



Hit the future:

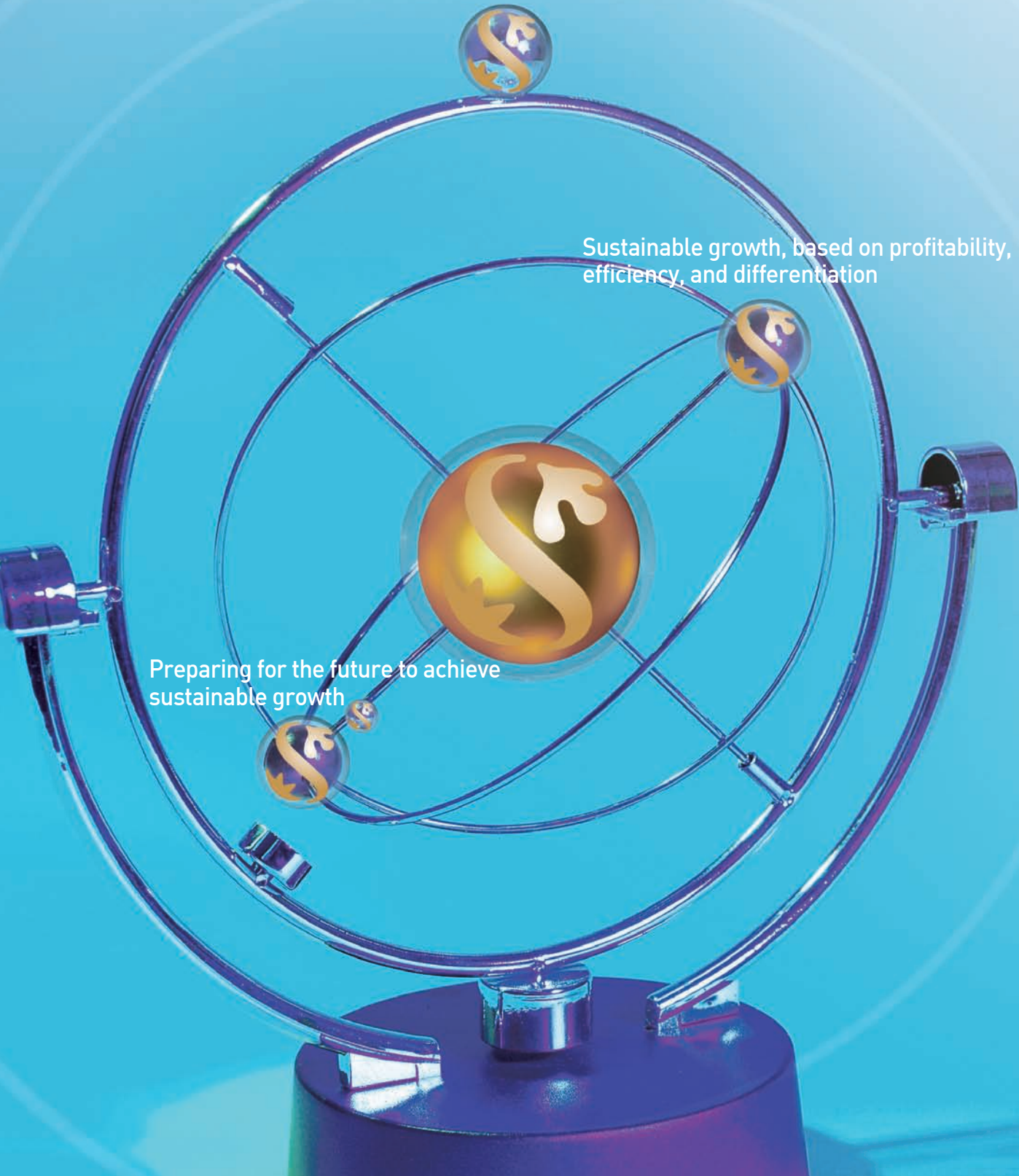
Taking on new challenges for a better future



Crisis management to guard
against economic uncertainties

Sustainable growth, based on profitability,
efficiency, and differentiation

Preparing for the future to achieve
sustainable growth



HIT THE FUTURE:

Harnessing change and innovation for a better future

Shinhan Bank uses change and innovation to face the future and ensure that it will enjoy safe and profitable growth, even if new financial crises arise. This includes revamping our operations, enhancing our role as a caring and concerned corporate citizen, and redefining the nature of our business. We are committed to providing our customers with added values, nurturing future growth engines, and operating in new and exciting ways that benefit our customers and society. We call these changes “compassionate finance.”

* “Hit the future” means freeing oneself from the status quo by building new growth models and taking on new challenges.

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PROFILE

Shinhan Bank (SHB) has become a leader in Korea's financial industry by providing customer-centered products and services. Its mission is to make a better world through the power of finance. It was the first bank in the nation to introduce ATMs, self-service branches, and Internet banking. Since its merger with Chohung Bank in 2006, it has evolved into a high-quality financial institution boasting total assets of KRW 253 trillion (including trust accounts), as of the end of 2011.

In 2011, the Bank recorded its best-ever results since its founding, with net income of KRW 2.1 trillion. This meant that it ranked third in the nation behind Kookmin Bank and Woori Bank in terms of asset size. Despite its relatively small asset size, its year-end market capitalization exceeded KRW 18.8 trillion, the largest in the country's financial industry and the eighth best among all the KOSPI listed companies. In addition, it won a number of awards both at home and abroad in such areas as customer satisfaction, branding, and social contributions.

The bank ranked first in many customer satisfaction surveys, including the National Customer Service Index, conducted by the Korea Productivity Center, the Korea Service Quality Index, conducted by the Korea Standards Association, the KS-SQI, conducted by KMAC, and Global Customer Satisfaction Index, conducted by JMAC. It won the Korea Service Grand Prix for the eighth consecutive year from the Korea Standards Association, and was inducted into the Hall of Fame, a first for the nation's financial industry. It was also the only Korean financial institution to receive a 2012 Outstanding Consumer Protection Program certificate from the Financial Supervisory Service. Overseas, the bank was named the "Best E-Commerce Bank in Korea" by *The Asset*, "The Best Emerging Market Bank in Korea" by *Global Finance*, the "Best Domestic Bank" by *Asiamoney*, and the "Best Bank in Korea" by *Euromoney*. In addition, the world's top three credit rating agencies awarded the Bank the highest rankings all among Korean banks. This included an upgrade to an "A" from an "A-" by Standard and Poor's.

These accomplishments could not have happened without the unflagging trust and support of the bank's customers and shareholders. The bank will continue with its commitment to change and innovation, becoming a premier financial institution that grows with its customers for a better future.



FINANCIAL HIGHLIGHTS

In billions of Korean won

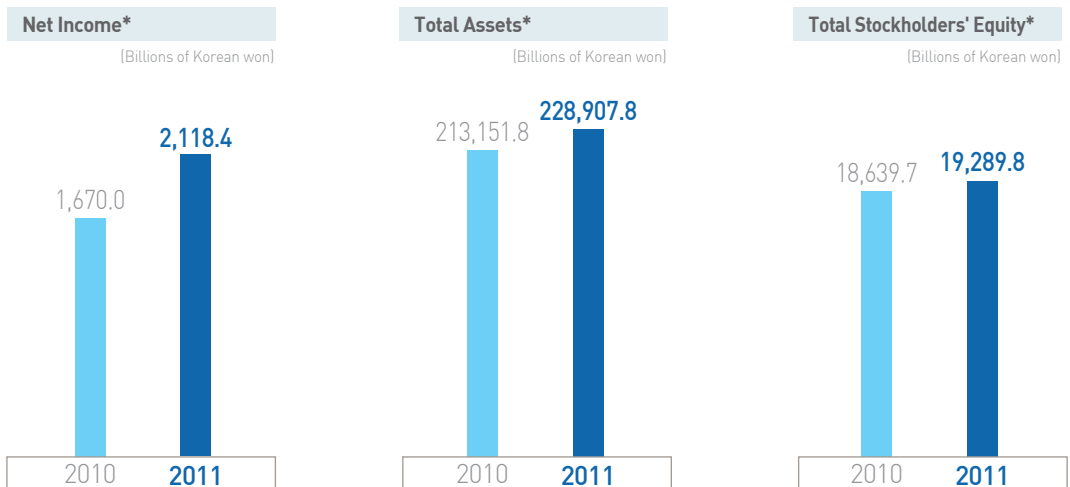
In millions of US dollars ¹⁾

	2011	2010	2011	2010
Bank Account				
For the Year				
Total Operating Income	6,130.8	5,751.7	5,315.9	5,050.2
Operating Income	2,626.0	2,037.9	2,276.9	1,789.4
Net Income	2,118.4	1,670.0	1,836.8	1,466.4
At Year-End				
Total Assets	228,907.8	213,151.8	198,480.7	187,155.8
Total Loans	163,638.0	153,777.4	141,886.7	135,022.7
Total Securities	43,392.4	39,148.3	37,624.6	34,373.8
Total Deposits	162,582.3	146,573.4	140,971.4	128,697.3
Total Stockholders' Equity	19,289.8	18,639.7	16,725.8	16,366.4
Financial Ratios ²⁾				
Return on Average Assets	0.69	0.78		
Return on Average Equity	8.56	9.83		
Substandard & Below	1.66	1.36		
NPL Ratio by FSS	1.09	1.31		
Net Interest Margin	2.22	2.18		
BIS Capital Adequacy Ratio ³⁾	15.26%	15.93%		
(Tier 1 Capital Ratio)	12.43%	13.21%		
(Tier 2 Capital Ratio)	2.83%	2.72%		

* Note1) Translated into US dollars at the rates of KRW 1,138.90/USD 1 and KRW 1,153.30/USD 1 respectively--those prevailing on December 31, 2010 and December 31, 2011.

