, 2011, (B) 100 basis points and (C) a spread equal to 7.00% less the five-year treasury rate effective on January 25, 2007; and (iv) for 2013 and each year thereafter, R% of the subscription price per share. If in any fiscal year we do not pay any dividend as provided above, the holders of these shares are entitled to receive such accumulated unpaid dividend prior to the holders of our common shares from the dividends payable in respect of the next fiscal year. If dividends are not paid to the holders of these shares, voting rights attach to such shares. See Voting Rights. We may redeem these shares at any time during the period commencing on the fifth anniversary of the issuance date until the 20th anniversary of the issuance date to the extent that distributable profits are available for such redemption. None of these shares may be redeemed except during the redemption period. There is no maturity date for these shares.

The holders of these shares may, at their option, convert all or part of any outstanding such shares into our common shares at any time from the day after the first anniversary of the issuance date until the fifth anniversary of the issuance date, at a conversion rate of one-to-one. None of these shares may be converted except during the conversion period.

On January 25, 2012, we redeemed all of the Series 11 preferred shares.

Redeemable Preferred Stock (Series 12)

On April 20, 2011, as part of funding for preferred stocks due to be redeemed in January 2012, we issued 11,100,000 Series 12 non-voting redeemable preferred shares for the subscription price of 100,000 per share, or 1,110 billion in the aggregate. These shares are currently entitled to dividends at the following rate: (i) for the period from the issue date until December 31, 2011, 5.58% of the subscription price per share multiplied by a fraction of the number of days from the issue date to and including December 31, 2001 over 365; (ii) for 2012 to and including 2015, 5.58% of the subscription price per share; (iii) for 2016, (x) 5.58% of the subscription price per share, multiplied by a fraction of the number of days from January 1, 2016 to April 19, 2016 over 365, plus (y) R % of the subscription price, multiplied by a fraction of the number of days from April 20, 2016 to December 31, 2016 over 365, where R% means the sum of (A) the five trading-day average of a designated five-year treasury rate quotes immediately preceding April 20, 2016 and (B) 250 basis points; and (iv) for 2017 and each year thereafter, R% of the subscription price per share.

If in any fiscal year we do not pay any dividend as provided above, the holders of these shares are entitled to receive such accumulated unpaid dividend prior to the holders of our common shares from the dividends payable in respect of the next fiscal year. If dividends are not paid to the holders of these shares, voting rights attach to such shares. See Voting Rights. We may redeem these shares at any time during the period commencing on

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the fifth anniversary of the issuance date until the 20th anniversary of the issuance date to the extent that distributable profits are available for such redemption. None of these shares may be redeemed except during the redemption period. There is no maturity date for these shares.

Other than as set forth above, there are currently no other outstanding preferred stocks.

Annual Report

Under the Financial Investment Services and Capital Markets Act, we must file with the Financial Services Commission and the Korea Exchange an annual business report (containing audit report and audited annual nonconsolidated and consolidated financial statements) within 90 days after the end of our fiscal year as well as a semiannual business report within 45 days after the end of the first six months of our fiscal year and quarterly business reports within 45 days after the end of the first three months and nine months of our fiscal year, respectively (in each case, containing review report and reviewed interim nonconsolidated and consolidated financial statements). Copies of such reports are available for public inspection at the websites of the Financial Services Commission and the Korea Exchange.

Transfer of Shares

Under the Korean Commercial Code, the transfer of shares is effected by the delivery of share certificates. In order to exercise shareholders rights, the transferee must have his name and address registered on the register of shareholders. For this purpose, shareholders are required to file with us their name, address and seal. Nonresident shareholders must notify us of the name of their proxy in Korea to which our notice can be sent. Under the Financial Services Commission regulations, nonresident shareholders may appoint a standing proxy and may not allow any person other than the standing proxy to exercise rights regarding the acquired share or perform any task related thereto on his behalf, subject to certain exceptions. Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians are authorized to act as standing proxy and provide related services. Certain foreign exchange controls and securities regulations apply to the transfer of shares by nonresidents or non-Koreans. See Item 10.D. Exchange Controls. As to the ceiling on the aggregate shareholdings of a single shareholder and persons who have a special relationship with such shareholder, please see Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restrictions on Financial Holding Company Ownership.

Acquisition of Treasury Shares

Under the Korean Commercial Code, we may acquire our own shares upon a resolution of the general meeting of the shareholders by either (i) purchasing them on a stock exchange or (ii) purchasing a number of shares, other than the redeemable shares as set forth in Article 345, Paragraph (1) of the Korean Commercial Code, from each shareholder in proportion to its existing shareholding ratio through the methods set forth in the Presidential Decree, provided that the total purchase price does not exceed the amount of our profit that may be distributed as dividends in respect of the immediately preceding fiscal year.

In addition, pursuant to the Financial Investment Services and Capital Markets Act and regulations under the Financial Holding Companies Act, we may purchase our own shares on the KRX KOSPI Market of the Korea Exchange, through a tender offer, or through a trust agreement with a trust company, or retrieve our own shares from a trust company upon termination of a trust agreement, subject to the restrictions that (1) the aggregate purchase price of such shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year less the amounts of dividends and reserves for such fiscal year, subtracted by the sum of (a) the purchase price of treasury stock acquired if any treasury stock has been purchased after the end of the preceding fiscal year pursuant to the Commercial Act or the Financial Investment Services and Capital Markets Act, (b) the amount subject to trust agreements, and (c) the amount of dividends approved at the ordinary general shareholders meeting after the end of the preceding fiscal year and the amount of retained earnings reserve required under the Commercial Act; plus if any treasury stock has been disposed of after the end of the preceding

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fiscal year, the acquisition cost of such treasury stock and (2) the purchase of such shares shall meet the requisite capital ratio under the Financial Holding Companies Act and the guidelines issued by the Financial Services Commission. In general, under the Financial Holding Companies Act, our subsidiaries are not permitted to acquire our shares.

Liquidation Rights

In the event we are liquidated, the assets remaining after the payment of all debts, liquidation expenses and taxes will be distributed to shareholders in proportion to the number of shares held by such shareholders. Holders of preferred shares may have preferences over holders of common shares in liquidation.

ITEM 10.C. Material Contracts

None.

ITEM 10.D. Exchange Controls

General

The Foreign Exchange Transaction Act of Korea the related Presidential Decree and the regulations under such Act and Decree (collectively the Foreign Exchange Transaction Laws) herein, regulate investment in Korean securities by nonresidents and issuance of securities by Korean companies outside Korea. Under the Foreign Exchange Transaction Laws, nonresidents may invest in Korean securities only to the extent specifically allowed by these laws or otherwise permitted by the Ministry of Strategy and Finance of Korea. The Financial Services Commission has also adopted, pursuant to its authority under the Financial Investment Services and Capital Markets Act, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities by Korean companies outside Korea.

Under the Foreign Exchange Transaction Laws, (1) if the Korean government determines that it 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 situations equivalent thereto, 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 (2) if the Korean government determines that international balance of payments and international finance face or are likely to face serious difficulty or the movement of capital between Korea and abroad will cause or is likely to cause 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 such transactions at certain Korean governmental agencies or financial institutions, in each case subject to certain limitations.

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. No approval is 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 make 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 securities dealing 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. No Korean governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of 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 nonresident

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of Korea must be deposited either in a Won account with the investor s financial investment company with a securities dealing or brokerage license or in his Won account. Funds in the investor s Won account may be transferred to his foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses by any one person exceeding US$10,000 per day needs to be reported to the governor of the Financial Supervisory Service by the foreign exchange bank at which the Won account is maintained. Funds in the Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Financial investment companies with a securities dealing, brokerage or collective investment license are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors stock investments in Korea. Through these accounts, financial companies with a securities dealing, brokerage or collective investment license may enter into foreign exchange transactions on a limited basis, such as conversion of 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.

ITEM 10.E. Taxation

The following summary is based upon tax laws, regulations, rulings, decrees, income tax conventions (treaties), administrative practice and judicial decisions of Korea and the United States as of the date of this annual report, and is subject to any change in Korean or United States law that may come into effect after such date. Investors in shares of common stock or American depositary shares are advised to consult their own tax advisers as to the Korean, United States or other tax consequences of the purchase, ownership and disposition of such securities, including the effect of any national, state or local tax laws.

Korean Taxation

The following summary of Korean tax considerations applies to you so long as you are not:

- a resident of Korea;
- a corporation having its head office, principal place of business, or place of effective management in Korea (a Korean corporation); 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 Shares of Common Stock or American Depositary Shares

We will deduct Korean withholding tax from dividends (whether in cash or in shares) paid to you at a rate of 22% (including local income surtax). If you are a qualified resident and 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 of treaty benefits. If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in capital, such distribution may be subject to a Korean withholding tax.

Taxation of Capital Gains from Transfer of Common Shares or American Depositary Shares

As a general rule, capital gains earned by non-residents upon transfer of our common shares or American depositary shares (ADSs) are subject to a Korean withholding tax at the lower of (1) 11% (including local income surtax) of the gross proceeds realized or (2) 22% (including local income surtax) of the net realized gain, subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs associated with common shares or ADSs, unless exempt from Korean income taxation under an applicable tax treaty between Korea and the country of your tax residence. See Tax Treaties below for a discussion on treaty benefits. Even if you do not qualify for the exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you meet certain requirements for the exemption under Korean domestic tax laws discussed in the following paragraphs.

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You will not be subject to the Korean income taxation on capital gains realized upon a transfer of our common shares through the Korea Exchange if you (1) have no permanent establishment in Korea and (2) do not own and have never owned (together with any shares owned by any entity with which you have a special relationship and possibly including the shares represented by the ADSs) 25% or more of our total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five consecutive calendar years prior to the calendar year in which the sale occurs.

Under the tax law amendments effective for capital gains recognized or to be recognized from disposition of ADSs on or after January 1, 2008, ADSs are viewed as shares of stock for capital gains tax purposes. Accordingly, capital gains from sale or disposition of ADSs are taxed (if taxable) as if such gains are from sale or disposition of shares of our common stock. It should be noted that (i) capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside 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 ADSs is deemed to be an overseas issuance under the STTCL, but (ii) in the case where an owner of the underlying shares of stock transfers ADSs after conversion of the underlying shares into ADSs, the exemption under the STTCL described in (i) will not apply. In the case where an owner of the underlying shares of stock transfers the ADSs after conversion of the underlying shares of stock into ADSs, such person is obligated to file corporate income tax returns and pay tax unless a purchaser or a financial investment company with a brokerage license, as applicable, withholds and pays the tax on capital gains derived from transfer of ADSs, as discussed below.

If you are subject to tax on capital gains with respect to a sale of common shares or ADSs, the purchaser or, in the case of a 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 proceeds in an amount equal to 11% (including local income surtax) of the gross realization proceeds and to remit the withheld tax to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law or produce satisfactory evidence of your acquisition costs and certain direct transaction costs associated with common shares or ADSs. To obtain the benefit of a tax exemption pursuant to a tax treaty, you must submit to the purchaser, the financial investment company or the ADR depositary, 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 of claiming treaty benefits.

Tax Treaties

Korea has entered into a number of income tax treaties with other countries, including the United States, which reduce or exempt Korean withholding tax on the income derived by residents of such treaty countries. For example, under the Korea-U.S. income tax treaty, reduced rates of Korean withholding tax on dividends of 16.5% or 11.0%, respectively (including local income surtax), depending on your shareholding ratio, and an exemption from Korean withholding tax on capital gains are generally available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains. However, under Article 17 (Investment or Holding Companies) of the Korea-U.S. income tax treaty, such reduced rates and exemption do not apply if (1) you are a United States corporation, (2) by reason of any special measures the tax imposed on you by the United States with respect to such dividends or capital gains is substantially less than the tax generally imposed by the United States on corporate profits, and (3) 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-U.S. income tax treaty, the exemption on capital gains does not apply if (a) you have a permanent establishment in Korea and any shares of common stock in which you hold an interest and which gives rise to capital gains are effectively connected with such permanent establishment, (b) you are an individual and you maintain a fixed base in Korea for a period or periods aggregating 183 days or more during the taxable year and your common shares, or ADSs giving rise to capital gains are effectively connected with such fixed base or (c) you are an individual and you are present in Korea for a period or periods of 183 days or more during the taxable year.

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You should inquire for yourself whether you are entitled to the benefit of an income tax treaty with Korea. 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, the financial investment company, or other withholding agent, as the case may be, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser, the financial investment company, or other withholding agent, as the case may be, 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 (e.g., 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 the competent authority of your country of tax residence, subject to certain exceptions. For example, a U.S. resident would be required provide Form 6166 as a certificate of tax residency with the application for tax exemption. Such application should be submitted to an appropriate district tax office by the ninth day of the month following the date of the first payment of such income. Furthermore, in order to obtain a reduced rate of withholding tax on a dividend, you as a beneficial owner of the dividend must submit to the withholding agent of the dividend, prior to the payment date, the Application for Entitlement to Reduced Tax Rate. If a dividend is paid to an overseas investment vehicle, the overseas investment vehicle must submit a Report of Overseas Investment Vehicle and a Schedule of Beneficial Owners, with certain exceptions.

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 would be treated as the owner of the shares of common stock underlying the ADSs. If the tax authority interprets depositary receipts as the underlying share certificates, you may be treated as the owner of the shares of common stock and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax, which ranges from 10% to 50% recently, assessable based on the value of the ADSs or shares of common stock and the identity of the individual against whom the tax is assessed.

If you die while holding a common share or donate a subscription right or 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.

Securities Transaction Tax

If you transfer common shares through the Korea Exchange, you will be subject to a securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sales price of common shares. If your transfer of common shares is not made through the Korea Exchange, subject to certain exceptions, you will be subject to a securities transaction tax at the rate of 0.5% but will not be subject to an agriculture and fishery special surtax.

Depositary receipts, which the ADSs constitute, are included in the scope of securities transfer subject to securities transaction tax effective starting with transfers occurring on or after January 1, 2011. Nonetheless, transfer of depositary receipts listed on a foreign securities exchange similar to the Korea (e.g. the New York Stock Exchange, the NASDAQ National Market) will not be subject to the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by a transferor of common shares. When a transfer is affected through a securities settlement company, such settlement company is generally required to withhold and remit 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 remit the tax. Where a transfer is affected by a non-resident who has no permanent establishment in Korea by a method 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 underreporting of securities transaction tax will generally result in the imposition of penalties equal to 20% to 40% of the non-reported or 10% to 40% of underreported tax amount and a failure to

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timely pay securities transaction tax due will result in penalties of 10.95% per annum of the due but unpaid tax. The penalty is imposed on the party responsible for paying the securities transaction tax or, if the securities transaction tax is to be withheld, on the party that has the withholding obligation.

Certain United States Federal Income Tax Consequences

The following summary describes certain U.S. federal income tax considerations for beneficial owners of our common shares or ADSs that hold the common shares or ADSs as capital assets and are U.S. holders. You are a U.S. holder if you are for U.S. federal income tax purposes:

(i) an individual citizen or resident of the United States;

(ii) a corporation, or other entity treated as a corporation, created or organized in or under the laws of the United States, any state thereof or District of Columbia;

(iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source;

(iv) a trust that is subject to the primary supervision of a court within the United States and has one or more U.S. persons with authority to control all substantial decisions of the trust; or

(v) a trust that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

In addition, this summary only applies to you if you are a U.S. holder that is a resident of the United States for purposes of the current income tax treaty between the United States and Korea (the Treaty), your common shares or ADSs are not, for purposes of the Treaty, effectively connected with a permanent establishment in Korea and you otherwise qualify for the full benefits of the Treaty.

This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code) and regulations (including proposed regulations), rulings and judicial decisions thereunder as of the date hereof, as well as the Treaty, all of which are subject to change, perhaps retroactively. It is for general purposes only and you should not consider it to be tax advice. In addition, it is based in part on representations by the ADS depositary and assumes that each obligation under the deposit agreement will be performed in accordance with its terms. This summary does not represent a detailed description of all the U.S. federal income tax consequences to you in light of your particular circumstances, and does not address the effects of any state, local or non-U.S. tax laws. In addition, it does not represent a detailed description of the U.S. federal income tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws, including if you are:

a bank;

a dealer in securities or currencies;

an insurance company or one of certain financial institutions;

a regulated investment company;

a real estate investment trust;

a tax-exempt entity;

a trader in securities that has elected to use a mark-to-market method of accounting for your securities holdings;

a person holding common shares or ADSs as part of a hedging, conversion, constructive sale or integrated transaction or a straddle;

a person liable for the alternative minimum tax;

a partnership or other pass-through entity for U.S. federal income tax purposes;

a person who owns or is deemed to own 10% or more of our voting stock; or

a person whose functional currency is not the U.S. dollar.

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If a partnership holds our common shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our common shares or ADSs, you are urged to consult your tax advisor.

You should consult your own tax advisor concerning the particular U.S. federal tax consequences to you of the ownership and disposition of common shares or ADSs as well as any consequences arising under the laws of any other taxing jurisdiction.

American Depositary Shares

If you hold ADSs, for U.S. federal income tax purposes, you generally will be treated as the owner of the underlying common shares that are represented by such ADSs. Accordingly, deposits or withdrawals of common shares for ADSs will not be subject to U.S. federal income tax.

Distributions on Common Shares or American Depositary Shares

Subject to the discussion below under Passive Foreign Investment Company Rules, the gross amount of distributions on our common shares or ADSs (including amounts withheld to reflect Korean withholding tax) will be taxable as dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Such income (including withheld taxes) will be includable in your gross income as ordinary income on the day you actually or constructively receive it, in the case of our common shares, or the day actually or constructively received by the ADS depositary, in the case of ADSs. Such dividends will not be eligible for the dividends-received deduction allowed to corporations under the Code.

With respect to non-corporate U.S. holders, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States which the U.S. Treasury Department determines to be satisfactory for these purposes and which includes an exchange of information provision. The U.S. Treasury Department has determined that the Treaty meets these requirements, and we believe we are eligible for the benefits of the Treaty. A foreign corporation is also treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. Our common shares will generally not be considered readily tradable for these purposes. U.S. Treasury Department guidance indicates that securities such as our ADSs, which are listed on the New York Stock Exchange, are treated as readily tradable on an established securities market in the United States for these purposes. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. Non-corporate U.S. holders that do not meet a minimum holding period requirement during which they are not protected from a risk of loss or that elect to treat the dividend income as investment income pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Furthermore, non-corporate U.S. holders will not be eligible for the rate reduction if we are a passive foreign investment company (as discussed below under Passive Foreign Investment Company Rules) in the taxable year in which such dividends are paid or were a passive foreign investment company in the preceding taxable year. If you are a non-corporate U.S. holder, you should consult your own tax advisor regarding the application of these rules given your particular circumstances.

The amount of any dividend paid in Korean Won will equal the U.S. dollar value of the Korean Won received calculated by reference to the exchange rate in effect on the date you receive the dividend, in the case of our common shares, or the date received by the ADS depositary, in the case of ADSs, regardless of whether the Korean Won are converted into U.S. dollars. If the Korean Won received as a dividend are converted into U.S. dollars on the date they are received, you generally will not be required to recognize foreign currency gain or loss in respect of the dividend income. If the Korean Won received are not converted into U.S. dollars on the day of receipt, you will have a basis in the Korean Won equal to their U.S. dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the Korean Won will be treated as United States source ordinary income or loss.

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Subject to certain significant conditions and limitations, Korean taxes withheld from dividends (at a rate not exceeding the rate provided in the Treaty) will be treated as foreign income taxes eligible for credit against your U.S. federal income tax liability. See Korean Taxation Taxation of Dividends on Shares of Common Stock or American Depositary Shares for a discussion of the Treaty rate. Korean taxes withheld in excess of the rate provided in the Treaty will not be eligible for credit against your U.S. federal income tax until you exhaust all effective and practical remedies to recover such excess withholding, including the seeking of competent authority assistance from the Internal Revenue Service. For purposes of the foreign tax credit, dividends paid on our common shares or ADSs will be treated as income from sources outside the United States and will generally constitute passive category income. If you do not elect to claim a credit for any foreign taxes paid during a taxable year, you may instead elect, subject to certain limitations, to claim a deduction in respect of such foreign taxes, provided that you apply this election to all foreign taxes paid or accrued in the taxable year.

Further, in certain circumstances, if you have held our common shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on our common shares or ADSs. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under U.S. federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction of your adjusted basis in our common shares or ADSs (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of our common shares or ADSs), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. However, we do not expect to determine earnings and profits in accordance with U.S. federal income tax principles. Therefore, you should expect that a distribution will be reported and generally be treated as a dividend (as discussed above).

Distributions of our common shares (including ADSs) or rights to subscribe for our common shares that are received as part of a pro rata distribution to all of our shareholders (including holders of ADSs) generally will not be subject to U.S. federal income tax to recipient common shareholders (including holders of ADSs). Consequently, such distributions will not give rise to foreign source income and you will not be able to use the foreign tax credit arising from any Korean withholding tax unless such credit can be applied (subject to applicable limitations) against U.S. tax due on other income derived from foreign sources.

Disposition of Common Shares or American Depositary Shares

Subject to the discussion under Passive Foreign Investment Company Rules, upon the sale, exchange or other disposition of our common shares or ADSs, you generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and your adjusted tax basis in our common shares or ADSs, as the case may be. The capital gain or loss will be long-term capital gain or loss if at the time of sale, exchange or other disposition, our common shares or ADSs have been held for more than one year. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss you recognize on the sale, exchange or other disposition of our common shares or ADSs will generally be treated as United States source gain or loss. Consequently, you may not be able to use the foreign tax credit arising from any Korean tax imposed on the disposition of our common shares or ADSs unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

You should note that any Korean securities transaction tax generally will not be treated as a creditable foreign tax for U.S. federal income tax purposes, although you may be entitled to deduct such taxes, subject to applicable limitations under the Code.

Passive Foreign Investment Company Rules

Based upon the past and projected composition of our income and valuation of our assets, we do not believe that we were a passive foreign investment company (a PFIC) for 2012, and we do not expect to be a PFIC in

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2013 or to become one in the foreseeable future, although there can be no assurance in this regard. However, PFIC status is a factual determination that is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in valuation or composition of our income or assets.

In general, we will be considered a PFIC for any taxable year if either:

- at least 75% of our gross income is passive income; or
- at least 50% of the value of our assets is attributable to assets that produce or are held for the production of passive income.

The 50% of value test is based on the average of the value of our assets for each quarter during the taxable year. For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). Certain proposed U.S. Treasury regulations and other administrative pronouncements from the Internal Revenue Service provide special rules for determining the character of income and assets derived in the active conduct of a banking business for purposes of the PFIC rules. Specifically, these rules treat certain income earned by a non-U.S. corporation engaged in the active conduct of a banking business as non-passive income. Although we believe we have adopted a reasonable interpretation of the proposed U.S. Treasury regulations and administrative pronouncements, there can be no assurance that the Internal Revenue Service will follow the same interpretation. You should consult your own tax advisor regarding the application of these rules.

If we own at least 25% by value of another company s stock, we will be treated, for purposes of the PFIC rules, as owning our proportionate share of the assets and receiving our proportionate share of the income of that company.

If we are a PFIC for any taxable year during which you hold our common shares or ADSs, you will be subject to special tax rules with respect to any excess distribution that you receive and any gain you realize from the sale or other disposition (including a pledge) of our common shares or ADSs. These special tax rules generally will apply even if we cease to be a PFIC in future years. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for our common shares or ADSs will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for our common shares or ADSs;
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we are a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year, and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In certain circumstances, you could make a mark-to-market election, under which in lieu of being subject to the special rules discussed above, you will include gain on our common shares or ADSs on a mark-to-market basis as ordinary income, provided that our common shares or ADSs are regularly traded on a qualified exchange or other market. Our common shares are listed on the Korea Exchange, which must meet certain trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable U.S. Treasury regulations for purposes of the mark-to-market election, and no assurance can be given that the common shares are or will continue to be regularly traded for purposes of the mark-to-market election. Our ADSs are currently listed on the New York Stock Exchange, which constitutes a qualified exchange, although there can be no assurance that the ADSs are or will be regularly traded. If you make a valid mark-to-market election, you will include in each year as ordinary income the excess of the fair market value of your common shares or ADSs at the end of the year over your adjusted tax basis in the common shares or ADSs. You will be entitled to deduct as an ordinary loss each year the excess of your adjusted tax basis in the common shares or ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, in each year that we are

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a PFIC any gain you recognize upon the sale or other disposition of your common shares or ADSs will be treated as ordinary income, and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

A U.S. holder s adjusted tax basis in common shares or ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. holder makes a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the common shares or ADSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You should consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable with respect to your particular circumstances.

In addition, a holder of common shares or ADSs in a PFIC can sometimes avoid the rules described above by electing to treat the company as a qualified electing fund under Section 1295 of the Code. This option is not available to you because we do not intend to comply with the requirements necessary to permit holders to make this election.

If you hold our common shares or ADSs in any year in which we are classified as a PFIC, you would be required to file Internal Revenue Service Form 8621.

Non-corporate U.S. holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or were a PFIC in the preceding taxable year. You should consult your tax advisor concerning the determination of our PFIC status and the U.S. federal income tax consequences of holding our common shares or ADSs if we are considered a PFIC in any taxable year.

Information Reporting and Backup Withholding

In general, information reporting will apply to dividends in respect of our common shares or ADSs and the proceeds from the sale, exchange or redemption of our common shares or ADSs that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

ITEM 10.F. Dividends and Paying Agents

Not applicable.

ITEM 10.G. Statements by Experts

Not applicable.

ITEM 10.H. 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. You may inspect and copy these materials, including this annual report and the exhibits thereto, at SEC s Public Reference Room 100 Fifth Street, N.E., Washington, D.C. 20549. 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 10.I. Subsidiary Information

Not applicable.

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ITEM 11. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

See Item 4.B. Business Overview Risk Management for quantitative and qualitative disclosures about market risk.

ITEM 12. ***DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES***

ITEM 12.A. Debt Securities

Not applicable.

ITEM 12.B. Warrants and Rights

Not applicable.

ITEM 12.C. Other Securities

Not applicable.

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ITEM 12.D. American Depositary Shares

Depositary Fees and Charges

Under the terms of the Deposit Agreement in respect of our American depositary shares (ADSs), the holder of ADSs may be required to pay the following fees and charges to Citibank, N.A., acting as depositary for our ADSs:

Item	Services	Fees	Paid by
1	Issuance of ADSs upon deposit of common shares (excluding issuances contemplated by items 3(b) and 5 below	Up to US$5.00 per 100 ADSs (or fraction thereof) issued	Person depositing common shares or person receiving ADSs
2	Delivery of deposited securities against surrender of ADSs	Up to US$5.00 per 100 ADSs (or fraction thereof) surrendered	Person surrendering ADSs for purpose of withdrawal of deposited securities or person to whom deposited securities are delivered
3	Distribution of (a) cash dividends or (b) ADSs pursuant to stock dividends	No fee, to the extent prohibited by the exchange on which the ADSs are listed. If the charging of such fee is not prohibited, the fees specified in item 4 below shall be payable	Person to whom distribution is made
4	Distribution of (a) cash proceeds (i.e., upon sale of rights and other entitlements) or (b) free shares in the form of ADSs (not constituting a stock dividend)	Up to US$2.00 per 100 ADSs (or fraction thereof) held	Person to whom distribution is made
5	Distribution of securities other than ADSs or rights to purchase additional ADSs (i.e., spinoff shares)	Up to US$5.00 per 100 ADSs (or fraction thereof) distributed	Person to whom distribution is made
6	Depositary Services	Unless prohibited by the exchange on which the ADSs are listed, up to US$2.00 per 100 ADSs (or fraction thereof) held as of the last day of each calendar year, except to the extent of any cash dividend fee(s) charged under paragraph (3)(a) above during the applicable calendar year	Person holding ADSs on last day of calendar year
7	Distribution of ADSs pursuant to exercise of rights to purchase additional ADSs	Up to US$2.00 per 100 ADSs (or fraction thereof) held	Person who exercises such rights

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Holders and beneficial owners of ADSs, persons depositing common shares for deposit and persons surrendering ADSs for cancellation and for the purpose of withdrawing deposited securities shall be responsible for the following charges:

(i) taxes (including applicable interest and penalties) and other governmental charges;

(ii) such registration fees as may from time to time be in effect for the registration of common shares or other deposited securities on the share register and applicable to transfers of common shares or other deposited securities to or from the name of the custodian, the depositary or any nominees upon the making of deposits and withdrawals, respectively;

(iii) such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreement to be at the expense of the person depositing or withdrawing common shares or holders and beneficial owners of ADSs;

(iv) the expenses and charges incurred by the depositary in the conversion of foreign currency;

(v) such fees and expenses as are incurred by the depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to common shares, deposited securities, ADSs and ADRs; and

(vi) the fees and expenses incurred by the depositary, the custodian or any nominee in connection with the servicing or delivery of deposited securities.

Depositary 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 transaction fees to their clients.

Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date. The depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividends, rights offerings), the depositary 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 un-certificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts via the central clearing and settlement system, The Depository Trust Company (DTC), the depositary 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 depositary banks.

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 the ADS holder.

The fees and charges the ADS holders may be required to pay may vary over time and may be changed by us and by the depositary. The ADS holders will receive prior notice of such changes.

Depositary Payments for the Fiscal Year 2012

In 2012, we received the following payments from Citibank, N.A., acting as depositary for our ADSs:

Reimbursement of settlement infrastructure fees (including DTC fees)	US$ 265.00
Reimbursement of proxy process expenses (printing, postage and distribution)	US$ 39,579.46
Legal expenses	US$ 5,037.00
Contributions towards our investor relations efforts (i.e. non-deal roadshows, investor conferences and IR agency fees)	US$ 545,928.97
Total:	US$ 590,810.43

Note: The amounts provided above are after deduction of applicable of U.S. taxes.

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ITEM 13. ***DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES***

Not applicable.

ITEM 14. ***MATERIAL MODIFICATION TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS***

Not applicable.

ITEM 15. ***CONTROLS AND PROCEDURES***

Disclosure Control

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) 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 provide only reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that the design and operation of 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 we file and submit under the Exchange Act 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 chief financial officer, as appropriate to allow timely decision 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, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, for our company. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our internal control over financial reporting as of December 31, 2012 based on the framework established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and 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 a company s assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company s receipts and expenditures are being made only in accordance with authorizations of a company s management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company s assets that could have a material effect on the consolidated financial statements. Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated 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. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2012. The effectiveness of our internal control over financial reporting has been audited by KPMG Samjong, an independent registered public accounting firm, who has also audited our consolidated financial statements for the year ended December 31, 2012. KPMG Samjong has issued an attestation report on the effectiveness of our internal control over financial reporting under Auditing Standard No. 5 of the Public Company Accounting Oversight Board, which is included herein.

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Attestation Report of the Independent Registered Public Accounting Firm

KPMG Samjong s attestation report on the effectiveness of internal control over financial reporting can be found on page F-2 of this annual report.

Changes in Internal Controls

There were no changes in our internal control over financial reporting during 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16.A. ***AUDIT COMMITTEE FINANCIAL EXPERT***

Our board of directors has determined that Mr. Taeeun Kwon, Mr. Seok Won Kim, Mr. Sang-Kyeong Lee and Mr. Ke Sop Yun, our outside director and the chairman of our Audit Committee, are audit committee financial experts, as such term is defined by the regulations of the Securities and Exchange Commission issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Mr. Taeeun Kwon, Mr. Seok Won Kim, Mr. Sang-Kyeong Lee and Mr. Ke Sop Yun are independent as such term is defined in Section 303A.02 of the NYSE Listed Company Manual, Rule 10A-3 under the Exchange Act and the Korea Stock Exchange listing standards.

ITEM 16.B. ***CODE OF ETHICS***

We have adopted a code of ethics for our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions as required under Section 406 of the Sarbanes-Oxley Act of 2002, together with an insider reporting system in compliance with Section 301 of the Sarbanes-Oxley Act. The code of ethics is available on our website www.shinhangroup.com. We have not granted any waiver, including an implicit waiver, from a provision of the code of ethics to any of the above-mentioned officers during our most recently completed fiscal year.

ITEM 16.C. ***PRINCIPAL ACCOUNTANT FEES AND SERVICES***

The following table sets forth the aggregate fees billed for professional services rendered by KPMG Samjong Accounting Corp. for the years ended December 31, 2010, 2011 and 2012, our principal accountants for the respective period, depending on the various types of services and a brief description of the nature of such services.

	Aggregate Fees Billed During the Year Ended December 31, (In millions of Won)			
Type of Services	**2010**	**2011**	**2012**	**Nature of Services**
Audit fees	8,151	6,193	5,909	Audit service for Shinhan Financial Group and its subsidiaries.
Tax fees	375	317	116	Tax return and consulting advisory service.
All other fees	4			All other services which do not meet the two categories above.
Total	8,530	6,510	6,025	

Our audit committee generally pre-approves all engagements of our principal accountants pursuant to policies and procedures adopted by it. Our audit committee has adopted the following policies and procedures for consideration and approval of requests to engage our principal accountants to perform audit and non-audit services. Engagement requests must in the first instance be submitted as follows: (i) in the case of

audit and non-audit services for our holding company, to our Planning & Financial Management subject to reporting to our Chief Financial Officer; and (ii) in the case of audit and non-audit services for our subsidiaries, to our Audit and Compliance Team subject to reporting to the Senior Executive Vice President of Audit & Compliance Team. If

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the request relates to services that would impair the independence of our principal accountants, the request must be rejected. If the engagement request relates to audit and permitted non-audit services, it must be forwarded to the Audit Committee for consideration. To facilitate the consideration of engagement requests between its meetings, the Audit Committee has delegated approval authority of the following: (i) permitted non-audit services to our holding company, (ii) audit services to our subsidiaries and (iii) permitted non-audit services to our subsidiaries, to one of its members who is independent as defined by the Securities and Exchange Commission and the New York Stock Exchange. Such member in our case is Mr. Ke Sop Yun, the chairman of our Audit Committee, and he is required to report any approvals made by them to the Audit Committee at its next meeting. Our Audit Committee meets regularly once every quarter.