* Note2) Based on non-consolidated financial statements.

* Note3) BIS Capital Adequacy Ratio for 2010 as K-GAAP.



* Bank accounts only

2011 AT A GLANCE



March: SFG appointed Dong Woo Han as Chairman and CEO

SFG appointed Mr. Dong Woo Han as its new chairman and CEO at its tenth general shareholders' meeting. The former chairman of the Korea Life Insurance Association, Goong Hun Nam, was appointed as chairman of the BOD. In addition, the number of outside directors was increased to ten.

April: Opened Shinhan Gallery Yeoksam

SHB opened the Shinhan Gallery Yeoksam inside the Shinhan Art Hall in Yeoksam, Seoul. It will be used as a cultural and artistic space for the bank's employees and customers. The bank is planning to expand the range of its social contributions efforts by engaging in more mecenat activities like this one. It will do this by adding to its number of cultural infrastructures in communities that it operates in.



June: Received grand prize at 2011 Korea Green Management Excellence Award

SHB was awarded the grand prize at the 2011 Korea Green Management Excellence Awards. The award, which is jointly sponsored by the Ministry of Knowledge Economy and the Ministry of Environment, is given to companies, groups, or individuals that have made significant contributions to environmental management. SHB plans to strengthen its environmental management program by increasing its level of support for green banking.

July: Selected as 2011 Korea's Best Bank by *Euromoney*

SHB won an "Award for Excellence, 2011 Best Bank in Korea" from *Euromoney* for the second consecutive year. It won similar honors from *Asiamoney*, *Global Finance*, and *The Asset*, proving that it is being recognized as Korea's leading bank both at home and abroad.



September: SFG announced adoption of "compassionate finance"

SFG announced that it has adopted "compassionate finance" as its new operating slogan at its Group-wide management meeting. The term means that the bank will build warmer ties with its customers and help them out in times of need. This will include placing a priority on customer benefits, helping customers who are experiencing temporary difficulties, assisting the underprivileged, and practicing "green" banking.

November: Included in "100 Best Companies to Work for in Korea" (GWP Korea)

SHB was included in the "100 Best Companies to Work for in Korea" for the fourth consecutive year in the financial services category. This resulted from its goal of developing a great workplace in which its employees can work with pride and enthusiasm.



November: Received grand prize at Global Excellence Awards for seventh year in a row

SHB received the grand prize at the Global Excellent Awards for the seventh consecutive year in the customer satisfaction category. The awards, which have been given out since 2003, are sponsored by the Global Management Committee. They are organized by JMAC, a multinational consulting group, to maximize the international competitiveness of Korean industries. SHB was the first member of the Korean financial industry to establish advanced financial systems and open a customer satisfaction center. Its program of quality service, including its innovative service quality management technique called Service Capability Level, or SCALE, has been in place since 2003.

December: SFG opened first Shinhan Private Wealth Management (PWM) Seoul Center

SFG opened its first "Shinhan PWM Seoul Center." Housing experts in asset management from both Shinhan Bank and Shinhan Investment, it will offer customers a full range of asset management services, including advice on family business successions, property inheritances, and charitable donations to company owners and ultra-high-net-worth customers. It will also be supported by the Group's Investment Products and Services comprehensive asset management solutions center.



Awards and Accolades

January 2011:

- Received grand prize in banking category at Korea First Brand Awards for seventh consecutive year (Korea Consumers' Forum and *Korea Economic Daily*)
- Received grand prize at Korea Fund Awards (*Korea Economic Daily*)

February 2011:

- Included in Korea's Most Admired Companies for eighth consecutive year (KMAC)

March 2011:

- Selected as Korea's Best E-Commerce Bank by *The Asset* magazine

April 2011:

- Received grand prize at 2011 National Brand Awards from *The Economist* weekly
- Received grand prize at 2011 Korea Master Brands Awards (iMBC, dongA.com, hankyung.com)

May 2011:

- Received grand prize at 2011 Best Companies to Work for (*Hankyung Business* magazine)
- Shinhan PB ranked first in Korea Standard-Premium Brand Index (KS-PBI) for fourth consecutive year (Korea Standards Association, Seoul National University, *Chosun Ilbo*)
- Received grand prize at Korea Social Contributions Awards for sixth consecutive year (Korean Journalists' Forum)
- Named "Best Emerging Market Bank in Korea" by *Global Finance*

June 2011:

- Ranked first in banking category in Global Customer Satisfaction Index (GCSI) for seventh consecutive year (Global Management Committee, JMAC)
- Ranked first in banking category in Korea Great Workplace Index (K-GWPI) for fourth consecutive year (KMAC)
- Received Prime Minister's Award at Korea Great Cultural Properties Protection Competition (Cultural Heritage Administration)
- Received grand prize in banking category at Korean Service Awards for eighth consecutive year/inducted into Hall of Fame (Korea Standards Association)
- Received grand prize in corporate category at 2011 Korea Green Management Excellence Award (Ministry of Knowledge Economy and Ministry of Environment)
- Named "Best Domestic Bank in Korea" by *Asiamoney*

July 2011:

- Ranked first in THE PROUD - Korea Luxury & Remarkable Index (Market Leaders Club, KMAC)
- Selected as 2011 Korea's Best Bank (*Euromoney*)
- Ranked first in customer contact category in 2011 Korean Standard Service Quality Index (KS-SQI) (KMAC)

October 2011:

- Received grand prize in banking category at Brand of the Year Awards (Korea Consumer Brand Committee)
- Received grand prize in smart banking category at The 2011 Best Brand of the Consumer Awards (Joins MSN)
- Received grand prize in smart banking category at 2011 *Asia Today* Financial Awards (*Asia Today*)

November 2011:

- Awarded citation as Best Organization for Greenhouse Gas Reductions (Korea Environmental Industry & Technology Institute)
- Included in 100 Best Companies to Work for in Korea (GWP Korea)
- Ranked first in Korea Service Quality Index (KS-SQI) for tenth consecutive year (Korea Standards Association, Seoul National University Economic Research Institute)

December 2011:

- Awarded presidential citation in institutional banking category at sixteenth SME Financial Support Awards (Small & Medium-Sized Business Administration)
- Ranked first in 2011 National Customer Service Index (NCSI) (Korea Productivity Center)
- Received grand prize at 2011 Excellent New Financial Products Awards for Shinhan Interest Safety Mortgage Loan (Financial Supervisory Service)

MESSAGE FROM THE CEO



Jin Won Suh
President & Chief Executive Officer

Dear Customers:

First of all, I would like to thank you from the bottom of my heart for your continued support and encouragement.

In 2011, Korea used its experience and expertise in dealing with crises of all kinds to achieve stability in its financial and foreign exchange markets and maintain its position as one of the world's premier exporting countries. This happened despite world-wide fears and insecurities occasioned by the ongoing financial crisis in Europe.

Even in such a challenging climate, Shinhan Bank managed to achieve excellent operating results in every sector. This success was due to our efforts to enhance customer value, ensure healthy and qualitative growth, and sharpen our competitive edges in such key performance indicators as profitability and soundness.

In terms of our retail business, we continued to broaden our customer base. Our number of customers

Shinhan Bank has established a corporate strategy that is best summarized in the slogan, "Hit the future: taking on new challenges for a better future."

now exceeds 27.2 million, including 7.2 million active ones. In addition, our efforts to launch new products that meet the needs of our customers while encouraging social development activities were extremely successful. These included the Interest Safety Mortgage Loan and the New Hope Installment Savings Account.

We also increased our presence in the area of corporate business. For example, the value of our prime-quality assets rose by approximately 4.5 trillion won, even in the face of keen competition from other industry players. In terms of retirement pensions, we retained our first-place industry ranking by increasing the value of the assets we are managing by about 2 trillion won.

On the international front, we opened new branches in Japan, China, Vietnam, and Cambodia as part of our "establish an Asian financial belt" strategy. As a result, we boasted a total of fifty-nine networks in fourteen countries as of the end of 2011. We also took steps to further our development into a global banking player. They included strengthening our foundations for establishing local operations and adding new business areas. For example, we introduced debit and credit cards in both China and Vietnam.

These accomplishments earned us many awards and accolades. We became the first bank to be inducted into the Korea Standards Association's Hall of Fame, after winning the Korea Service Grand Prix for the eighth consecutive year. We also ranked first in the banking category in the National Customer Service Index and Korea Service Quality Index surveys.

In addition, we retained our position as Korea's leading bank in such areas as customer satisfaction, employee satisfaction, and social contributions. This included ranking first in the banking category in the Best Companies to Work For in Korea survey for the fourth consecutive year, being selected as Korea's Most Admired Company for the eighth year in a row, and receiving a Korea Social Contributions Award for the sixth consecutive year.

These accomplishments played a pivotal role in raising our credit ratings. Standard and Poor's awarded us its highest ranking among all of Korea's banks, despite the fact that the ratings of many other global players were being lowered. When you factor in our upward revisions by Moody's Investors Service and Fitch Ratings in 2010, it is obvious that our efforts to ensure that our customers enjoy safe, stable, and secure banking operations are being recognized and rewarded.

In the consumer protection area, we were the only Korean financial institution to receive a 2012 Outstanding Consumer Protection Program certificate from the Financial Supervisory Service. This happened in January 2012. Since this honor is only awarded after a company has undergone a strict regimen of screening procedures, it demonstrates how well Shinhan has succeeded in practicing "compassionate finance," ensuring that its customers always receive the highest possible level of service.

Economic growth in most of the world's advanced nations in 2012 is forecast to remain extremely lackluster, especially with the specter of bankruptcy hanging over countries like Greece, Italy, and Spain. In today's globalized economy, it is not beyond belief that such leading indicators of financial instability as sluggish domestic consumption, slowdowns in exports, rising household debt, and price hikes will rear their heads in Korea.

We are also anticipating heightened competition within the domestic banking industry. This movement will be led by M&As among rival banks and the launch of new financial holding companies following the privatization of some state-run banks. This means that the battle for market share among the country's financial institutions (including securities and insurance firms) will also intensify, as the boundaries that used to separate their operations continue to disappear.

Given all of these conditions, Shinhan Bank has established a corporate strategy that is best summarized in the slogan, "Hit the future: taking on new challenges for a better future." This means that 2012 will be a year of dramatic change. I want to outline what this means in more specific terms.

First of all, we will do our best to lead the future of finance. This means that we will establish new business models in the wealth management and corporate investment banking sectors, offering customers a wide range of financial products and services that will dramatically distinguish us from the competition. In addition, we will establish new and improved standards for smart banking, and use technological innovation to add to our competitiveness in the area of non-direct channels. We will also strengthen our R&D in the marketing area, including the creation of a research team specializing in retirement banking. Finally, we will enhance our position in strategic markets and develop new ones by increasing our abilities in the international arena.

Secondly, we will use a stabilized earnings structure and increased efficiency to continue achieving profit-centered growth. Our efforts in the first category will include stable NIM management, continuing to manage for soundness, and adding to our non-interest income through additional cross-selling. In terms of efficiency, we will integrate all the business support systems at our head office into one, and strengthen communications with our branches to maximize our organizational efficiency. In addition, we will build onto our foundations for stable growth. This will be achieved by broadening our customer base and deriving additional synergies through joint marketing efforts among the various members of the Shinhan Financial Group.

Thirdly, we will put a well-organized risk management scheme in place to ensure that we are prepared for future economic uncertainties, both at home and abroad. This will include analyzing potential risk factors in both real-world and simulated situations, establishing strategies to counteract them, and developing a state-of-the-art risk management system to deal with them. In addition, we will add to our customers' feelings of security by carrying out similar processes for them. This will include offering advice on fine-tuning their portfolios and identifying potential corporate risks. We will also ready ourselves for any changes in rules and regulations and/or the political climate by ensuring that our capital adequacy and internal and external credit ratings remain the highest in the country.

Last, but not least, we will continue thinking of our customers as companions whose goal is also security and prosperity, doing everything in our power to assist them in their endeavors. In addition, we will continue being cognizant of the responsibilities that we must shoulder in our role as a caring and concerned corporate citizen.

I look forward to your continuing interest and support.

Thank you.



Jin Won Suh
President & Chief Executive Officer

HIT THE FUTURE:

Preparing for the future by seeking safe and profitable growth and reducing our exposure to risk

Some of the ways that we deal with financial risk include adding to our leadership in new, technology-driven channels, stabilizing our earnings structure, becoming more efficient, analyzing risk factors extra thoroughly, and increasing the number of areas in which we practice risk management.



VISION & STRATEGY

Vision

The Shinhan Financial Group's (SFG) vision is to be a world-class financial group boasting a secure and stable earnings base that has been achieved through a careful balancing of its banking and non-banking sectors.

Shinhan Bank's vision is **to become a premier financial institution that grows with its customers for a better future**. In terms of the market and our customers and employees, this means the following.



Shinhan Bank is committed to achieving this vision through The Shinhan Way, a value system shared by all the Shinhan Group people, and the Ten Principles of the SHB Way, which comprise its business principles and standards.

Management Goals and Strategies

SFG's strategic goal for 2012 is "New Evolution 2012: sharing with our customers for a better future". Our 2012 strategic goal is "Hit the future: Taking on new challenges for a better future." This reflects our goal of recasting ourselves with a new look, not resting on our laurels, and constantly adapt to new management environments. In order to reach these goals, we will carry out the following strategic directions: "enhanced risk management," "qualitative growth," and "next generation."

"Enhanced risk management" means that we will establish preemptive and systematic crisis management scenarios to prepare against economic uncertainties, and develop a safe and secure operating environment with enhanced risk management capabilities. We will even manage our customers' risks, mainly by helping them to balance their assets and offering advice on financial risks to our corporate customers.

We will achieve qualitative growth by stabilizing our revenue structure and improving our organizational efficiency. To this end, we will enhance the efficiency of our operations even more, mainly by upgrading the head office's operational support systems, diversifying our revenue sources, and reinforcing our customer bases in core target markets.

Finally, in terms of the next generation, we will make preparations to continue leading the new future of finance. To do so, we will soon put new business models in place in the wealth management and corporate & investment banking sectors. We will also establish new standards for smart banking, so that 2012 will mark the beginning of the transfer of Korean finance to it from online banking.

HIT THE FUTURE:

Revamping the financial business by caring for our customers

We think of our customers as our partners and companions to ensure that we will always enjoy safe and sustainable growth. We believe that all forward-looking banks should behave in such a manner.



SOCIAL CONTRIBUTIONS

“Making a better world through the power of finance”

Shinhan Bank: Working Together for a Better Future

At Shinhan Bank, we are committed to returning a reasonable share of our profits to society and sharing with the communities in which we operate. This includes social services, education and science, volunteering, environmental protection and preservation, culture and the arts, promoting sports, and developing products that benefit the public good.

Our mission is to make a better world through the power of finance. We do this by focusing on the well-being of our customers and the communities they live in.

We also believe that sharing with our neighbors is an integral part of being a caring and concerned corporate citizen. This is done through the voluntary participation of our customers and employees.

Led by the Corporate Social Responsibility (CSR) Department, which is tasked with CSR management exclusively, we have established a number of projects on which we concentrate our resources. These decisions are made by studying consumer perceptions, global standards, the nature of the banking business, and changes in consumer tastes and trends. We are also taking the lead in the global standardization of CSR management activities by taking part in CSR-related international initiatives. These include the UN Global Compact, the UN Environmental Program Finance Initiative (UNEP FI), and the Carbon Disclosure Project (CDP).

Corporate Social Responsibility Department

Tasked with carrying out all the bank’s CSR activities, the Department promotes sustainable management and works to improve the bank’s brand value. This includes communicating with our stakeholders by establishing social contributions strategies and putting them into practice. In 2011, the bank engaged in a number of large-scale CSR activities dealing with social and national issues. Some of them were as follows.

We carried out a “Job SOS 4U” project, with a budget of KRW 37 billion. This money, which was raised through employee contributions from their salaries, was used to assist the underprivileged and help mitigate the problems of youth unemployment and manpower shortages at small- and medium-sized enterprises (SMEs). Our participation helped to create about 3,000 full-time jobs at SMEs, along with 190 accounting positions at social enterprises. We also assisted in establishing a “JOB SOS II” project that helped new employees at SMEs open installment savings accounts. This provided better living conditions for over five thousand applicants and employees.

In December 2009, we established the Shinhan Smile Microcredit Bank, a “first” for Korea’s financial industry. This involved investing KRW 50 billion to help underprivileged people become financially independent. An additional contribution of KRW 20 billion was made at the end of 2010. The project is now looked upon as an obvious success case for other CSR activities, since it matched the bank’s financial acumen with much-welcomed advice from outside experts.

Our goals in 2012 are to carry out our mid- to long-term strategies and improve communications with our stakeholders. In addition, we will continue with our main goal: building a better society and happier tomorrows. This will include strengthening our various CSR programs and giving top priority to sustainable management.



ETHICAL MANAGEMENT

Shinhan Bank is committed to openness and transparency in all its operations. To achieve this goal, we have developed ethical standards with which all our employees must comply.

We are constantly revamping our ethical management systems. This task is led by our Compliance Officer, who is responsible for pursuing operations related to ethical management company-wide. He is assisted by our Compliance Department.

Every employee is required to sign a pledge of ethical behavior and participate in a monthly ethics self-checking program. In addition, we are strengthening our online and offline training in ethics to ensure that all our workers are familiar with our Code of Ethics.

We totally revamped our ethical management operations in 2011--including making revisions to the Code. This was done to enhance the participation levels of our employees, so that we can start putting our new ethical management program into practice in 2012.

Ethical Management Programs and Systems

Systems

Reporting on and carrying out inspections of securities accounts and trading: We observe all of Korea's laws and regulations related to securities, and are committed to the prevention of all illicit transactions, such as the use of confidential information. We limit the possibility of having such transactions occur by monitoring the securities accounts and trading practices of certain employees on a regular basis.

Integrity Pact: We ensure the honesty and fairness of all our contracts by outlining the procedures that employees in charge of contracting must follow during the bidding process, when a contract is signed, and when its contents are being delivered. This applies to such areas as construction, services, outsourcing, and purchasing. We also monitor the performance of every division at our head office on a yearly basis.

Customer Due Diligence: Our customer due diligence system has been revamped to ensure that it complies fully with the Korean government's revised Anti-Money Laundering Act. We reduce the possibility of other risks occurring through training and making periodic reports on and analyses of financial transactions.

Programs

Compliance: Our compliance program helps our employees understand our rules and regulations relating to fair trade. It includes information on how the system works, handbooks, a Code of Conduct, and training and monitoring systems. We also keep an eagle eye on high-risk divisions and departments, and offer them specialized training. In addition, we scrutinize internal trading among the Group's affiliates.

Ethical Management: We have put a number of programs in place to increase our employees' awareness of the need for ethical behavior. They include a pledge of ethical practices, employee compliance checkups, and a securities transaction reporting system. We are also installing a legal advice system about ethical management on our Intranet. It is called Law and Ethics.