Any other audit or permitted non-audit service must be pre-approved by the audit committee on a case-by-case basis. 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 16.D. ***EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES***

Not applicable.

ITEM 16.E. ***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 16.F. ***CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT***

Not applicable.

ITEM 16.G. ***CORPORATE GOVERNANCE***

We are committed to high standards of corporate governance. We are in compliance with the corporate governance provisions of the Korean Commercial Code, the Financial Holding Companies Act of Korea, the Financial Investment Services and Capital Markets Act and the Listing Rules of the Korea Exchange. We, like all other companies in Korea, must comply with the corporate governance provisions of the Korean Commercial Code. In addition, as a financial holding company, we are also subject to the Financial Holding Companies Act. Also, our subsidiaries that are financial institutions must comply with the respective corporate governance provisions under the relevant laws under which they were established.

We are a foreign private issuer (as such term is defined in Rule 3b-4 under the Exchange Act), and our ADSs are listed on the New York Stock Exchange, or NYSE. Under Section 303A of the NYSE Listed Company Manual, NYSE-listed companies that are foreign private issuers are permitted to follow home country practice in lieu of the corporate governance provisions specified by the NYSE with limited exceptions. Under the NYSE Listed Company Manual, we as foreign private issuers are required to disclose significant differences between NYSE s corporate governance standards and those we follow under Korean law. The following summarizes some significant ways in which our corporate governance practices differ from those followed by U.S. companies listed on the NYSE under the listing rules of the NYSE:

Majority of Independent Directors on the Board

Under the NYSE listing rules, U.S. companies listed on the NYSE must have a board the majority of which is comprised of independent director satisfying the requirements of independence as set forth in Rule 10A-3 under the Exchange Act. While as a foreign private issuer, we are exempt from this requirement, but our board of directors is in compliance with this requirement as it currently consists of 12 directors, of which ten directors satisfy the requirements of independence as set forth in Rule 10A-3 under the Exchange Act. Ten of our directors are also outside directors as defined in the Financial Holding Companies Act of Korea. An outside director for purposes of the Financial Holding Companies Act and the Korean Commercial Code means a director who does not engage in the regular affairs of the financial holding company, and who is elected at a

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shareholders meeting, after having been nominated by the outside director nominating committee, and none of the largest shareholder, those persons specially related to the largest shareholder of such company, persons who during the past two years have served as an officer or employee of such company, the spouses and immediate family members of an officer of such company, and certain other persons specified by law may qualify as an outside director of such company. Under the Korea Exchange listing rules and the Korean Commercial Code, at least one-fourth of a listed company s directors must be outside directors provided that there must be at least three outside directors. In the case of large listed companies as defined under the Korean Commercial Code, like us, a majority of the directors must be outside directors.

Executive Session

Under the NYSE listing rules, non-management directors of U.S. companies listed on the NYSE are required to meet on a regular basis without management present and independent directors must meet separately at least once per year. There is no such requirement under Korean law or listing standards or our internal regulations.

Audit Committee

Under the NYSE listing rules, listed companies must have an audit committee that has a minimum of three members, and all audit committee members must satisfy the requirements of independence set forth in Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act. We are in compliance with this requirement as our audit committee comprises of four outside directors meeting the requirements of independence set forth in Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act. Under the Korea Exchange listing rules and the Korean Commercial Code, a large listed company must also establish an audit committee of which at least two-thirds of its members must be outside directors and whose chairman must be an outside director. In addition, at least one member of the audit committee who is an outside director must also be an accounting or financial expert. We are also in compliance with the foregoing requirements.

Nomination/Corporate Governance Committee

Under the NYSE listing rules, U.S. companies listed on the NYSE must have a nomination/corporate governance committee composed entirely independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. Under the Korean Commercial Code and other applicable laws, large listed companies, financial holding companies, commercial banks, and certain other financial institutions are required to have an outside director nominating committee of which at least one-half of its members are required to be outside directors. However, there is no requirement to establish a corporate governance committee under applicable Korean law. We currently have a board steering committee which manages corporate governance practices applicable to us. Our outside director nominating committee is formed on an ad hoc basis prior to a general shareholders meeting if the agenda for such meeting includes appointment of an outside director. The composition of the committee is in compliance with the relevant provisions under the Korean Commercial Code and the chairman of the committee must be an outside director pursuant to our outside director recommendation committee regulations. The board steering committee consists of five directors, including four outside directors.

A nomination/corporate governance is not required under Korean law. However, in March 2012, we established the Corporate Governance and Chief Executive Officer Recommendation Committee, which is responsible for reviewing and making recommendations in relation to the overall corporate governance of our group (including any aspects of corporate governance relating to code of ethics and other code of behavior, size of the board of directors and other matters necessary for improving our overall corporate governance structure), as well as recommendation of the nominees for the president and/or chief executive officer of our group and development, operation and review of our management succession plan, including setting the qualifications for the CEO, evaluating CEO candidate pool and recommending CEO candidates. The chairperson of the committee must be an outside director, and the incumbent CEO may be restricted from participating and voting on matters related to the CEO selection.

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Compensation Committee

Under the NYSE listing rules, U.S. companies listed on the NYSE are required to have a compensation committee which is composed entirely of independent directors. In January 2013, the SEC approved amendments to the listing rules of NYSE and NASDAQ regarding the independence of compensation committee members and the appointment, payment and oversight of compensation consultants. The listing rules were adopted as required by Section 952 of the Dodd-Frank Act and rule 10C-1 of the Securities Exchange Act of 1934, as amended, which direct the national securities exchanges to prohibit the listing of any equity security of a company that is not in compliance with the rule s compensation committee director and advisor independence requirements. Certain elements of the listing rules will become effective on July 1, 2013.

While no such requirement currently exists under applicable Korean law or listing standards, such committee is recommended to be established under the model guidelines set by the Financial Supervisory Service in relation to executives performance pay.

We currently have a compensation committee, which is responsible for reviewing and approving the management s evaluation and compensation programs. The committee consists of composed of four members, all of whom are outside directors and satisfy the independent director requirements as set forth in Rule 10A-3 under the Exchange Act.

Corporate Governance Guidelines and Code of Business Conduct and Ethics

Under the NYSE listing rules, U.S. companies listed on the NYSE are required to establish corporate governance guidelines and to adopt 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. As a foreign private issuer, we are exempt from this requirement. While we have not adopted official corporate governance guidelines, our board of directors, outside director recommendation committee and the board steering committee review and determine corporate policies as needed to ensure efficient and transparent corporate governance practices. Pursuant to the requirements of the Sarbanes-Oxley Act, we have adopted a code of ethics applicable to our Chairman & Chief Executive Officer and all other directors and executive officers including the Chief Financial Officer and the Chief Accounting Officer, as well as all financial, accounting and other officers of Shinhan Financial Group and its subsidiaries that are involved in the preparation and disclosure of Shinhan Financial Group s consolidated financial statements and internal control of financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. We have also adopted an insider reporting system in compliance with Section 301 of the Sarbanes-Oxley Act. The code of ethics applicable to our executive officers as well as the financial officers of the holding company and its subsidiaries are available on our website www.shinhangroup.com. Several of our subsidiaries, including Shinhan Bank, Shinhan Investment and Shinhan Life Insurance, currently also have their own codes of business conduct and ethics.

On May 25, 2011, the SEC adopted final rules to implement whistleblower provisions of the Dodd-Frank Act, which are applicable to foreign private issuers with securities registered under the U.S. securities laws. The final rules provide that any eligible whistleblower who voluntarily provides the SEC with original information that leads to the successful enforcement of an action brought by the SEC under U.S. securities laws must receive an award of between 10 and 30 percent of the total monetary sanctions collected if the sanctions exceed $1,000,000. An eligible whistleblower is defined as someone who provides information about a possible violation of the securities laws that he or she reasonably believes has occurred, is ongoing, or is about to occur. The possible violation does not need to be material, probably or even likely, but the information must have a facially plausible relationship to some securities law violation ; frivolous submissions would not qualify. The final rules also prohibit retaliation against the whistleblower. While the final rules do not require employees to first report allegations of wrongdoing through a company s corporate compliance system, they do seek to incentivize whistleblowers to utilize internal corporate compliance first by, among other things, (i) giving employees who first report information internally the benefit of the internal reporting date for purposes of the SEC program so long as the whistleblower submits the same information to the SEC within 120 days of the initial disclosure; (ii) clarifying that the SEC will consider, as part of the criteria for determining the amount of a whistleblower s award, whether the whistleblower effectively utilized the company s corporate compliance

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program or hindered the function of the program; and (iii) crediting a whistleblower who reports internally first and whose company passes the information along to the SEC, which would mean the whistleblower could receive a potentially higher award for information gathered in an internal investigation initiated as a result of the whistleblower s internal report.

In addition, the final rules address concerns that the whistleblower rules incentivize officers, directors and those with legal, audit, compliance or similar responsibilities to abuse these positions by making whistleblower complaints to the SEC with respect to information they obtained in these roles by generally providing that information obtained through a communication subject to attorney-client privilege or as a result of legal representation would not be eligible for a whistleblower award unless disclosure would be permitted by attorney conduct rules. Accordingly, officers and directors, auditors and compliance personnel and other persons in similar roles would not be eligible to receive awards for information received in these positions unless (x) they have a reasonable basis to believe that (1) disclosure of the information is necessary to prevent the entity from engaging in conduct that is likely to cause substantial injury to the financial interests of the entity or investors; or (2) the entity is engaging in conduct that will impede an investigation of the misconduct, for example, destroying documents or improperly influencing witnesses; or (y) 120 days has passed since the whistleblower provided the information to senior responsible persons at the entity or 120 days has passed since the whistleblower received the information at a time when these people were already aware of the information.

There is no corresponding law or regulation in Korea. However, we have established corporate governance guidelines and code of business conduct and ethics through our Corporate Governance and Chief Executive Officer Recommendation Committee.

Shareholder Approval of Equity Compensation Plans

Under the NYSE listing rules, shareholders of U.S. companies listed on the NYSE are required to approve all equity compensation plans. We currently have two equity compensation plans, consisting of a performance share plan for directors and key employees and an employee stock ownership plan for all employees under the Framework Act on Workers Welfare. Performance shares are granted pursuant to a board of director resolution, subject to the limit amount set by a resolution at the shareholders meeting. There are no requirements relating to the granting of performance shares under applicable Korean laws and our articles of incorporation. Under the Framework Act on Workers Welfare and the Enforcement Decree thereunder, a Korean company may issue stock options up to 20% of its issued and outstanding shares by a resolution at the shareholders meeting with an individual limit of 6 million for any given year per each member of the employee stock ownership association, if permitted by the articles of incorporation. In addition, if a company is issuing stock options by a 10% of its issued and outstanding shares, only a board of director resolution is required for such issuance if permitted by the Articles of Incorporation. However, we have not adopted such provision in our articles of incorporation and currently do not offer any performance shares to our employees.

On April 1, 2010, our performance share plan replaced our stock option plan for directors. Accordingly, no stock options have been granted since April 1, 2010, and our outstanding stock option balance is wholly in connection with stock options granted prior to such date.

Annual Certification of Compliance

Under the NYSE listing rules, a chief executive officer of a U.S. company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards. As a foreign private issuer, we are not subject to this requirement. However, in accordance with rules applicable to both U.S. companies and foreign private issuers, we are required to promptly notify the NYSE in writing if any executive officer becomes aware of any material noncompliance with the NYSE corporate governance standards applicable to us. In addition, foreign private issuers, including us, are required to submit to the NYSE an annual written affirmation relating to compliance with Sections 303A.06 and 303A.11 of the NYSE listed company manual, which are the NYSE corporate governance standards applicable to foreign private issuers. All written affirmations must be executed in the form provided by the NYSE, without modification. An

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annual written affirmation is required to be submitted to the NYSE within 30 days of filing with the SEC our annual report on Form 20-F. We have been in compliance with this requirement in all material respects and plan to submit such affirmation within the prescribed time line.

ITEM 16.H. ***MINE SAFETY DISCLOSURE***

Not applicable.

ITEM 17. ***FINANCIAL STATEMENTS***

We have responded to Item 18 in lieu of responding to this item.

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) Financial Statements filed as part of this Annual Report:

See Index to Financial Statements on page F-1 of this annual report.

(b) Statistical disclosure by bank holding companies specified in Industry Guide 3 filed as part of this Annual Report:

See Supplemental Financial Information on page S-1 of this annual report.

(c) Exhibits filed as part of this Annual Report:

See Exhibit Index beginning on page E-1 of this annual report.

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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.

Date: April 30, 2013

SHINHAN FINANCIAL GROUP CO, LTD.

By: /s/ Dong Woo Han
Name: Dong Woo Han
Title: Chairman and Chief Executive Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Shinhan Financial Group Co., Ltd.:

We have audited the accompanying consolidated statements of financial position of Shinhan Financial Group Co., Ltd. and its subsidiaries (the Group) 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 years in the three-year period ended December 31, 2012. We also have audited the Group s internal control over financial reporting 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 (COSO). The Group s management is responsible for these consolidated financial statements, 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 these consolidated financial statements and an opinion on the Group s internal control over financial reporting 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 consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed 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 its inherent limitations, internal control over financial reporting 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2011 and 2012 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting 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.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 30, 2013

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Financial Position

As of December 31, 2011 and 2012

	Note	2011	2012
		(In millions of won)	
Assets			
Cash and due from banks	4,8,20	14,730,932	13,394,331
Trading assets	4,9,20	11,954,266	14,018,894
Financial assets designated at fair value through profit or loss	4,10,20	1,800,846	2,585,111
Derivative assets	4,11	2,319,585	2,164,852
Loans	4,12,20	192,572,571	199,655,732
Available-for-sale financial assets	4,13,20	34,105,747	36,328,429
Held-to-maturity financial assets	4,13,20	11,894,664	11,659,215
Property and equipment, net	14,20	2,993,860	3,046,686
Intangible assets, net	15	4,203,460	4,190,776
Investments in associates	16	248,848	298,518
Current tax receivable		9,022	14,128
Deferred tax assets	42	29,202	95,970
Investment properties, net	17	275,123	246,970
Other assets, net	4,18	10,887,878	13,094,465
Assets held for sale		15,792	54,412
Total assets		288,041,796	300,848,489
Liabilities			
Deposits	4,21	163,015,732	170,096,454
Trading liabilities	4,22	704,418	1,370,723
Financial liabilities designated at fair value through profit or loss	4,23	3,298,409	4,822,197
Derivative liabilities	4,11	1,972,197	1,904,044
Borrowings	4,24	20,033,246	18,891,378
Debt securities issued	4,25	39,736,958	38,840,175
Liability for defined benefit obligations	26	274,661	214,068
Provisions	27	869,592	746,846
Current tax payable		568,074	252,283
Deferred tax liabilities	42	282	19,890
Liabilities under insurance contracts	28	10,867,254	13,418,559
Other liabilities	4,29	19,842,168	21,492,049
Total liabilities		261,182,991	272,068,666
Equity	30		
Capital stock		2,645,053	2,645,053
Other equity instrument		238,582	537,443
Capital surplus		9,886,849	9,887,199
Capital adjustments		(392,654)	(393,097)
Accumulated other comprehensive income		1,188,948	1,134,820
Retained earnings		10,829,723	12,499,259
Total equity attributable to equity holders of Shinhan Financial Group Co., Ltd.		24,396,501	26,310,677
Non-controlling interests	30	2,462,304	2,469,146

Total equity	26,858,805	28,779,823
Total liabilities and equity	288,041,796	300,848,489

See accompanying notes to the consolidated financial statements

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2010, 2011 and 2012

	Note	2010	2011	2012
			(In millions of won)	
Interest income		12,908,734	13,780,714	13,857,112
Interest expense		(6,436,118)	(6,700,743)	(6,882,901)
Net interest income	32	6,472,616	7,079,971	6,974,211
Fees and commission income		3,397,247	3,557,132	3,513,839
Fees and commission expense		(1,639,409)	(1,797,961)	(1,941,748)
Net fees and commission income	33	1,757,838	1,759,171	1,572,091
Net insurance loss	28	(75,569)	(119,201)	(209,303)
Dividend income	34	217,451	208,860	175,783
Net trading income (loss)	35	332,536	(131,848)	595,866
Net foreign currency transaction gain		117,417	13,874	280,028
Net gain (loss) on financial instruments designated at fair value through profit or loss	36	(124,757)	171,911	(532,070)
Net gain on sale of available-for-sale financial assets	13	652,188	846,345	536,581
Impairment losses on financial assets	37	(1,336,114)	(982,958)	(1,415,794)
General and administrative expenses	38	(3,847,674)	(4,135,357)	(4,059,560)
Net other operating expenses	40	(613,025)	(538,382)	(723,881)
Operating income		3,552,907	4,172,386	3,193,952
Equity in income of associates	16	15,322	57,790	27,538
Other non-operating income(loss), net	41	(138,424)	(37,614)	11,522
Income before income taxes		3,429,805	4,192,562	3,233,012
Income tax expense	42	(570,375)	(919,929)	(738,944)
Net income for the year	30,43	2,859,430	3,272,633	2,494,068
Other comprehensive income (loss) for the year, net of income tax				
Foreign currency translation adjustments for foreign operations		(18,010)	16,120	(85,343)
Net change in unrealized fair value of available-for-sale financial assets		175,213	(460,437)	11,260
Equity in other comprehensive income of associates		20,762	2,717	4,097
Total other comprehensive loss, net of income tax cash flow hedges		13,486	1,429	15,655
Other comprehensive income (loss) of separate account		1,703	(579)	570
	30	193,154	(440,750)	(53,761)
Total comprehensive income for the year		3,052,584	2,831,883	2,440,307

See accompanying notes to the consolidated financial statements.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Continued)

For the years ended December 31, 2010, 2011 and 2012

	Note	2010	2011	2012
			(In millions of won)	
Net income attributable to:				
Equity holders of Shinhan Financial Group Co., Ltd.	30,43	2,684,589	3,100,011	2,322,732
Non-controlling interest		174,841	172,622	171,336
		2,859,430	3,272,633	2,494,068
Total comprehensive income attributable to:				
Equity holders of Shinhan Financial Group Co., Ltd.		2,877,036	2,659,464	2,268,604
Non-controlling interest		175,548	172,419	171,703
		3,052,584	2,831,883	2,440,307
Earnings per share:	30,43			
Basic earnings per share in won		5,175	5,954	4,686
Diluted earnings per share in won		5,076	5,832	4,686

See accompanying notes to the consolidated financial statements

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2010, 2011 and 2012

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd								
	Capital stock	Other equity instruments	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub-total	Non-controlling interest	Total
	(In millions of won)								
Balance at January 1, 2010	2,589,553		8,834,971	(390,866)	1,437,048	9,806,764	22,277,470	2,464,923	24,742,393
Net income for the period						2,684,589	2,684,589	174,841	2,859,430
Other comprehensive income, net of income tax									
Foreign currency translation adjustments					(17,927)		(17,927)	(83)	(18,010)
Valuation gain on available-for-sale financial assets					174,423		174,423	790	175,213
Equity in other comprehensive income of associates					20,762		20,762		20,762
Net gain on cash flow hedges					13,486		13,486		13,486
Other comprehensive income of separate account					1,703		1,703		1,703
					192,447		192,447	707	193,154
Total comprehensive income for the period					192,447	2,684,589	2,877,036	175,548	3,052,584
Transactions with owners, etc									
Dividends						(420,266)	(420,266)		(420,266)
Change in other capital adjustments				13			13		13
Change in retained earnings of subsidiaries						134	134		134
Change in other non-controlling interests								(179,633)	(179,633)
				13		(420,132)	(420,119)	(179,633)	(599,752)

Balance at December 31, 2010	2,589,553	8,834,971	(390,853)	1,629,495	12,071,221	24,734,387	2,460,838	27,195,225

See accompanying notes to the consolidated financial statements

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity (Continued)

For the years ended December 31, 2010, 2011 and 2012

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd								
	Capital stock	Other equity instruments	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub-total	Non-controlling interest	Total
					(In millions of won)				
Balance at January 1, 2011	2,589,553		8,834,971	(390,853)	1,629,495	12,071,221	24,734,387	2,460,838	27,195,225
Net income for the period						3,100,011	3,100,011	172,622	3,272,633
Other comprehensive income, net of income tax									
Foreign currency translation adjustments					16,086		16,086	34	16,120
Net change in unrealized fair value of available-for-sale financial assets					(460,200)		(460,200)	(237)	(460,437)
Equity in other comprehensive income of associates					2,717		2,717		2,717
Net change in unrealized fair value of cash flow hedges					1,429		1,429		1,429
Other comprehensive income of separate account					(579)		(579)		(579)
					(440,547)		(440,547)	(203)	(440,750)
Total comprehensive income for the period					(440,547)	3,100,011	2,659,464	172,419	2,831,883
Transactions with owners, etc									
Dividends						(586,236)	(586,236)		(586,236)
Dividends to hybrid bonds						(2,594)	(2,594)		(2,594)
Issuance of preferred stock	55,500		1,050,664				1,106,164		1,106,164

Issuance of hybrid bonds		238,582					238,582		238,582
Redemption of preferred stock						(3,752,679)	(3,752,679)		(3,752,679)
Change in other capital surplus			1,214				1,214		1,214
Change in other capital adjustments				(1,801)			(1,801)		(1,801)
Change in other non-controlling interests								(170,953)	(170,953)
	55,500	238,582	1,051,878	(1,801)		(4,341,509)	(2,997,350)	(170,953)	(3,168,303)
Balance at December 31, 2011	2,645,053	238,582	9,886,849	(392,654)	1,188,948	10,829,723	24,396,501	2,462,304	26,858,805

See accompanying notes to the consolidated financial statements

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity (Continued)

For the years ended December 31, 2010, 2011 and 2012

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd								
	Capital stock	Other equity instruments	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub-total	Non-controlling interest	Total
	(In millions of won)								
Balance at January 1, 2012	2,645,053	238,582	9,886,849	(392,654)	1,188,948	10,829,723	24,396,501	2,462,304	26,858,805
Net income for the period						2,322,732	2,322,732	171,336	2,494,068
Other comprehensive income, net of income tax									
Foreign currency translation adjustments					(85,121)		(85,121)	(222)	(85,343)
Net change in unrealized fair value of available-for-sale financial assets					10,671		10,671	589	11,260
Equity in other comprehensive income of associates					4,097		4,097		4,097
Net change in unrealized fair value of cash flow hedges					15,655		15,655		15,655
Other comprehensive income of separate account					570		570		570
					(54,128)		(54,128)	367	(53,761)
Total comprehensive income for the period					(54,128)	2,322,732	2,268,604	171,703	2,440,307
Transactions with owners, etc									
Dividends						(629,508)	(629,508)		(629,508)
Dividends to hybrid bonds						(23,688)	(23,688)		(23,688)
Issuance of hybrid bonds		298,861					298,861		298,861

Change in other capital surplus			350				350		350
Change in other capital adjustments				(443)			(443)		(443)
Change in other non-controlling interests								(164,861)	(164,861)
		298,861	350	(443)		(653,196)	(354,428)	(164,861)	(519,289)
Balance at December 31, 2012	2,645,053	537,443	9,887,199	(393,097)	1,134,820	12,499,259	26,310,677	2,469,146	28,779,823

See accompanying notes to the consolidated interim financial statements.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2010, 2011 and 2012

	Note	2010	2011	2012
			(In millions of won)	
Cash flows from operating activities				
Income before income taxes		3,429,805	4,192,562	3,233,012
Adjustments for:				
Net interest income	32	(6,472,616)	(7,079,971)	(6,974,211)
Dividend income	34	(217,451)	(208,860)	(175,783)
Net fees and commission expense		186,778	182,169	39,142
Insurance expense	28	1,879,071	2,297,723	3,043,780
Net trading loss (income)	35	(934,637)	17,876	(401,260)
Net foreign currency transaction loss (gain)		(33,715)	11,293	(86,820)
Net loss (gain) on financial assets designated at fair value through profit or loss	36	126,003	(167,961)	353,830
Gain on disposal of available-for-sale financial assets	13	(652,188)	(846,345)	(536,581)
Provision for allowance	12	1,270,327	896,006	1,315,159
Impairment losses on other financial assets		145,720	91,303	100,635
Salaries expense		207,364	217,739	146,265
Depreciation and amortization	38	304,398	287,734	298,836
Other operating income		(327,534)	(586,604)	(526,504)
Equity in income of associates	16	(15,322)	(57,790)	(27,538)
		(4,533,802)	(4,945,688)	(3,431,050)
Changes in assets and liabilities:				
Due from banks		2,267,760	(3,540,709)	1,848,425
Trading assets		(661,376)	(2,723,770)	(1,358,678)
Financial instruments designated at fair value through profit or loss		198,709	1,821,807	467,291
Derivative assets		878,527	195,134	303,947
Loans		(11,765,921)	(11,397,231)	(8,963,549)
Other assets		(545,154)	(1,036,742)	(3,251,261)
Deposits		4,984,857	12,941,911	8,473,410
Liability for defined benefit obligations	26	(153,659)	(115,687)	(206,634)
Provision	27	(126,058)	(19,564)	153,118
Other liabilities		1,764,519	(298,829)	6,136,185
		(3,157,796)	(4,173,680)	3,602,254
Income taxes paid		(635,480)	(651,914)	(1,075,460)
Interest received		12,447,767	13,273,499	13,428,249
Interest paid		(6,400,867)	(6,492,566)	(6,855,041)
Dividends received		217,451	208,860	175,934
Net cash provided by operating activities		1,367,078	1,411,073	9,077,898

See accompanying notes to the consolidated financial statements.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2010, 2011 and 2012

	Note	2010	2011	2012
			(In millions of won)	
Cash flows from investing activities				
Proceeds from disposition of financial assets designated at fair value through profit or loss		29,765	98,472	52,909
Acquisition of disposition of financial assets designated at fair value through profit or loss				(134,507)
Proceeds from disposition of available-for-sale financial assets		41,339,784	43,335,156	40,687,182
Acquisition of available-for-sale financial assets		(40,911,086)	(47,704,240)	(42,526,208)
Proceeds from disposition of held-to-maturity financial assets		2,438,571	4,499,462	2,684,122
Acquisition of held-to-maturity financial assets		(2,150,234)	(3,828,684)	(2,489,373)
Proceeds from disposition of property and equipment	14,41	117,401	69,347	21,668
Acquisition of property and equipment	14	(373,515)	(302,111)	(292,898)
Proceeds from disposition of intangible assets	15,41	7,907	12,676	7,044
Acquisition of intangible assets	15	(64,568)	(168,132)	(123,736)
Proceeds from disposition of investments in associates		17,597	71,827	15,543
Acquisition of investments in associates		(117,763)	(27,661)	(43,353)
Proceeds from disposition of investment property	17,41	193	23,037	2,880
Acquisition of investment property	17		(17)	(38)
Proceeds from disposition of assets held for sale			2,047	6,489
Increase in other assets		(158,956)	(90,922)	(166,593)
Business combination, net of cash acquired	45		(103,859)	90,010
Net cash provided by (used in) investing activities		175,096	(4,113,602)	(2,208,859)
Cash flows from financing activities				
Issuance of preferred stock			1,107,278	
Issuance of hybrid bond			238,682	298,861
Proceeds from borrowings		18,588,342	21,300,793	573,185,672
Repayments of borrowings		(18,324,239)	(19,397,747)	(574,028,621)
Proceeds from debt securities issued		14,071,906	13,056,571	11,696,281
Repayments of debt securities issued		(15,327,621)	(13,760,022)	(12,506,217)
Increase (decrease) in other liabilities		117,841	(22,512)	20,996
Repayments of preferred stock				(3,765,124)
Dividends paid		(427,571)	(585,557)	(650,697)
Cash inflows from cash flow hedges		174,772	75,887	36,752
Decrease in non-controlling interest		(168,556)	(173,559)	(164,874)
Net cash provided by (used in) financing activities		(1,295,126)	1,839,814	(5,876,971)
Effect of exchange rate fluctuations on cash and cash equivalents held		(31,489)	(1,088)	4,316
Increase (decrease) in cash and cash equivalents		215,559	(863,803)	996,384
Cash and cash equivalents at beginning of year	45	4,617,586	4,833,145	3,969,342
Cash and cash equivalents at end of year	45	4,833,145	3,969,342	4,965,726

See accompanying notes to the consolidated financial statements.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2010, 2011 and 2012

1. Reporting entity

Shinhan Financial Group Co., Ltd., the controlling company, and its subsidiaries included in consolidation (collectively the Group) are summarized as follows:

(a) Controlling company

Shinhan Financial Group Co., Ltd. (the Shinhan Financial Group) was incorporated on September 1, 2001 through a business combination involving the exchange of Shinhan Financial Group s common stock with the former stockholders of Shinhan Bank, Shinhan Investment Corp., Shinhan Capital Co., Ltd. and Shinhan BNP Paribas AMC. Shinhan Financial Group s shares were listed on the Korea Exchange on September 10, 2001 and Shinhan Financial Group s American Depository Shares were listed on the New York Stock Exchange on September 16, 2003.

(b) Ownership of Shinhan Financial Group and its major consolidated subsidiaries as of December 31, 2011 and 2012 are as follows:

Investor	Investee(*1)	Location	Date of financial information	Ownership (%) 2011	2012
Shinhan Financial Group	Shinhan Bank	Korea	December 31	100.0	100.0
	Shinhan Card Co., Ltd.			100.0	100.0
	Shinhan Investment Corp.			100.0	100.0
	Shinhan Life Insurance Co., Ltd			100.0	100.0
	Shinhan Capital Co., Ltd.			100.0	100.0
	Jeju Bank			68.9	68.9
	Shinhan Credit Information Co., Ltd.			100.0	100.0
	Shinhan Private Equity Investment management			100.0	100.0
	Shinhan BNP Paribas AMC			65.0	65.0
	SHC Management Co., Ltd.			100.0	100.0
	Shinhan Data system			100.0	100.0
	Shinhan Savings Bank			100.0	100.0
	Shinhan Aitas Co., Ltd.(*2)				99.8
Shinhan Bank	Shinhan Asia Limited	Hong Kong		99.9	99.9
	Shinhan Bank America	USA		100.0	100.0
	Shinhan Europe GmbH	Germany		100.0	100.0
	Shinhan Khmer Bank	Cambodia		90.0	90.0
	Shinhan Kazakhstan Bank	Kazakhstan		100.0	100.0
	Shinhan Canada Bank	Canada		100.0	100.0
	Shinhan China Limited	China		100.0	100.0
	Shinhan Aitas Co., Ltd.(*2)	Korea		99.8	
	SBJ Bank	Japan		100.0	100.0
	Shinhan Bank Vietnam	Vietnam		100.0	100.0
Shinhan Investment Corp.	Shinhan Investment Corp. Europe Ltd.(*3)	UK	December 31	100.0	
	Shinhan Investment Corp. America Inc.	USA		100.0	100.0
	Shinhan Investment Corp. Asia Ltd.	Hong Kong		100.0	100.0
Shinhan Private Equity Investment management	Symphony Energy Co., Ltd.	Korea	September 30	77.6	77.6

	HKC&T Co., Ltd.			100.0	100.0
Shinhan BNP Paribas AMC	Shinhan BNP Asset Mgt HK Ltd.	Hong Kong	December 31	100.0	100.0

(*1) Subsidiaries such as trust, beneficiary certificates, corporate restructuring fund and private equity fund are excluded.

(*2) The Shinhan Financial Group acquired 469,358(99.79%) shares of Shinhan Aitas 469,358(99.79%) from Shinhan Bank, a subsidiary of Shinhan Financial Group, at 50,014 million.

(*3) The investee is in liquidation for the current period.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

December 31, 2010, 2011 and 2012

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. (IFRS)

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value
- liabilities for defined benefit plans are recognized as net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

(c) Functional and presentation currency

These consolidated financial statements are presented in Korean won, which are the controlling company s functional currency and the currency of the primary economic environment in which the Group operates.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are evaluated on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in note 5.

(e) Changes in accounting policies and errors

i) Changes in accounting policies

The Group changed the classification of certain items previously included in other operating income items to non-operating income items. The Group retrospectively presented the prior years consolidated statements of comprehensive income for comparative purposes.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

December 31, 2010, 2011 and 2012

The change in accounting policy did not impact the Group s consolidated statements of financial position or the Group s consolidated net income. A summary of the change to prior years operating income is as follows:

	2010	2011
Operating income before reclassification	3,414,483	4,134,772
Changes		
Non-operating income:		
Gain on sale of assets	5,158	4,571
Investments in associates		45,773
Rental income on investment property	21,269	26,955
Other non-operating income	137,192	131,594
	163,619	208,893
Non-operating expense:		
Loss on sale of assets	10,905	5,378
Investments in associates	80,189	4,821
Donations	126,643	117,887
Other non-operating expense	84,306	118,421
	302,043	246,507
Operating income after reclassification	3,552,907	4,172,386

ii) Correction of a prior period error

Prior to 2012, the Group recorded certain synthetic options on a gross basis that should have recorded on a net basis. As of December 31, 2012, the respective synthetic options have been recorded on a net basis and all corresponding information in the prior periods has been retrospectively adjusted.