Compliance Department

In 2011, the Compliance Department focused on enhancing the effectiveness of our compliance management programs on a divisional basis, as well as supporting compliance operations at our branches through enhanced training. We also strengthened cooperation among the divisions in matters relating to

internal controls, and enhanced their efficiency by holding training conferences. In addition, we ensured that employees followed the bank's rules and regulations regarding compliance by monitoring divisions at the head office, branches, and overseas.

In addition, we conducted monthly ethics training sessions on the observance of rules and regulations. These were especially aimed at employees at divisions and compliance officers at branches, to help them carry out compliance monitoring activities more efficiently. In addition, we rewrote the bank's rules, regulations, and bylaws relating to the operation of its head office divisions.

We are also committed to observing all of Korea's rules and regulations relating to the finance industry. This includes carrying out monthly and quarterly monitoring operations to comply with the Korean government's mechanisms for preventing conflicts of interest.

In terms of money laundering, the Department enhanced the convenience and effectiveness of the bank's reporting system by making continuous improvements to its Suspicious Transactions Reporting system. As a result, the bank was given an "Excellent" rating in the evaluation of financial institutions carried out by the Korea Financial Intelligence Unit. Some of our other efforts in this area included strengthening employee awareness through training programs, making improvements to our monitoring activities, and creating a monthly reporting system for our overseas branches.

In addition, we satisfied the increasing need for legal advice by highly-sensitive departments by instituting a legal risk management system that makes legal advice available in a speedy and accurate manner. We also developed a legal advice system called Law & Ethics.

Management Audit Department/Audit Department

Shinhan Bank's audit structure consists of the Audit Committee, the Standing Auditor, the Management Audit Department, and the Audit Department. The two departments carry out audits under the authority of the Audit Committee.

In 2010, we made the system more efficient by separating the Management Audit Department from the Audit Department. This allowed the former body to concentrate on planning, head office divisions and overseas branches, and sanctions and decisions, while the latter one assumed responsibility for internal controls and monitoring at the branch level.

In 2011, the two departments worked in tandem to carry out a program to prevent financial malfeasance. They also engaged in 24/7 monitoring activities and conducted a series of on-the-spot audits.

In order to prevent financial malfeasance from happening in the first place, we conduct employee training sessions by experts in the field, and check transactions with a high possibility of wrongdoing through self-inspections and 24/7 monitoring at all our branches and divisions. We also carry out on-the-spot inspections of our divisions, subsidiaries, and branches, both at home and abroad.

The Audit Department strengthened its inspection duties by assigning more than three hundred auditors to our branches, while the heads of the audit teams visited our various regional headquarters. Their goal was to strengthen the bank's internal control systems and prevent peculation at the branch level.

In 2010, we totally revamped our whistle-blower system by establishing a new system called "Shinhan Guardian." The next year, we added mobile reporting and whistle-blowing procedures at our overseas branches, and carried out a series of publicity campaigns aimed at our employees.

For 2012, the Audit Department has established three strategic goals: building support systems for our "new evolution" strategic goal, carrying out inspections to respond to changes in the operating environment more efficiently, and improving our methodology for conducting internal audits.

We will carry out a series of core tasks based on these goals, while taking into consideration such factors as social and economic issues, the central government's supervisory programs and policies, and Shinhan's own management plans. These tasks include broadening the scope of our audits, establishing audit methods for new business channels, enhancing our consumer financial protection programs, and monitoring the bank's social contributions activities.



BOARD OF DIRECTORS

The Board of Directors (BOD) consists of nine executive directors, including six outside ones. It operates a number of committees to ensure greater expertise. They include the Risk Management Committee, Audit Committee, Compensation Committee, Auditor Candidate Recommendation Committee, and Outside Director Candidate Recommendation Committee.

The BOD held eleven meetings in 2011, mainly dealing with the enactment of and/or revisions to major regulations, the establishment of overseas subsidiaries, the establishment of management plans, and the appointment of the compliance officer and executive officers.

According to BOD regulations, meetings comprising outside directors only must be held more than twice a year to gather their professional opinions on the bank's management. Information on the composition of the BOD and the compensation levels of its members is available on our website through a link called "Public Disclosure of Management Performance."

Executive Director Directors

Jin Won Suh

President & Chief Executive Officer

Woo Jong Won

Director & Standing Auditor

Se Il Oh

Director & Deputy President,
Corporate & Investment Banking
Group

Sung Ho Wi

Director & Deputy President,
Wealth Management Group

Outside Directors

Cheol Soon Park

Director,
Professor,
Seoul National University

Joon Kyung Kim

Director,
Professor,
KDI School of Public Policy and
Management

Hisamatsu Kenzo

Director,
Chief Executive Officer,
Recto Co., Ltd.

Se Jin Park

Director,
Former Vice-Minister, Ministry of
Government Legislation

Hee Jin Lee

Director,
Professor,
Yonsei University

Kyu Min Lee

Director,
Former Chief editor, the *Dong-A
Daily News*

Executive Officers

Dong Dae Lee

Deputy President,
Corporate Business Unit &
Corporate Banking Group

Young Oh Seol

Deputy President,
Global Business Group

Young Pyo Kim

Executive Vice President,
Marketing Service Group

Yong Byoung Cho

Deputy President,
Retail Business Unit & Retail
Business Development Group

Sang Ho Lee

Executive Vice President,
Risk Management Group

Young Soo Choi

Executive Vice President,
Business Improvement Group

In Jong Joo

Deputy President,
Credit Analysis & Assessment
Group

Sin Kee Lee

Executive Vice President,
Institutional Banking Group

Young Jin Lim

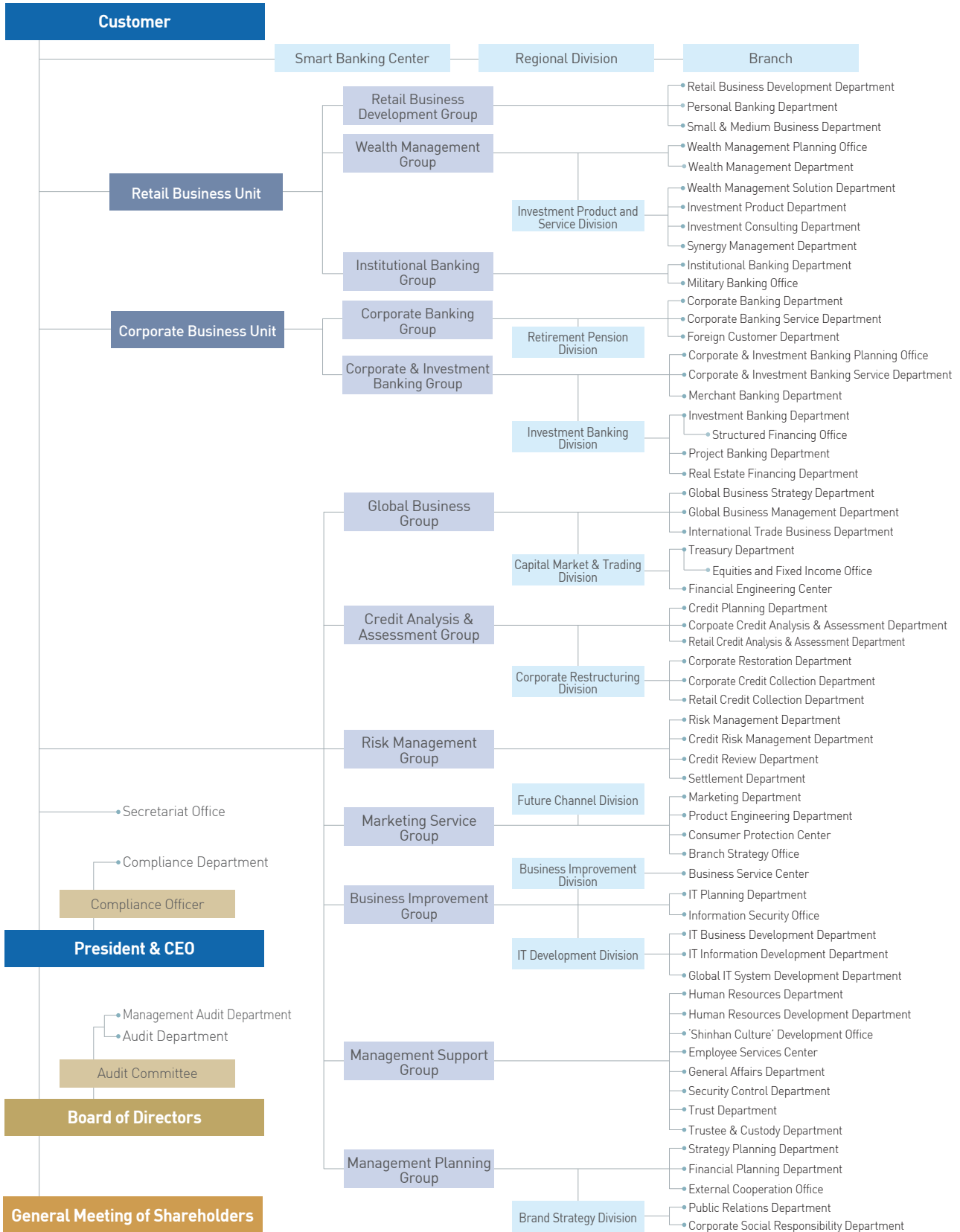
Executive Vice President,
Management Support Group

Won Ho Lee

Executive Vice President,
Management Planning Group

ORGANIZATION

(As of December 31, 2011)



REVIEW OF OPERATIONS

HIT THE FUTURE:

Offering added customer value and fostering future growth engines

Our new operating strategy is to build customer service systems that will make us stand out against the competition. This includes developing new business models in a wide range of areas, and strengthening our marketing R&D to improve our insights into new customer and financial trends. We are also committed to offering our customers more value in everything we do.

INSTITUTIONAL BANKING GROUP

Institutional Banking Group

The Institutional Banking Group's core market is institutional customers, including central government organizations (such as the courts and public prosecutors' offices), local governments, military bases, public organizations (such as universities, hospitals, and military-related institutions), and airports.

We have enjoyed particular success in establishing our presence in court-related businesses--an area that we have specialized in since 1958. We also boast the largest airport-based banking network in Korea, providing currency exchange and other financial services at the international airports in Incheon, Gimpo, Gimhae, and Jeju. In addition, we have established a broad network of branches and outlets at universities and hospitals across the nation.

The key to our success lies in the fact that we have an extremely loyal and high-quality customer base in all our core markets. The experience and expertise that we have gained in these sectors, and the customer trust that we have built up within them, make it very difficult for our competitors to operate against us. In addition, we are creating a strong customer base for the future by opening branches in major institutions and carrying out extensive marketing activities, such as area marketing.

The Group boasts a solid revenue structure, with a special focus on low-cost deposits and currency exchange. We have also developed a considerable number of low-cost deposit account-holding customers, such as universities and hospitals. Our airport-based foreign exchange services currently provide the bulk of our revenue in this sector.

In 2011, the Group carried out a wide range of activities to strengthen its relationships with its customers and add to its presence in new markets. In addition to retaining our market leadership in the courts sector, we attracted new deposits from twenty-two other institutions.

We also maintained our leading position in the institutional banking market by dealing with each segment within it as a separate entity. For example, we launched "Shinhan S2," an exclusive brand for college students in their twenties, and secured an unrivalled position in the military salary transfer market.

In 2012, we plan to continue being one of Shinhan Bank's core groups. Our strategic objective will to cement our number one position in the institutional banking market. To achieve this goal, we have set out three core tasks: adding to our profitability by maintaining our leadership in the market (Defense), expanding our long-term growth foundations (Expansion), and supporting business development (Support).

First, we will attempt to retain all of our maturing contracts by increasing our customers' loyalty to us. This will mainly be done by providing them with a full range of custom-tailored services, and building differentiated IT systems on an individualized basis. We will also continue with our programs to attract new, prime-quality organizations, and expand our foundations for long-term, sustainable growth. We will do this by strengthening our marketing activities to increase our volume of young customers. Finally, we will strengthen our support for business development by adding to our employees' skill sets and improving our management processes.

Korea's financial services industry is facing intensifying competition both at home and abroad, making our operating environment increasingly difficult and complex. This means that our role within Shinhan Bank is more important than ever, since we boast high-quality customers and a host of well-performing assets, such as low-cost deposits. In 2012, we will strive to achieve all our strategic objectives so that we will remain a reliable cornerstone for the bank's sustainable growth.

RETAIL BUSINESS DEVELOPMENT GROUP

Retail Business Development Group

The Retail Business Development Group is tasked with establishing mid- to long-term strategies and business plans for Shinhan Bank's retail sector, including Retail Mass, Wealth Management (WM), institutions, and small- and medium-sized enterprises (SMEs). In order to carry out its strategies for these various channels, the Group sets goals for each branch of the bank that correspond to management indicators derived by business groups for them. In addition, it develops programs to boost sales within them, and supports their operations by establishing efficient and effective customer relationship systems.

Comprising 95.5% of the bank's total sales channels and employing 66.7% of its workers, the Group plays a central role in providing a foundation for the bank's sustainable growth. Its ultimate strength lies in its field-type sales organization structure. Based on the belief that strong field resources make for a strong central organization, we classify all our branches by region.

The managers and deputy managers of high-performing branches are promoted to regional heads or retail relationship managers, serving as coaches and mentors for our front-line workers and liaison officers. In addition, outstanding employees at each branch are appointed as JUMP managers. This system results in seamless communications between the head office and its branches, ensuring that everyone works to achieve the same vision and goals.

In 2011, the retail banking industry faced a number of difficulties. One was the weak performance of the stock market, which in turn reflected market uncertainties due to downgrades in the US's credit ratings and increasing concerns about the financial situation in Europe. Another factor was a sharp increase in the cost of home leases, which lowered investor confidence in the real estate sector. The continuance of these difficulties result in limited

growth within several important earnings sources, such as funds and bancassurance. The delayed economic recovery also affected household debt, which broke the symbolically important KRW 1,000 trillion mark. In addition, disposal income fell, due to an increase in the central government's benchmark interest rate. This made it especially important to ensure safe and secure growth and sound management within our household loans portfolio.

Competition within the retail banking market increased even further, due to the dramatic reorganization of the industry's competition structure. Some examples of this included the National Agricultural Cooperative Federation's spin-off of its financial division, the strengthening of their retail banking operations by state-owned banks, such as the Korea Development Bank and the Industrial Bank of Korea, and the acquisition of the Korea Exchange Bank by the Hana Financial Group. In order to deal with these challenges in an effective and efficient manner, Shinhan Bank continued with its strategy of upgrading its new WM business and Smart Banking models. This included pushing ahead with tasks to help us prepare for a future of uncertain growth.

In 2011, the Group established a "3S" strategy of core tasks as part of its strategic goal of "building solid growth foundations through the execution of Retail Revolution 3.0." They included expanding our customer base and increasing the number of customers who use us as their main bank (Strong Business); instituting "smart asset" operations (Smart Asset); and upgrading our systems (Superior Systems).

In order to increase the size of our customer base and add to the number of customers who use Shinhan Bank as their primary financial institution (Strong Business), we worked to turn our active customers into major ones, and then upgrade them into "prime" customers (up-sell). We also engaged in more cross-selling. In addition, we added to our range of products and services. This



included the Pension Bank Book and the S20 Brand, targeting senior citizens and young customers. We also encouraged all the SFG companies to share the Group's customer bases, including those for credit cards, life insurance, and securities. Finally, we focused on gaining an early edge in the area of non-direct channels, which were experiencing dramatic growth.

In addition, we began a program of "Smart Asset" operations. During the second half of the year, we concentrated on limited asset growth. This was done to conform to the central government's regulations on asset volume, which it hoped would reduce the possibility of a major default in the household debt sector of the economy. We also focused on attracting healthy small office and home office (SOHO) loans.

In terms of financing, we added to our profitability by increasing our number of low-cost deposits and increased the weighting of our household-type deposits. This was done to ensure that we were satisfying the Basel III Accord's new standards for liquidity management. We also sought to attract more circulating accounts, such as salary accounts, settlement accounts, and bill-collection accounts. In addition, we upgraded our asset management service to meet increasing customer demand since the financial meltdown of 2008, and built a series of new WM business models. Finally, we grew our share of the retirement pension market, consolidating our leading position in that sector.

Our third task was to upgrade our systems (Superior System). This involved enlarging our customer management team system, which is a core component of our Retail Revolution 3.0 strategy. We also optimized the performance of our direct sales channels, and established a number of new-concept ones to meet customer demand. In addition, we launched our NexB business to create revenue models through non-direct channels, introduced the Service Capability Level (SCALE) to improve customer satisfaction levels, built new

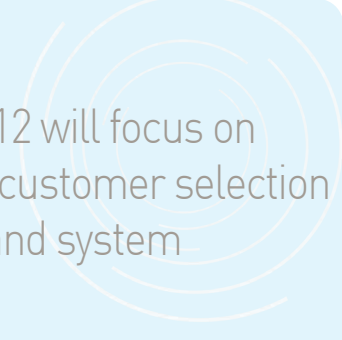
video conferencing systems, and developed improved systems for monitoring interest rate approvals.

By carrying out these strategies, the Group was able to boast better results than any of its competitors in terms of customer base, core businesses, profitability, and market share. At the end of 2011, the Group had 7.4 million customers, 2.1 million of whom were using SHB as their primary financial institution. Total loans and deposits amounted to KRW 96.5 trillion and KRW 132.4 trillion, respectively, while core deposits, operating revenue, and earnings before taxes (EBT) stood at KRW 31.1 trillion, KRW 32.3 trillion, and KRW 0.9 trillion. Our delinquency ratio on loans was 0.58%.

We attracted 0.3 million new major customers (which we call "TOPS customers"), widely exceeding our original target of 230,000. Our number of active customers increased by 720,000.

We also enjoyed truly "smart" asset growth by maintaining the highest level of asset soundness in the industry, ensuring safe and steady growth in household loans, and enhancing the quality of our SOHO assets. We boasted delinquency ratios of only 0.58% and 1.13%, respectively, for household loans and loans to the self-employed. The value of our core deposits increased by KRW 1.6 trillion year-on-year, well above our original target of KRW 600 billion. We also boasted Korea's largest non-direct channel customer base, with our number of Internet banking and smartphone banking customers amounting to 9.7 million and 2 million, respectively.

In 2011, the retirement pension market was again the most competitive sector in the entire financial industry. We were able to retain our leading share of the market, increasing the value of our retirement pension assets under management by KRW 2 trillion over the year. Most of this growth resulted from focusing on the months of November and December, which account for half of the



The Group's "Smart" strategies for 2012 will focus on balanced asset growth (Smart Asset), customer selection and concentration (Smart Business), and system optimization (Smart Channel).

country's volume of retirement pension sales.

We anticipate that the operating environment in 2012 will be extremely challenging. The financial crisis in Europe seems to be continuing unabated, making the global financial market more volatile. Household debt will be another factor limiting economic growth, along with cutthroat competition within the banking industry.

Given these circumstances, the Group's "Smart" strategies for 2012 will focus on balanced asset growth (Smart Asset), customer selection and concentration (Smart Business), and system optimization (Smart Channel). Our overall goals will be to achieve stable growth through the optimized distribution of our resources and increase customer trust and employee pride.