As a result, as of December 31, 2011, derivative assets, total assets, derivative liabilities, total liabilities and total liabilities and equity were each decreased by 76 billion. As of and for the years ended December 31, 2010 and 2011, there was no impact on total equity, net income or the presentation of consolidated statements of comprehensive income.

(f) Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Director in February 21, 2013.

3. Significant accounting policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

(a) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group s other components. All operating segments operating results are reviewed regularly by the Group s CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

December 31, 2010, 2011 and 2012

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Group has reportable segments which consist of banking, credit card, securities, life insurance, others, as described in note 7.

(b) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of the other entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

ii) Special purpose entities

The Group has established a number of special purpose entities (SPEs) for trading and investment purposes. The Group does not have any direct or indirect shareholdings in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE s risks and rewards, the Group concludes that it controls the SPE.

iii) Intra-group transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

iv) Non-controlling interest

Non-controlling interests in a subsidiary are accounted for separately from the parent s ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interest holders, even when the allocation reduces the non-controlling interest balance below zero.

(c) Business combination

i) Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors

Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized

Deferred tax assets or liabilities are recognized and measured in accordance with IAS 12 *Income Taxes*

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

December 31, 2010, 2011 and 2012

Employee benefit arrangements are recognized and measured in accordance with IAS 19 *Employee Benefits*

Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset

Reacquired rights are measured on the basis of the remaining contractual terms of the related contract

Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in IFRS 2 *Share-based Payment*

Assets held for sale are measured at fair value less costs to sell in accordance with IFRS 5 *Non-current Assets Held for Sale*

As of the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests proportionate share of the acquiree s identifiable net assets.

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer s share-based payment awards exchanged for awards held by the acquiree s employees that are included in consideration transferred in the business combination shall be measured in accordance with the method described above rather than at fair value.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder s fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with IAS *32 Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*.

ii) Goodwill

The Group measures goodwill at the acquisition date as:

the fair value of the consideration transferred; plus

the recognized amount of any non-controlling interests in the acquiree; plus

if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less

the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, bargain purchase gain is recognized immediately in profit or loss.

(d) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control, over the entity s financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity or excess 15% if another entity was classified as subsidiary by the Banking act.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, and require unanimous consent for strategic financial and operating decisions.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

December 31, 2010, 2011 and 2012

The investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group s share of the profit or loss and changes in equity of the associate after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate uses accounting policies different from those of the Company for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(f) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset s acquisition or issuance.

i) Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a recognition or measurement inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives that would be required to be separated from the host contract.

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ii) Held-to-maturity financial assets

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

v) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

vi) Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(g) Derivative financial instruments including hedge accounting

Derivative financial instruments are classified as either trading or hedging if they qualify for hedge accounting. Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument.

i) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow

hedge).

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On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria has been met: (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

iv) Unobservable valuation differences at initial recognition

Any difference between the fair value of over the counter derivatives at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognized in profit or loss but is recognized on a straight-line basis over the life of the instrument or immediately when the fair value becomes observable.

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(h) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- significant financial difficulty of the issuer or obligor
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for that financial asset because of financial difficulties
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

i) Loans and receivables

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, 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, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset s original effective interest rate (i.e., the effective interest rate computed at initial recognition).

If the interest rate of a loan or receivable is a floating rate, the discount rate used to evaluate impairment loss is the current effective interest rate defined in the loan agreement. The present value of estimated future cash flows of secured financial assets is calculated by including cash flows from collateral after deducting costs to acquire and sell the collateral, regardless of the probability of realization of such collateral.

In assessing collective impairment, the Group rates and classifies financial assets, based on credit risk assessment or credit rating assessment process that takes into account asset type, industry, regional location, collateral type, delinquency and other relative factors.

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Future cash flow of financial assets applicable to collective impairment assessment is estimated by using statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management s judgment as to whether current economic and credit conditions are such that the impairment losses are likely to be greater or less than suggested by historical modeling. In adjusting the future cash flow by historical modeling, the result has to be in line with changes and trends of observable data. Methodologies and assumptions used to estimate future cash flow are evaluated on a regular basis in order to reduce any discrepancy between impairment loss estimation and actual loss.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss of the year.

ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

iii) Held-to-maturity financial assets

An impairment loss in respect of held-to-maturity financial assets measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset s original effective interest rate and is recognized in profit or loss. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(i) Property and equipment

Property and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, 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 and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced cost is derecognized. The cost of the day to day servicing of property and equipment are recognized in profit or loss as incurred.

Property and equipment are depreciated on a straight-line basis over the estimated useful lives, which most closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance lease are depreciated over the shorter of the lease term and their useful lives.

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Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in profit or loss.

The estimated useful lives for the current and comparative years are as follows:

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40 years
Other properties	Straight-line	4~5 years

Depreciation methods, useful lives and residual value are reassessed at each fiscal year-end and any adjustment is accounted for as a change in accounting estimate.

(j) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

Descriptions	Useful lives
Software, capitalized development cost	5 years
Other intangible assets	5 years or contract periods

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

i) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

ii) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(k) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

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The estimated useful lives for the current and comparative years are as follows:

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40 years

(l) Leased assets

i) Classification of a lease

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the lessee assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

ii) Lessee

Under a finance lease, the lessee recognizes the leased asset and a liability for future lease payments. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Under an operating lease, the lessee recognizes the lease payments as expense over the lease term and does not recognize the leased asset in its statement of financial position.

iii) Lessor

Under a finance lease, the lessor recognizes a finance lease receivable. Over the lease term the lessor accrues interest income on the net investment. The receipts under the lease are allocated between reducing the net investment and recognizing finance income, so as to produce a constant rate of return on the net investment.

Under an operating lease, the lessor recognizes the lease payments as income over the lease term and the leased asset in its statement of financial position.

(m) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with IAS 36 *Impairment of Assets*.

An asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(n) Impairment of non-financial assets

The carrying amounts of the Group s non-financial assets, other than assets arising from employee benefits, deferred tax assets and assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset s recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

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The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(o) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

The criteria for designation of financial liabilities at FVTPL upon initial recognition are the same as those of financial assets at FVTPL.

ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(p) Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign

currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation (see iii) below), or in a qualifying cash flow hedge, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation s functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

iii) Hedge of net investment in foreign operations

The Group applies hedge accounting to foreign currency differences arising between the functional currency of the foreign operations and the parent entity s functional currency (Korean won), regardless of whether the net investment is held directly or through an intermediate parent.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

(q) Equity

i) Capital stock

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

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Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Group s option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Group s shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

ii) Hybrid bonds

The Group classifies issued financial instruments, or their component parts, as a financial liability or an equity instrument depending on the substance of the contractual arrangement of such financial instruments. Hybrid bonds where the Group has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation are classified as equity instruments and presented in equity.

iii) Capital adjustments

Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary s equity instruments, are accounted for as equity transactions in capital adjustments.

(r) Employee benefits

i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Group s obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

iv) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group s net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit

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that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Group s obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in profit or loss.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, are recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes the past service cost immediately.

v) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(s) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

(t) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provision shall be used only for expenditures for which the provision was originally recognized.

(u) Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer (the Group) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

The amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and

The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with IAS 18 Revenue

(v) Insurance contracts

Insurance contracts are defined as a contract under which one party (the insurer) accepts significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder . A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Such a contract that does not contain significant insurance risk is classified as an investment contract and is within the scope of IAS 39, *Financial Instruments*, Recognition and measurement to the extent that it gives rise to a financial asset or financial liability, except if the investment contract contains a Discretionary Participation Features (DPF). If the contract has a DPF, the contract is subject to IFRS 4, *Insurance Contracts*.

i) Reserves for insurance contracts

The Group accounts for insurance contracts based on the Insurance Business Law and other related Insurance Supervisory Regulation. These insurance contracts are calculated based on insurance terms, premium and policy reserves approved by the Financial Supervisory Commission, as follows:

Premium reserve

Provision is made for premium payable based on assumptions that all policies are surrendered immediately after fiscal year.

Guarantee reserve

At the end of reporting period, the Group is required to make reserve on the outstanding insurance contracts to guarantee a certain level of claims for the amount equals to the average amount of net losses of the worst 30% cases forecasted by scenarios or the standard reserve amount

by insurance type and the lowest insured amount, whichever is greater.

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Unearned premium reserve

Unearned premium reserve refers to premium for subsequent years but collected before the reporting date.

Reserve for outstanding claims

Reserve for outstanding claims is an estimate of losses for insured events that have occurred prior to the reporting date but the corresponding actual claims have not yet been settled or determined.

Reserve for participating policyholders dividends

Reserve for participating policyholder s dividends are recorded to account for the difference in actual investment yields, mortality rates or morbidity rates and operating expense rates from the initial rates in each policy payable to participating policyholders. In addition, it includes a reserve for long-term maintenance dividends to discourage cancellations.

Reserve for losses on dividend insurance contract

In accordance with the Regulation on Supervision of Insurance Business, the Group accumulates reserve for losses of participating insurance contract within 30/100 of policyholders share in dividend-paying insurance income. A reserve for compensation for losses on dividend-paying insurance contracts accumulated shall be used for replenishing the losses of the participating insurance contract, and the balance after the replenishment shall be used as for the source of policyholders dividend for individual policyholders, for five fiscal years from the end of the fiscal year when the accumulation is made.

ii) Policyholders equity adjustment

At year end, unrealized holding gains and losses on available-for-sale securities are allocated to policyholders equity adjustment by the ratio of the average policy reserve of the participating and non-participating contracts or the ratio of the investment source at the new acquisition year based on the date of acquisition.

iii) Liability adequacy test (the LAT)

Liability adequacy tests are performed by the Group in order to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs and deferred policyholders participation liability or asset

iv) Reinsurance contracts

Transactions relating to reinsurance assumed and ceded are accounted for in the consolidated statements of financial position and comprehensive income in a similar way to direct business transactions provided that these contracts meet the insurance contracts classification requirements and in agreement with contractual clauses.

v) Deferred acquisition costs (the DAC)

Policy acquisition costs, which include commissions, certain underwriting and agency expenses associated with acquiring insurance policies, are deferred and amortized using the straight-line method over the contract year, up to seven years. Actual acquisition costs incurred in excess of estimated acquisition costs are expensed.

(w) Financial income and expense

i) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through

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the expected life of the financial asset or liability (or, where appropriate, a shorter year) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Once an impairment loss has been recognized on a loan, although the accrual of interest in accordance with the contractual terms of the instrument is discontinued, interest income is recognized at the rate of interest that was used to discount estimated future cash flows for the purpose of measuring the impairment loss.

ii) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

iii) Dividends

Dividend income is recognized when the right to receive income is established.

(x) Customer loyalty program

For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between award credits (points) and other components of the fee and commission income. The Group provides awards, in the form of price discounts and by offering a variety of gifts. The fair value allocated to the points is estimated by reference to the fair value of the monetary and/or non-monetary benefits for which they could be redeemed. The fair value of the benefits is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and recognized as unearned revenue. Unearned revenue is recognized only when the points are redeemed and the Group has fulfilled its obligations to provide the benefits. The amount of revenue recognized in those circumstances is based on the number of points that have been redeemed in exchange for benefits, relative to the total number of points that are expected to be redeemed.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from customer loyalty programmes are lower than the unavoidable cost of meeting its obligations under the programmes.

(y) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of

previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Group files its national income tax return with the Korean tax authorities under the consolidated corporate tax system, which allows it to make national income tax payments based on the combined profits or losses of the Controlling Company and its wholly owned domestic subsidiaries. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected combined profits or losses of eligible companies in accordance with the consolidated corporate tax system. Consolidated corporate tax amounts, once determined, are allocated to each of the subsidiaries and are used as a basis for the income taxes to be recorded in their separate financial statements.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

(z) Accounting for trust accounts

The Group accounts for trust accounts separately from its group accounts under the Financial Investment Services and Capital Markets Act and thus the trust accounts are not included in the consolidated financial statements except Guaranteed Fixed Rate Money Trusts controlled by the Group, based on an evaluation of the substance of its relationship with the Group and the SPE s risks and rewards. Funds transferred between Group account and trust accounts are recognized as borrowings from trust accounts in other liabilities with fees for managing the accounts recognized as non-interest income by the Group.

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(aa) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(ab) Reclassification

Certain reclassifications have been made in the prior years consolidated financial statements to conform to the current year presentation for comparative purpose.

(ac) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2012, and the Group has not early adopted them.

i) Amendments to IFRS 10 Consolidated Financial Statements

The standard introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees (i.e. Trusts guaranteed as to principal shall be consolidated).

The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Management is currently analyzing the impact of the amendments on the Group s consolidated financial statements as of December 31, 2012.

ii) Amendments to IFRS 11 Joint Arrangements

The standard classifies joint arrangements into two types joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognize an investment and to account for that investment using the equity method. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Management believes the impact of the amendments on the Group s consolidated financial statements is not material.

iii) Amendments to IFRS 12 Disclosure of Interests in Other Entities

The standard brings together into a single standard all the disclosure requirements about an entity s interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. The standard requires the disclosure of information about the nature, risks and financial effects of these interests. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Management is currently analyzing the impact of the amendments on the Group s consolidated financial statements as of December 31, 2012.

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iv) Amendments to IAS 19 Employee Benefits

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Group s annual periods beginning on or after January 1, 2013. The Group recognized the actuarial gain or loss amounting to 140,680 million and (6,518) million for the years ended December 31, 2011 and 2012, respectively in salaries expense. As a result, management believes the impacts of the amendments on the Group s consolidated financial statements will be significant.

v) IFRS 13 Fair Value Measurement

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Group s annual periods beginning on or after January 1, 2013. Management is currently analyzing the impact of the amendments on the Group s consolidated financial statements as of December 31, 2012.

4. Financial risk management

(a) Overview

As a financial services provider, the Group is exposed to various risks relating to lending, credit card, insurance, securities investment, trading and leasing businesses, its deposit taking and borrowing activities in addition to the operating environment.

The principal risks to which the Group is exposed are credit risk, market risk, interest rate risk, liquidity risk and operational risk. These risks are recognized, measured and reported in accordance with risk management guidelines established at the controlling company level and implemented at the subsidiary level through a carefully stratified checks-and-balances system.

i) Risk management principles

The Group risk management is guided by the following core principles:

identifying and managing all inherent risks;

standardizing risk management process and methodology;

ensuring supervision and control of risk management independent of business activities;

continuously assessing risk preference;

preventing risk concentration;

operating a precise and comprehensive risk management system including statistical models; and

balancing profitability and risk management through risk-adjusted profit management.

ii) Risk management organization

The Group risk management system is organized along the following hierarchy: from the top and at the controlling company level, the Group Risk Management Committee, the Group Risk Management Council, the Chief Risk Officer and the Group Risk Management Team, and at the subsidiary level, the Risk Management Committees and the Risk Management Team of the relevant subsidiary. The Group Risk Management Committee, which is under the supervision of the controlling company s board of directors, sets the basic groupwide risk management policies and strategies. The controlling company s Chief Risk Officer reports to the Group Risk Management Committee, and the Group Risk Management Council, whose members consist of the controlling company s Chief Risk Officer and the risk management team heads of each of subsidiaries,

coordinates the risk management policies and strategies at the group level as well as at the subsidiary level among each of subsidiaries. Each of subsidiaries also has a separate Risk Management Committee, Risk Management Working Committee and Risk Management Team, whose tasks are to implement the groupwide risk management policies and strategies at the subsidiary level as well as to set risk management policies and strategies specific to such subsidiary in line with the groupwide guidelines. The Group also has the Group Risk Management Team, which supports the controlling company s Chief Risk Officer in his or her risk management and supervisory role.

In order to maintain the groupwide risk at an appropriate level, the Group use a hierarchical risk limit system under which the Group Risk Management Committee assigns reasonable risk limits for the entire group and each of subsidiaries, and the Risk Management Committee and the Management Council of each of subsidiaries manage the subsidiary-specific risks by establishing and managing risk limits in more detail by type of risk and type of product for each department and division within such subsidiary.

The Group Risk Management Committee consists of directors of the controlling company. The Group Risk Management Committee convenes at least once every quarter and may also convene on an ad hoc basis as needed. Specifically, the Group Risk Management Committee does the following: (i) establish the overall risk management policies consistent with management strategies, (ii) set reasonable risk limits for the entire group and each of subsidiaries, (iii) approve appropriate investment limits or allowed loss limits, (iv) enact and amends risk management regulations, and (v) decide other risk management-related issues the Board of directors or the Group Risk Management Committee sees fit to discuss. The results of the Group Risk Management Committee meetings are reported to the Board of Directors of the controlling company. The Group Risk Management Committee makes decisions through affirmative votes by a majority of the committee members.

The Group Risk Management Council is comprised of the controlling company s chief risk officer, head of risk management team, and risk officers from each subsidiary. The Group Risk Management Council holds meetings for risk management executives from each subsidiary to discuss the Group s groupwide risk management guidelines and strategy in order to maintain consistency in the groupwide risk policies and strategies.

iii) Risk management framework

The Group takes the following steps to implement the foregoing risk management principles:

Risk capital management Risk capital refers to capital necessary to compensate for losses in case of a potential risk being realized, and risk capital management refers to the process of asset management based on considerations of risk exposure and risk appetite among total assets so that the Group can maintain an appropriate level of risk capital. As part of the Group s risk capital management, the Group has adopted and maintains various risk planning processes and reflect such risk planning in the Group s business and financial planning. The Group also has adopted and maintains a risk limit management system to ensure that risks in the Group s business do not exceed prescribed limits.

Risk monitoring The Group are currently installing a multidimensional risk monitoring system under which the Group will, on a periodic basis, proactively and preemptively review risks that may impact the Group s overall operations. Currently, each of subsidiaries is required to report to the controlling company any factors that could have a material impact on the groupwide risk management, and the controlling company reports to the Group s chief risk officer and other members of the Group s senior management the results of risk monitoring on a weekly, monthly and continual basis. In addition, the Group perform preemptive risk management through a risk dashboard system under which the Group closely monitor any increase in asset size, risk levels and sensitivity to external factors with respect to the major asset portfolios of each of subsidiaries, and to the extent such monitoring yields any warning signals, the Group promptly analyze the causes and, if necessary, formulate and implement actions in response to these warning signals.

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Risk review Prior to entering any new business, offering any new products or changing any major policies, the Group review any relevant risk factors based on a prescribed risk management checklist and, in the case of changes for which assessment of risk factors is difficult, promote reasonable decision-making in order to avoid taking any unduly risky action. The risk management departments of all subsidiaries are required to review all new businesses, products and services prior to their launch and closely monitor the development of any related risks following their launch, and in the case of any action that involves more than one subsidiary, the relevant risk management departments are required to consult with the risk management team at the controlling company level prior to making any independent risk reviews.

Risk management The Group maintain a groupwide risk management system to detect the early warnings signals of any crisis and, in the event of a crisis actually happening, to respond on a timely, efficient and flexible basis so as to ensure the Group s survival as a going concern. Each subsidiary maintains crisis planning for three levels of contingencies, namely, alert , imminent crisis and crisis , determination of which is made based on quantitative and qualitative monitoring and consequence analysis, and upon the happening of any such contingency, is required to respond according to a prescribed contingency plan. At the controlling company level, the Group maintains and installs crisis detection and response system which is applied consistently groupwide, and upon the happening of any contingency at a subsidiary level, the Group directly takes charge of the situation so that the Group manages it on a concerted groupwide basis.

(b) Credit risk

i) Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group s receivables from customers and investment securities. The Group s credit risk management encompasses all areas of credit that may result in potential economic loss, including not just transactions that are recorded on balance sheets, but also off-balance-sheet transactions such as guarantees, loan commitments and derivatives transactions.

Credit Risk Management of Shinhan Bank

Major policies for Shinhan Bank s credit risk management, including Shinhan Bank s overall credit risk management plan and credit policy guidelines, are determined by the Credit Policy Committee of Shinhan Bank, the executive decision-making body for management of credit risk. The Credit Policy Committee is headed by the Chief Risk Officer, and also comprises of the Chief Credit Officer, the heads of each business unit and the head of the Credit Risk Team. In order to separate the loan approval functions from credit policy decision-making, Shinhan Bank has a Credit Review Committee that performs credit review evaluations, which focus on improving the asset quality and profitability from the loans being made, and operates separately from the Credit Policy Committee.

Shinhan Bank complies with credit risk management procedures pursuant to internal guidelines and regulations and continually monitors and improves these guidelines and regulations. Its credit risk management procedures include:

credit evaluation and approval;

credit review and monitoring; and

credit risk assessment and control.

Each of Shinhan Bank s borrowers is assigned a credit rating, which is based on a comprehensive internal credit evaluation system that considers a variety of criteria. For retail borrowers, the credit rating takes into

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account the borrower s biographic details, past dealings with Shinhan Bank and external credit rating information, among others. For corporate borrowers, the credit rating takes into account financial indicators as well as non-financial indicators such as industry risk, operational risk and management risk, among others. The credit rating, once assigned, serves as the fundamental instrument in Shinhan Bank s credit risk management, and is applied in a wide range of credit risk management processes, including credit approval, credit limit management, loan pricing and computation of allowance for loan losses. Shinhan Bank has separate credit evaluation systems for retail customers, SOHO customers and corporate customers, which are further segmented and refined to meet Basel II requirements.

Loans are generally approved after evaluations and approvals by the relationship manager at the branch level as well as the committee of the applicable business unit at Shinhan Bank. The approval limit for retail loans is made based on Shinhan Bank s automated credit scoring system. In the case of large corporate loans, approval limits are also reviewed and approved by a Credit Officer at the headquarter level. Depending on the size and the importance of the loan, the approval process is further reviewed by the Credit Officer Committee or the Master Credit Officer Committee. If the loan is considered significant or the amount exceeds the discretion limit of the Master Credit Officer Committee, further evaluation is made by the Credit Review Committee, which is Shinhan Bank s highest decision-making body in relation to credit approval.

Pursuant to the foregoing credit review and monitoring procedures and in order to promptly prevent deterioration of loan qualities, Shinhan Bank classifies potentially problematic borrowers into (i) borrowers that show early warning signals, (ii) borrowers that require close monitoring and (iii) normal borrowers, and treats them differentially accordingly.

In order to maintain portfolio-level credit risk at an appropriate level, Shinhan Bank manages its loans using value-at-risk (VaR) limits for the entire bank as well as for each of its business units. In order to prevent concentration of risk in a particular borrower or borrower class, Shinhan Bank also manages credit risk by borrower, industry, country and other detailed categories.

Credit Risk Management of Shinhan Card

Major policies for Shinhan Card s credit risk management are determined by Shinhan Card s Risk Management Council and Shinhan Card s Risk Management Committee is responsible for approving them. Shinhan Card s Risk Management Council is headed by the Chief Risk Officer, and also comprises of the heads of each business unit, supporting unit and relevant department at Shinhan Card. In order to separate credit policy decision-making from credit evaluation functions, Shinhan Card also has a Risk Management Committee, which evaluates applications for corporate loans exceeding a certain amount and other loans deemed important. Shinhan Card uses an automated credit scoring system to approve credit card applications or credit card authorizations. The credit scoring system is divided into two sub-systems: the application scoring system and the behavior scoring system. The behavior scoring system is based largely on the credit history, and the application scoring system is based largely on personal information of the applicant. For credit card applicants with whom the Group has an existing relationship, Shinhan Card s credit scoring system considers internally gathered information such as repayment ability, total assets, the length of the existing relationship and the applicant s contribution to profitability. The credit scoring system also automatically conducts credit checks on all credit card applicants.

If a credit score awarded to an applicant is above a minimum threshold, the application is approved unless overridden based on other considerations such as delinquencies with other credit card companies.

Shinhan Card continually monitors all accountholders and accounts using a behavior scoring system. The behavior scoring system predicts a cardholder s payment pattern by evaluating the cardholder s credit history, card usage and amounts, payment status and other relevant data. The behavior score is recalculated each month and is used to manage the accounts and approval of additional loans and other products to the cardholder. Shinhan Card also uses the scoring system to monitor its overall risk exposure and to modify its credit risk management strategy.

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(In millions of won)

ii) Maximum exposure to credit risk

The Group s maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as of December 31, 2011 and 2012 are as follows:

	2011	2012
Due from banks and loans(*1)(*6)	205,171,862	210,052,982
Banks	10,213,726	11,013,154
Retail	77,111,426	82,439,453
Government	9,199,551	7,597,140
Corporate	91,490,418	91,934,538
Card receivable	17,156,741	17,068,697
Trading assets	9,966,220	11,684,538
Financial assets designated at FVTPL(*3)	748,356	1,325,646
AFS financial assets(*4)	29,110,542	31,356,150
HTM financial assets(*5)	11,894,664	11,659,215
Derivative assets	2,319,585	2,164,852
Other financial assets(*1)(*2)	7,520,769	9,455,639
Financial guarantee contracts	2,766,331	2,895,878
Loan commitments and other liabilities for credit	67,130,382	72,200,742
	336,628,711	352,795,642

(*1) The maximum exposure amounts for due from banks, loans and other financial assets are recorded as net of allowances.

(*2) Comprise of account receivables, accrued income, guarantee deposits, domestic exchange settlement debit and suspense payments, etc.

(*3) FVTPL : fair value through profit or loss

(*4) AFS : available-for-sale

(*5) HTM : held-to-maturity

(*6)

Due from banks and loans were classified as similar credit risk group in calculating equity capital ratio under New Basel Capital Accord (Basel II).

iii) Due from banks and loans by past due or impairment

Due from banks and loans as of December 31, 2011 and 2012 are as follows:

	2011					
	Banks	**Retail**	**Government**	**Corporate**	**Card**	**Total**
Neither past due nor impaired	10,255,903	76,603,830	9,201,687	91,023,364	16,779,871	203,864,655
Past due but not impaired		520,407		332,535	606,942	1,459,884
Impaired		288,064		1,723,100	445,448	2,456,612
	10,255,903	77,412,301	9,201,687	93,078,999	17,832,261	207,781,151
Less : allowance	(42,177)	(300,875)	(2,136)	(1,588,581)	(675,520)	(2,609,289)
	10,213,726	77,111,426	9,199,551	91,490,418	17,156,741	205,171,862

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	2012					
	Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	11,021,036	81,909,672	7,600,456	91,468,794	16,539,121	208,539,079
Past due but not impaired	116	438,050	378	496,409	739,736	1,674,689
Impaired		477,792		1,624,585	533,902	2,636,279
	11,021,152	82,825,514	7,600,834	93,589,788	17,812,759	212,850,047
Less : allowance	(7,998)	(386,061)	(3,694)	(1,655,250)	(744,062)	(2,797,065)
	11,013,154	82,439,453	7,597,140	91,934,538	17,068,697	210,052,982

Credit quality of due from banks and loans, net of allowance, that are neither past due nor impaired as of December 31, 2011 and 2012 are as follows:

	2011					
	Banks	Retail	Government	Corporate	Card	Total
Grade 1(*1)	10,198,810	73,908,262	9,201,687	53,299,436	14,916,233	161,524,428
Grade 2(*1)	57,093	2,695,568		37,723,928	1,863,638	42,340,227
	10,255,903	76,603,830	9,201,687	91,023,364	16,779,871	203,864,655
Less : allowance	(42,177)	(139,618)	(2,136)	(922,728)	(329,064)	(1,435,723)
	10,213,726	76,464,212	9,199,551	90,100,636	16,450,807	202,428,932
Mitigation of credit risk due to collateral(*2)	5,610	52,895,049	58	41,212,129	5,990	94,118,836

	2012					
	Banks	Retail	Government	Corporate	Card	Total
Grade 1(*1)	11,020,950	78,934,568	7,597,923	54,598,546	15,186,242	167,338,229
Grade 2(*1)	86	2,975,104	2,533	36,870,248	1,352,879	41,200,850
	11,021,036	81,909,672	7,600,456	91,468,794	16,539,121	208,539,079
Less : allowance	(7,998)	(141,399)	(3,690)	(1,070,400)	(321,865)	(1,545,352)
	11,013,038	81,768,273	7,596,766	90,398,394	16,217,256	206,993,727
Mitigation of credit risk due to collateral(*2)	124,104	55,033,908	388	41,695,341	5,529	96,859,270

(*1) Credit quality of due from banks and loans was classified based on the internal credit rating.

(*2) The Group holds collateral against due from banks and loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of quantification of the extent to which collateral mitigate credit risk are based on the fair value of collateral.

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(In millions of won)

Aging analyses of due from banks and loans, net of allowance, that are past due but not impaired as of December 31, 2011 and 2012 are as follows:

	2011					
	Banks	Retail	Government	Corporate	Card	Total
Less than 30 days		416,178		193,612	499,261	1,109,051
31~60 days		53,033		103,461	66,687	223,181
61~90 days		50,162		20,413	40,994	111,569
More than 90 days		1,034		15,049		16,083
		520,407		332,535	606,942	1,459,884
Less : allowance		(20,027)		(17,427)	(87,251)	(124,705)
		500,380		315,108	519,691	1,335,179
Mitigation of credit risk due to collateral(*)		327,509		134,002	78	461,589

	2012					
	Banks	Retail	Government	Corporate	Card	Total
Less than 30 days	116	351,351	378	360,946	636,595	1,349,386
31~60 days		53,263		59,230	65,267	177,760
61~90 days		32,021		58,400	37,874	128,295
More than 90 days		1,415		17,833		19,248
	116	438,050	378	496,409	739,736	1,674,689
Less : allowance		(20,005)	(3)	(25,601)	(93,680)	(139,289)
	116	418,045	375	470,808	646,056	1,535,400
Mitigation of credit risk due to collateral(*)		266,454	44	271,123	22	537,643

(*) The Group holds collateral against due from banks and loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of quantification of the extent to which collateral mitigate credit risk are based on the fair value of collateral.