To realize the Smart Asset strategy, we will concentrate on improving our profitability (including margins) even more, while seeking steady and balanced growth in our volume of prime-quality household loans and loans to the self-employed. In terms of funding, we will increase the weighting of household deposits and our core deposits, such as low-cost ones. In addition, our non-interest income will be maximized through the application of enhanced synergy operations, such as funds and bancassurance. We will also retain our market leadership in the area of retirement pensions, and gain an early edge in the individual retirement pension business. Finally, we will strengthen our management practices for asset soundness and assessing their quality for large loans by enhancing our risk management processes.

In the area of Smart Business, we have identified three key target markets that we will focus on: high net asset customers, office workers, and the self-employed. We will focus on attracting and maintaining our number of high net asset customers, so that we can put our new WM model in place as soon as possible. In order to attract office workers, we will strengthen our joint marketing campaigns with the Corporate Banking

Group. Our strategy for attracting the highly-profitable self-employed business sector is to support merchant store settlement accounts and business loan products that meet the needs of its members.

We will bring our Smart Channel strategy to fruition by revamping our evaluation systems, increasing the level of cooperation among our business divisions, and redefining the roles of branch windows to optimize our operating competencies. We will also encourage the development of joint marketing campaigns between our direct and non-direct channels to support the launch of new non-direct businesses.

In addition, we will build systems that meet the real needs of our operating sites by optimizing our channel competitiveness and improving our customer management system. Last, but not least, we will strengthen our consumer protection activities, upgrade our education and training programs to enhance the skill sets of our employees, bolster our image by making our brand more powerful, and attain cost leadership through efficient organizational operations.

Finally, the Group will increase its understanding of its customers' needs by paying careful attention to their voices and those of our frontline workers (Voice of Fields). In addition, we will create an environment in which these workers can concentrate exclusively on customer management (Thought of Views) and carry forward our strategies with passion (Action of Passion). When all of these steps have been taken, SHB will evolve into Asia's foremost retail banking institution.

WEALTH MANAGEMENT (WM) GROUP

Wealth Management (WM) Group

The bank's Wealth Management Group, which is tasked with SFG-wide business strategies in the WM business, consists of the Wealth Management Planning Office, the Wealth Management Department, and the Wealth Management Solutions Department/Investment Products Department/Investment Consulting Department within the Investment Products and Services Division. Its channel organization comprises the WM business division (which controls PB and PWM channels) and related channels.

The new WM Department was created by integrating the existing WM Department with the Private Banking (PB) Department. We offer custom-tailored marketing and services to a customer group that is divided into three sectors: UHNW (ultra-high net worth), HNW, and Affluent customers, depending on the worth of their assets.

In 2011, the Department posted the best results of any domestic bank in the "carriage trade" market. Some reasons for this success included enhanced marketing campaigns to attract new customers, developing state-of-the-art infrastructures for prime-quality customer management, and expanding our product lineup. Our number of customers grew by 12.7% over the year to reach 276,000. Their business represented 52% of our total retail customer deposits, and 35% of our net income, as of the end of 2011.

The PB Department added the Shinhan PB Ichondong Center to its roster in 2011. It also converted three of its PB Centers to PWM Centers, and created the Shinhan PWM Banpo Center by applying the new WM business model on a Group-wide level. As a result, the bank boasted a nationwide network of 22 PB centers at the end of 2011. Net assets were worth KRW 11.5 trillion, and it had 4,800 customers under its management, adding to its leadership in the PB sector.

For 2012, the WM Department has established three key strategies, with an ultimate goal of building its bases for leadership in the asset management market by establishing new WM business models and expanding its foundations for growth.

To meet this challenge, the Department will expand its share of Korea's asset management market by increasing the competitiveness of its channels on a Group-wide basis. To do so, it will establish new WM channels (such as Privilege and PWM Centers), strengthen its operating systems, and encourage collaboration to build synergies with Shinhan Investment and the bank's retail-linked branches.

Secondly, we will add to our competitiveness in the asset management market by increasing the growth potential of our prime-quality customer base. This will be done by carrying out marketing campaigns aimed at attracting new customers. These campaigns will include affiliated marketing and new marketing by target.

Lastly, we will continue to lead Korea's asset management market by making our products and services even more superior to those of our competitors. As already stated, this will be done by dividing our customer groups into UHNW, HNW, and Affluent.

Investment Product & Service (IPS) Division

The IPS Division consists of the Wealth Management Solution Department, the Investment Product Department, the Investment Consulting Department, and the Synergy Management Department. It was established in January 2012 as part of the WM Group's new business development strategy. Its goal is to provide comprehensive asset management services of a superior quality. In collaboration with Shinhan Investment, it will offer customers a broad range of products and services that include both banking and securities. It will also strengthen its advice-giving capabilities in such areas as products, research, taxation, real estate, and family business successions.



In collaboration with Shinhan Investment, it will offer customers a broad range of products and services that include both banking and securities.

Wealth Management Solution Department

The Department was originally part of the WM Consulting Team, which supported the asset management and consulting arms of the former WM department's operations and provided it with advice on financial techniques and scheduling seminars. In January 2012, it became a company-wide organization tasked with providing integrated asset management solutions to the bank's retail, PWM, and PB channels. Its overall goal is to be Korea's leader in the asset management sector of the financial industry, providing customers with advice, information, and services that exceed their expectations.

In 2011, the Department played an instrumental role in maintaining Shinhan Bank's reputation as a leader in the area of customer-centered asset management. One of its major achievements was strengthening the skills of the bank's employees in the area of customer-based asset management advisory services. It also held a series of courses and seminars in the use of financial techniques to improve relationships with customers.

In 2012, the Department will offer three important services that will strengthen the customer consultation and asset management skills of the bank's front-line workers.

First, we will enhance our program of offering advisory support services to customers. To facilitate this goal, the Department operates a "Multi-Advisory Service" through which experts in such areas as taxes, real estate, stocks and bonds, industrial analyses, and family business successions visit customers at their homes or offices. Shinhan Bank was the first in Korea's financial industry to create a team of asset management experts on a Group-wide level. Its mission is to respond to customer requests for advice and service in an efficient and effective manner. It does this by utilizing the capabilities of various experts employed by Shinhan Bank and Shinhan Investment.

Secondly, we will provide our customers with asset management services that distinguish us from our competitors. This will include our "Red-Flag" service, which analyzes customers' portfolios before problems arise in such areas as asset allocations and investment vehicles, and our "Portfolio Retouch" service, which offers advice on how a portfolio should be properly weighted and produces semi-annual performance reports. In addition, we offer custom-tailored portfolio proposals to meet every customer's needs. This helps out our branch employees, who may not possess the expertise needed to do this by themselves.

We provide similar offerings in the non-financial service area. They include our family business succession service, which gives advice on optimal tax reduction methodologies and the most effective succession structures and strategies. We also have a team in place that is versed in the art and science of setting up charitable and philanthropic foundations, in the event that any of our high-net-worth customers decide to bequeath part or all of their estates to the public.

Finally, we hold seminars for customers who need advice on financial techniques, and employees who require additional training to enhance their customer advising skills. This year, we will also carry out a program to educate the underprivileged about the ins and outs of the financial world and the economy as a whole.

Investment Product Department

This Department is tasked with the overall management of the bank's financial investment products. One of its principal responsibilities was to integrate the operation of a variety of investment product functions that used to be carried out by a number of the bank's business groups. The end result was the formation of Korea's highest-level investment product lineup. In addition to the Fund Team and the Bancassurance Team from the former Synergy Support Division, it includes the WM Product Team (which offers customized



products to WM and PB channels) and the Gold and Derivatives Team (which is responsible for gold and ELD: equity-linked deposits.)

Despite slowdowns in the fund market, the Department's sales for 2011 amounted to KRW 4.8 trillion, the best of all of Korea's banks. We were also the first player in the country's financial industry to form a task force team to deal with the sudden drops in the market that occurred in the second half of the year. As a result, we acquired an "Excellent" rating for the second consecutive year from the Financial Supervisory Service, in recognition of our sales of custom-tailored products, our industry-leading improvements, and our establishment of state-of-the-art fund services and systems. We also received grand prizes in the banking category from the *Korea Economic Daily* and *Maeil Business News* at the Korea Fund Awards.

We also led Korea's banking industry in fund sales and earnings. We did this by introducing a broad range of products tailored to specific customer segments (including public offering-type, WM customers, and PB private equity products), and by focusing on installment-type, ELF, and "buy on scale" funds.

From August 9 to November 18, we operated Korea's first-ever bank task force team. Its mission was to give branch employees and their customers up-to-date information and data about market conditions at least twice a day. Our long message service, which also provided real-time market information, was equally popular with the employees and customers at our branches.

The bancassurance area plays a pivotal role in retirement planning and reducing tax obligations. In 2011, we took a number of steps to increase sales and earnings, including the establishment of a "customer-centered, full-selling culture" and a wide variety of support programs. As a result, we acquired an "Excellent" rating in the variable insurance category from the Financial Supervisory Service. We also boasted the nation's largest-ever

sales for the second year in a row, while commission income surged by KWR 1.1 billion over the year.

The Gold and Derivatives Team, which was the first in Korea to introduce a gold banking service, is committed to marketing and the establishment of long-term brand value. We do this by offering such exciting products as the Shinhan Bank Gold Bar and the Golf Gift Service. In addition, we have launched such market-leading products as the S&P Korea Corporate Group Index Series 1 Cluster (Samsung Group Index). This contributes to strengthening the bank's ELD customer base, widening its range of financial instruments, and promoting the Team's overall operations.

In 2012, the Investment Product Department will continue playing a leading role in creating customer value through the development of high-quality investment products. Its activities will include establishing product strategies, launching additional products, and offering model portfolios structured to meet each investor's tastes and needs. In collaboration with Shinhan Investment, we also intend to broaden our portfolio of investment products to better respond to market conditions.

Investment Consulting Department

The Department's goal is to maximize customer value by providing investment advice, with a focus on the bank's front-line operations. It does this by taking advantage of the company's expertise in such areas as research, taxes, and real estate to determine which investment directions are the safest and most secure. To this end, it has established a three-pronged support system that offers specialized customer asset management, a customer-centered tax service, and field-centered consulting.

We manage customers' assets by determining secure and reliable investment strategies at departmental meetings that focus on investment strategies and asset allocation. We also publish the



We manage customers' assets by determining secure and reliable investment strategies at departmental meetings that focus on investment strategies and asset allocation.

"Shinhan WM Investment Guide," and offer customers a wide range of information on the capital market, including bonds, exchange rates, commodities like crude oil and gold, and domestic and international stock markets.

Our customer-centered tax service includes the "TAX ANGEL" (a tax service custom-tailored to fit each customer's needs), the "Relay Tax Event," (which enables customers to attend classes on subjects in the area of finance that interest them), and taxation advice at our branches.

Other programs that our customers can take advantage of include the "Real Estate Value Analysis Program" (which analyzes cash flow and suggests alternatives by analyzing the amount of revenue that can be gained from a specific piece of real estate), the "Real Estate All-Care Service" (which offers a wide range of services, from consultations and advice to post-management), the "Field Academy" (in which our real estate experts visit potential sites with customers), and the "Real Estate Academy" (which offers lectures on real estate investment strategies to high-income customers).

Our out-of-office consulting service provides potential investors with outlook and commodity market materials. It also analyzes overseas and domestic investment products throughout the year. These analyses are developed by using an extensive data collection program featuring information from a wide range of delivery channels. They include "Investment Advisory 8:45," "Morning Conference Call," "Reviews & Prospects," newspaper articles about taxes, market issue reports, and pop-ups on market conditions that are issued during the day.

In 2012, we are planning to build an enhanced support system that will help our customers and employees make investment decisions with ease and confidence.

Synergy Management Department

The Department is in charge of the bank's synergy business (including credit cards, securities, and IB), with a special focus on channel operations.

In the credit card business in 2011, 850,000 Shinhan Card customers opened settlement accounts and became Shinhan Bank customers. 139,000 of them were active customers. We enjoyed a similar success with Shinhan Insurance patrons: 100,000 of them opened settlement accounts, and 18,000 became active customers. In addition, we played a major role in the bank's cross-channel operations by enrolling 313,000 credit card customers.

In the securities sector, earnings rose by KRW 0.5 billion over the year. This increase was due to a rise in the number of our affiliated securities firms, as well as healthy growth in the number of our financial network account customers. We also engaged in joint marketing operations with other members of the Group.

In 2012, the Division will expand its customer base and meet its growth targets through three major strategies. They include adding to our number of synergy areas and encouraging a greater level of cooperation with other Group members, increasing our number of cross-customers, and enhancing our support system, with a focus on operational sites.

The credit card business will engage in more field-centered operations by adding to its volume of public-affiliated operations and improving its business processes. We will increase our customer base by turning more Shinhan Insurance, Shinhan Investment, and Shinhan Card customers into Shinhan Bank clients. In addition, we will position ourselves as a core support channel for the Group.

CORPORATE BANKING GROUP

Corporate Banking Group

Corporate Banking Service Department

"A leader in corporate and green banking services and developing new growth markets"

The Corporate Banking Service Department was created in July 2008 to respond to the bank's need for a multi-faceted marketing division that would combine the traditional demand for loans with more consultative functions, including advising customers about their assets. It consists of the RM Support Team, the Marketing Support Team, and the Corporate Consulting Team.

The RM Support Team is responsible for structured loans, including green growth industry loans, asset-backed loans, and loans for project-type facilities, while the Marketing Support Team assists well-established enterprises that are audited by certified public accountants. The Corporate Consulting Team backstops the operations of the bank's corporate banking branches by supporting their management and offering financial advice to businesses.

In 2011, our activities included developing structured loans, attracting high-quality customers, conducting direct marketing campaigns, identifying and entering new growth markets, and building new growth platforms. We contributed KRW 9.6 trillion worth of loans to the bank's branches, up by KRW 2.9 trillion from the previous year. The quality of our loans improved markedly, with 98% of our assets-based disbursements ranked "BB" or higher. This resulted from our selective loans policy, which determines loan eligibility according to the size and type of each enterprise. We carried out the following activities in 2011.

Strengthened the capabilities of RMs

We studied the results of our branches' marketing efforts by meeting with their relationship managers and senior relationship managers at all twelve of

our divisions across the country. In addition, we strengthened the capabilities of our RMs by carrying out small group (S)RM training sessions and offering a Community of Practice program for studying "best deals." We also enhanced our training systems and action plans to elevate our RMs' capabilities to the project manager (PM) level.

Targeted marketing

We played a leading role in the bank's efforts to become a leader in the quality assets market. This was done by analyzing new growth and low-carbon green growth industries, as well as themed loan marketing. We also developed plans to strengthen our competitiveness in the area of industrial complexes, and devised marketing policies to attract more guaranteed loans, using our KRW 90 billion contribution to the Korea Credit Guarantee Fund as a springboard.

Improved non-price competitiveness through corporate consulting

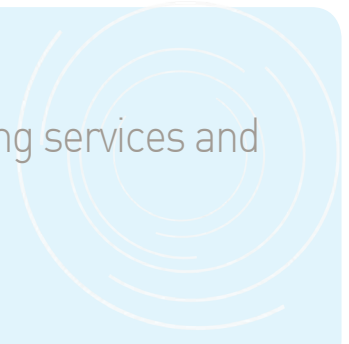
We bolstered our ties with second-generation executives by participating in the Shinhan Management Innovation Process and offering them advice on structuring problem-free business successions. In addition, we supported the bank's direct marketing efforts aimed at business owners, encouraging them to choose us as their lead financial institution. We also added to our volume of high-quality assets and the quality of our loan portfolio.

In 2012, we will carry out the following tasks.

Attract healthy companies, and increase ratio of high-quality assets

Our efforts to achieve solid asset growth are realized by increasing our volume of loans to well-established companies and industrial complexes, providing them with differentiated marketing information, and strengthening our relationships with outside organizations that are also involved in the field.

A leader in corporate and green banking services and developing new growth markets.



Increase marketing aimed at green, new growth, and high-potential industries

We will attract more prime-quality customers by increasing our presence in the green banking loans sector, with a focus on growth industries. We will also increase our volume of guaranteed loans, analyze tenant companies in industrial complexes and offer them loans to buy land, and enhance our risk management systems.

Boost capabilities and maximize competitiveness

We will increase our number of full-service accounts and play a leading role in developing and disseminating related marketing tools and techniques. To do so, we will foster the development of PM specialists in each business sector, and strengthen the capabilities of new S(RM)s.

Offer more corporate consulting

We will strengthen our relationships with our customers by offering them advice on business successions, taxes, and other matters. We will also establish marketing policies for promising business sectors and strengthen our consulting skills through enhanced training. Our goal is to expand our customer base and enhance our competitiveness in terms of both service and quality.

Retirement Pension Division

The retirement pension business is one of the bank's newest operating areas. Our goal is to increase the bank's customer base by attracting more employees of well-established companies. In addition, we will stress the importance of cross-selling as a means of gaining new clients and keeping them.

The Division was created to help the bank cope with the implementation of the Korean retirement pension system in December 2009. It is also tasked with strengthening synergies with the bank's corporate banking channels. Consisting of the Planning Team, the Business Support Team, the Consulting Team, and the Consulting Center, it is

dedicated to meeting the ever-changing needs of our customers and improving our customer services, both quantitatively and qualitatively. This will allow us to gain an early edge in the increasingly important retirement pensions market.

In 2011, the total value of our retirement pension assets under management was KRW 4.9 trillion, making us Korea's industry leader for the second consecutive year. We also ranked first in terms of reserves for management operations, at KRW 4.4 trillion. This success resulted from developing the industry's highest level of retirement pension capabilities, as well as operating its most optimal systems for the management of pension subscribers. We also boasted the nation's highest level of competitiveness in terms of product development. This included introducing the Korean banking industry's first equity-linked deposit for retirement pensions, principal-protected, equity-linked securities, and guaranteed interest contract insurance products for retirement pensions. In addition, we were the first player in the Korean financial industry to offer a retirement pension enquiry service that can be accessed through ATMs.

In 2012, the Division will carry out a sophisticated marketing campaign to ensure that we remain the number one player in our sector. We will also strive for qualitative growth, and conduct a wide range of marketing activities to help us gain an early edge in the new individual retirement pension market. This will include enhancing our advisory and service capabilities in asset management. In addition, we will develop a broad range of content and services and expand our use of non-direct channels. This will allow us to offer both present and potential customers an exciting menu of services that cannot be equaled by our competitors, targeting subscriber companies and their employees.

CORPORATE & INVESTMENT BANKING GROUP

Corporate & Investment Banking (CIB) Group

The SFG launched its CIB business division system in January 2012. Our goal was to meet the needs of corporate customers, maximize customer value, and ensure the bank's sustainable growth. It involved combining Shinhan Bank's IB organization and corporate and investment banking service channels and Shinhan Investment's IB organization into one business unit to solve the problem of having a two-pronged operating system. In addition, we revamped its structure by streamlining a wide array of systems and operational schemes. As a result, we are now much better equipped to provide corporate customers with high-quality, one-stop services in all areas of banking and securities. Consisting of the Corporate and Investment Banking Planning Office, the Corporate and Investment Banking Service Department, the IB Division, and the Merchant Banking Department, Shinhan Bank's CIB Group provides Korea's most comprehensive range of financial services.