Mitigation of credit risk due to the collateral of impaired due from banks and loans, net of allowance, as of December 31, 2011 and 2012 are as follows:

	2011					
	Banks	Retail	Government	Corporate	Card	Total
Impaired loans		288,064		1,723,100	445,448	2,456,612
Less : allowance		(141,230)		(648,426)	(259,205)	(1,048,861)
		146,834		1,074,674	186,243	1,407,751
Mitigation of credit risk due to collateral(*)		90,760		638,660	12	729,432

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	2012					
	Banks	Retail	Government	Corporate	Card	Total
Impaired loans		477,792		1,624,585	533,902	2,636,279
Less : allowance		(224,656)		(559,249)	(328,517)	(1,112,422)
		253,136		1,065,336	205,385	1,523,857
Mitigation of credit risk due to collateral(*)		124,546		606,059	6	730,611

(*) The Group holds collateral against due from banks and loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of quantification of the extent to which collateral mitigate credit risk are based on the fair value of collateral.

iv) Credit rating

Credit rating of debt securities as of December 31, 2011 and 2012 are as follows:

	2011				
	Trading assets	Financial assets designated at fair value through profit or loss	Available for-sale financial assets	Held-to-maturity financial assets	Total
AAA	2,384,749	158,076	17,199,474	9,031,172	28,773,471
AA- to AA+	3,152,592	127,319	6,751,848	2,062,005	12,093,764
A- to A+	2,987,225	268,079	2,913,116	463,494	6,631,914
BBB- to BBB+	503,929	174,572	1,118,624	8,607	1,805,732
Lower than BBB-	191,427		80,936	31,512	303,875
Unrated	404,864	20,310	1,046,544	297,874	1,769,592
	9,624,786	748,356	29,110,542	11,894,664	51,378,348

	2012				
	Trading assets	Financial assets designated at fair value through profit or loss	Available for-sale financial assets	Held-to-maturity financial assets	Total
AAA	3,286,526	177,567	19,868,860	9,594,045	32,926,998
AA- to AA+	3,610,513	131,845	5,923,292	1,411,353	11,077,003
A- to A+	2,935,088	527,359	3,175,284	293,422	6,931,153

BBB- to BBB+	1,223,112	350,891	1,404,382	19	2,978,404
Lower than BBB-	12,321		246,909	26,337	285,567
Unrated	179,050	137,984	737,424	334,039	1,388,497
	11,246,610	1,325,646	31,356,151	11,659,215	55,587,622

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The credit qualities of securities (debt securities) according to the credit ratings by external rating agencies are as follows:

	KIS(*1)	KR(*2)	S&P	Fitch	Moody s
AAA			AAA	AAA	Aaa
AA- to AA+	AAA	AAA	AA- to AA+	AA- to AA+	Aa3 to Aa1
A- to A+	AA- to AA+	AA- to AA+	A- to A+	A- to A+	A3 to A1
BBB- to BBB+	BBB- to A	BBB- to A	BBB-to BBB+	BBB-to BBB+	Baa3 to Baa1
Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than Baa3
Unrated	Unrated	Unrated	Unrated	Unrated	Unrated

(*1) KIS : Korea Investors Service

(*2) KR : Korea Ratings

Credit status of debt securities as of December 31, 2011 and 2012 are as follows:

	2011	2012
Neither past due nor impaired	51,348,868	55,556,669
Impaired	29,480	30,953
	51,378,348	55,587,622

Assets acquired through foreclosures amounting to 14,876 million and 9,977 million were classified as assets held for sale (non-business purpose property) as of December 31, 2011 and 2012, respectively.

v) Concentration by geographic location

An analysis of concentration by geographic location for due from financial instrument, net of allowance, as of December 31, 2011 and 2012 are as follows:

		2011						
		Korea	USA	Japan	Vietnam	China	Other	Total
Due from banks and loans	Banks	7,307,389	283,602	55,841	264,492	1,124,431	1,177,971	10,213,726
	Retail	76,655,578	258,329	23,991	4,011	8,549	160,968	77,111,426
	Government	8,904,636	176,171	42,452	28,843	3,460	43,989	9,199,551
	Corporate	85,613,216	1,212,055	1,213,332	369,601	965,277	2,116,937	91,490,418

Card	17,145,287	5,002	1,669	20	1,385	3,378	17,156,741
	195,626,106	1,935,159	1,337,285	666,967	2,103,102	3,503,243	205,171,862
Trading assets	9,624,786					341,434	9,966,220
Financial assets designated at FVTPL(*1)	748,356						748,356
AFS financial assets(*2)	28,626,932	292,717				190,893	29,110,542
HTM financial assets(*3)	11,758,431	1,922	37,172	7,412		89,727	11,894,664
	246,384,611	2,229,798	1,374,457	674,379	2,103,102	4,125,297	256,891,644

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		2012						
		Korea	USA	Japan	Vietnam	China	Other	Total
Due from banks and loans	Banks	7,518,628	538,588	142,839	104,819	1,112,010	1,596,270	11,013,154
	Retail	81,925,020	246,192	43,919	9,062	13,672	201,588	82,439,453
	Government	7,042,917	221,413	226,426	50,827	617	54,940	7,597,140
	Corporate	85,598,501	1,043,872	1,252,544	681,755	1,275,962	2,081,904	91,934,538
	Card	17,051,936	5,812	1,793	1,145	2,266	5,745	17,068,697
		199,137,002	2,055,877	1,667,521	847,608	2,404,527	3,940,447	210,052,982
Trading assets		11,237,723		1,127			445,688	11,684,538
Financial assets designated at FVTPL(*1)		1,322,056					3,590	1,325,646
AFS financial assets(*2)		30,755,834	264,487		218,275		117,554	31,356,150
HTM financial assets(*3)		11,524,931	1,210	62,629	19,609		50,836	11,659,215
		253,977,546	2,321,574	1,731,277	1,085,492	2,404,527	4,558,115	266,078,531

(*1) FVTPL : fair value through profit or loss

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

vi) Concentration by industry sector

An analysis of concentration by industry sector of due from banks and loans, net of allowance, as of December 31, 2011 and 2012 are as follows:

		2011						
		Finance and insurance	Manu-facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans	Banks	8,688,817			505,686	1,019,223		10,213,726
	Retail						77,111,426	77,111,426
	Government	8,820,239				379,312		9,199,551
	Corporate	3,606,014	32,838,172	11,398,011	15,582,663	28,065,558		91,490,418
	Card	68,350	132,549	148,799	23,504	747,226	16,036,313	17,156,741

	21,183,420	32,970,721	11,546,810	16,111,853	30,211,319	93,147,739	205,171,862
Trading assets	6,042,069	799,297	302,896	1,142,451	1,679,507		9,966,220
Financial assets designated at FVTPL(*1)	532,833			127,214	88,309		748,356
AFS financial assets(*2)	18,106,456	1,059,028	194,409	1,173,502	8,577,147		29,110,542
HTM financial assets(*3)	3,845,680	19,998		592,479	7,436,507		11,894,664
	49,710,458	34,849,044	12,044,115	19,147,499	47,992,789	93,147,739	256,891,644

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		2012						
		Finance and insurance	Manu-facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans	Banks	9,977,432			120,696	915,026		11,013,154
	Retail						82,439,453	82,439,453
	Government	7,304,220	6	132	39	292,743		7,597,140
	Corporate	3,078,782	32,594,720	11,630,743	16,528,355	28,101,938		91,934,538
	Card	46,493	127,504	140,127	25,846	610,321	16,118,406	17,068,697
		20,406,927	32,722,230	11,771,002	16,674,936	29,920,028	98,557,859	210,052,982
Trading assets		7,384,391	1,155,863	522,699	941,586	1,679,999		11,684,538
Financial assets designated at FVTPL(*1)		817,997	112,852	10,371	123,632	260,794		1,325,646
AFS financial assets(*2)		20,369,556	1,177,830	229,618	1,040,793	8,538,353		31,356,150
HTM financial assets(*3)		3,803,177	10,005		694,149	7,151,884		11,659,215
		52,782,048	35,178,780	12,533,690	19,475,096	47,551,058	98,557,859	266,078,531

(*1) FVTPL : fair value through profit or loss

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

(c) Market risk

Market risk from trading positions is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group s income or the value of its holdings of financial instruments.

Interest rate risk from non- trading positions is the risk of loss resulting from interest rate fluctuations that adversely affect the financial condition and results of operations of the Group and affects the earnings and the economic value of net assets of the Group.

Foreign exchange risk arises because of the Group s assets and liabilities which are denominated in currencies other than the Won.

The Group s market risks arise primarily from Shinhan Bank, and to a lesser extent, Shinhan Investment, which incurs market risk relating to its trading activities.

Shinhan Bank s Asset & Liability Management Committee, or the ALM Committee, acts as the executive decision-making body in relation to market risks in terms of setting the risk management policies and risk limits in relation to market risks and assets and controlling market risks

arising from trading and non-trading activities. In addition, Shinhan Bank s Risk Management Department comprehensively manages market risks on an independent basis from Shinhan Bank s operating departments, and functions as the middle office of Shinhan Bank.

Shinhan Investment s Risk Management Working Committee is the executive decision-making body for managing market risks related to Shinhan Investment, and determines, among other things, Shinhan Investment s overall market risk management policies and strategies, and assesses and approves trading activities and limits. In addition, Shinhan Investment s Risk Management Department manages various market risk limits and monitors operating conditions on an independent basis from Shinhan Investment s operating departments.

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i) Market risk management from trading positions

Trading activities are to realize short-term trading profits in debt and stock markets and foreign exchange markets based on short-term forecast of changes in market situation and profits from arbitrage transactions in derivatives such as swap, forward, futures and option transactions. The Group manages market risk related to its trading positions using VaR, market value-based tool.

Shinhan Bank currently uses the ten-day 99% confidence level-based VaR for purposes of calculating the regulatory capital used in reporting to the Financial Supervisory Service and uses the more conservative ten-day 99.9% confidence level-based VaR for purposes of calculating its economic capital used for internal management purposes, which is a concept used in determining the amount of Shinhan Bank s requisite capital in light of the market risk. In addition, Shinhan Bank also uses the one-day 99% confidence level-based VaR on a supplemental basis for purposes of setting and managing risk limits specific to each desk or team in its operating units as well as for back-testing purposes. Shinhan Bank manages VaR measurements and limits on a daily basis based on an automatic interfacing of its trading positions into its market risk measurement system. In addition, Shinhan Bank establishes pre-set loss, sensitivity, investment and stress limits for its trading departments and desks and monitors such limits daily.

Shinhan Investment primarily uses the one-day 99% confidence level-based VaR for managing market risk as this is the norm in the securities industry in Korea. However, since its VaR computation is based on parametric normal distribution, Shinhan Investment also calculates the ten-day 99% VaR by multiplying the one-day 99% VaR by the square root of ten and uses such VaR on a supplemental basis for internal management purposes. Shinhan Investment is currently using a variance-covariance methodology called delta-gamma method for its overall VaR calculation. The Group managed risk limits that were comprised of VaR limits, risk limits, stop loss, and transaction limits.

In order to streamline such differences and use a consistent VaR among operating subsidiaries, the Group has adopted starting in 2012 a unified group-wide market risk measurement methodology, which uses the ten-day 99.9% confidence level for calculating the VaR.

An analysis of the Group s requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2011 and 2012, based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, was as follows:

	2011			
	Average	Maximum	Minimum	At December 31
Interest rate	186,606	197,935	177,707	187,740
Equities	68,308	115,713	34,035	45,738
Foreign exchange	100,125	125,526	81,265	110,259
Option volatility	9,837	11,480	7,406	7,406
	364,876	450,654	300,413	351,143

	2012			
	Average	Maximum	Minimum	At December 31
Interest rate	189,958	203,740	176,840	182,318
Equities	63,419	74,694	55,241	74,694
Foreign exchange	114,537	117,037	112,022	113,434

Option volatility	4,602	5,801	3,828	4,594
	372,515	401,272	347,932	375,041

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Insurance company, Shinhan life insurance, was excluded when the Group estimated the market risk, due insurance company was not included in the Group s subsidiaries for the consolidated BIS capital ratio.

An analysis of market risk for trading positions of the major subsidiaries as of and for the years ended December 31, 2011 and 2012 are as follows:

i-1) Shinhan Bank

An analysis of the ten-day 99% confidence level-based VaR for managing market risk for trading positions of Shinhan Bank as of and for the years ended December 31, 2011 and 2012 are as follows:

	2011			
	Average	Maximum	Minimum	At December 31
Interest rate	32,725	49,155	25,933	30,722
Equities	19,227	32,447	8,492	21,825
Foreign exchange	58,848	101,775	13,688	88,334
Option volatility	488	1,123	92	313
Portfolio diversification	(55,238)	(97,474)	(8,187)	(58,078)
	56,050	87,026	40,018	83,116

	2012			
	Average	Maximum	Minimum	At December 31
Interest rate	24,085	32,036	19,817	19,817
Equities	26,476	41,920	11,085	12,247
Foreign exchange	79,449	95,661	49,583	55,243
Option volatility	257	897	95	251
Portfolio diversification	(60,274)	(80,989)	(37,435)	(38,967)
	69,993	89,525	43,145	48,591

(*) Includes both trading and non-trading accounts as Shinhan Bank manages foreign exchange risk on a total position basis.

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i-2) Shinhan Card

An analysis of Shinhan Card s requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2011 and 2012, based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, is as follows:

	2011			
	Average	Maximum	Minimum	At December 31
Interest rate	688	750	500	750
Foreign exchange	26,611	34,683	23,127	34,683
	27,299	35,433	23,627	35,433

	2012			
	Average	Maximum	Minimum	At December 31
Interest rate	358	900	250	500
Foreign exchange	35,291	40,972	32,313	36,905
	35,649	41,872	32,563	37,405

(*) The Group has been exposed to only foreign exchange rate risk of foreign currency equity securities for the purpose of non-trading because the Shinhan Card hedges all cash flow of foreign currency liabilities by currency rate swap.

i-3) Shinhan Investment

An analysis of the ten-day 99% confidence level-based VaR for managing market risk for trading positions of Shinhan Investment as of and for the years ended December 31, 2011 and 2012 are as follows:

	2011			
	Average	Maximum	Minimum	At December 31
Interest rate	6,291	12,150	2,561	5,215
Equities	5,301	12,114	826	6,445
Foreign exchange	741	3,051	26	85
Option volatility	810	3,438	108	847
Portfolio diversification	(5,491)	(12,391)	(1,184)	(4,917)
	7,652	18,362	2,337	7,675

	2012			
	Average	Maximum	Minimum	At December 31
Interest rate	9,102	15,797	2,532	3,467
Equities	2,790	8,816	882	8,620
Foreign exchange	2,779	10,825	90	1,292
Option volatility	4,465	11,866	237	736
Portfolio diversification	(10,253)	(20,771)	(3,036)	(6,875)
	8,883	26,533	705	7,240

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i-4) Shinhan Life Insurance

An analysis of the ten-day 99% confidence level-based VaR for managing market risk for trading positions of Shinhan Life Insurance as of and for the years ended December 31, 2011 and 2012 are as follows:

	2011			
	Average	Maximum	Minimum	At December 31
Interest rate	243	327	210	234
Equities	705	1,074	571	671
Foreign exchange	241	288	235	240
	1,189	1,689	1,016	1,145

	2012			
	Average	Maximum	Minimum	At December 31
Interest rate	826	1,333	197	958
Equities	750	947	499	947
Foreign exchange	216	253	136	135
	1,792	2,533	832	2,040

ii) Interest rate risk management from non-trading positions

Principal market risk from non-trading activities of the Group is interest rate risk, which affects the Group s earnings and the economic value of the Group s net assets:

Earnings: interest rate fluctuations have an effect on the Group s net interest income by affecting its interest-sensitive operating income and expenses and EaR (Earnings at Risk) is a commonly used risk management technique.

Economic value of net assets: interest rate fluctuations influence the Group s net worth by affecting the present value of cash flows from the assets, liabilities and other transactions of the Group and VaR is a commonly used risk management technique.

Accordingly, the Group measures and manages interest rate risk for non-trading activities by taking into account effects of interest rate changes on both its income and net asset value.

The principal objectives of Shinhan Bank s interest rate risk management are to generate stable net interest income and to protect Shinhan Bank s net asset value against interest rate fluctuations. Through its asset and liability management system, Shinhan Bank measures and manages its interest rate risk based on various analytical measures such as interest rate gap, duration gap and net present value and net interest income

simulations, and monitors on a monthly basis its interest rate VaR limits, interest rate earnings at risk (EaR) limits and interest rate gap ratio limits. Shinhan Bank measures its interest rate VaR and interest rate EaR based on a simulated estimation of the maximum decrease in net asset value and net interest income in a one-year period based on various scenario analyses of historical interest rates.

Shinhan Card Co., Ltd also monitors and manages its interest rate risk for all its interest-bearing assets and liabilities (including off-balance sheet items) in terms of impact on its earnings and net asset value from changes in interest rates. Shinhan Card primarily uses interest rate VaR and EaR analyses to measure its interest rate risk.

In addition, Shinhan Life Insurance monitors and manages its interest rate risk for its investment assets and liabilities based on simulations of its asset-liability management system. These simulations typically involve

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subjecting Shinhan Life Insurance s current and future assets and liabilities to more than 2,000 market scenarios based on varying assumptions, such as new debt purchases and target investment portfolios, so as to derive its net asset value forecast for the next three years at a 99% confidence level.

Non-trading positions for interest rate VaR and EaR as of December 31, 2011 and 2012 are as follows:

ii-1) Shinhan Bank

	2011	2012
VaR	561,088	841,157
EaR	262,405	249,567

ii-2) Shinhan Card

	2011	2012
VaR	324,331	338,930
EaR	45,233	29,318

ii-3) Shinhan Investment

	2011	2012
VaR	33,040	26,289
EaR	69,589	107,733

ii-4) Shinhan Life Insurance

	2011	2012
VaR	195,201	126,359
EaR	28,097	28,705

(*) Interest rate VaR and EaR represent the maximum amounts by which net assets and net interest income, respectively, may decrease or increase as of the end of the reporting period and have been computed based on the standardized guidelines proposed by the Basel Committee.

iii) Foreign exchange risk

The Group manages foreign exchange risk on an overall position basis, including its overseas branches, by covering all of its foreign exchange spot and forward positions in both trading and non-trading accounts.

The management of Shinhan Bank s foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage Shinhan Bank s overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps. Shinhan Bank sets a limit for net open positions by currency and the limits for currencies other than the U.S. dollars, Japanese yen, Euros and Chinese yuan are set in order to minimize other foreign exchange trading.

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Foreign currency denominated assets and liabilities as of December 31, 2011 and 2012 are as follows:

	2011					
	USD	**JPY**	**EUR**	**CNY**	**Other**	**Total**
Assets						
Cash and due from banks	1,344,600	937,422	136,535	778,064	760,627	3,957,248
Loans	12,818,591	4,997,137	1,301,212	1,204,832	1,857,358	22,179,130
Trading assets	57,129	6,013			341,433	404,575
Derivative assets	299,323	2,035	8,679		737	310,774
Available-for-sale financial assets	1,545,602	53,129	136		66,812	1,665,679
Held-to-maturity financial assets	3,725	400,474			50,780	454,979
Other financial assets	794,175	126,597	132,293	34,353	144,654	1,232,072
	16,863,145	6,522,807	1,578,855	2,017,249	3,222,401	30,204,457
Liabilities						
Deposits	4,107,459	5,914,508	463,390	1,391,892	1,231,495	13,108,744
Trading liabilities					414,088	414,088
Derivative liabilities	221,619	7,860	244		116	229,839
Borrowings	7,463,865	734,684	939,682	37,829	427,544	9,603,604
Debt securities issued	5,664,942				419,708	6,084,650
Other financial liabilities	882,068	259,040	153,612	100,939	230,953	1,626,612
	18,339,953	6,916,092	1,556,928	1,530,660	2,723,904	31,067,537
Net assets (liabilities)	(1,476,808)	(393,285)	21,927	486,589	498,497	(863,080)
Off-balance derivative exposure	3,097,436	217,255	138,379	(11,561)	133,240	3,574,749
Net position	1,620,628	(176,030)	160,306	475,028	631,737	2,711,669

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	2012					
	USD	**JPY**	**EUR**	**CNY**	**Other**	**Total**
Assets						
Cash and due from banks	1,193,925	1,119,555	74,962	870,378	340,001	3,598,821
Loans	11,790,540	4,932,804	1,323,022	1,351,857	1,964,774	21,362,997
Trading assets	153,521			14,715	451,165	619,401
Derivative assets	276,729		9,939		127	286,795
Available-for-sale financial assets	1,357,859	44,099	9,005		335,003	1,745,966
Held-to-maturity financial assets	1,210	392,628			40,648	434,486
Other financial assets	2,065,975	215,778	15,696	145,082	95,961	2,538,492
	16,839,759	6,704,864	1,432,624	2,382,032	3,227,679	30,586,958
Liabilities						
Deposits	5,328,631	5,651,318	247,045	1,634,518	1,523,852	14,385,364
Trading liabilities					484,061	484,061
Derivative liabilities	123,007	47,718			60	170,785
Borrowings	4,968,386	669,168	688,261	85,055	250,880	6,661,750
Debt securities issued	4,863,268	436,625	106,220	210,002	701,964	6,318,079
Other financial liabilities	1,334,236	227,995	253,896	245,871	227,323	2,289,321
	16,617,528	7,032,824	1,295,422	2,175,446	3,188,140	30,309,360
Net assets (liabilities)	222,231	(327,960)	137,202	206,586	39,539	277,598
Off-balance derivative exposure	794,675	328,526	(123,325)	203,512	614,279	1,817,667
Net position	1,016,906	566	13,877	410,098	653,818	2,095,265

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(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Each subsidiary seeks to minimize liquidity risk through early detection of risk factors related to the sourcing and managing of funding that may cause volatility in liquidity and by ensuring that it maintains an appropriate level of liquidity through systematic management. At the groupwide level, the Group manages liquidity risk by conducting monthly stress tests that compare liquidity requirements under normal situations against those under three types of stress situations, namely, the group-specific internal crisis, crisis in the external market and a combination of internal and external crisis. In addition, in order to preemptively and comprehensively manage liquidity risk, the Group measure and monitor liquidity risk management using various indices, including the limit management index , early warning index and monitoring index .

Shinhan Bank applies the following basic principles for liquidity risk management:

raise funding in sufficient amounts, at the optimal time at reasonable costs;

maintain risk at appropriate levels and preemptively manage them through a prescribed risk limit system and an early warning signal detection system;

secure stable sources of revenue and minimize actual losses by implementing an effective asset-liability management system based on diversified sources of funding with varying maturities;

monitor and manage daily and intra-daily liquidity positions and risk exposures for timely payment and settlement of financial obligations due under both normal and crisis situations;

conduct periodic contingency analysis in anticipation of any potential liquidity crisis and establish and implement emergency plans in case of a crisis actually happening; and

consider liquidity-related costs, benefits of and risks in determining the pricing of the Group s products and services, employee performance evaluations and approval of launching of new products and services.

As for any potential liquidity shortage at or near the end of each month, Shinhan Card maintains liquidity at a level sufficient to withstand credit shortage for three months. In addition, Shinhan Card manages liquidity risk by defining and managing various indicators of liquidity risk, such as the actual liquidity gap ratio (in relation to the different maturities for assets as compared to liabilities), the liquidity buffer ratio, the maturity repayment ratio, the ratio of actual funding compared to budgeted funding and the ratio of asset-backed securities to total borrowings, at different risk levels of caution , unstable and at risk , and the Group also has contingency plans in place in case of any emergency or crisis.

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Contractual maturities for financial instruments including cash flows of principal and interest and off balance as of December 31, 2011 and 2012 are as follows:

	2011						
	Less than 1 month	1~3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	Total
Non-derivatives:							
Assets							
Cash and due from banks	10,520,487	963,771	1,576,557	1,239,826	308,543	430,652	15,039,836
Loans	27,238,020	29,970,845	32,398,858	43,102,458	46,775,318	44,977,810	224,463,309
Trading assets(*3)	11,954,266						11,954,266
Financial assets designated at fair value through profit or loss	1,291,196	24,413	7,575	13,873	219,272	247,147	1,803,476
Available-for-sale financial assets(*3)	29,844,070	1,437,439	4,651	39,960	63,776	2,721,146	34,111,042
Held-to-maturity financial assets	232,597	679,645	386,117	1,569,682	8,045,528	3,705,312	14,618,881
Other financial assets	3,270,720	315,005	551,257	259,214	3,144,913	200,953	7,742,062
	84,351,356	33,391,118	34,925,015	46,225,013	58,557,350	52,283,020	309,732,872
Liabilities							
Deposits(*2)	73,121,781	15,291,478	14,541,814	54,516,187	10,631,904	1,777,738	169,880,902
Trading liabilities(*3)	704,418						704,418
Borrowings	7,440,730	3,825,822	2,762,415	2,037,255	3,569,776	763,971	20,399,969
Debt securities issued	1,003,215	1,597,580	4,030,191	6,375,282	28,259,385	4,519,559	45,785,212
Financial liabilities designated at fair value through profit or loss	196,349	198,883	287,454	432,277	2,153,707	29,739	3,298,409
Other financial liabilities	15,725,632	230,363	569,582	167,563	396,613	195,330	17,285,083
	98,192,125	21,144,126	22,191,456	63,528,564	45,011,385	7,286,337	257,353,993
Off balance(*4)							
Finance guarantee contracts	2,766,331						2,766,331
Loan commitments and other	67,130,382						67,130,382
	69,896,713						69,896,713
Derivatives:							
Cash inflow	2,118,963	460,627	538,092	304,329	2,620,766	1,180,302	7,298,764
Cash outflow	1,873,471	86,306	460,169	325,585	2,308,557	543,004	5,672,777
	245,492	374,321	77,923	(21,256)	312,209	637,298	1,625,987

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	2012						
	Less than 1 month	1~3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	Total
Non-derivatives:							
Assets							
Cash and due from banks	9,731,124	1,168,721	991,752	1,247,796	281,700	51,490	13,472,583
Loans	29,509,587	28,460,078	32,525,473	45,129,706	47,471,629	47,228,026	230,324,499
Trading assets(*3)	14,018,894						14,018,894
Financial assets designated at fair value through profit or loss	1,836,435	73,857	5,169	41,007	609,711	21,728	2,587,907
Available-for-sale financial assets(*3)	33,047,392	1,243,237		60,648	35,377	1,945,647	36,332,301
Held-to-maturity financial assets	269,701	424,714	437,935	1,527,358	7,663,374	4,192,561	14,515,643
Other financial assets	5,682,658	184,686	40,126	268,247	3,359,838	105,639	9,641,194
	94,095,791	31,555,293	34,000,455	48,274,762	59,421,629	53,545,091	320,893,021
Liabilities							
Deposits(*2)	70,013,325	19,777,711	17,425,821	57,969,260	10,246,002	859,714	176,291,833
Trading liabilities(*3)	1,370,723						1,370,723
Borrowings	9,269,643	2,085,094	1,390,841	1,416,346	4,226,831	821,363	19,210,118
Debt securities issued	1,070,263	1,949,034	2,922,035	6,558,938	27,084,263	4,321,377	43,905,910
Financial liabilities designated at fair value through profit or loss	85,260	173,289	296,974	495,799	3,617,151	153,724	4,822,197
Other financial liabilities	17,885,442	50,675	38,652	160,998	330,231	67,965	18,533,963
	99,694,656	24,035,803	22,074,323	66,601,341	45,504,478	6,224,143	264,134,744
Off balance(*4)							
Financial guarantee contracts	2,895,878						2,895,878
Loan commitments and others	72,200,742						72,200,742
	75,096,620						75,096,620
Derivatives:							
Cash inflow	2,024,108	373,602	161,696	571,717	2,137,068	625,855	5,894,046
Cash outflow	1,761,438	100,083	167,306	569,682	1,939,458	375,361	4,913,328
	262,670	273,519	(5,610)	2,035	197,610	250,494	980,718

(*1) These amounts include cash flows of principal and interest on financial assets and financial liabilities.

(*2) Demand deposits amounting to 49,861,856 million and 52,171,149 million as of December 31, 2011 and 2012 are included in the Less than 1 month category, respectively.

(*3) Trading assets and available-for-sale financial assets, except for assets restricted for sale for certain periods, were included in the Less than 1 month category.

(*4) Financial guarantees such as financial guarantee contracts and loan commitments and others provided by the Group are classified based on the earliest date at which the Group should fulfill the obligation under the guarantee when the counter party requests payment.

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(e) Measurement of fair value

Fair values, which the Group primarily uses for the measurement of financial instruments, are the published price quotations based on market prices or dealer price quotations of financial instruments traded in an active market where available.

If the market for a financial instrument is not active, fair value is determined either by using a valuation technique or independent third-party valuation service. Valuation techniques include using recent arm s length market transactions between knowledgeable, willing parties, if available, referencing to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

For example, fair value of interest rate swaps and currency forwards were calculated discounted cash flow analysis method and exchange forward rate method.

i) Financial instruments measured at amortized cost

The method of measuring the fair value of financial instruments measured at amortized cost is as follows:

Type	Measurement methods of fair value
Cash and due from banks	The book amount and the fair value for cash are identical and the most of deposits are floating interest rate deposit or the next day deposit of a short-term instrument. For this reason, the book value approximates fair value.
Loans	The fair value of the loans is measured by discounting the expected cash flow at the market interest rate and credit risk, etc.
Held-to-maturity financial assets	The fair value of held-to-maturity financial assets is determined by applying the lesser of two quoted bond prices provided by two bond pricing agencies as of the latest trading date
Deposits and borrowings	The book amount and the fair value for demand deposits, cash management account deposits, call money as short-term instrument are identical. The fair value of others is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.
Debt securities issued	The fair value of deposits and borrowings is based on the published price quotations in an active market. In case there is no data for an active market price, it is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.

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The book value and the fair value of financial instruments measured at amortized cost as of December 31, 2011 and 2012 are as follows:

	2011		2012	
	Book value	Fair value	Book value	Fair value
Assets				
Cash and due from banks				
Cash and cash equivalent	2,131,642	2,131,642	2,999,622	2,999,622
Due from Banks	12,599,290	12,599,290	10,394,709	10,394,709
Loans				
Household loans	69,359,777	69,746,678	73,861,146	74,262,101
Corporate loans	98,601,504	100,484,038	101,104,954	102,296,855
Public and other	4,910,917	4,944,862	3,097,430	3,116,192
Loans to bank	2,543,631	2,565,594	4,525,531	4,542,843
Card receivables	17,156,742	17,372,172	17,066,671	17,374,025
Held-to-maturity financial assets				
Government bonds	5,869,832	6,165,461	5,716,713	6,107,448
Financial institutions bonds	2,064,369	2,161,896	1,700,583	1,757,653
Corporate bonds and others	3,960,463	4,052,373	4,241,919	4,418,585
Other financial assets	7,520,769	7,621,858	9,455,639	9,519,669
	226,718,936	229,845,864	234,164,917	236,789,702
Liabilities				
Deposits				
Demand deposits	49,861,856	49,861,856	52,171,149	52,171,149
Time deposits	102,902,575	102,879,778	111,021,657	111,288,201
Negotiable certificates of deposits	2,967,419	3,035,910	1,303,683	1,333,871
Note discount deposits	4,623,801	4,623,359	3,013,376	3,013,147
CMA	1,614,377	1,614,377	1,626,061	1,626,061
Others	1,045,704	1,045,874	960,528	960,668
Borrowings				
Call money	1,309,137	1,309,137	1,088,535	1,088,535
Bill sold	105,697	104,933	55,397	55,023
Bonds sold under repurchase agreements	3,890,665	3,890,665	5,189,539	5,189,537
Borrowings	14,495,375	14,491,372	12,401,757	12,465,776
Due to Bank of Korea in foreign currency	232,372	232,557	156,150	156,151
Debt securities issued				
Debt securities issued in won	33,674,175	33,644,730	32,548,907	33,352,509
Debt securities issued in foreign currency	6,062,773	5,895,247	6,291,268	6,523,753
Other financial liabilities	17,306,513	17,291,615	18,579,081	18,580,972
	240,092,439	239,921,410	246,407,088	247,805,353

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ii) Financial instruments measured at the fair value

The Group classifies and discloses fair value of the financial instruments into the following three-level hierarchy:

Level 1: Financial instruments measured at quoted prices from active markets are classified as fair value level 1.

Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.

Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

The table below analyzes financial instruments measured at the fair value as of December 31, 2011 and 2012 by the level in the fair value hierarchy into which the fair value measurement is categorized:

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Trading assets				
Debt securities	1,717,858	7,896,937	9,991	9,624,786
Equity securities	177,911	1,810,135		1,988,046
Gold deposits	341,434			341,434
Financial assets designated at fair value through profit or loss				
Debt securities and others	160,230	280,097	308,029	748,356
Equity securities	260,758	791,732		1,052,490
Derivative assets				
Trading	5,472	1,678,824	287,590	1,971,886
Hedging		285,670	62,029	347,699
Available-for-sale financial assets				
Debt securities	7,293,784	21,810,639	6,119	29,110,542
Equity securities	2,331,274	388,098	2,275,833	4,995,205
	12,288,721	34,942,132	2,949,591	50,180,444
Liabilities				
Trading liabilities				
Debt securities	290,331			290,331
Gold deposits	414,087			414,087
Borrowings			3,298,409	3,298,409
Derivative liabilities				

Trading	7,376	1,575,371	261,328	1,844,075
Hedging		61,055	67,067	128,122
	711,794	1,636,426	3,626,804	5,975,024

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	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Trading assets				
Debt securities	2,951,249	8,122,690	172,671	11,246,610
Equity securities	395,026	1,934,550	4,780	2,334,356
Gold deposits	437,928			437,928
Financial assets designated at fair value through profit or loss				
Debt securities and others	161,056	614,664	549,926	1,325,646
Equity securities	101,550	1,014,981	142,934	1,259,465
Derivative assets				
Trading	25,315	1,607,049	269,364	1,901,728
Hedging		193,207	69,917	263,124
Available-for-sale financial assets				
Debt securities	7,987,288	23,326,884	41,978	31,356,150
Equity securities	2,159,574	235,287	2,577,418	4,972,279
	14,218,986	37,049,312	3,828,988	55,097,286
Liabilities				
Trading liabilities				
Debt securities	886,662			886,662
Gold deposits	484,061			484,061
Borrowings		563,998	4,258,199	4,822,197
Derivative liabilities				
Trading	21,286	1,481,257	210,866	1,713,409
Hedging		139,997	50,638	190,635
	1,392,009	2,185,252	4,519,703	8,096,964

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iii) The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	2011				
	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Net derivatives	Financial liabilities designated at fair value through profit or loss
Beginning balance	8,510	378,914	2,391,645	182,744	1,613,346
comprehensive income					
Profit or loss	178	(19,887)	327,647	(141,067)	209,801
Other comprehensive income			8,927	1,175	
	178	(19,887)	336,574	(139,892)	209,801
Purchases	40,000	(21,686)	276,925	52,250	
Issuances					1,475,262
Settlements	(38,697)	(29,312)	(721,507)	(153,337)	
Transfers into (out of) level 3			(1,685)	79,459	
Ending balance	9,991	308,029	2,281,952	21,224	3,298,409

	2012				
	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Net derivatives	Financial liabilities designated at fair value through profit or loss
Beginning balance	9,991	308,029	2,281,952	21,224	3,298,409
Comprehensive income					
Profit or loss	2,680	42,955	88,500	417,441	649,683
Other comprehensive income			43,549	19	
	2,680	42,955	132,049	417,460	649,683
Purchases	640,000	981,102	489,376	66,852	
Issuances				(170,367)	9,080,911
Settlements	(480,000)	(737,868)	(579,857)	(221,565)	(8,770,804)
Transfers into (out of)level 3	4,780	98,642	295,876	(35,827)	

Ending balance	177,451	692,860	2,619,396	77,777	4,258,199

iv) Sensitivity analysis for fair value measurements in Level 3

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

The favorable and unfavorable effects of using reasonably possible alternative assumptions for valuation of financial instruments have been calculated by applying a ten percent increase or decrease on the values of the unobservable parameter inputs.

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For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

	Favorable changes	Unfavorable changes
Financial Assets		
Held at fair value through profit or loss:		
Trading assets	1,362	(17)
Financial assets designated at FVTPL(*1)	42	(47)
Derivatives	1,250	(1,078)
	2,654	(1,142)
Available-for-sale financial assets(*2)(*3) :	172,864	(125,736)
	175,518	(126,878)
Financial Liabilities		
Held at fair value through profit or loss:		
Financial liabilities designated at FVTPL(*1)	2,226	(2,288)
Derivatives	807	(874)
	3,033	(3,162)
	178,551	(130,040)

(*1) FVTPL : Fair value through profit of loss

(*2) Fair value changes of equity securities are calculated by increasing or decreasing discount rate (-1~1%) or liquidation value (-1~1%).

(*3) Equity securities which are measured at cost among the level 3 assets are excluded from sensitivity analysis.

v) Unamortized balance of financial instruments valued using models with significant unobservable inputs.

Changes in the difference between the fair value at initial recognition (the transaction price) and the value using models with unobservable inputs for the years ended December 31, 2011 and 2012, are as follows:

	2011	2012

Beginning balance	(1,292)	(3,097)
Deferral on new transactions	(5,042)	88
Recognized in the income statement during the period	3,237	435
Ending balance	(3,097)	(2,574)

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vi) Classification by categories of financial instruments

Financial assets and liabilities are measured at fair value or amortized cost. The financial instruments measured at fair value or amortized costs are measured in accordance with the Group s valuation methodologies, which are described in Note 4.(e) Measurement of fair value. The carrying amounts of each category of financial assets and financial liabilities as of December 31, 2011 and 2012 are as follows:

	2011						
	Trading	FVTPL assets(*1)	AFS(*2)	HTM(*3)	Loans and receivable	Derivatives held for hedging	Total
Assets :							
Cash and due from banks					14,730,932		14,730,932
Trading assets	11,954,266						11,954,266
Financial assets designated at FVTPL(*1)		1,800,846					1,800,846
Derivatives	1,971,886					347,699	2,319,585
Loans					192,572,571		192,572,571
AFS financial assets(*2)			34,105,747				34,105,747
HTM financial assets(*3)				11,894,664			11,894,664
Other					7,520,769		7,520,769
	13,926,152	1,800,846	34,105,747	11,894,664	214,824,272	347,699	276,899,380

	2011				
	Trading	FVTPL liabilities(*1)	Amortized cost	Derivatives held for hedging	Total
Liabilities :					
Deposits			163,015,732		163,015,732
Trading liabilities	704,418				704,418
Financial liabilities designated at FVTPL(*1)		3,298,409			3,298,409
Derivatives	1,844,075			128,122	1,972,197
Borrowings			20,033,246		20,033,246
Debt securities issued			39,736,958		39,736,958
Other			17,306,513		17,306,513
	2,548,493	3,298,409	240,092,449	128,122	246,067,473

(*1) FVTPL : Fair value through profit of loss

(*2) AFS : Available-for-sale

(*3) HTM : Held-to-maturity

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	2012						
	Trading	FVTPL assets(*1)	AFS(*2)	HTM(*3)	Loans and receivable	Derivatives held for hedging	Total
Assets:							
Cash and due from banks					13,394,331		13,394,331
Trading assets	14,018,894						14,018,894
Financial assets designated at FVTPL(*1)		2,585,111					2,585,111
Derivatives	1,901,727					263,125	2,164,852
Loans					199,655,732		199,655,732
AFS financial assets(*2)			36,328,429				36,328,429
HTM financial assets(*3)				11,659,215			11,659,215
Other					9,455,639		9,455,639
	15,920,621	2,585,111	36,328,429	11,659,215	222,505,702	263,125	289,262,203

	2012				
	Trading	FVTPL liabilities(*1)	Amortized cost	Derivatives held for hedging	Total
Liabilities:					
Deposits			170,096,454		170,096,454
Trading liabilities	1,370,723				1,370,723
Financial liabilities designated at FVTPL(*1)		4,822,197			4,822,197
Derivatives	1,713,410			190,634	1,904,044
Borrowings			18,891,378		18,891,378
Debt securities issued			38,840,175		38,840,175
Other			18,579,081		18,579,081
	3,084,133	4,822,197	246,407,088	190,634	254,504,052

(*1) FVTPL : Fair value through profit of loss

(*2) AFS : Available-for-sale

(*3) HTM : Held-to-maturity

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(In millions of won)

(f) The transaction as a transfer of financial instruments

i) Transfers that do not qualify for derecognition

Bonds sold under repurchase agreements as of December 31, 2011 and 2012 are as follows:

	2011	2012
Transferred asset:		
Financial assets designated at fair value through profit or loss	3,428,699	4,721,888
Available-for-sale financial assets	247,680	448,224
Held-to-maturity financial assets	416,011	241,592
Associated liabilities:		
Bonds sold under repurchase agreements	4,022,369	5,384,333

Securities loaned as of December 31, 2011 and 2012 are as follows:

	2011	2012	Lender
Government bonds	282,468	434,140	Korea Securities Finance Corp., Mitsui Sumitomo and others
Financial institutions bonds	60,267	370,143	Korea Securities Finance Corp.,
Corporate bonds	1,968	12,634	Mirae Asset Securities Co. Ltd.,
	344,703	816,917	

ii) Qualify for derecognition and continued involvement financial instrument

There are no financial instrument which qualifies for derecognition and continued involvement as of December 31, 2011 and 2012.

(g) Capital risk management

The controlling company, controlling banks or other financial institutions conducting banking business as prescribed in the Financial Holding Company Act, is required to maintain a minimum consolidated equity capital ratio of 8.0%. Consolidated equity capital ratio is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with the Financial Services Commission requirements that have been formulated based on Bank of International Settlement standards. Equity capital , as applicable to bank holding companies, is defined as the sum of Tier I capital (including capital stock, retained earnings, etc.) and Tier II capital (including qualifying subordinated liabilities, etc.) less any deductible items (including goodwill, income tax assets, etc.), 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 capital adequacy ratio of the Group as of December 31, 2011 and 2012 are as follows:

	2011	2012
Capital(A)	22,315,419	25,075,736
Risk-weighted assets(B)	195,579,399	201,184,402
BIS ratio(A/B)	11.41%	12.46%

At December 31, 2011 and 2012, the Group met the regulatory capital ratio above 8%.

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5. Significant estimate and judgment

The preparation of consolidated financial statements requires the application of certain critical accounting and assumptions relative to the future. The management s estimate of outcome may differ from an actual outcome if the managements estimate and assumption based on its best judgment at the reporting date are different from an actual environment. The change in an accounting estimate is recognized prospectively by including in profit or loss in the year of the change, if the change affects that year only, or the year of the change and future years, if the change affects both.

(a) Goodwill

The Group assesses annually whether any objective evidence of impairment on goodwill exists in accordance with the accounting policy as described in note 3. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is measured based on estimates.

(b) Income taxes

The Group is subject to tax law from various countries. Within the normal business process, there are various types of transaction and different accounting method that may add uncertainties to the decision of the final income taxes. The Group has recognized current and deferred tax that reflect tax consequences that would follow from the manner in which the entity expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities. However, actual income tax in the future may not be identical to the recognized deferred tax assets and liabilities, and this difference can affect current and deferred tax at the year when the final tax effect is conformed.

(c) Fair value of financial instruments

The fair values of financial instruments which are not actively traded in the market are determined by using valuation techniques. The Group determines valuation method and assumptions based on significant market conditions at the end of each reporting year. Diverse valuation techniques are used to determine the fair value of financial instruments, from general market accepted valuation model internally developed valuation model that incorporates various types of assumptions and variables.

(d) Allowances for loan losses, guarantees and unused loan commitments

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes provision for guarantees and unused loan commitments. The accuracy of provisions of credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for allowances on individual loans and collectively assessing allowances for groups of loans, guarantees and unused loan commitments.

(e) Defined benefit obligation

The present value of defined benefit obligation that is measured by actuarial valuation method uses various assumptions which can change according to various elements. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting year on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in profit or loss. Other significant assumptions related to defined benefit obligation are based on current market situation.

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(f) Impairment of available-for-sale equity investments

When there is significant or prolonged decline in the fair value of an investment in an equity instrument below its original cost, there is objective evidence that available-for-sale equity investments are impaired. Accordingly, the Group considers the decline in the fair value of over 50% against the original cost as significant decline and a six-month continuous decline in the market price for marketable equity instrument as prolonged decline .

From now on, a significant decline in standards has been permuted from 50% to 30%. There was subject to change in accounting estimate that was reinforced a significant decline in standards because stock market volatility has been reduced. Additional impairment loss is 19,876 million.

(g) Hedging relationship

The hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

6. Business combinations

(a) Acquisition of Shinhan Vina Bank

On November 11, 2011, the Group obtained a controlling ownership over Shinhan Vina Bank, formerly a jointly controlled entity, by acquiring an additional 50 % of the outstanding and voting interests for 105,940 million.

Shinhan Bank Vietnam merged with Shinhan Vina Bank on November 28, 2011. The Group applied the pooling method instead of the acquisition method, since the transaction was regarded as a business combination of entities under common control in accordance with IFRS 3 *Business Combinations*.

Taking control of Shinhan Vina Bank will enable the Group to implement the localization strategy through access to loans to or deposits from corporations, including small or medium sized companies in Vietnam. The acquisition is expected to provide the Group with an increased share of the corporate Banking market through access to the acquiree s customer base. The Group also expects to reduce costs through economies of scale.

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Net assets from the business combination are as follows:

	Amount
Assets	
Cash and due from banks	56,489
Held-to-maturity securities	7,439
Loans(*1)	357,245
Property and equipment	1,790
Intangible assets(*2)	17,685
Other assets	3,906
Sub-total	444,554
Liabilities	
Deposits from banks & customers, etc.	281,111
Borrowings	17,415
Provisions	121
Other liabilities	9,410
Sub-total	308,057
Net assets acquired	136,497

(*1) The fair value of loans approximates their carrying amount.

(*2) 17,685 million of customer-related intangible assets (core deposits) were recognized.

Goodwill recorded from the business combination is as follows:

	Amount
Cash paid (cash and cash equivalents)	105,940
Fair value of previously held equity interest(*)	105,940
Consideration	211,880
Net assets acquired	(136,497)
Goodwill	75,383

(*) The Group regarded the fair value of previously held equity interests as consideration transferred for the additional purchase of 50%.
The goodwill is attributable mainly to the expected synergies from combining operations of the Group and Shinhan Vina Bank and economies of scale. Goodwill recognized is not expected to be deductible for income tax purposes.

Acquisition-related costs of 323 million relating to legal fees and due diligence costs were recognized as general and administrative expenses in the Group s consolidated statement of comprehensive income for the year ended December 31, 2011.

44,243 of a gain as a result of remeasuring to fair value the 50% equity interest in Shinhan Vina Bank held by the Group before the business combination was recognized as other operating income in the Group s consolidated statement of comprehensive income for the year ended December 31, 2011.

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The disclosure of Shinhan Vina Bank s operating income and net income since the acquisition date is unavailable as Shinhan Vina Bank s separate financial information has not been prepared subsequent to the merger of Shinhan Vina Bank and Shinhan Vietnam Bank

Had the acquisition of Shinhan Vina Bank occurred at January 1, 2011, the operating income of 4,149,059 million and net income of 3,112,862 million would have been included in the consolidated statement of comprehensive income

(b) Incorporation of Shinhan Savings Bank and acquisition of Tomato Savings Bank.

The Group established Shinhan Hope Co. Ltd., on December 12, 2011, in order to acquire and assume certain assets and liabilities of Tomato Savings Bank. Shinhan Hope Co. Ltd. obtained a savings bank license on December 28, 2011 and changed its name to Shinhan Savings Bank on December 29, 2011.

On January 2, 2012, Shinhan Savings Bank acquired certain assets and liabilities of Tomato Savings Bank.

Assets acquired and liabilities assumed from the business combination were as follows:

	Amount
Assets	
Cash and due from banks	237,443
Trading assets	83,860
Loans(*)	361,728
Available-for-sale financial assets	125,446
Property and equipment	180
Intangible assets (Core deposit intangibles)	24,023
Other assets	798,676
	1,631,356
Liabilities	
Deposits	1,563,377
Other liabilities	95,533
	1,658,910
Net assets acquired	27,554
Consideration	
Goodwill	27,554

(*) The aggregate principal amount of loans was 533,165 million.

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Comprehensive income of the business acquired from the date of acquisition to December 31, 2012 was as follows:

	Amount
Net interest income	
Interest income	99,139
Interest expense	(35,616)
	63,523
Net fees and commission expense	
Fees and commission income	121
Fees and commission expense	(2,235)
	(2,114)
Net trading income	8,286
Gain on disposition of available-for-sale financial assets	647
Impairment loss on financial assets	
Bad debt expenses	(60,093)
General and administrative expenses	(27,428)
Net other operating expenses	(6,007)
Non-operating income (expense)	3,891
Loss before income taxes	(19,295)
Income tax expense	(4,094)
Net loss for the period	(23,389)
Other comprehensive income for the period	
Valuation loss on available-for-sale financial assets	(3,078)
Total comprehensive loss for the period	(26,467)
Net loss attributable to:	
Equity holders of Shinhan Savings Bank	(23,389)
Total comprehensive loss attributable to:	
Equity holders of Shinhan Savings Bank	(26,467)

(c) Yehanbyoul Savings Bank

On January 11, 2013, Shinhan Financial Group has signed a share purchase agreement with KDIC for the acquisition of Yehanbyoul Savings Bank (payment for acquisition is 45,296 million) which was established acquiring certain assets and liabilities of Jinheung Savings Bank by Korea Deposit Insurance Corporation.

On January 31, 2013, Yehanbyoul Savings Bank joined Shinhan Financial Group as a direct subsidiary subject to the approval of Financial Services Commission.

According to Statements of Korea Accounting Standards, total assets and total liabilities of Yehanbyoul Savings Bank are 1,326,889 million and 1,285,975 million as of establishment date (November 16, 2012) and payment for acquisition (Cash and cash equivalents) is 45,296 million.

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7. Operating segments

(a) Segment information

The general descriptions by operating segments as of December 31, 2011 and 2012 are as follows:

		Description
Banking	Retail banking	Loans to or deposits from individual customers, wealth management customers, and institutions such as hospitals, airports and schools
	Corporate and investment banking	Loans to or deposits from corporations including small or medium sized companies and business related to investment banking
	International group	Internal asset and liability management, trading of securities and derivatives, investment portfolio management and other related business supervision on overseas subsidiaries and branch operations and other international business
	Others	Administration of bank operations
Credit card		Credit card business
Securities		Securities trading, underwriting and brokerage services
Life insurance		Life insurance and related business
Others		Leasing, assets management and other businesses

The Group s operating segments for the year ended December 31, 2012 have been changed reflecting the internal corporate reorganization.

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(b) The following table provides information of income for each operating segment for the years ended December 31, 2010, 2011 and 2012.

	2010									
	Banking									
	Retail	Corporate	International	Other	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income(loss)	2,319,734	2,080,547	231,249	39,697	1,256,363	155,098	468,310	(79,661)	1,279	6,472,616
Net fees and commission income(loss)	646,765	239,523	41,544	(32,002)	349,888	326,703	24,062	229,236	(67,881)	1,757,838
Net other income (expense)	(2,083,005)	(784,626)	(215,750)	(422,244)	(572,896)	(283,944)	(210,183)	569,000	(812,323)	(4,815,971)
Equity method income				12,508	(254)	(973)		2,536	1,505	15,322
Income tax expense	(177,446)	(301,413)	(17,013)	109,825	(42,708)	(46,122)	(68,375)	(22,253)	(4,870)	(570,375)
Income for the year	706,048	1,234,031	40,030	(292,216)	990,393	150,762	213,814	698,858	(882,290)	2,859,430
Controlling interest	706,048	1,234,031	40,030	(292,626)	990,393	150,714	213,410	700,107	(1,057,518)	2,684,589
Non-controlling interest				410		48	404	(1,249)	175,228	174,841

	2011									
	Banking									
	Retail	Corporate	International	Other	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income	2,656,405	2,059,495	281,537	57,627	1,359,734	230,747	523,663	(96,275)	7,038	7,079,971
Net fees and commission Income	635,363	209,637	45,274	8,454	319,845	319,115	27,533	219,555	(25,605)	1,759,171
Net other income (expense)	(2,275,716)	(692,296)	(161,334)	(168,641)	(579,422)	(417,114)	(241,605)	1,642,228	(1,810,470)	(4,704,370)
Equity method income				28,995		8,170		15,748	4,877	57,790
Income tax expense	(205,111)	(318,028)	(34,235)	13,902	(224,227)	(39,208)	(72,664)	(32,923)	(7,435)	(919,929)
Income for the year	810,941	1,258,808	131,242	(59,663)	875,930	101,710	236,927	1,748,333	(1,831,595)	3,272,633
Controlling interest	810,941	1,258,808	131,242	(60,158)	875,930	101,710	236,927	1,750,068	(2,005,457)	3,100,011

Non-controlling interest	495	(1,735)	173,862	172,622

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For purposes of facilitating comparability of segment results in 2011 compared to 2012, the comparative information for the year ended December 31, 2011 has been restated.

	Retail	Corporate	Banking International	Other	Adjustments	2011 Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income(loss)	2,671,278	1,013,951	259,548	1,049,467	60,820	1,359,734	230,747	523,663	(96,275)	7,038	7,079,971
Net fees and commission income(loss)	623,694	279,177	45,580	(47,282)	(2,442)	319,845	319,115	27,533	219,555	(25,604)	1,759,171
Net other operating income (expense)	(2,425,006)	(459,041)	(231,861)	(120,497)	(8,516)	(606,446)	(426,967)	(232,594)	(191,901)	36,073	(4,666,756)
Operating income	869,966	834,087	73,267	881,688	49,862	1,073,133	122,895	318,602	(68,621)	17,507	4,172,386
Equity method income					28,995		8,170		15,748	4,877	57,790
Income tax expense	170,895	168,205	20,050	168,308	16,016	224,227	39,206	72,664	32,922	7,436	919,929
Income for the year	682,065	667,521	51,385	664,527	75,830	875,930	101,710	236,927	1,748,333	(1,831,595)	3,272,633
Controlling interest	682,065	667,521	51,385	664,527	75,335	875,930	101,710	236,927	1,750,068	(2,005,457)	3,100,011
Non-controlling interest					495				(1,735)	173,862	172,622

	Retail	Corporate	Banking International	Other	Adjustments	2012 Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income(loss)	2,512,950	1,049,010	288,688	970,231	15,272	1,410,193	248,254	566,499	(95,866)	8,980	6,974,211
Net fees and commission income(loss)	599,935	275,065	47,578	(63,027)	7,909	246,000	236,573	34,945	204,340	(17,227)	1,572,091
Net other operating income (expense)	(2,408,728)	(436,825)	(125,544)	(514,664)	(108,040)	(703,995)	(416,948)	(330,020)	(352,523)	44,937	(5,352,350)

Operating income	704,157	887,250	210,722	392,540	(84,859)	952,198	67,879	271,424	(244,049)	36,690	3,193,952
Equity method income					21,897		2,221		1,517	1,903	27,538
Income tax expense	141,012	181,507	53,739	90,902	(33,618)	217,251	15,177	55,313	11,346	6,315	738,944
Income for the year	549,519	711,244	155,291	354,811	(86,623)	749,764	63,912	209,399	569,366	(782,615)	2,494,068
Controlling interest	549,519	711,244	155,291	354,811	(86,796)	749,764	63,912	209,399	571,635	(956,047)	2,322,732
Non-controlling interest					173				(2,269)	173,432	171,336

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(c) The following table provides information of assets for each operating segment as of December 31, 2011 and 2012.

	2011										
		Banking									
	Retail	Corporate	International	Other	Adjustments	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Trading assets		7,479,525		332,897	(1,048,081)	150,056	4,444,608	216,446	391,130	(12,315)	11,954,266
Loans	100,089,361	57,229,149	8,058,557	2,098,758	(1,522,425)	19,480,828	798,378	2,957,350	4,699,329	(1,316,714)	192,572,571
Available-for-sale financial assets	523,931	23,609,648	726,981	2,874,481	(485,427)	457,702	1,641,197	4,646,014	302,782	(191,562)	34,105,747
Held-to-maturity financial assets		9,447,411	454,979	32				2,042,196	5,045	(54,999)	11,894,664
	100,613,292	97,765,733	9,240,517	5,306,168	(3,055,933)	20,088,586	6,884,183	9,862,006	5,398,286	(1,575,590)	250,527,248

	2012										
		Banking									
	Retail	Corporate	International	Other	Adjustments	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Trading assets		5,606,443		329,266	(576,199)	100,023	7,776,746	473,707	308,908		14,018,894
Loans	104,011,790	58,446,375	8,645,957	1,930,038	(1,591,205)	20,156,564	1,217,660	3,581,004	4,663,577	(1,406,028)	199,655,732
Available-for-sale financial assets	607,848	25,030,962	871,999	2,664,564	(250,778)	486,540	1,455,369	5,339,775	290,395	(168,245)	36,328,429
Held-to-maturity financial assets		8,789,842	434,486					2,429,848	5,039		11,659,215
	104,619,638	97,873,622	9,952,442	4,923,868	(2,418,182)	20,743,127	10,449,775	11,824,334	5,267,919	(1,574,273)	261,662,270

(d) Financial information of geographical area

The following table provides information of revenue from external consumers by geographical area for the years ended December 31, 2010, 2011 and 2012.

	Operating revenue			Operating expense			Operating income		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Domestic	30,775,175	29,287,746	28,452,926	27,261,614	25,259,688	25,447,373	3,513,561	4,028,058	3,005,553
Overseas	876,861	973,905	1,189,637	837,515	829,577	1,001,238	39,346	144,328	188,399
	31,652,036	30,261,651	29,642,563	28,099,129	26,089,265	26,448,611	3,552,907	4,172,386	3,193,952

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The following table provides information of non-current assets by geographical area as of December 31, 2011 and 2012.

	2011	2012
Domestic	7,391,966	7,432,754
Overseas	80,477	51,678
	7,472,443	7,484,432

(*) Non-current assets as of December 31, 2011 and 2012 include property and equipment, intangible assets, investment properties.

8. Cash and due from banks

(a) Cash and due from banks as of December 31, 2011 and 2012 are as follows:

	2011	2012
Cash and cash equivalents	2,131,642	2,997,082
Deposits in won:		
Reserve deposits	3,391,601	2,804,583
Time deposits	3,641,613	2,779,738
Certificate of deposits	19,760	
Other	2,116,900	1,597,689
	9,169,874	7,182,010
Deposits in foreign currency:		
Deposits	1,433,884	1,561,565
Time deposits	1,669,938	1,232,353
Other	357,761	425,777
	3,461,583	3,219,695
Provisions	(32,167)	(4,456)
	14,730,932	13,394,331

(b) Restricted due from banks as of December 31, 2011 and 2012 are as follows:

	2011	2012
Deposits in won		
Reserve deposits	3,391,601	2,804,583
Other(*)	1,298,609	996,503
	4,690,210	3,801,086
Deposits in foreign currency	855,025	728,619
	5,545,235	4,529,705

(*) Pursuant to the Regulation on Financial Investment Business, the Group is required to deposit certain portions of customers deposits with the Korean Securities Finance Corporation (KSFC) or banks to ensure repayment of customer deposits and the deposits may not be pledged as collateral.

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9. Trading assets

Trading assets as of December 31, 2011 and 2012 are as follows:

	2011	2012
Debt securities:		
Governments	698,192	833,935
Financial institutions	2,993,836	4,404,444
Corporations	1,441,253	2,023,057
Bills bought	3,566,763	2,787,392
CMA(*)	911,728	1,018,520
Others	13,014	179,262
	9,624,786	11,246,610
Equity securities:		
Stocks	135,139	284,952
Beneficiary certificates	1,822,901	1,672,624
Others	30,006	376,780
	1,988,046	2,334,356
Other		
Gold deposits	341,434	437,928
	11,954,266	14,018,894

(*) CMA: Cash management account deposits

10. Financial asset designated at fair value through profit or loss

Financial asset designated at fair value through profit or loss as of December 31, 2011 and 2012 are as follows:

	2011	2012	
Debt securities	440,327	853,433	Evaluation and management on a fair value basis, accounting mismatch
Equity securities	1,052,490	1,259,465	Evaluation and management on a fair value basis, accounting mismatch
Others	308,029	472,213	Combined instrument

1,800,846	2,585,111

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11. Derivatives

(a) The notional amounts of derivatives as of December 31, 2011 and 2012 are as follows:

	2011	2012
Foreign currency related		
Over the counter		
Currency forwards	41,915,985	32,456,980
Currency swaps	12,416,078	11,789,631
Currency options	1,707,857	387,852
	56,039,920	44,634,463
Exchange traded		
Currency futures	118,382	123,215
	56,158,302	44,757,678
Interest rates related		
Over the counter		
Interest rate swaps	97,090,640	91,314,373
Interest rate options	8,803,485	5,776,662
	105,894,125	97,091,035
Exchange traded		
Interest rate futures	41,860	631,050
	105,935,985	97,722,085
Credit related		
Over the counter		
Credit swaps	89,186	165,789
Equity related		
Over the counter		
Equity swap and forwards	2,087,186	3,091,829
Equity options	6,727,624	1,665,463
	8,814,810	4,757,292
Exchange traded		
Equity futures	6,323	161,051
Equity options	3,031,229	4,811,288

	3,037,552	4,972,339
	11,852,362	9,729,631
Commodity related		
Over the counter		
Swaps and forwards	38,045	467,334
Equity options	130,463	77,011
	168,508	544,345
Exchange traded		
Equity options	17,989	282,185
	186,497	826,530
Hedge		
Currency forwards	4,455	2,807
Currency swaps	1,918,435	1,848,578
Interest rate swaps	9,137,426	8,484,998
	11,060,316	10,336,383
	185,282,648	163,538,096

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(b) Fair values of derivative instruments as of December 31, 2011 and 2012 are as follows:

	2011		2012	
	Assets	Liabilities	Assets	Liabilities
Foreign currency related				
Over the counter				
Currency forwards	628,214	439,086	511,226	611,165
Currency swaps	450,092	526,878	361,588	257,034
Currency options	115,118	7,798	25,167	11
	1,193,424	973,762	897,981	868,210
Interest rates related				
Over the counter				
Interest rate swaps	670,831	576,866	694,505	593,361
Interest rate options	32,998	36,611	23,921	33,297
Interest rate forwards			11	
	703,829	613,477	718,437	626,658
Credit related				
Over the counter				
Credit swaps		1,734	1,147	842
Equity related				
Over the counter				
Equity swap and forwards	11,581	222,017	182,282	46,436
Equity options	52,105	22,722	69,847	144,417
	63,686	244,739	252,129	190,853
Exchange traded				
Equity forwards			3	
Equity options	5,109	6,948	20,740	18,995
	5,109	6,948	20,743	18,995
	68,795	251,687	272,872	209,848
Commodity related				
Over the counter				
Swaps and forwards	1,625	1,835	5,679	5,189
Equity options	3,850	1,152	1,052	371

	5,475	2,987	6,731	5,560
Exchange traded				
Commodity futures	363	428	4,560	2,291
	5,838	3,415	11,291	7,851
Hedge				
Currency forwards		358	447	
Currency swaps	80,405	11,052	1,157	100,156
Interest rate swaps	267,294	116,712	261,520	90,479
	347,699	128,122	263,124	190,635
	2,319,585	1,972,197	2,164,852	1,904,044

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(c) Gain or loss on valuation of derivatives for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Foreign currency related			
Over the counter			
Currency forwards	(69,997)	176,646	(160,903)
Currency swaps	77,427	(94,365)	189,056
Currency options	(21,022)	5,117	(9,160)
	(13,592)	87,398	18,993
Exchange traded			
Currency futures	(4,487)	116	63
	(18,079)	87,514	19,056
Interest rates related			
Over the counter			
Interest rate swaps	56,469	42,931	(17,681)
Interest rate options	(6,587)	(3,501)	985
	49,882	39,430	(16,696)
Exchange traded			
Interest rate futures	2,512	(617)	(777)
	52,394	38,813	(17,473)
Credit related			
Over the counter			
Credit swaps	(1,867)	(411)	1,547
Equity related			
Over the counter			
Equity swap and forwards	68,344	(200,928)	352,700
Equity options	70,020	(75,330)	21,552
	138,364	(276,258)	374,252
Exchange traded			
Equity futures	(6,217)	749	(1,446)
Equity options	(60,812)	62,571	1,347

	(67,029)	63,320	(99)
	71,335	(212,938)	374,153
Commodity related			
Over the counter			
Swaps and forwards	(3,734)	(430)	1,286
Commodity options	333	(6,055)	(1,393)
	(3,401)	(6,485)	(107)
Exchange traded			
Commodity futures	(246)	104	2,404
	(3,647)	(6,381)	2,297
Hedge			
Currency forwards	(31,556)	(358)	1,252
Currency swaps	(8,082)	30,065	(128,935)
Interest rate swaps	200,227	45,081	15,429
	160,589	74,788	(112,254)
	260,725	(18,615)	267,326

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(In millions of won)

(d) Gain or loss on fair value hedges for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Hedged item	(213,797)	(51,205)	(18,970)
Hedging instruments	206,565	29,467	20,209
	(7,232)	(21,738)	1,239

(e) Hedge of net investment in foreign operations

Net investments in foreign operations for some of the hedge accounting is applied, the amount which is reflected of the gain or loss on the hedging instruments overseas operations translation for the years ended December 31, 2011 and 2012 are as follows:

	2011	2012
Borrowings in foreign currency	(4,790)	56,314
Debt securities issued in foreign currency		25,782
	(4,790)	82,096

12. Loans

(a) Loans as of December 31, 2011 and 2012 are as follows:

	2011	2012
Household loans	69,450,520	74,052,971
Corporate loans	100,238,573	102,724,657
Public and other	4,929,661	3,106,885
Loans to banks	2,556,629	4,536,968
Card receivables	17,879,640	17,853,527
	195,055,023	202,275,008
Present value discount	(44,263)	(39,144)
Deferred loan origination costs and fees	138,933	212,477
	195,149,693	202,448,341

Allowance for impairment	(2,577,122)	(2,792,609)
	192,572,571	199,655,732

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(b) Changes in the allowance for impairment for the years ended December 31, 2011 and 2012 are as follows:

	2011						
	Household	Corporate	Loans Credit Card	Other	Subtotal	Other(*2)	Total
Beginning balance	194,004	1,939,988	670,747	47,207	2,851,946	142,971	2,994,917
Provision for (reversal of) allowance	65,971	646,917	166,234	(15,062)	864,060	31,946	896,006
Write-offs	(70,388)	(847,076)	(447,008)		(1,364,472)	(21,416)	(1,385,888)
Effect of discounting	(248)	(66,416)	(1,462)		(68,126)		(68,126)
Allowance related to loans transferred	(11,115)	(127,662)	67		(138,710)		(138,710)
Recoveries	42,968	76,907	283,163		403,038	904	403,942
Others(*1)		25,607	3,779		29,386	(2,398)	26,988
Ending balance	221,192	1,648,265	675,520	32,145	2,577,122	152,007	2,729,129

	2012						
	Household	Corporate	Loans Credit Card	Other	Subtotal	Other(*2)	Total
Beginning balance	221,192	1,648,265	675,520	32,145	2,577,122	152,008	2,729,130
Provision for (reversal of) allowance	177,334	859,538	294,616	(6,908)	1,324,580	(9,421)	1,315,159
Write-offs	(116,395)	(713,805)	(490,108)		(1,320,308)	(21,484)	(1,341,792)
Effect of discounting	(321)	(66,155)	(1,526)		(68,002)		(68,002)
Allowance related to loans transferred	(17,221)	(86,350)	6,125		(97,446)		(97,446)
Recoveries	32,030	86,403	256,651		375,084	(8,986)	366,098
Others(*1)		(1,206)	2,785		1,579	(10,892)	(9,313)
Ending balance	296,619	1,726,690	744,063	25,237	2,792,609	101,225	2,893,834

(*1) Other changes were due to debt restructuring, debt-equity swap, and foreign exchange rate, etc

(*2) Included allowance for due from banks and other assets

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(c) Changes in deferred loan origination costs and fees for the years ended December 31, 2011 and 2012 are as follows:

	2011	2012
Beginning balance	2,728	138,933
Loan originations	85,200	122,985
Amortization	51,005	(49,441)
Ending balance	138,933	212,477

13. Available-for-sale financial assets and held-to-maturity financial assets

(a) Available-for-sale financial assets and held-to-maturity financial assets as of December 31, 2011 and 2012 are as follows:

	2011	2012
Available-for-sale financial assets		
Debt securities(*1)		
Government bonds	4,829,146	5,446,367
Financial institutions bonds	13,689,821	13,750,391
Corporate bonds and others	10,591,575	12,159,392
	29,110,542	31,356,150
Equity securities(*2)		
Stock	3,989,752	3,773,380
Equity investments	525,175	506,012
Beneficiary certificates	415,508	643,885
Others	64,770	49,002
	4,995,205	4,972,279
	34,105,747	36,328,429
Held-to-maturity financial assets		
Debt securities		
Government bonds	5,869,832	5,716,713
Financial institutions bonds	2,064,369	1,700,583
Corporate bonds and others	3,960,463	4,241,919
	11,894,664	11,659,215

	46,000,411	47,987,644

(*1) Debt securities are measured at fair value by applying the lesser of two quoted bond prices provided by two bond pricing agencies as of the latest trading date from the end of reporting year.

(*2) Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at cost were 203,911 million and 140,941 million as of December 31, 2011 and 2012, respectively.

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(In millions of won)

(b) Gain or loss on sale of available-for-sale financial assets for the years ended December 31, 2011 and 2012 are as follows:

	2011	2012
Gain on sale of available-for-sale financial assets	866,138	567,160
Loss on sale of available-for-sale financial assets	(19,793)	(30,579)
	846,345	536,581

14. Property and equipment, net

(a) Property and equipment as of December 31, 2011 and 2012 are as follows:

	Acquisition cost	2011 Accumulated depreciation	Book value
Land	1,751,634		1,751,634
Buildings	924,103	(62,094)	862,009
Other	1,969,988	(1,589,771)	380,217
	4,645,725	(1,651,865)	2,993,860

	Acquisition cost	2012 Accumulated depreciation	Book value
Land	1,732,072		1,732,072
Buildings	948,426	(93,073)	855,353
Other	2,061,152	(1,601,891)	459,261
	4,741,650	(1,694,964)	3,046,686

(*) Land and buildings were revalued on January 1, 2010 by an independent valuation service provider. Valuation was based on the recent arm s length market transactions between knowledgeable and willing parties.

(b) Changes in property and equipment for the years ended December 31, 2011 and 2012 are as follows:

	2011			
	Land	**Buildings**	**Other**	**Total**
Beginning balance	1,781,408	851,393	343,606	2,976,407
Acquisitions(*)	10,943	61,469	243,245	315,657
Disposals(*)	(27,774)	(12,194)	(28,454)	(68,422)
Depreciation		(30,964)	(180,807)	(211,771)
Amounts transferred from (to) investment property	(14,321)	(7,094)		(21,415)
Amounts transferred to assets held for sale	1,327	(1,064)		263
Acquisitions from business combinations	51	463	837	1,351
Effects of foreign currency movements			1,790	1,790
Ending balance	1,751,634	862,009	380,217	2,993,860

(*) 13,546 million of transfers from construction-in-progress and 33,405 million of included in others.

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	2012			
	Land	Buildings	Other	Total
Beginning balance	1,751,634	862,009	380,217	2,993,860
Acquisitions(*1)(*2)	1,699	41,386	266,848	309,933
Disposals(*1)	(180)	(7,191)	(14,674)	(22,045)
Depreciation		(31,982)	(169,789)	(201,771)
Amounts transferred from (to) investment property	(4,659)	(2,042)		(6,701)
Amounts transferred to assets held for sale(*3)	(16,243)	(5,264)		(21,507)
Effects of foreign currency movements	(179)	(1,563)	(3,341)	(5,083)
Ending balance	1,732,072	855,353	459,261	3,046,686

(*1) 13,651 million of transfers from construction-in-progress and 60,070 million of included in others.

(*2) 3,384 million of an Includes asset retirement obligation on a rented facility.

(*3) Comprised of land and buildings, etc.

(c) Insured assets as of December 31, 2012 are as follows:

Type of insurance	Assets insured	Amount covered	Insurance company
Comprehensive insurance for financial institution	Cash and cash equivalent	22,500	Samsung Fire & Marine Insurance Co.,Ltd and 7 other entities
Package insurance	Land and buildings	1,213,755	Samsung Fire & Marine Insurance Co.,Ltd and 5 other entities
Fire insurance	Equipment	15,609	American Home Assurance Company Korea and 1 other entity
Theft insurance	Cash and securities	55,000	LIG Insurance Co.,Ltd and 7 other entities
Directors and Officers Liability and Company Reimbursement Insurance		100,986	Samsung Fire & Marine Insurance Co.,Ltd
Other	Cash and cash equivalent, securities	2,670	MERITZ Fire & Marine Insurance Co.,Ltd and 3 other entities
		1,410,520	

(*)

In addition, the Group maintains vehicle insurance, medical insurance, fire insurance for its assets, and employee compensation insurance covering loss and liability arising from accidents.

(d) There is no significant difference between the carrying amount of property and equipment and their fair value.

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15. Intangible assets, net

(a) Intangible assets as of December 31, 2011 and 2012 are as follows:

	2011	2012
Goodwill	3,854,524	3,827,954
Software	75,164	70,896
Development cost	99,529	115,438
Other	174,243	176,488
	4,203,460	4,190,776

(b) Changes in intangible assets for the years ended December 31, 2011 and 2012 are as follows:

	2011				
	Goodwill	Development cost	Software	Other	Total
Beginning balance	3,810,684	77,331	68,862	116,024	4,072,901
Acquisitions		53,270	31,623	83,239	168,132
Business combination	75,383			17,685	93,068
Disposals		(3,420)		(11,708)	(15,128)
Impairment(*1)	(31,543)			(8,131)	(39,674)
Amortization(*2)		(27,652)	(25,321)	(22,990)	(75,963)
Effects of foreign currency movements				124	124
Ending balance	3,854,524	99,529	75,164	174,243	4,203,460

	2012				
	Goodwill	Development cost	Software	Other	Total
Beginning balance	3,854,524	99,529	75,164	174,243	4,203,460
Acquisitions	27,554	50,339	28,795	44,602	151,290
Disposals			(805)	(6,824)	(7,629)
Impairment(*1)	(54,124)		(185)	(4,208)	(58,517)
Amortization(*2)		(34,430)	(31,483)	(31,152)	(97,065)
Effects of foreign currency movements			(590)	(173)	(763)
Ending balance	3,827,954	115,438	70,896	176,488	4,190,776

(*1) The Group recognized impairment losses from golf and condo memberships with indefinite useful life by comparing its recoverable amount with its carrying amount.

(*2) The Group recognized amortization of intangible asset in general and administrative expenses.

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(c) Goodwill

i) Goodwill as of December 31, 2011 and 2012 are as follows:

	2011	2012
Banking		
Retail	652,344	652,344
Corporate and investment	107,856	107,856
International	43,840	
Other	82,060	82,060
Credit card	2,685,389	2,685,389
Life insurance	275,370	275,370
Others	7,665	24,935
	3,854,524	3,827,954

ii) The changes in goodwill for the years ended December 31, 2011 and 2012 are as follows:

	2011	2012
Beginning balance	3,810,684	3,854,524
Acquisition of subsidiaries	75,383	27,554
Impairment(*1),(*2)	(31,543)	(54,124)
Ending balance	3,854,524	3,827,954

(*1) The impairment losses were wholly recognized in treasury and international CGU of Shinhan Bank for the year ended December 31, 2011.

(*2) The impairment losses was recognized in Others CGU of 43,480 million and international CGU of Shinhan Bank of 10,284 million for the year ended December 31, 2012, respectively.

iii) Goodwill impairment test

The recoverable amounts of all CGUs to which goodwill has been allocated was based on their respective value in use and was determined by discounting the estimated future cash flows to be generated from the continuing use of the respective CGUs.

The recoverable amounts of CGUs have been determined using cash flow estimates which cover a 5.25 year period (October 1, 2012 through December 31, 2017) from the date of valuation, which is September 30, 2012, with a valuation of terminal value applied thereafter. In case of Shinhan Life Insurance, only the 30 years of future cash flows are applied since the present value of the future cash flows thereafter is not

significant.

Discount and terminal growth rates

The discount rates applied have been determined based on the cost of equity which is comprised of a risk-free interest rate, a market risk premium and systemic risk (beta factor).

Expected terminal growth rate of cash flow estimation is on the basis of inflation rates.

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Discount and terminal growth rates applied to each CGU are as follows:

	Discount rates	Terminal growth rate
Banking		
Retail	12.8%	2.9%
Corporate and investment	11.2%	2.9%
International	9.8%, 15.5%	0.3%,6.8%
Other	11.2%, 12.6%	2.9%
Credit card	12.1%	2.9%
Life insurance	10.5%	
Other	11.2%,15.66%	2.9%, 0%

Key assumptions used in the discounted cash flow calculations of CGUs (other than Shinhan Life Insurance) are as follows:

	2012	2013	2014	2015	2016 and thereafter
CPI growth	2.10%	1.90%	2.80%	3.30%	3.20%
Real retail sales growth	1.50%	2.70%	3.00%	3.70%	3.60%
Real GDP growth	2.30%	1.90%	3.30%	3.90%	3.60%

Key assumptions used in the discounted cash flow calculations of Shinhan Life Insurance are as follows:

	Key assumptions
Return on investment	4.85%
Risk-based solvency margin ratio	311.9%

Total recoverable amount and book value of CGUs, to which goodwill has been allocated, are as follows:

	Amount
Total recoverable amount	33,566,915
Total book value	30,919,494
	2,637,421

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16. Investments in associates

(a) Investments in associates as of December 31, 2011 and 2012 are as follows:

Investees	Country	Reporting date	Ownership (%) (*1) 2011	2012
Cardif Life Insurance(*4)	Korea	September 30	14.99	14.99
Aju Capital Co., Ltd.(*2,3)			12.85	12.85
Macquarie Shinhan Infrastructure Management(*1,3)			50.00	
Pohang TechnoPark 2PFV(*3)	Korea	December 31	14.90	14.90
Daewontos Co., Ltd.(*8)				36.33
Shinhan KT Mobile Card(*7)			50.00	
Shinhan Corporate Restructuring Fund 5th			45.00	45.00
DCC Corporate Restructuring Fund 1st			24.14	24.14
KTB Corporate Restructuring Fund 18th			47.17	
PT Clemont Finance Indonesia(*2)	Indonesia	September 30	30.00	30.00
Haejin Shipping Co. Ltd.	Hongkong	December 31	24.00	24.00
APC Fund			25.20	25.20
TSYoon 2nd Corporate Restructuring Fund	Korea		23.26	
SHC-IMM New Growth Fund(*6)			64.52	64.52
Now IB Fund 6th			25.00	
QCP New Technology Fund 20 th			47.17	47.17
UAMCO., Ltd.(*3)			17.50	17.50
Miraeasset 3rd Investment Fund			50.00	50.00
Now IB Fund 8th			38.46	
Aju-Shinhan 1st Investment Fund(*6)			60.00	60.00
Aju-Shinhan 2nd Investment Fund			33.33	33.33
Aju 3rd Investment Fund(*6)			60.00	60.00
Stonebridge New growth Investment Fund			23.33	
Medici 2nd Investment Fund(*6)			54.67	54.67
STI New growth engine Investment Fund				50.00
AJU-SHC WIN-WIN Company Fund 3(*6)				70.16
Shinhan K2 Secondary Fund(*5)				10.75
Aju 4th Investment Fund(*7)				30.00
KDB Daewoo Securities Platinum PEF				20.00
Shinhan-stonebridge Petro PEF(*5)				1.82

(*1) Considered common share ratio except preferred shares

(*2) Financial statements as of September 30, 2012 were used for the equity method.

(*3) The Group used the equity method of accounting as the Group has significant influence in electing on the board of directors.

(*4) The Group has significant influence due to material transaction with investee.

(*5) As a managing partner, the Group has significant management control over the investee.

(*6) As a limited partner, the Group is not able to participate in policy-making processes to obtain economic benefit from the investee.

(*7) The investee was liquidated for the current period.

(*8) The Group reclassifies available-for-sale financial assets that were acquired by debt-equity swap to investments in associates because vergleich procedures were completed and voting rights were restored.

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(b) Changes in investments in associates for the years ended December 31, 2011 and 2012 are as follows:

	2011					
Investees	**Beginning balance**	**Investment and dividend**	**Equity method income (loss)**	**Change in other comprehensive income**	**Impairment loss**	**Ending balance**
Cardif Life Insurance	13,826	9,750	3,157	(1,705)		25,028
Aju Capital Co., Ltd. (*1)	34,904	(692)	4,577	(494)	(4,351)	33,944
Macquarie Shinhan Infrastructure Management	4,282	(4,714)	4,433	575		4,576
Shinhan Vina Bank	57,833	(61,696)	928	2,935		
Pohang TechnoPark 2PFV		4,470	(751)	(22)		3,697
Shinhan Corporate Restructuring Fund 5th	1,212		(833)	290		669
Shinhan Corporate Restructuring Fund 8th	25,407	(30,027)	4,620			
DCC Corporate Restructuring Fund 1st	2,023	(1,207)	29			845
KTB Corporate Restructuring Fund 18th	10					10
PT Clemont Finance Indonesia	6,286		794	266		7,346
Haejin Shipping Co. Ltd.	996		167	1		1,164
APC Fund	19,998	7,233	9,585	1,584		38,400
Westend Corporate Restructuring Fund	8,210	(9,466)	1,256			
TSYoon 2nd Corporate Restructuring Fund	4,153	(1,767)	257	(171)		2,472
SHC-IMM New Growth Fund	2,731	4,300	(215)			6,816
SHC-AJU 1st Investment Fund	2,626	(4,862)	2,236			
Now IB Fund 6th	2,669	(1,175)	(20)			1,474
QCP New Technology Fund 20th	1,164		(1,043)			121
UAMCO., Ltd.	86,480		17,785	(25)		104,240
Miraeasset 3rd Investment Fund	4,512	(1,500)	1,676			4,688
Now IB Fund 8th	1,036		360	(62)		1,334
SHC-AJU 2nd Investment Fund	1,984	(2,116)	132			
Aju-Shinhan 1st Investment Fund	3,162	(59)	267			3,370
Aju-Shinhan 2nd Investment Fund		1,930	106			2,036
Aju 3rd Investment Fund		3,000	(211)			2,789
Stonebridge New Growth Investment Fund	701		(137)			564
Aju M&A1st Investment Fund	3,994	(4,256)	262			
Petra Private Equity Fund	9,613	(18,001)	8,388			
Medici 2nd Investment Fund		3,280	(15)			3,265
	299,812	(107,575)	57,790	3,172	(4,351)	248,848

(*1) The market values of investments are 36,790 million as of December 31, 2011 based on the quoted market price at that date.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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	2012					
Investees	**Beginning balance**	**Investment and dividend**	**Equity method income (loss)**	**Change in other comprehensive income**	**Impairment loss**	**Ending balance**
Cardif Life Insurance	25,028	9,775	1,138	6,706		42,647
Aju Capital Co., Ltd.(*1)	33,944	(1,849)	5,505	494	(8,441)	29,653
Macquarie Shinhan Infrastructure Management	4,576	(4,000)		(576)		
Pohang TechnoPark 2PFV	3,697		(802)			2,895
Daewontos Co., Ltd.			122			122
Shinhan Corporate Restructuring Fund 5th	669		6			675
DCC Corporate Restructuring Fund 1st	845	(290)	(259)			296
KTB Corporate Restructuring Fund 18th	10	(88)	78			
PT Clemont Finance Indonesia	7,346		517	(971)		6,892
Haejin Shipping Co. Ltd.	1,164		(644)	16	(536)	
APC Fund	38,400	279	2,391	(2,969)		38,101
TSYoon 2nd Corporate Restructuring Fund	2,472	(3,475)	570	433		
SHC-IMM New Growth Fund	6,816	2,260	(192)			8,884
Now IB Fund 6th	1,474	(1,529)	55			
QCP New Technology Fund 20th	121		138			259
UAMCO., Ltd.	104,240		16,652	25		120,917
Miraeasset 3rd Investment Fund	4,688		17			4,705
Now IB Fund 8th	1,334	(1,566)	170	62		
Aju-Shinhan 1st Investment Fund	3,370		378			3,748
Aju-Shinhan 2nd Investment Fund	2,036	(1,645)	284			675
Aju 3rd Investment Fund	2,789		251			3,040
Stonebridge New Growth Investment Fund	564	(564)				
Medici 2nd Investment Fund	3,265		(57)			3,208
STI New growth engine Investment Fund		2,000	824			2,824
AJU-SHC WIN-WIN Company Fund 3		2,375	579			2,954
Shinhan K2 Secondary Fund		1,750	(58)			1,692
Aju 4th Investment Fund		3,000	(23)			2,977
KDB Daewoo Securities Platinum PEF		6,580	(63)			6,517
Shinhan-stonebridge Petro PEF		14,910	(73)			14,837
NSC New Technology Fund 1st		(34)	34			
	248,848	27,889	27,538	3,220	(8,977)	298,518

(*1) The market values of investments are 29,654 million as of December 31, 2012 based on the quoted market price at that date.

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(c) Condensed financial statements of associates as of and for the years ended December 31, 2011 and 2012 are as follows:

	2011		2012	
Investees	**Asset**	**Liability**	**Asset**	**Liability**
Cardif Life Insurance	2,361,638	2,180,638	2,993,361	2,765,496
Aju Capital Co., Ltd.	5,200,373	4,523,282	5,857,903	5,153,149
Macquarie Shinhan Infrastructure Management	17,294	6,559		
Shinhan Vina Bank(*)	426,868	308,057		
Pohang TechnoPark 2PFV	35,415	10,603	20,993	1,564
Daewontos Co., Ltd.			5,314	4,979
Shinhan KT Mobile Card	53	1		
Shinhan Corporate Restructuring Fund 5th	1,823	337	2,749	1,250
Shinhan Corporate Restructuring Fund 8th				
DCC Corporate Restructuring Fund 1st	3,553	53	1,237	11
KTB Corporate Restructuring Fund 18th	21			
PT Clemont Finance Indonesia	93,130	68,642	77,548	54,573
Haejin Shipping Co. Ltd.	2,614		19,681	22,942
APC Fund	152,557	177	35,634	2,488
Westend Corporate Restructuring Fund				
TSYoon 2nd Corporate Restructuring Fund	10,741	110		
SHC-IMM New Growth Fund	10,664	100	13,772	2
SHC-AJU 1st Investment Fund				
Petra Private Equity Fund				
Now IB Fund 6 th	5,944	46		
QCP New Technology Fund 20 th	256		548	
UAMCO., Ltd.	3,738,326	3,146,227	4,906,009	4,215,061
Miraeasset 3rd Investment Fund	9,438	61	9,474	63
Now IB Fund 8th	3,503	36		
Aju-Shinhan 1st Investment Fund	5,679	61	6,353	106
Aju-Shinhan 2nd Investment Fund	6,121	13	2,031	7
Aju-Shinhan 3rd Investment Fund	4,651	3	5,070	3
Stonebridge New growth Investment Fund	2,417			
Medici 2nd Investment Fund	5,974	2	5,869	
STI New growth engine Investment Fund			5,649	
AJU-SHC WIN-WIN Company Fund 3			4,229	19
Shinhan K2 Secondary Fund			15,732	
Aju 4th Investment Fund			9,945	23
KDB Daewoo Securities Platinum PEF			32,676	90
Shinhan-stonebridge Petro PEF			814,189	
	12,099,053	10,245,008	14,845,966	12,221,826

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	2011		2012	
Investees	**Operating revenue**	**Net income**	**Operating revenue**	**Net income**
Cardif Life Insurance	646,812	4,915	798,918	2,497
Aju Capital Co., Ltd.	730,272	35,423	775,227	40,353
Macquarie Shinhan Infrastructure Management	16,797	8,865		
Shinhan Vina Bank(*)	48,534	1,857		
Pohang TechnoPark 2PFV		(5,038)		(5,440)
Daewontos Co., Ltd.			24,397	243
Shinhan KT Mobile Card		60		
Shinhan Corporate Restructuring Fund 5th	292	252	19	15
Shinhan Corporate Restructuring Fund 8th	16,513	15,218		
DCC Corporate Restructuring Fund 1st	202	121	16	(1,064)
KTB Corporate Restructuring Fund 18th			166	163
PT Clemont Finance Indonesia	7,705	59	6,558	1,343
Haejin Shipping Co. Ltd.	29,778	696	2,482	(3,287)
APC Fund	41,635	37,968	3,564	2,076
Westend Corporate Restructuring Fund	2,360	939		
TSYoon 2nd Corporate Restructuring Fund	1,220	1,105	2,564	2,486
SHC-IMM New Growth Fund	65	(334)	102	(300)
SHC-AJU 1st Investment Fund	9,425	9,161		
Petra Private Equity Fund	31,398	25,724		
Now IB Fund 6th	580	(79)	116	92
QCP New Technology Fund 20th	1	(2,211)	1	(21)
UAMCO., Ltd.	468,220	101,624	599,570	95,828
Miraeasset 3rd Investment Fund	3,611	3,353	195	36
Now IB Fund 8th	961	933	961	933
Aju-Shinhan 1st Investment Fund	479	(37)	677	630
Aju-Shinhan 2nd Investment Fund	659	318	882	852
Aju-Shinhan 3rd Investment Fund	161	(352)	433	419
Stonebridge New growth Investment Fund	46	(518)	10	10
Medici 2nd Investment Fund	25	(27)	5	(104)
STI New growth engine Investment Fund				1,648
AJU-SHC WIN-WIN Company Fund 3			844	825
Shinhan K2 Secondary Fund				(543)
Aju 4th Investment Fund			374	(77)
KDB Daewoo Securities Platinum PEF				(314)
Shinhan-stonebridge Petro PEF			26	(3,991)
NSC New Technology Fund 1st			147	122
	2,057,751	239,995	2,218,254	135,430

(*) Deemed acquisition date is November 28, 2011

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17. Investment properties, net

(a) Investment properties as of December 31, 2011 and 2012 are as follows:

	2011	2012
Acquisition cost	292,956	273,298
Accumulated depreciation	(17,833)	(26,328)
Book value	275,123	246,970

(*) Land and buildings were revalued on January 1, 2010 by an independent valuation service provider. Valuation was based on the recent arm s length market transactions between knowledgeable and willing parties.

(b) Changes in investment properties for the years ended December 31, 2011 and 2012 are as follows:

	2011	2012
Beginning balance	285,956	275,123
Acquisitions	17	38
Disposals	(23,032)	(2,991)
Depreciation	(9,245)	(9,062)
Amounts transferred from investment property	21,415	6,701
Amounts transferred to assets held for sale(*)		(22,825)
Foreign currency adjustment	12	(14)
Ending balance	275,123	246,970

(*) Comprise of land and buildings, etc.

(c) Income and expenses on investment property for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Rental Income	21,269	26,955	27,433
Direct operating expenses for investment properties that generated rental income	8,075	8,299	8,412

(d) The fair value of investment property as of December 31, 2011 and 2012 are as follows:

	2011	2012
Land and buildings	254,607	259,844

(*) Valuation was based on the recent arm s length market transactions between knowledgeable and willing parties.

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18. Other assets, net

Other assets as of December 31, 2011 and 2012 are as follows:

	2011	2012
Accounts receivable	2,790,826	4,518,260
Domestic exchange settlement debit	1,876,400	2,134,806
Guarantee deposits	1,329,141	1,356,950
Accrued income	1,557,307	1,477,120
Prepaid expense	197,433	185,972
Suspense payments	122,700	91,426
Sundry assets	109,088	126,674
Separate account assets	1,657,639	1,896,072
Advance payments	255,430	183,858
Unamortized deferred acquisition cost	1,098,230	1,239,756
Other	112,927	67,961
Present value discount	(99,403)	(87,620)
Allowances for impairment	(119,840)	(96,770)
	10,887,878	13,094,465

19. Leases

(a) Finance lease receivables of the Group as lessor as of December 31, 2011 and 2012 are as follows:

	2011			
	Gross investment	Unearned finance income	Present value of minimum lease payment	Unguaranteed residual value
Not later than 1 year	784,923	86,082	686,907	11,933
1 ~ 5 years	970,068	91,958	878,109	
Later than 5 years	67,905	5,370	62,535	
	1,822,896	183,410	1,627,551	11,933

	2012			
	Gross investment	Unearned finance income	Present value of minimum lease payment	Unguaranteed residual value
Not later than 1 year	767,000	91,342	675,655	

1 ~ 5 years	1,131,866	146,687	985,179
Later than 5 years	42,489	3,171	39,318
	1,941,355	241,200	1,700,152

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(b) The scheduled maturities of minimum lease payments of the Group as lessor as of December 31, 2011 and 2012 are as follows:

i) Finance leases

	2011		
	Minimum lease payment	Unearned finance income	Present value of minimum lease payment
Not later than 1 year	772,989	86,082	686,907
1 ~ 5 years	970,067	91,958	878,109
Later than 5 years	67,905	5,370	62,535
	1,810,961	183,410	1,627,551

	2012		
	Minimum lease payment	Unearned finance income	Present value of minimum lease payment
Not later than 1 year	767,000	91,342	675,655
1 ~ 5 years	1,131,866	146,687	985,179
Later than 5 years	42,489	3,171	39,318
	1,941,355	241,200	1,700,152

ii) Operating leases

	Minimum lease payment	
	2011	2012
Not later than 1 year	6,281	7,491
1 ~ 5 years	7,078	11,135
	13,359	18,626

(c) Future minimum lease payments under non-cancellable operating lease of the Group as lessee as of December 31, 2011 and 2012 are as follows:

	Minimum lease payment	
	2011	2012

Not later than 1 year	70,712	104,108
1 ~ 5 years	81,945	122,332
Later than 5 years	1,289	9,606
	153,946	236,046

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December 31, 2010, 2011 and 2012

(In millions of won)

20. Pledged assets

(a) Assets pledged as collateral as of December 31, 2011 and 2012 are as follows:

	2011	2012
Loans	154,425	127,588
Securities		
Trading assets	3,644,128	5,645,860
Available-for-sale financial assets	1,953,753	1,531,366
Held-to-maturity financial assets	5,541,627	5,551,874
Financial assets designated at fair value through profit or loss	263,578	400,837
	11,403,086	13,129,937
Deposits		100,498
Real estate	108,928	107,649
	11,666,439	13,465,672

(*) The carrying amounts of asset pledged that the pledgees have the right to sell or repledge regardless of the Group s default as of December 31, 2011 and 2012 were 4,919,709 million and 5,530,540 million, respectively.

(b) The fair value of collateral held that the Group has the right to sell or repledge regardless of pledger s default as of December 31, 2011 and 2012 are as follows:

	2011	
	Collateral held	Collateral sold or repledged
Securities	781,902	

	2012	
	Collateral held	Collateral sold or repledged
Securities	2,679,618	

21. Deposits

Deposits as of December 31, 2011 and 2012 are as follows:

	2011	2012
Demand deposits	49,861,856	52,171,149
Time deposits	102,902,575	111,021,657
Negotiable certificates of deposits	2,967,419	1,303,683
Note discount deposits	4,623,801	3,013,376
CMA (*)	1,614,377	1,626,061
Others	1,045,704	960,528
	163,015,732	170,096,454

(*) CMA: Cash management account deposits

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(In millions of won)

22. Trading liabilities

Trading liabilities as of December 31, 2011 and 2012 are as follows:

	2011	2012
Securities sold		
Equity	49,401	126,160
Debt	240,930	760,502
Gold deposits	414,087	484,061
	704,418	1,370,723

23. Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss as of December 31, 2011 and 2012 are as follows:

	2011	2012
Equity-linked securities sold	2,927,046	4,017,337
Derivatives-combined securities sold	371,363	804,860
	3,298,409	4,822,197

24. Borrowings

(a) Borrowings as of December 31, 2011 and 2012 are as follows:

	2011	
	Interest rate (%)	Amount
Borrowings in won		
Borrowings from Bank of Korea	1.50%	796,164
Others	0.00%~6.78%	5,423,558
		6,219,722
Borrowings in foreign currency		
Overdraft due to banks	0.89%~2.98%	1,021,187

Borrowings from banks	0.60%~9.26%	3,958,648
Others	0.70%~5.90%	3,299,947
		8,279,782
Call money	0.14%~3.55%	1,309,137
Bill sold	1.70%~6.08%	105,697
Bonds sold under repurchase agreements	0.10%~8.90%	3,890,665
Due to Bank of Korea in foreign currency	0.10%	232,372
Present value discounts		(4,129)
		20,033,246

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	2012	
	Interest rate (%)	Amount
Borrowings in won		
Borrowings from Bank of Korea	1.25%~1.50%	1,354,261
Others	0.00%~6.60%	5,147,077
		6,501,338
Borrowings in foreign currency		
Overdraft due to banks	0.00%~0.63%	155,269
Borrowings from banks	0.08%~3.88%	3,071,900
Others	0.30%~1.86%	2,676,092
		5,903,261
Call money	0.07%~9.00%	1,088,535
Bill sold	1.70%~3.80%	55,397
Bonds sold under repurchase agreements	0.30%~3.65%	5,189,539
Due to Bank of Korea in foreign currency	0.10%	156,150
Present value discounts		(2,842)
		18,891,378

25. Debt securities issued

Debt securities issued as of December 31, 2011 and 2012 are as follows:

	2011	
	Interest rate (%)	Amount
Debt securities issued in won		
Debt securities issued	0.00%~11.95%	29,661,054
Subordinated debt securities issued	4.25%~14.45%	3,983,785
Loss on fair value hedges		87,656
Discount		(58,320)
		33,674,175
Debt securities issued in foreign currency		
Debt securities issued	1.05%~8.13%	5,983,933

Loss on fair value hedges	100,717
Discount	(21,867)
	6,062,783
	39,736,958

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	2012	
	Interest rate (%)	Amount
Debt securities issued in won		
Debt securities issued	0.00%~9.00%	27,355,181
Subordinated debt securities issued	3.41%~8.00%	5,150,290
Loss on fair value hedges		107,559
Discount		(64,123)
		32,548,907
Debt securities issued in foreign currency		
Debt securities issued	0.72%~8.13%	6,195,288
Subordinated debt securities issued	10.00%	5,695
Loss on fair value hedges		117,096
Discount		(26,811)
		6,291,268
		38,840,175

26. Employee benefits

(a) Defined benefit plan assets and liabilities

Defined benefit plan assets and liabilities as of December 31, 2011 and 2012 are as follows:

	2011	2012
Present value of defined benefit obligation	877,037	1,008,119
Fair value of plan assets	(602,376)	(794,051)
Recognized liabilities for defined benefit obligation	274,661	214,068

(b) Changes in the present value of defined benefit obligation for the years ended December 31, 2011 and 2012 are as follows:

	2011	2012
Beginning balance	618,911	877,037
Current service cost	102,252	134,068
Interest expense	37,680	44,733

Actuarial losses (gains)	140,811	(7,315)
Foreign exchange adjustments	64	26
Benefit paid by the plan	(22,681)	(40,430)
Ending balance	877,037	1,008,119

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(c) Changes in the fair value of plan assets for the years ended December 31, 2011 and 2012 are as follows:

	2011	2012
Beginning balance	(448,859)	(602,376)
Expected return on plan assets	(20,640)	(26,268)
Actuarial losses(gains)	131	797
Contributions paid into the plan	(151,142)	(177,362)
Benefit paid by the plan	18,134	11,158
Ending balance	(602,376)	(794,051)

(d) Expense recognized in profit or loss for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Current service costs	86,289	102,252	134,068
Interest expense	32,313	37,680	44,733
Expected return on plan assets	(16,339)	(20,640)	(26,268)
Actuarial gains (losses)	74,837	140,680	(6,518)
	177,100	259,972	146,015

(e) Historical information for the amounts related to defined benefit plans recognized for the current year and previous years are as follows:

	January 1, 2010	December 31, 2010	December 31, 2011	December 31, 2012
Present value of defined benefit obligation	461,113	618,911	877,037	1,008,119
Fair value of plan assets	(314,747)	(448,859)	(602,376)	(794,051)
	146,366	170,052	274,661	214,068
Adjustments to defined benefit obligation		74,927	140,811	(7,315)
Adjustments to plan assets		90	131	797

(f) Plan assets as of December 31, 2011 and 2012 are as follows:

	2011	2012
Plan assets		

Equity securities	28,230	28,680
Debt securities	518,647	713
Due from banks	49,025	726,134
Other	6,474	38,524
	602,376	794,051

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(g) Actuarial assumptions as of December 31, 2011 and 2012 are as follows:

	2011	
	Assumptions	**Descriptions**
Discount rate	5.02%~5.37%	AA Corporate bond yields
Expected return on plan assets	3.26%~4.38%	Weighted average yield for the past
Future salary increasing rate	2.00%~4.06% + Upgrade rate	Average for 5 years

	2012	
	Assumptions	**Descriptions**
Discount rate	3.06%~4.44%	AA Corporate bond yields
Expected return on plan assets	3.17%~4.74%	Weighted average yield for the past
Future salary increasing rate	1.88%~4.22% + Upgrade rate	Average for 5 years

27. Provisions

(a) Provisions as of December 31, 2011 and 2012 are as follows:

	2011	**2012**
Asset retirement obligations	35,727	39,348
Expected loss related to litigation	215,808	135,748
Unused credit commitments	444,770	415,372
Bonus card points program	24,439	24,873
Financial guarantee contracts issued	85,778	77,840
Others	63,070	53,665
	869,592	746,846

(b) Changes in provisions for the years ended December 31, 2011 and 2012 are as follows:

	2011						
	Asset retirement	**Litigation**	**Unused credit**	**Card point(*)**	**Guarantee**	**Other**	**Total**
Beginning balance	33,693	101,132	462,477	25,203	170,983	65,870	859,358
Provision (reversal)	297	124,551	(18,570)	17,265	(70,860)	(1,407)	51,276

Provision used	(526)	(9,875)		(18,029)		(4,751)	(33,181)
Foreign exchange translation			863		1,227		2,090
Others	2,263				(15,572)	3,358	(9,951)
Ending balance	35,727	215,808	444,770	24,439	85,778	63,070	869,592

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(In millions of won)

	Asset retirement	Litigation	Unused credit	2012 Card point(*)	Guarantee	Other	Total
Beginning balance	35,727	215,808	444,770	24,439	85,778	63,070	869,592
Provision (reversal)	676	13,986	(26,772)	39,142	7,949	13,356	48,337
Provision used	(439)	(93,586)		(38,708)		(22,118)	(154,851)
Foreign exchange translation		(460)	(2,651)		(2,428)	(643)	(6,182)
Others	3,384		25		(13,459)		(10,050)
Ending balance	39,348	135,748	415,372	24,873	77,840	53,665	746,846

(*) Provisions for card point were classified as fees and commission expense

(c) Asset retirement obligation liabilities represent the estimated cost to restore the existing leased properties which is discounted to the present value using the appropriate discount rate at the end of the reporting period. Disbursements of such costs are expected to incur at the end of lease contract. Such costs are reasonably estimated using the average lease year and the average restoration expenses. The average lease year is calculated based on the past ten-year historical data of the expired leases. The average restoration expense is calculated based on the actual costs incurred for the past three years using the three-year average inflation rate.

(d) Allowance for guarantees and acceptances as of December 31, 2011 and 2012 are as follows:

	2011	2012
Guarantees and acceptances outstanding	10,174,850	9,555,223
Contingent guarantees and acceptances	6,882,438	5,202,576
ABS and ABCP purchase commitments	1,605,269	1,773,404
Endorsed bill	9,748	3,946
	18,672,306	16,535,149
Allowance for loss on guarantees and acceptances	85,778	77,840
Ratio	0.46%	0.47%

28. Liability under insurance contracts

(a) Insurance liabilities as of December 31, 2011 and 2012 are as follows:

	2011	2012
Policy reserve	10,861,243	13,415,015

Policyholder s equity adjustment	6,011	3,544
	10,867,254	13,418,559

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(b) Policy reserve as of December 31, 2011 and 2012 are as follows:

	2011	2012
Insurance policy reserve		
Interest rate linked	6,055,822	8,092,651
Fixed interest rate	4,486,193	4,923,178
	10,542,015	13,015,829
Investment contract including discretionary participation feature		
Interest rate linked	319,228	399,186
	10,861,243	13,415,015

(c) The details of policy reserves as of December 31, 2011 and 2012 are as follows:

	2011 Individual insurance			
	Pure endowment	Death	Endowment	Subtotal
Premium reserve	2,411,566	5,065,110	2,715,919	10,192,595
Guarantee reserve	7,857	2,664	186	10,707
Unearned premium reserve	6	750	1	757
Reserve for outstanding claims	43,705	432,549	60,705	536,959
Interest rate difference guarantee reserve	2,650	275	22	2,947
Mortality gains reserve	8,318	8,741	444	17,503
Interest gains reserve	5,024	385	31	5,440
Long term duration dividend reserve	77	17	2	96
Reserve for policyholder s profit dividend	7,053			7,053
	2,486,256	5,510,491	2,777,310	10,774,057

	Group insurance			
	Pure protection	Savings	Subtotal	Total
Premium reserve	50,559	465	51,024	10,243,619
Guarantee reserve				10,707
Unearned premium reserve	798		798	1,555
Reserve for outstanding claims	35,360		35,360	572,319
Interest rate difference guarantee reserve				2,947

Mortality gains reserve	4		4	17,507
Interest gains reserve				5,440
Long term duration dividend reserve				96
Reserve for policyholder s profit dividend				7,053
	86,721	465	87,186	10,861,243

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	2012			
	Individual insurance			
	Pure endowment	Death	Endowment	Subtotal
Premium reserve	2,983,148	5,745,842	3,932,195	12,661,185
Guarantee reserve	9,315	4,252	190	13,757
Unearned premium reserve	4	698		702
Reserve for outstanding claims	49,891	494,767	83,964	628,622
Interest rate difference guarantee reserve	2,534	229	20	2,783
Mortality gains reserve	7,910	7,292	397	15,599
Interest gains reserve	9,202	334	29	9,565
Long term duration dividend reserve	73	14	2	89
Reserve for policyholder s profit dividend	5,388			5,388
Reserve for losses on dividend insurance contract	1,289			1,289
	3,068,754	6,253,428	4,016,797	13,338,979

	Group insurance			
	Pure protection	Savings	Subtotal	Total
Premium reserve	42,471	281	42,752	12,703,937
Guarantee reserve				13,757
Unearned premium reserve	548		548	1,250
Reserve for outstanding claims	32,731		32,731	661,353
Interest rate difference guarantee reserve				2,783
Mortality gains reserve	5		5	15,604
Interest gains reserve				9,565
Long term duration dividend reserve				89
Reserve for policyholder s profit dividend				5,388
Reserve for losses on dividend insurance contract				1,289
	75,755	281	76,036	13,415,015

(d) Reinsurance credit risk as of December 31, 2011 and 2012 are as follows:

	2011	
	Reinsurance assets	Reinsurance account receivable
AA- to AA+	295	
A- to A+	1,094	
	1,389	

	2012	
	Reinsurance assets	**Reinsurance account receivable**
AA- to AA+	133	139
A- to A+	777	2,518
	910	2,657

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(e) Income or expenses on insurance for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Insurance income			
Premium income	3,109,610	3,553,537	4,412,777
Reinsurance income	99,329	7,528	5,348
Separate account income	69,888	22,008	15,665
	3,278,827	3,583,073	4,433,790
Insurance expenses			
Claims paid	1,255,901	1,329,067	1,508,778
Reinsurance premium expenses	99,451	6,733	5,011
Provision for policy reserves	1,510,472	1,882,436	2,554,251
Separate account expenses	69,888	22,008	15,665
Discount charge	361	332	406
Acquisition costs	508,805	656,236	686,716
Collection expenses	11,498	12,373	13,793
Deferred acquisition costs(-)	(470,579)	(622,198)	(631,056)
Amortization of deferred acquisition costs	368,599	415,287	489,529
	3,354,396	3,702,274	4,643,093
Net loss on insurance	(75,569)	(119,201)	(209,303)

(f) Maturity of premium reserve as of December 31, 2011 and 2012 are as follows:

	2011						
	Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	Total
Interest rate linked	5,342	137,826	128,667	945,079	463,675	4,206,526	5,887,115
Fixed interest rate	27,535	100,440	130,116	379,365	1,232,174	2,180,838	4,050,468
Others		3	1,157	446	1,879	302,551	306,036
Ending balance	32,877	238,269	259,940	1,324,890	1,697,728	6,689,915	10,243,619

	2012
	Total

	Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	
Interest rate linked	9,302	209,844	212,810	1,191,045	659,385	5,590,001	7,872,387
Fixed interest rate	56,883	65,960	219,535	342,018	1,273,608	2,491,885	4,449,889
Others		892	592	633	2,075	377,469	381,661
Ending balance	66,185	276,696	432,937	1,533,696	1,935,068	8,459,355	12,703,937

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(g) Liability adequacy test, LAT

Liability adequacy tests were performed on the premium reserve, unearned premium reserve and guarantee reserve as of March 31, 2012 of contract held at December 31, 2011 and 2010. The premium reserve considered the amount net level premium reserve less, where appropriate, deferred acquisition cost in accordance with the article 6-3 of Regulation on Supervision of Insurance Business Act. As a result, LAT surplus was 1,697,342 million. However, liability adequacy test as of December 31, 2012 was not performed since there had not been any significant changes in the estimation, compared with the preceding test.

The assumptions of the current estimation used to assessment and their basis for calculation was as follows:

	Assumption		
	2011	2012	Measurement basis
Discount rate	4.96% ~ 5.41%	4.69% ~ 5.48%	Future rate of return on invested asset based on the rate scenario suggested by FSS.
Mortality rate	15% ~ 160%	15% ~ 160%	Rate of premium paid on risk premium based on experience-based rate by classes of sales channel, product and transition period of last 5 years.
Operating expense rate	Acquisition cost The first time : 131.6% ~ 378.7% From the second time : 0% ~ 90.0% Maintenance expense (each case): 1,170won ~ 8,589won Collection expenses (on gross premium): 0.11% ~ 1.71%	Acquisition cost The first time : 90.0% ~ 394.0% From the second time : 0% ~ 90.0% Maintenance expense (each case): 1,691won ~ 8,856won Collection expenses (on gross premium): 0.01% ~ 1.14%	Operating expense rate on gross premium or expense per contract based on experience-based rate of last 1 year
Surrender ratio	0.3% ~ 46.1%	1.4% ~ 46.3%	Surrender ratio by classes of sales channel, product and transition period of last 5 years.

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The result of liability adequacy test as of December 31, 2011 and 2012 are as follows:

	2011		
	Provisions for test	LAT base	Premium loss(surplus)
Participating			
Fixed interest	576,604	694,219	117,615
Variable interest	590,919	561,188	(29,731)
	1,167,523	1,255,407	87,884
Non- Participating			
Fixed interest	2,829,997	2,225,492	(604,505)
Variable interest	5,203,899	3,972,820	(1,231,079)
	8,033,896	6,198,312	(1,835,584)
Option and Guarantee	12,788	63,145	50,357
	9,214,207	7,516,864	(1,697,343)

	2012		
	Provisions for test	LAT base	Premium loss(surplus)
Participating			
Fixed interest	584,566	740,489	155,923
Variable interest	483,985	464,575	(19,410)
	1,068,551	1,205,064	136,513
Non- Participating			
Fixed interest	3,097,139	2,474,500	(622,639)
Variable interest	6,579,371	5,478,979	(1,100,392)
	9,676,510	7,953,479	(1,723,031)
Option and Guarantee	12,126	67,255	55,129
	10,757,187	9,225,798	(1,531,389)

Sensitivity analysis as of December 31, 2011 and 2012 are as follows:

	LAT fluctuation	
	2011	**2012**
Discount rate increased by 0.5%	(534,215)	(661,182)
Discount rate decreased by 0.5%	593,771	733,319
Operating expense increased by 10%	154,445	180,711
Mortality rate increased by 10%	309,112	382,932
Mortality rate increased by 5%	154,556	191,466
Surrender ratio increased by 10%	110,635	115,088

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29. Other liabilities

Other liabilities as of December 31, 2011 and 2012 are as follows:

	2011	2012
Accounts payable	7,537,921	6,061,149
Accrued expenses	3,403,326	3,316,840
Dividend payable	25,987	27,599
Advance receipts	86,651	125,419
Unearned income(*)	335,845	318,603
Withholding value-added tax and other taxes	261,811	343,863
Securities deposit received	720,594	674,392
Foreign exchange remittances pending	202,365	207,461
Domestic exchange remittances pending	2,129,833	3,032,615
Borrowing from trust account	1,474,568	2,377,502
Due to agencies	394,206	657,855
Deposits for subscription	45,444	70,820
Separate account liabilities	1,690,179	1,922,465
Sundry liabilities	1,405,091	2,041,032
Other	157,915	340,151
Present value discount account	(29,568)	(25,717)
	19,842,168	21,492,049

(*) Changes in deferred (unearned) point income for the years ended December 31, 2011 and 2012 are as follows:

	2011	2012
Beginning balance	138,940	150,177
Deferred income	171,061	184,248
Recognized income	(159,824)	(175,530)
Ending balance	150,177	158,895

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30. Equity

(a) Equity as of December 31, 2011 and 2012 are as follows:

	2011	2012
Capital stock:		
Common stock	2,370,998	2,370,998
Preferred stock	274,055	274,055
	2,645,053	2,645,053
Hybrid bond	238,582	537,443
Capital surplus:		
Share premium	9,494,769	9,494,769
Others	392,080	392,430
	9,886,849	9,887,199
Capital adjustments	(392,654)	(393,097)
Accumulated other comprehensive income, net of tax:		
Valuation gain(loss) on available-for-sale financial assets	1,208,744	1,219,415
Equity in other comprehensive income of associates	1,404	5,501
Foreign currency translation adjustments for foreign operations	(1,841)	(86,962)
Net loss from cash flow hedges	(20,501)	(4,846)
Other comprehensive income of separate account	1,142	1,712
	1,188,948	1,134,820
Retained earnings:	10,829,723	12,499,259
Non-controlling interest	2,462,304	2,469,146
	26,858,805	28,779,823

(*) Legal reserve was restricted for the dividend to stockholders by law or legislation. According to the article 53 of the Financial Holding Companies Act, the controlling company is required to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 100% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common stocks in connection with a free issue of shares

(b) Capital stock

i) Capital stock of the Group as of December 31, 2011 and 2012 are as follows:

Number of authorized shares	1,000,000,000
Par value per share in won	5,000
Number of issued common stocks outstanding	474,199,587
Number of issued preferred stocks outstanding	
As of December 31, 2011	54,811,000
As of December 31, 2012	11,100,000

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The capital stock does not match the total amount of the par value for preferred stock issued 55,500 million as of December 31, 2012 because redeemable preferred stock (43,711,000 shares) has been repaid by retirement of stock method.

ii) Preferred stocks issued by the Group as of December 31, 2012 are as follows:

	Number of shares	Predetermined dividend rate (%) (*1)	Redeemable period
Redeemable preferred stock:			
Series 12 (*2)	11,100,000	5.58%	April 21, 2016 - April 21, 2031

(*1) Based on initial issuance price

(*2) The Group maintains the right to redeem Series 12 redeemable preferred stock in part or in its entirety within the redeemable year at par value (considered contract dividend rate). If the preferred shares are not redeemed by the end of the redeemable year, those rights will lapse.

(c) Hybrid bond

Hybrid bond classified as other equity as of December 31, 2011 and 2012 are as follows:

			Amount		
	Issue date	Maturity date	2011	2012	Interest rate (%)
Hybrid bond	October 24, 2011	October 24, 2041	238,582	238,582	5.80%
	May 22, 2012	May 22, 2042		298,861	5.34%
			238,582	537,443	

The above hybrid bonds can be repaid at par value early after 5 years from date of issuance, and the Group has an unconditional right to extend the maturity under the same condition. In addition, if no dividend was to be paid for common shares, the agreed interest was also not paid.

(d) Capital adjustments

Changes in capital adjustments for the years ended December 31, 2011 and 2012 are as follows:

	2011	2012
Beginning balance	(390,853)	(392,654)
Changes in a parent s ownership interest in a subsidiary	(1,801)	

Other transactions with owners		(443)
Ending balance	(392,654)	(393,097)

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(e) Accumulated other comprehensive income

i) Changes in accumulated other comprehensive income for the years ended December 31, 2011 and 2012 are as follows:

	2011					
	Valuation gain(loss) on available-for-sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other Comprehensive income of separate account	Total
Beginning balance	1,668,944	(1,313)	(17,927)	(21,930)	1,721	1,629,495
Fair value evaluation	424,365	3,172			(681)	426,856
Reclassification	(956,829)			(37,345)		(994,174)
Hedging	(8,318)		(4,790)	38,569		25,461
Effects from exchange rate fluctuations	17		16,201			16,218
Deferred income taxes	80,329	(455)	4,709	205	102	84,890
Non-controlling interest	236		(34)			202
Ending balance	1,208,744	1,404	(1,841)	(20,501)	1,142	1,188,948

	2012					
	Valuation gain(loss) on available-for-sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other Comprehensive income of separate account	Total
Beginning balance	1,208,744	1,404	(1,841)	(20,501)	1,142	1,188,948
Fair value evaluation	442,237	3,220			841	446,298
Reclassification	(435,725)			154,820		(280,905)
Hedging	(3,861)		82,095	(134,167)		(55,933)
Effects from exchange rate fluctuations	12,785		(150,356)			(137,571)
Deferred income taxes	(4,176)	877	(17,082)	(4,998)	(271)	(25,650)
Non-controlling interest	(589)		222			(367)
Ending balance	1,219,415	5,501	(86,962)	(4,846)	1,712	1,134,820

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(f) Appropriation of retained earnings

Consolidated statements of appropriation of retained earnings for the years ended December 31, 2011 and 2012 are as follows:

	2011	2012
Unappropriated retained earnings:		
Balance at beginning of year	7,744,070	4,846,219
Repayment of preferred stock	(3,752,679)	
Interest on hybrid bond	(2,594)	(23,688)
Net income	1,672,908	590,449
	5,661,705	5,412,980
Reversal of regulatory reserve for loan loss:		9,901
	5,661,705	5,422,881
Appropriation of retained earnings:		
Legal reserve	167,291	59,045
Regulatory reserve for loan loss	18,687	
Dividends		
Dividends on common stock	355,650	331,940
Dividends on preferred stock paid	273,858	61,938
	629,508	393,878
	815,486	452,923
Unappropriated retained earnings to be carried over to subsequent year	4,846,219	4,969,958

(*) These statements of appropriation of retained earnings were based on the separate financial statements of the parent company.

(g) Regulatory reserve for loan loss

In accordance with Regulations for the Supervision of Financial Institutions, the Group reserves the difference between allowance for credit losses by IFRS and Regulations for the Supervision of Financial Institutions at the account of reserve for regulatory reserve for loan loss. The amount to be appropriated as regulatory reserve for loan loss is 1,976,425 million and 2,262,264 million for the years ended December 31, 2011 and 2012, respectively, which is not available for the payment of cash dividends.

31. Dividends

(a) Details of dividends recognized as distributions to common stockholders for the years ended December 31, 2011 and 2012 are as follows:

	2011	2012
Total number of shares issued and outstanding	474,199,587	474,199,587
Par value per share in won	5,000	5,000
Dividend per share in won	750	700
Dividends	355,650	331,940
Dividend rate per share (%)	15%	14%

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(b) Details of dividends recognized as distributions to preferred stockholders for the years ended December 31, 2011 and 2012 are as follows:

	2011				
	Total shares outstanding	Dividend per share in won	Total dividend	Issue price per share in won	Dividend rate per issue price
Redeemable preferred stock Series 10	28,990,000	7,000	202,930	100,000	7.00%
Convertible redeemable preferred stock Series 11	14,721,000	1,879	27,656	57,806	3.25%
Convertible redeemable preferred stock series 12	11,100,000	3,898	43,272	100,000	5.58%
	54,811,000		273,858		

(*) Dividend has been calculated from the date of issue, 255 days from April 21, 2011 and regarding dividend rate is annualized.

	2012				
	Total shares outstanding	Dividend per share in won	Total dividend	Issue price per share in won	Dividend rate per issue price
Convertible redeemable preferred stock series 12	11,100,000	5,580	61,938	100,000	5.58%
	11,100,000		61,938		

(c) The calculation of dividend for hybrid bond is as follows:

	2011	2012
Amount of hybrid bond	240,000	540,000
Interest rate	5.80%	5.34%~5.80%
Dividend	2,594	23,688

(d) There is no unrecognized dividend on cumulative preferred stocks as of December 31, 2011 and 2012.

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32. Net interest income

Net interest income for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Interest income			
Cash and due from banks	168,530	248,571	242,445
Trading assets	346,387	394,296	386,531
Financial assets designated at fair value through profit or loss	11,943	19,743	25,854
Available-for-sale financial assets	961,865	1,025,523	1,154,198
Held-to-maturity financial assets	687,373	642,931	594,684
Loans	10,570,658	11,281,606	11,274,840
Others	161,978	168,044	178,560
	12,908,734	13,780,714	13,857,112
Interest expense			
Deposits	3,935,630	4,181,049	4,515,029
Borrowings	390,271	485,253	543,564
Debt securities issued	2,041,212	1,942,850	1,740,174
Others	69,005	91,591	84,134
	6,436,118	6,700,743	6,882,901
Net interest income	6,472,616	7,079,971	6,974,211

33. Net fees and commission income

Net fees and commission income for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Fees and commission income			
Credit placement fees	48,226	50,440	57,900
Commission received as electronic charge receipt	141,767	145,449	133,842
Brokerage fees	510,115	495,082	353,694
Commission received as agency	111,951	114,970	239,792
Investment banking fees	84,475	68,856	70,142
Commission received in foreign exchange activities	158,345	161,887	148,271
Asset management fees	68,396	68,289	67,030
Credit card fees	1,894,986	2,020,010	2,070,625
Others	378,986	432,149	372,543

	3,397,247	3,557,132	3,513,839
Fees and commission expense			
Credit-related fee	13,591	25,148	38,363
Credit card fees	1,387,506	1,544,291	1,678,342
Others	238,312	228,522	225,043
	1,639,409	1,797,961	1,941,748
Net fees and commission income	1,757,838	1,759,171	1,572,091

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34. Dividend income

Dividend income for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Trading assets	2,701	2,290	2,800
Available-for-sale financial assets	214,750	206,570	172,983
	217,451	208,860	175,783

35. Net trading income (loss)

Net trading income (loss) for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Trading assets			
Gain (loss) on valuation of debt securities	50,523	1,731	(2,532)
Gain on sale of debt securities	27,954	4,603	37,295
Gain (loss) on valuation of equity securities	24,385	(3,304)	31,312
Gain (loss) on sale of equity securities	52,345	(36,315)	48,911
Gain (loss) on valuation of other trading assets	54,010	23,939	(6,228)
	209,217	(9,346)	108,758
Trading liabilities			
Loss on valuation of securities sold	325	(251)	(5,850)
Loss on disposition of securities sold	(19,911)	(22,284)	(20,614)
Gain (loss) on valuation of other trading liabilities	(67,261)	(29,670)	4,977
Gain on disposition of other trading liabilities	(117)	5,308	2,944
	(86,964)	(46,897)	(18,543)
Derivatives			
Gain (loss) on valuation of derivatives	100,136	(93,403)	379,581
Gain on transaction of derivatives	110,147	17,798	126,070
	210,283	(75,605)	505,651
	332,536	(131,848)	595,866

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36. Net gain (loss) on financial instruments designated at fair value through profit or loss

Net gain (loss) on financial instruments designated at fair value through profit or loss for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Assets			
Cash and due from banks			
Gain on valuation	43,193	32,731	38,982
Debt securities			
Gain (loss) on valuation	15,846	(20,684)	46,370
Gain on sale and redemption	18,973	12,206	15,359
	34,819	(8,478)	61,729
Equity securities			
Dividend income	1,248	1,405	1,025
Loss on valuation	(35,050)	(27,596)	6,273
Gain on sale	14,522	18,864	16,443
	(19,280)	(7,327)	23,741
Liabilities			
Borrowings			
Gain (loss) on valuation	(96,630)	239,011	(445,455)
Loss on disposal and redemption	(86,859)	(84,026)	(211,067)
	(183,489)	154,985	(656,522)
	(124,757)	171,911	(532,070)

37. Net impairment loss on financial assets

Net impairment loss on financial assets for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Impairment loss			
Loans	1,300,799	864,060	1,324,580
Available-for-sale financial assets	90,506	110,481	121,004
Other		31,946	

	1,391,305	1,006,487	1,445,584
Reversal of impairment loss			
Available-for-sale financial assets	(24,719)	(23,529)	(20,369)
Others	(30,472)		(9,421)
	(55,191)	(23,529)	(29,790)
	1,336,114	982,958	1,415,794

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38. General and administrative expenses

General and administrative expenses for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Employee benefits	2,241,420	2,489,916	2,433,722
Salaries	2,047,764	2,132,229	2,228,600
Severance benefits	193,057	278,545	160,658
Defined contribution	15,957	18,573	14,643
Defined benefit	177,100	259,972	146,015
Termination benefits	599	79,142	44,464
Rent	278,757	294,178	338,536
Entertainment	30,282	35,321	34,987
Depreciation	252,157	211,771	201,771
Amortization	52,241	75,963	97,065
Taxes and dues	130,357	145,685	160,493
Advertising	228,544	230,633	188,358
Research	10,924	10,819	12,447
Others	622,992	641,071	592,181
	3,847,674	4,135,357	4,059,560

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39. Share-based payments

(a) Stock options granted as of December 31, 2012 are as follows:

	4th grant	5th grant	6th grant	7th grant
Grant date	March 30, 2005	March 21, 2006	March 20, 2007	March 19, 2008
Exercise price in won	28,006	38,829	54,560	49,053
Number of shares granted	2,695,200	3,296,200	1,301,050	808,700
Contractual exercise year	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date
Changes in number of shares granted:				
Balance at January 1, 2012	666,892	2,035,136	1,025,856	619,778
Exercised or canceled	(564,503)	(22,430)		
Balance at December 31, 2012	102,389	2,012,706	1,025,856	619,778
Assumptions used to determine the fair value of options:				
Risk-free interest rate		2.74%	2.74%	2.74%
Expected exercise year		2 months	8 months	1 year 2 months
Expected stock price volatility		20.11%	21.88%	26.25%
Expected dividend yield		1.82%	1.82%	1.61%
Weighted average fair value per share	10,844	1,059	74	1,409

The weighted average exercise price for 3,760,729 options outstanding as of December 31, 2012 is 44,510.

As of December 31, 2012, the exercise of the remaining stock options was temporarily prohibited and after the suspension, the exercise period will be extended.

(b) Performance shares granted as of December 31, 2012 are as follows:

	Content
Type	Cash-settled share-based payment
Performance conditions	Increase rate of stock price and achievement of target ROE
Number of shares estimated at December 31, 2012	677,899

Fair value per share in won	38,850

The amount of cash payment for the Group s cash-settled share-based payment arrangements with performance conditions is determined at the fourth anniversary date from the grant date based on the share price which is an arithmetic mean of weighted average share prices of the past two-months, past one-month and past one-week. The fair value of cash payment is estimated using the closing share price at the end of reporting year.

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(c) Share-based compensation costs for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010		
	Employee of Shinhan Financial Group	Subsidiaries	Total
Stock options granted :			
4th	2,379	9,652	12,031
5th	934	4,240	5,174
6th	(110)	(1,027)	(1,137)
7th	758	2,697	3,455
Performance share	1,618	9,123	10,741
	5,579	24,685	30,264

	2011		
	Employee of Shinhan Financial Group	Subsidiaries	Total
Stock options granted :			
4th	(2,615)	(10,105)	(12,720)
5th	(3,656)	(19,130)	(22,786)
6th(*)	(1,073)	(4,784)	(5,857)
7th(*)	(1,642)	(5,854)	(7,496)
Performance share(*)	296	6,330	6,626
	(8,690)	(33,543)	(42,233)

(*) Includes 1,474 million of reversal of share-based compensation costs.

	2012		
	Employee of Shinhan Financial Group	Subsidiaries	Total
Stock options granted :			
4th	430	1,814	2,244

5th	(1,235)	(6,938)	(8,173)
6th	(200)	(1,411)	(1,611)
7th	(188)	(992)	(1,180)
Performance share	1,163	7,807	8,970
	(30)	280	250

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(d) Accrued expenses and the intrinsic value as of December 31, 2011 and 2012 are as follows:

	2011		
	Employee of Shinhan Financial Group	Subsidiaries	Total
Stock options granted :			
4th	1,299	6,565	7,864
5th	1,562	8,847	10,409
6th	209	1,478	1,687
7th	327	1,726	2,053
Performance share	1,914	15,453	17,367
	5,311	34,069	39,380

The intrinsic value of share-based payments is 27,073 million based on the quoted market price 39,750 per share for stock options and performance share.

	2012		
	Employee of Shinhan Financial Group	Subsidiaries	Total
Stock options granted :			
4th	97	1,013	1,110
5th	322	1,809	2,131
6th	9	67	76
7th	139	734	873
Performance share	3,077	23,259	26,336
	3,644	26,882	30,526

The intrinsic value of share-based payments is 27,489 million based on the quoted market price 38,850 per share for stock options and performance share.

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40. Net other operating income (expense)

Other operating income and other operating expense for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Other operating income			
Gain on sale of assets:			
Loans	33,226	95,926	69,977
Others:			
Gain on hedge activity	469,814	321,444	190,680
Reversal of allowance for acceptances and guarantee	312	70,860	10
Gain on trust account	3,004	1,025	3,258
Gain on other allowance	12,277	22,455	37,832
Others	150,492	89,002	80,058
	635,899	504,786	311,838
	669,125	600,712	381,815
Other operating expense			
Loss on sale of assets:			
Loans	(46,047)	(57,806)	(40,397)
Others:			
Loss on hedge activity	(541,781)	(276,088)	(342,004)
Contribution to fund	(229,908)	(239,841)	(252,203)
Loss on allowance for acceptances and guarantee	(41,335)		(7,960)
Loss on other allowance	(39,731)	(123,792)	(36,888)
Depreciation of operating lease assets	(13,527)	(11,320)	(7,761)
Deposit insurance premium	(208,446)	(230,752)	(239,348)
Others	(161,375)	(199,495)	(179,135)
	(1,236,103)	(1,081,288)	(1,065,299)
	(1,282,150)	(1,139,094)	(1,105,696)
Net other operating expenses	(613,025)	(538,382)	(723,881)

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41. Net other non-operating income (expenses)

Other non-operating income and other non-operating expense for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Other non-operating income			
Gain on sale of assets:			
Property and equipment	1,004	925	688
Investment property		5	315
Non-current assets held-for-sale		1	14,572
Lease assets	4,154	2,864	3,568
Others		776	222
	5,158	4,571	19,365
Gain on sale of Investments in associates		45,773	36,084
Others:			
Rental income on investment property	21,269	26,955	27,433
Reversal of impairment loss on Intangible asset			32
Gain from assets contributed	15,707	5,900	5,039
Gain on bond retirement		14,473	24
Gains on conversion of convertible bond			7,217
Others	121,485	111,221	108,990
	158,461	158,549	148,735
	163,619	208,893	204,184
Other non-operating expense			
Loss on sale of assets:			
Property and equipment	7,867	1,910	1,065
Investment property	5		426
Non-current assets held-for-sale		1,531	
Lease assets	3,033	1,830	1,368
Others		107	65
	10,905	5,378	2,924
Loss on sale of Investments in associates	256	470	1,423
Impaired loss on Investments in associates	79,933	4,351	8,977
	80,189	4,821	10,400

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	2010	2011	2012
Others:			
Donations	126,643	117,887	74,073
Depreciation of investment properties	8,352	9,245	9,062
Impaired loss on intangible assets		39,674	58,549
Write-off of intangible assets	74	3,682	585
Loss on bond retirement	2,091	296	10,256
Collecting of written-off expenses	6,481	6,433	6,414
Others	67,308	59,091	20,399
	210,949	236,308	179,338
	302,043	246,507	192,662
Net other non-operating income (expense)	(138,424)	(37,614)	11,522

42. Income tax expense

(a) Income tax expense for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Current income tax expense	799,551	1,013,109	819,321
Adjustment for prior periods	(220,967)	(30,798)	(7,838)
Origination and reversal of temporary differences	61,686	(147,061)	(47,160)
Income tax recognized in other comprehensive income	(69,895)	84,679	(25,379)
Income tax expenses	570,375	919,929	738,944

(b) Income tax expense (benefit) is calculated by multiplying net income before tax with the tax rate for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Income before income taxes	3,429,805	4,192,562	3,233,012
Income taxes at statutory tax rates	829,814	1,014,476	782,362
Adjustments :			
Non-taxable income	(45,672)	(49,363)	(42,217)
Non-deductible expense	9,027	8,312	10,837
Tax credit	(9,152)	(9,228)	(1,819)
Other	7,325	(13,470)	(2,381)

Refund due to adjustments of prior year tax returns	(220,967)	(30,798)	(7,838)
Income tax expense	570,375	919,929	738,944
Effective tax rate (%)	16.63%	21.94%	22.86%

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(c) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2011 and 2012 are as follows:

	2011			
	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Unearned income	(93,491)	(40,908)		(134,399)
Account receivable	(23,920)	5,876		(18,044)
Trading assets	(4,150)	(1,515)		(5,665)
Available-for-sale	(152,903)	76,329	80,220	3,646
Investment in subsidiaries	5,593	868	(455)	6,006
Valuation and depreciation of property and equipment	(147,921)	(14,978)		(162,899)
Derivative asset (liability)	126,672	(93,115)	205	33,762
Deposits	26,421	11,087		37,508
Accrued expenses	50,146	19,561		69,707
Defined benefit obligation	98,363	33,695		132,058
Plan assets	(75,674)	(51,670)		(127,344)
Other provisions	237,030	23,367		260,397
Allowance for acceptances and guarantees	45,992	(19,452)		26,540
Allowance related to asset revaluation	(45,098)	225		(44,873)
Allowance for expensing depreciation	(780)	(22)		(802)
Deemed dividend	9,811	(8,477)		1,334
Accrued contributions	10,711	9,571		20,282
Financial assets designated at fair value through profit of loss	(27,181)	(25,461)		(52,642)
Allowances	(176,813)	186,394		9,581
Fictitious dividend	1,081	(4)		1,077
Liability under insurance contracts	2,814	(223)		2,591
Other	15,156	(48,766)	4,709	(28,901)
	(118,141)	62,382	84,679	28,920

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	2012			
	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Unearned income	(134,399)	(15,039)		(149,438)
Account receivable	(18,044)	5,074		(12,970)
Trading assets	(5,665)	(4,770)		(10,435)
Available-for-sale	3,646	51,513	(4,176)	50,983
Investment in subsidiaries	6,006	(17,428)	877	(10,545)
Valuation and depreciation of property and equipment	(162,899)	17,565		(145,334)
Derivative asset (liability)	33,762	21,902	(4,998)	50,666
Deposits	37,508	(5,508)		32,000
Accrued expenses	69,707	(5,656)		64,051
Defined benefit obligation	132,058	89,181		221,239
Plan assets	(127,344)	(27,424)		(154,768)
Other provisions	260,397	(25,658)		234,739
Allowance for acceptances and guarantees	26,540	(7,881)		18,659
Allowance related to asset revaluation	(44,873)			(44,873)
Allowance for expensing depreciation	(802)	56		(746)
Deemed dividend	1,334			1,334
Accrued contributions	20,282	(5,441)		14,841
Financial assets designated at fair value through profit of loss	(52,642)	(12,567)		(65,209)
Allowances	9,581	34,998		44,579
Fictitious dividend	1,077	(8)		1,069
Liability under insurance contracts	2,591	738		3,329
Other	(28,901)	(21,108)	(17,082)	(67,091)
	28,920	72,539	(25,379)	76,080

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(d) Deferred tax assets and liabilities that were directly charged or credited to equity for the years ended December 31, 2011 and 2012 are as follows:

	January 1, 2011		Changes		December 31, 2011	
	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect
Valuation gain(loss) on available-for-sale financial assets	2,134,400	(465,456)	(540,420)	80,220	1,593,980	(385,236)
Foreign currency translation adjustments for foreign operations	(17,846)	(81)	11,377	4,709	(6,469)	4,628
Gain(loss) on cash flow hedge	(28,270)	6,340	1,224	205	(27,046)	6,545
Equity in other comprehensive income of associates	(1,652)	339	3,172	(455)	1,520	(116)
The accumulated other comprehensive income in separate account	2,100	(379)	(681)	102	1,419	(277)
Income tax charged or credited directly to equity	2,088,732	(459,237)	(525,328)	84,781	1,563,404	(374,456)

	December 31, 2011		Changes		December 31, 2012	
	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect
Valuation gain(loss) on available-for-sale financial assets	1,593,980	(385,236)	14,847	(4,176)	1,608,827	(389,412)
Foreign currency translation adjustments for foreign operations	(6,469)	4,628	(68,038)	(17,082)	(74,508)	(12,454)
Gain(loss) on cash flow hedge	(27,046)	6,545	20,653	(4,998)	(6,393)	1,547
Equity in other comprehensive income of associates	1,520	(116)	3,221	877	4,741	761
The accumulated other comprehensive income in separate account	1,419	(277)	840	(271)	2,259	(548)
Income tax charged or credited directly to equity	1,563,404	(374,456)	(28,477)	(25,650)	1,534,926	(400,106)

(*) Deferred tax effects, which are originated from the accumulated other comprehensive income in separate account, were included in the other assets of separate account s financial statement.

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(e) The amount of deductible temporary differences, unused tax losses, and unused tax credits are not recognized as deferred tax assets as of December 31, 2011 and 2012 are as follows:

	2011	2012
Tax loss carry forward(*)	139,759	139,759

(*) At the end of reporting date, the expected extinctive date of tax loss carry forward and tax credits carry forward that are not recognized as deferred tax assets are as follows:

	1 year or less	1-2 years	2-3 years	More than 3 years
Tax loss carry forward				139,759

(f) The amount of deferred tax liabilities regarding investment in subsidiaries which are not recognized as of December 31, 2011 and 2012 are as follows:

	2011	2012
Investment in subsidiaries	(1,076)	(2,933)
Investment in associates	(18,873)	(11,346)
	(19,949)	(14,279)

(g) The Group set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets and liabilities presented on a gross basis prior to any offsetting as of December 31, 2011 and 2012 are as follows:

	2011	2012
Deferred tax assets	288,303	210,273
Deferred tax liabilities	(259,383)	(134,193)

43. Earnings per share

(a) Basic earnings per share

Basic earnings per share for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Net income for the year	2,684,589	3,100,011	2,322,732
Less: dividends on preferred stock and hybrid bond	230,586	276,452	100,788
Net income available for common stock	2,454,003	2,823,559	2,221,944
Weighted average number of common shares outstanding	474,199,587	474,199,587	474,199,587
Earnings per share in won	5,175	5,954	4,686

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(b) Diluted earnings per share

Diluted earnings per share due to dilutive effect for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Net income available for common stock	2,454,003	2,823,559	2,221,944
Add: dividends on redeemable convertible preferred stock	27,656	27,657	
Diluted net earnings	2,481,659	2,851,216	2,221,944
Weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares(*)	488,920,587	488,920,587	474,199,587
Diluted earnings per share in won	5,076	5,832	4,686

(*) Weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Weighted average number of common shares	474,199,587	474,199,587	474,199,587
Effect of conversion of convertible redeemable preferred stock	14,721,000	14,721,000	
Weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares	488,920,587	488,920,587	474,199,587

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44. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of December 31, 2011 and 2012 are as follows:

	2011	2012
Guarantees		
Guarantee outstanding	10,174,850	9,555,223
Contingent guarantees	6,882,438	5,202,576
	17,057,288	14,757,799
Commitments to extend credit		
Loan commitments in won	46,447,266	51,524,469
Loan commitments in foreign currency	19,374,617	19,267,753
ABS and ABCP Commitments	1,605,269	1,773,404
Others	1,232,896	1,171,917
	68,660,048	73,737,543
Endorsed bills		
Secured endorsed bills	9,748	3,946
Unsecured endorsed bills	8,773,124	11,519,392
	8,782,872	11,523,338
Loans sold with recourse	2,099	2,099
	94,502,307	100,020,779

(b) Guaranteed principal money trust

As of December 31, 2011 and 2012, the Group guaranteed the return of the principal amount invested under management in the amount of 3,404,468 million and 3,425,853 million, respectively. Additional losses may be recorded based on future performance of these guaranteed principal money trust accounts.

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(c) Legal contingencies

The Group s pending lawsuits as a defendant for the year ended December 31, 2012 were as follows.

Plaintiff		Descriptions	Amount of damage claim
Confirmations on absence of debt litigation	1	A lawsuit against the Bank was filed claiming that the Bank should recover principal and interest of a trustee s account, insisting the payment out of the account were made improperly. The Group has paid 94.2 billion after losing the second appeal trial. The final appeal of the lawsuit is in progress.	96,286
Compensation for a loss	1	A lawsuit against the Bank was filed claiming that the Bank should compensate for a the plaintiff s losses insisting the Bank purchased shares of Shinho Paper Co., Ltd. (currently known as Artone Paper Co., Ltd.) without appropriate customer authorization. The first appeal was ruled in favor of the plaintiff. The amounts of loss are recorded as provision. The Group has appealed and such appeal is currently pending at the second appeal.	90,200
Claimed for principal and interest of the ABCP	1	A holder of an Asset Backed Commercial Paper (ABCP) has claimed for principal and interest of the ABCP against the Bank, the broker of the ABCP deal, as the Bank had refused to pay insisting the line of credit was provided illegally by their employee. The Group believes that there are low possibilities of resource outflows in respect of the lawsuit bated on similar litigation.	65,000
Claimed uncollected receivables of goods	1	A plaintiff claimed uncollected receivables of goods against the Bank since the plaintiff had delivered goods based on a bank guarantee forged by the Bank issued. The case is currently pending at the first appeal. The Group recorded a provision based on similar litigation.	43,362
Refund a cost of the fixed collateral establishment		The plaintiffs filed the lawsuits against the Bank claiming that the Group should refund a cost of the fixed collateral establishment insisting a loan agreement was invalid since it regulated that the cost should be paid by the borrower.	

	110		11,621
Improper arrangements of PF loans	2	The plaintiffs (other banking institutions) filed the lawsuits against the Shinhan Investment claiming that the Shinhan Investment should pay PF loans for original borrower insisting the arrangements of PF loans were made improperly. The appeal has been ruled in favor of the plaintiffs. The amounts of loss were record as provision.	38,800
Contract void check and the return of unfair profits	37	As of December 31, 2012, the Bank established an allowance for the lawsuits that has filed to nullify investor s obligations under the KIKO contracts. The cases are currently pending at the second appeal or the final appeal.	205,897
Others	272		203,250
	425		754,416

As of December 31, 2012, the Group recorded a provision of 135,748 million and reserve of 724 million with respect to these lawsuits, in other liabilities.

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Notes to the Consolidated Financial Statements (Continued)

December 31, 2010, 2011 and 2012

(In millions of won)

45. Statement of cash flows

(a) Cash and cash equivalents in the consolidated statements of cash flows for as of December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Cash and due from banks	11,821,607	14,763,099	13,394,331
Due from financial institutions with a maturity over three months from date of acquisition	(4,638,335)	(5,248,522)	(3,898,900)
Restricted due from banks	(2,350,127)	(5,545,235)	(4,529,705)
	4,833,145	3,969,342	4,965,726

(b) Significant non-cash activities for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Increase in dividend payable due to hybrid capital instruments		2,593	4,351
Increase in available-for-sale financial assets from debt-equity swap	5,572	72,219	61,893

(c) On November 11, 2011, the Group obtained a controlling ownership over Shinhan Vina Bank, formerly a jointly controlled entity, by acquiring an additional 50 % of the outstanding and voting interests for 105,940 million

The cash amount of 103,859 million paid as consideration for obtaining control of Shinhan Vina is reported in the statement of cash flows, net of cash and cash equivalents of 2,081 million acquired as part of transactions.

On January 2, 2012, the Group acquired cash and cash equivalents amounting to 90,010 million through the purchase & assumption(P&A) deal for selected assets and liabilities of Tomato Savings Bank Co., Ltd.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

December 31, 2010, 2011 and 2012

(In millions of won)

46. Related parties

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(a) Significant balances with the related parties as of December 31, 2011 and 2012 are as follows:

Related party	Account	2011	2012
Investments in associates			
Aju Capital co., Ltd	Loans and receivables	50,000	50,000
	Allowances	(254)	(254)
	Provisions	11	
	Deposits		20,297
UAMCO., Ltd	Loans and receivables	38,723	
	Allowances	(52)	
	Deposits		517
Pohang TechnoPark2PFV	Loans and receivables	658	
	Allowances	(3)	
	Provisions	286	
	Deposits		14,794
Shinhan Corporate Restructuring Fund 5th	Account Receivable	27	27
	Allowances		(27)
Cardif Life Insurance	Deposits		2,353
	Credit card assets	83	94
Key management personnel and their immediate relatives			
Loans and receivables		2,056	3,221
Assets		91,856	53,061
Liabilities		297	37,961

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

December 31, 2010, 2011 and 2012

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(b) Significant transactions with the related parties for the years ended December 31, 2011 and 2012 are as follows:

Related party	Account	2011	2012
Investments in associates			
Aju Capital co., Ltd	Interest income		2,042
	Net other operating income	664	11
	Reversal of credit losses	304	
UAMCO., Ltd	Interest income		311
	Reversal of credit losses	(23)	52
Pohang TechnoPark2PFV	Net other operating income		286
	Reversal of credit losses	(3)	3
	Interest losses		(17)
	Net other operating losses	(286)	
Shinhan Corporate Restructuring Fund 8th	Fees and commission income	824	
SHC-AJU 1st Investment Fund		97	
Petra Private Equity Fund		365	
SHC-AJU 2nd Investment Fund		11	
Cardif Life Insurance		577	271
Shinhan K2 Secondary Fund			281
Key management personnel and their immediate relatives			
Interest income		80	135
		2,610	3,375

(c) Key management personnel compensation

Key management personnel compensation for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Short-term employee benefits	24,620	21,310	23,679
Severance benefits	538	585	503
Share-based payment transactions	5,804	3,279	3,904
	30,962	25,174	28,086

(d) There are no guarantees provided between the related parties as of December 31, 2011 and 2012.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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47. Investment in subsidiaries

(a) Condensed financial information for the Group s subsidiaries.

i) Condensed financial position for the Group s subsidiaries as of December 31, 2011 and 2012 are as follows:

	2011			2012		
	Total assets	Total liabilities	Total equities	Total assets	Total liabilities	Total equities
Shinhan financial group (Separate)	30,844,250	11,413,443	19,430,807	27,212,924	7,546,003	19,666,921
Shinhan Bank	228,907,784	209,617,964	19,289,820	234,102,700	213,830,689	20,272,011
Shinhan Card Co., Ltd.	22,356,885	17,126,623	5,230,262	22,279,918	16,546,741	5,733,177
Shinhan Investment Corp.	12,166,106	10,046,342	2,119,764	16,465,338	14,287,115	2,178,223
Shinhan Life Insurance Co., Ltd	13,976,735	12,788,663	1,188,072	16,942,184	15,617,037	1,325,147
Shinhan Capital Co., Ltd.	3,518,266	3,037,927	480,339	3,526,185	3,053,871	472,314
Jeju Bank	3,168,168	2,920,296	247,872	3,242,918	2,965,024	277,894
Shinhan Credit Information Co., Ltd.	19,495	5,993	13,502	19,176	5,659	13,517
Shinhan Private Equity Investment management	343,231	334,599	8,632	421,840	414,292	7,548
Shinhan BNP Paribas AMC	170,665	24,369	146,296	168,911	23,218	145,693
SHC Management Co., Ltd.	8,620	355	8,265	8,747	331	8,416
Shinhan Data system	15,540	8,804	6,736	16,298	8,594	7,704
Shinhan Savings Bank	3,992	79	3,913	636,115	542,861	93,254
Shinhan Aitas Co., Ltd.				30,976	4,309	26,667
	315,499,737	267,325,457	48,174,280	325,074,230	274,845,744	50,228,486

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

ii) Condensed comprehensive income statement for the Group s subsidiaries for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010			2011			2012		
	Operating income	Net income	Total comprehensive income	Operating income	Net income	Total comprehensive income	Operating income	Net income	Total comprehensive income
Shinhan financial group(separate))	1,065,807	617,625	620,200	2,145,768	1,672,908	1,674,610	992,790	590,446	590,446
Shinhan Bank	21,252,143	1,670,049	1,737,584	18,808,507	2,118,421	1,634,530	17,209,542	1,696,651	1,565,123
Shinhan Card Co., Ltd.	4,264,436	990,393	984,872	4,497,105	875,930	936,096	4,585,735	749,764	802,663
Shinhan Investment Corp.	1,733,263	150,714	158,079	2,061,234	101,710	113,316	1,981,619	63,912	78,307
Shinhan Life Insurance Co., Ltd	4,103,185	213,410	266,413	4,340,729	236,927	217,586	5,240,254	209,399	201,838
Shinhan Capital Co., Ltd.	403,408	40,111	52,264	344,579	51,109	48,729	352,876	4,653	(3,108)
Jeju Bank	191,193	17,434	20,303	193,042	22,412	22,275	193,310	27,272	29,977
Shinhan Credit Information Co., Ltd.	33,986	1,026	1,026	32,235	(746)	(746)	29,912	1	1
Shinhan Private Equity Investment management	93,739	1,331	1,331	84,366	(7,624)	(7,624)	40,882	1,185	1,185
Shinhan BNP Paribas AMC	119,251	39,741	39,182	109,811	35,040	34,961	102,473	31,302	30,497
SHC Management Co., Ltd.	251	(339)	(339)	259	(34)	(34)	293	150	150
Shinhan Data system	40,600	612	612	50,128	1,056	1,056	58,170	946	946
Shinhan Savings Bank Co., Ltd.					(87)	(87)	109,672	(23,389)	(26,467)
Shinhan Aitas Co., Ltd.							4,385	(513)	(513)
	33,301,262	3,742,107	3,881,527	32,667,763	5,107,022	4,674,668	30,901,913	3,351,779	3,271,045

(*) Subsidiaries such as trust, beneficiary certificates, corporate restructuring fund and private equity fund are excluded.

(b) Change in subsidiaries

i) Subsidiaries newly excluded in the Group for the year ended December 31, 2012 are as follows:

Subsidiary	Reason

Shinhan Investment Europe Ltd.	The investee is in liquidation for the current period.

ii) Subsidiaries newly consolidated in the Group for the year ended December 31, 2011 were as follows:

Subsidiary	Reason
Shinhan Savings Bank	The Group owns 100% of the voting power.

(*) Subsidiaries such as trust, beneficiary certificates, corporate restructuring fund and private equity fund are excluded.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

December 31, 2010, 2011 and 2012

(In millions of won)

48. Information of trust business

(a) Significant balances with trust business as of December 31, 2011 and 2012 are as follows:

	2011	2012
Borrowings from trust account	2,011,569	2,377,502

(b) Transactions with trust business for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Trust management fees	62,541	62,305	62,886
Commission income	34	46	24
Interest on borrowings from trust account	37,388	61,976	52,469

49. Condensed Shinhan Financial Group (Parent Company only) Financial Statements

STATEMENTS OF FINANCIAL POSITION

	December 31, 2011	December 31, 2012
Assets		
Deposits with banking subsidiary	2,220,168	212,783
Receivables from subsidiaries:		
Non-banking subsidiaries	1,104,678	1,359,605
Investment (at equity) in subsidiaries:		
Banking subsidiaries	13,756,799	13,872,801
Non-banking subsidiaries	11,293,203	11,343,295
Trading asset	1,856,712	118,548
Property, equipment and intangible assets, net	9,337	8,376
Other assets		
Banking subsidiaries	390,347	171,933
Non-banking subsidiaries	200,532	123,146
Other	12,474	2,437
Total assets	30,844,250	27,212,924
Liabilities and equity		
Borrowings	5,000	10,000
Debt securities issued	7,034,393	7,196,951
Accrued expenses & other liabilities	4,374,050	339,052

Total liabilities	11,413,443	7,546,003
Equity	19,430,807	19,666,921
Total liabilities and equity	30,844,250	27,212,924

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

December 31, 2010, 2011 and 2012

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CONDENSED STATEMENTS OF INCOME

	2010	2011	2012
Income			
Dividends from banking subsidiaries	149,733	828,033	390,000
Dividends from non-banking subsidiaries	667,579	1,009,446	410,223
Interest income from banking subsidiaries	564	36,046	10,431
Interest income from non-banking subsidiaries	97,429	74,610	57,366
Other income	149,690	197,994	126,605
Total income	1,064,995	2,146,129	994,625
Expenses			
Interest expense	(351,528)	(372,084)	(341,678)
Other expense	(100,898)	(94,059)	(64,010)
Total expenses	(452,426)	(466,143)	(405,688)
Income (loss) before income tax expense	612,569	1,679,986	588,937
Income tax expense (benefit)	(5,056)	7,078	(1,512)
Net income	617,625	1,672,908	590,449

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

December 31, 2010, 2011 and 2012

(In millions of won)

CONDENSED STATEMENTS OF CASH FLOWS

	2010	2011	2012
Cash flows from operating activities			
Income before income taxes	612,569	1,679,986	588,937
Non-cash items included in profit before tax	(556,295)	(1,584,401)	(522,539)
Changes in operating assets and liabilities	39,147	(1,606,828)	1,737,232
Income taxes paid		(2,324)	
Net interest paid	(216,841)	(262,284)	(246,380)
Dividend received from subsidiaries	817,312	1,837,479	800,223
Net cash provided by (used in) operating activities	695,892	61,628	2,357,473
Cash flows from investing activities			
Loan origination (collection) to non-banking subsidiaries	120,000	350,000	(255,000)
Acquisition of subsidiary	(10,026)	(4,000)	(166,094)
Other, net	(7,507)	(14,689)	11,327
Net cash provided by (used in) investing activities	102,467	331,311	(409,767)
Cash flows from financing activities			
Repayments of preferred stock			(3,765,124)
Issuance of preferred stock and other equity instrument		1,344,746	298,861
Net changes in borrowings	(851,794)		5,000
Issuance of debt securities issued	2,441,051	2,530,729	1,296,510
Repayments of securities issued	(1,480,000)	(2,105,126)	(1,140,000)
Dividend paid	(427,571)	(585,557)	(650,697)
Cash inflows from cash flow hedge		32,966	
Net cash provided by (used in) financing activities	(318,314)	1,217,758	(3,955,450)
Net increase in cash and cash equivalents	480,045	1,610,697	(2,007,744)
Cash and cash equivalents at beginning of year	129,820	609,865	2,220,562
Cash and cash equivalents at end of year	609,865	2,220,562	212,818

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SUPPLEMENTAL FINANCIAL INFORMATION (UNAUDITED)

INDUSTRY GUIDE 3 INFORMATION

Except where indicated otherwise, amounts for 2010, 2011 and 2012 are prepared in accordance with IFRS, which is consistent with the Group s Financial Statements. In accordance with the SEC Release, First-time application of International Financial Reporting , amounts prior to 2010 are prepared under U.S. GAAP.

Loan Types

The following table presents our loans by type for the periods indicated. Except where specified otherwise, all loan amounts stated below are before deduction for loan loss allowances. Total loans reflect our loan portfolio, including past due amounts.

	As of December 31,		
	2010	2011	2012
		(In billions of Won)	
Corporate			
Corporate loans(1)	95,835	98,598	101,025
Public and other(2)	2,771	4,930	3,107
Loans to banks(3)	1,467	2,557	4,537
Lease financing	1,555	1,639	1,699
Total Corporate	101,628	107,724	110,368
Retail			
Mortgages and home equity	40,073	44,399	46,128
Other retail(4)	24,901	25,052	27,925
Total retail	64,974	69,451	74,053
Credit cards	17,647	17,880	17,854
Total loans(5)	184,249	195,055	202,275

Notes:

(1) Consists primarily of working capital loans, general purpose loans, bills purchased and trade-related notes and excludes loans to public institutions and commercial banks.

(2) Consists of working capital loans and loan facilities to public institutions and non-profit organizations.

(3) Consists of interbank loans and call loans.

(4) Consists of general unsecured loans and loans secured by collateral other than housing to retail customers.

(5) As of December 31, 2010, 2011 and 2012, approximately 89.25%, 88.76% and 89.56% of our total gross loans, respectively, were Won-denominated.

	As of December 31,	
	2008	2009
	(In billions of Won)	
Corporate		
Commercial and industrial(1)	93,103	89,249
Lease financing	1,592	1,560
Total Corporate	94,695	90,809
Retail		
Mortgages and home equity	36,183	40,022
Other retail(2)	25,026	23,307
Total Retail	61,209	63,329
Credit cards	14,637	15,117
Total loans(3)	170,541	169,255

Notes:

(1) Consists primarily of working capital loans, general purpose loans, bills purchased, trade-related notes, inter-bank loans, privately placed bonds, credit facility drawdowns and purchases of commercial paper or notes at a discount from its customers with recourse.

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(2) Consists of general unsecured loans and loans secured by collateral other than housing to retail customers.

(3) As of December 31, 2008 and 2009, approximately 90.4% and 94.4% of our total gross loans, respectively, were Won-denominated.

Nonaccrual Loans and Past Due Accruing Loans

We discontinue accruing of interest on loans when payment of interest and/or principal becomes past due by 90 days. Loans are not reclassified as accruing until interest and principal payments are brought current.

We generally do not request borrowers to make immediate repayment of the whole outstanding principal balances and related accrued interest on loans whose interest payments are past due for one to 14 days in case of commercial loans and one to 30 days in case of retail loans.

Interest foregone is the interest due on nonaccrual loans that has not been accrued in our books of account. In 2008, 2009, 2010, 2011 and 2012 we would have recorded gross interest income of 202 billion, 151 billion, 145 billion, 131 billion and 163 billion, respectively, on loans accounted for on a nonaccrual basis throughout the respective years, or since origination for loans held for part of the year, had the loans been current with respect to their original contractual terms. The amount of interest income on those loans that was included in our net income in 2008, 2009, 2010, 2011 and 2012 were 109 billion, 90 billion, 52 billion, 66 billion and 70 billion, respectively.

The category accruing but past due one day includes loans which are still accruing interest but on which principal or interest payments are contractually past due one day or more. We continue to accrue interest on loans where the total amount of loan outstanding, including accrued interest, is fully secured by cash on deposits.

The following table shows, at the dates indicated, the amount of loans that are placed on a nonaccrual basis and accruing loans which are past due one day or more.

	As of December 31,		
	2010	2011	2012
		(In billions of Won)	
Loans accounted for on a nonaccrual basis(1)			
Corporate	1,813	1,621	1,642
Retail	155	239	416
Credit cards	155	152	215
Sub-total	2,123	2,012	2,273
Accruing loans which are contractually past due one day or more as to principal or interest			
Corporate	263	224	245
Retail	369	482	354
Credit cards	432	576	633
Sub-total	1,064	1,282	1,232
Total	3,187	3,294	3,505

Note:

(1) Represents either loans that are troubled debt restructuring as defined under IFRS or loans for which payment of interest and/or principal became past due by 90 days or more (adjusting for any overlap due to loans that satisfy both prongs so as to avoid double counting).

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	As of December 31, 2008	2009
	(In billions of Won)	
Loans accounted for on a nonaccrual basis		
Corporate	1,457	1,231
Retail	148	187
Credit cards	416	224
Sub-total	2,021	1,642
Accruing loans which are contractually past due one day or more as to principal or interest		
Corporate	122	65
Retail	46	24
Credit cards		
Sub-total	168	89
Total	2,189	1,731

Allocation of Allowance for Loan Losses

The following table presents, as of the dates indicated, the allocation of our loan loss allowance by loan type.

	As of December 31,					
	2010		2011		2012	
	Amount	Loans% of Total Loans	Amount	Loans% of Total Loans	Amount	Loans% of Total Loans
	(In billions of Won, except percentages)					
Corporate						
Corporate loans	1,923	67.43%	1,634	63.41%	1,694	60.64%
Public and other	15	0.53	19	0.74	14	0.50
Loan to banks	32	1.12	13	0.50	11	0.39
Lease financing	17	0.60	14	0.54	33	1.18
Total corporate	1,987	69.68	1,680	65.19	1,752	62.71
Retail						
Mortgages and home equity	17	0.60	19	0.74	23	0.82
Other retail	178	6.24	202	7.84	274	9.82
Total retail	195	6.84	221	8.58	297	10.64
Credit cards	670	23.48	676	26.23	744	26.65
Total allowance for loan losses	2,852	100.00%	2,577	100.00%	2,793	100.00%

Our total allowance for loan losses increased by 216 billion, or 8.38%, to 2,793 billion as of December 31, 2012 from 2,577 billion as of December 31, 2011. During 2012, the allowance for loan losses increased primarily as a result of increased loss rate for other retail loans.

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Our total allowance for loan losses decreased by 275 billion, or 9.6%, to 2,577 billion as of December 31, 2011 from 2,852 billion as of December 31, 2010. During 2011, the allowance for loan losses decreased primarily as a result of a decrease of loss rate in corporate loans.

	As of December 31,			
	2008		2009	
	Amount	Loans% of Total Loans	Amount	Loans% of Total Loans
	(In billions of Won, except percentages)			
Corporate				
Commercial and Industrial	2,438	76.16%	2,969	81.61%
Lease financing	11	0.34	13	0.36
Total corporate	2,449	76.51	2,982	81.97
Retail				
Mortgages and home equity	8	0.25	11	0.30
Other retail	149	4.65	170	4.67
Total retail	157	4.90	181	4.97
Credit cards	595	18.59	475	13.06
Total allowance for loan losses	3,201	100.00%	3,638	100.00%

Analysis of the Allowance for Loan Losses

The following table presents an analysis of our loan loss experience for each of the years indicated.

	2010	2011	2012
	(In billions of Won, except percentages)		
Balance at the beginning of the period	3,114	2,852	2,577
Amounts charged against income	1,301	864	1,325
Gross charge-offs:			
Corporate:			
Corporate loans	1,292	960	846
Public and other	19	1	1
Loan to banks			
Lease financing	18	14	19
Retail:			
Mortgage and home equity	25	1	4
Other retail	76	80	130
Credit cards	429	447	486
Total gross charge-offs	1,859	1,503	1,486
Recoveries:			
Corporate:			
Corporate loans	83	75	78
Public and other			6
Loan to banks			
Lease financing	1	2	2
Retail:			

Mortgage and home equity	2	6	
Other retail	52	37	32
Credit cards	327	283	257
Total recoveries	465	403	375
Other	(169)	(39)	2
Net charge-offs	(1,563)	(1,139)	(1,109)
Balance at the end of the period	2,852	2,577	2,793
Ratio of net charge-offs during the period to average loans outstanding during the period	1.06%	0.78%	0.75%

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	2008	2009
	(In billions of Won, except percentages)	
Balance at the beginning of the period	2,099	3,201
Amounts charged against income	1,319	1,751
Gross charge-offs:		
Corporate:		
Commercial and industrial	286	1,087
Lease financing	6	(19)
Retail:		
Mortgage and home equity	6	(1)
Other retail	98	227
Credit cards	521	597
Total gross charge-offs	(917)	(1,891)
Recoveries:		
Corporate:		
Commercial and industrial	43	123
Lease financing		1
Retail:		
Mortgage and home equity	2	1
Other retail	107	59
Credit cards	548	393
Total recoveries	700	577
Net charge-offs	(217)	(1,314)
Acquisition of LG Card		
Balance at the end of the period	3,201	3,638
Ratio of net charge-offs during the period to average loans outstanding during the period	0.13%	0.78%

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Analysis of Non-Performing Loans

The following table sets forth, for the periods indicated, the total non-performing loans by the borrower type.

	As of December 31,								
	2010			2011			2012		
	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans
	(In billions of Won, except percentages)								
Corporate									
Corporate loans	95,835	816	0.85%	98,598	739	0.75%	101,125	769	0.76%
Public and other	2,771	8	0.29	4,930	8	0.16	3,107	9	0.29
Loans to banks	1,467		0.00	2,557		0.00	4,537		0.00
Lease financing	1,555	10	0.64	1,639	5	0.31	1,699	8	0.47
Total corporate	101,628	834	0.82	107,724	752	0.70	110,368	786	0.71
Retail									
Mortgage and home equity	40,073	30	0.07	44,399	55	0.12	46,128	60	0.13
Other retail	24,901	102	0.41	25,052	164	0.65	27,925	315	1.13
Total retail	64,974	132	0.20	69,451	219	0.31	74,053	375	0.51
Credit cards	17,647	461	2.61	17,880	445	2.49	17,854	534	2.99
Total	184,249	1,427	0.77%	195,055	1,416	0.73%	202,275	1,695	0.84%

	As of December 31,					
	2008			2009		
	Loans	Non-Loans	Ratio of Non-Loans	Loans	Non-Loans	Ratio of Non-Loans
	(In billions of Won, except percentages)					
Corporate						
Commercial and industrial	93,103	1,087	1.17%	89,249	1,160	1.30%
Lease financing	1,592	5	0.31	1,560	4	0.26
Total corporate	94,695	1,092	1.15	90,809	1,164	1.28
Retail						
Mortgage and home equity	36,183	40	0.11	40,022	29	0.07
Other retail	25,026	54	0.22	23,307	51	0.22
Total retail	61,209	94	0.33	63,329	80	0.29
Credit cards	14,637	171	1.17	15,117	171	1.13
Total	170,541	1,357	0.80%	169,255	1,415	0.84%

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Troubled Debt Restructurings

The following table presents, at the dates indicated, our loans which are troubled debt restructurings as defined under IFRS for the years ended December 31, 2010, 2011 and 2012 and under U.S. GAAP for the years ended December 31, 2008 and 2009. These loans mainly consist of corporate loans that have been restructured through the process of workout, court receivership and composition. See Item 4.B. Business Overview Description of Assets and Liabilities Credit Exposures to Companies in Workout, Court Receivership and Composition. These loans accrue interest at rates lower than the original contractual terms, or involve the extension of the original contractual maturity as a result of a variation of terms upon restructuring.

	As of December 31,		
	2010	2011	2012
	(In billions of Won)		
Loans classified as troubled debt restructurings (excluding nonaccrual and past due loans)	193	75	188

For the years ended December 31, 2010, 2011 and 2012, interest income that would have been recorded under the original contract terms of restructured loans amounted to 69 billion, 42 billion and 74 billion, respectively, out of which 31 billion, 14 billion and 20 billion was reflected as our interest income, respectively.

	As of December 31,	
	2008	2009
	(In billions of Won)	
Loans classified as troubled debt restructurings (excluding nonaccrual and past due loans)	557	932

For the years ended December 31, 2008 and 2009, interest income that would have been recorded under the original contract terms of restructured loans amounted to 21 billion and 34 billion, respectively, out of which 18 billion and 22 billion was reflected as our interest income, respectively.

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INDEX OF EXHIBITS

1.1	Articles of Incorporation, last amended as of March 29, 2012 (in English) *
2.1	Form of Common Stock Certificate (in English) **
2.2	Form of Deposit Agreement to be entered into among Shinhan Financial Group, Citibank, N.A., as depositary, and all owners and holders from time to time of American depositary shares issued thereunder, including the form of American depositary receipt**
2.3	Long-term debt instruments of Shinhan Financial Group, Shinhan Bank and other consolidated subsidiaries for which financial statements are required to be filed are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. Shinhan Financial Group agrees to furnish the Commission on request a copy of any instrument defining the rights of holders of its long-term debt and that of any subsidiary for which consolidated or unconsolidated financial statements are required to be filed.**
4.1	Stock Purchase Agreement by and between Korea Deposit Insurance Corporation and Shinhan Financial Group dated July 9, 2003***
4.2	Investment Agreement by and between Shinhan Financial Group and Korea Deposit Insurance Corporation dated July 9, 2003**
4.3	Agreed Terms, dated June 22, 2004, by and among the President of Korea Deposit Insurance Corporation, CEO of Shinhan Financial Group, CEO of Chohung Bank, Chairman of the National Financial Industry Labor Union of Korea and the Head of the Chohung Bank Chapter of the National Financial Industry Labor Union**
4.4	Merger Agreement between Shinhan Bank and Chohung Bank (in English) ****
4.5	Split-Merger Agreement between Shinhan Card and Chohung Bank (in English) ****
4.6	Form of Share Purchase Agreement, dated January 17, 2007, by and between Shinhan Financial Group and the holders of the redeemable preferred shares and the redeemable convertible shares issued by Shinhan Financial Group as part of the funding for the acquisition of LG Card Co., Ltd. (in English) *****
4.7	LG Card Acquisition Agreement, dated 2006, between Korea Development Bank and 13 other financial institutions, on the one hand, and Shinhan Financial Group ******
8.1	List of all subsidiaries of Shinhan Financial Group
12.1	Certifications of our Chief Executive Officer required by Rule 13a-14(a) of the Exchange Act
12.2	Certifications of our Chief Financial Officer required by Rule 13a-14(a) of the Exchange Act
13.1	Certifications of our Chief Executive Officer required by Rule 13a-14(b) and Section 1350 of Chapter 63 of the United States Code (18 U.S.C. 1350)
13.2	Certifications of our Chief Financial Officer required by Rule 13a-14(b) and Section 1350 of Chapter 63 of the United States Code (18 U.S.C. 1350)

A fair and accurate translation from Korean into English.

* Incorporated by reference to the registrant s previous filing on Form 20-F (No. 001-31798), filed on April 30, 2012.

** Incorporated by reference to the registrant s previous filing on Form 20-F (No. 001-31798), filed on September 15, 2003.

*** Incorporated by reference to the registrant s previous filing on Form 20-F (No. 001-31798), filed on September 15, 2003. Confidential treatment has been requested for certain portions of the Stock Purchase Agreement.

**** Incorporated by reference to the registrant s previous filing on Form 20-F (No. 001-31798), filed on June 30, 2006.

***** Incorporated by reference to the registrant s previous filing on Form 20-F (No. 001-31798), filed on June 29, 2007.

****** Incorporated by reference to registrant s previous filing on Form 20-F (No. 001-31798), filed on June 30, 2008.