Establishing efficient and effective synergies between Shinhan Bank and Shinhan Investment is obviously one of the most important requirements for operating the CIB business model in an optimal manner. To this end, the IB divisions of the two companies began combining their physical spaces within the head office of Shinhan Investment in January 2012. This resulted in the development of a system that can provide a full package of CIB services to maximize customer value.

In addition, we have added to our customer coverage by establishing an introduction-based marketing system. By using a DUO-RM system, Shinhan Bank and Shinhan Investment can carry out joint account planning and other types of collaboration for their core customer groups. To ensure that this is done seamlessly, we have upgraded all of our business processes. This includes offering a broad range of specialized talent cultivation programs that will improve SFG's core

competencies, strengthening its foundations for future growth and increasing its organizational efficiency. We also operate risk management teams, as well as RM & PM support teams that are tasked with research, new business development, and selling solutions.

In 2011, we faced many difficulties both at home and abroad. This included the financial crisis in Europe, which soon resulted in increasing economic woes at home. In order to operate optimally in this extremely challenging business climate, the CIB Group adopted a strategy of concentrating on risk management and securing growth engines. As a result, the Group realized KRW 373.1 billion in pre-tax income and KRW 39.6 trillion in sales. The latter figure represented a rise of KRW 2.1 trillion, or 5.7%, year-on-year.

Although we failed to reach our original goals in terms of financial performance, we did manage to build solid foundations for long-term growth. For example, we posted satisfactory results in IB syndicate loan arranging operations, and ranked second in Bloomberg's League Table of top underwriter rankings in the syndicate loans category. Our overall market share was 12.9%, up 4.6%p YoY. In addition, our volume of total loans to large, high-quality corporations climbed by 22.6% YoY to KRW 17.9 trillion. Our overall market share was 11.2%, up 1.42p% YoY.

In 2012, we will carry out the following tasks to achieve our goal of leading Korea's large corporation banking and IB markets through the operation of our CIB business model.

First, we will add to our core capabilities. This means, among other things, retaining the collaborative model between Shinhan Bank and Shinhan Investment by strengthening their CIB full-package service system. It also means enhancing our customer coverage through the DUO-RM system. In addition, we will continue to lead the large corporation market by increasing our volume of prime-quality assets. This will be done by

GLOBAL BUSINESS GROUP

developing custom-tailored products and improving our returns by adding to our non-interest income. We will also diversify our IB deal-sourcing channels and enhance our ability to develop customized products by utilizing our PM functions covering the banking and securities areas to the fullest. Finally, we will strengthen our sales networking functions by maximizing our underwriting abilities.

Secondly, we will consolidate our growth engines from a long-term perspective, including securing future ones in a number of areas. This will involve building our foundations for long-term growth by adding to our volume of high-quality assets, continuously developing new revenue sources, and entering new growth business areas, including green finance and the global IB business.

Finally, we will improve the quality of our infrastructures. This includes operating a team that is exclusively charged with IB projects to allow for better risk management, and strengthening our front, middle, and back office systems. We also operate an organization that is tasked with supporting our RMs and PMs. Its functions include strengthening front-line communications and assisting with research and marketing. In addition, we will implement a wide variety of talent cultivation programs. They will include in-house training programs, such as the IB and working-level specialty courses at the Shinhan Finance Academy.

The Group's motto for 2012 is "new challenges, great companion." To meet it, we will diversify our earnings foundations and strengthen our foundations for long-term growth by continuing with the CIB operating system, positioning ourselves as a key future growth engine for SFG through our seamless collaboration with Shinhan Investment.

Global Business Group

The Global Business Group will lay the groundwork for global operations that will outperform its competitors by strengthening its foundations for sustainable growth. In addition, it will carry forward global expansion strategies with a long-term perspective.

We will particularly focus on adding to the competitiveness of our network, paying special attention to the Asian financial belt that includes Japan, Vietnam, China, and India. We have become very knowledgeable about this region through our strategy of selection and concentration, and are confident of our success.

Our goal is to become a regional bank, and then evolve into a true global player within a few years. We will do this by continuing with our localization strategies, strengthening our non-direct channels, adding to our customer base, achieving world-wide synergies, and developing growth and revenue models that meet the needs of each operating area. By achieving these goals, we will realize our mid- to long-term goal of being "The Best in Korea, and in the Top 10 in Asia."

Our major results for 2011 were as follows.

Strengthened global network

We strengthened our global network in both qualitative and quantitative terms, targeting areas of extra importance in accordance with our strategy of selection and concentration. This resulted in the creation of fifty-nine bases in fourteen countries, with an emphasis on local subsidiaries.

Opened branches of local subsidiaries

- SBJ Bank: Kobe branch (May 2011)
- SBJ Bank: Shinjuku office of Kobe branch (September 2011)
- Shinhan Bank China: Changsha branch (October 2011)
- Shinhan Khmer Bank: Olympic branch (November 2011)
- Shinhan Bank Vietnam: Bien Hoa Branch (December 2011)
- Shinhan Bank Vietnam: Bac Ninh Branch (December 2011)



Shinhan Bank Vietnam was launched in November 28, 2011 by merging Shinhan Vietnam Bank and Shinhan Vina Bank. The two facilities were looked upon as the most successful localization models of Korean banks in Vietnam, even though they operated as separate entities. Shinhan Bank Vietnam will upgrade its international operations in that country, while also engaging in full-fledged localization strategies by achieving synergies from the afore-mentioned merger. This will include profiting from the Vietnam Bank's strengths in large corporation banking and the Shinhan Vina Bank's abilities in terms of local businesses and mid- to small-size corporate banking.

The Bank of Vietnam named the Ho Chi Minh branch of Shinhan Vietnam Bank the country's best foreign-affiliated financial institution in 2005, and its best foreign-affiliated bank in 2008. In addition to providing us with increased efficiencies and economies of scale, the merger of these two affiliates will act as a catalyst for future localization activities and play a pivotal role in realizing our goal of becoming a truly great bank.

Enhanced global operating abilities and strengthened infrastructures

(1) Hired people who can work and thrive anywhere

- Added to the competencies of local employees: Increased quality of overseas branches' talent cultivation operations by putting optimal training schemes based on annual training plans in place. Enhanced the abilities of leading local employees, and made them more motivated through our linkage with the Korea Banking Institute and in-house training.
- Furthered spread of workplace culture: Increased employees' loyalty through "Global Shinhan Way" follow-up training. Participated in newly-established in-house events, such as Global CoP and Communitas.
- Put corporate vision into practice: Offered incentives and training opportunities to outstanding employees through Global JUMP manager program. Selected fourth-term Global

Young Force, and carried out its introductory training.

- Strengthened abilities of employees at home: Provided human resources for local management through the SFA program and prior training. Implemented three-month-long job training at overseas branches.

(2) Global network risk management

- Strengthened our overseas branches' risk management systems by analyzing their operational risks and ensuring that they can't be transferred to our home operations.
- Systematized global risk management operations by streamlining the risk management functions of each overseas branch, establishing risk limits, and constructing standardized risk management systems.
- Developed plans to improve on their shortcomings by studying their risk management conditions.

(3) Products and Marketing

- Improved quality of services by increasing networking between domestic and overseas channels to attract both domestic and local customers.
- Enhanced customer services by establishing alliances with domestic and overseas companies.
- Increased range of products.

(4) Global IT system

- Began converting from the OASIS system to Aither--a new system for overseas branches that will bring their programs and processes into line with those in Korea. Mainly aimed at business standardization.
- Shinhan China and SHBA began using Aither in 2010, with SBJ Bank, Shinhan Vietnam Bank, Shinhan Bank Canada, Shinhan Bank Europe, and the New York Branch joining them in 2011. Other areas, including India, are scheduled to do the same thing in 2012.

(5) Enhanced quality of non-direct channel services at overseas branches

We will realize our mid- to long-term goal of being
"The Best in Korea, and in the Top 10 in Asia."

- Upgraded Internet banking operations at Shinhan Bank China, and revamped its homepage: Launched electronic B2B loans at Shinhan Bank China, including improved transfer services and direct linkage with China's National Advanced Payment System (CNAPS) for real-time transfers and improved transfer services.
- Carried out research to aid in enhancing the quality of non-direct channel services at overseas branches (targeting SHBA, NY, Canada, Shinhan Europe, India): Provided standard functions and specialized services by nation.

In 2012, the Global Business Group will strengthen its operations by firming up its foundations and securing future growth engines.

Expand customer base and strengthen foundations for local operations

We will attract local customers by strengthening our operating abilities and adapting our core ones to suit local conditions. This will include our differentiated customer management techniques, our marketing abilities, and our risk management processes, making us a key contributor to the bank's future growth.

We will also develop an effective, field-oriented operating system. This will include introducing new products, establishing networks centering on our local subsidiaries, developing financing and management models that suit local conditions, and developing better methods for connecting the head office with our overseas affiliates.

Strengthen foundations by developing global synergies

We will utilize the bank's networks and customer bases to take advantage of rapid changes in both the domestic and international financial environments. In addition, we will achieve bank-wide synergies through joint marketing operations among our branches, both at home and abroad. This will allow us to make optimal use of the resources and abilities of all of them.

Enhance the quality and quantity of our networks

We have built efficient and effective networks in all our key operating areas. In 2012, we will expand our overseas networks, with a focus on those in Japan, Vietnam, and China. We will also see to it that our most successful business abilities are adopted in our international operations.

Treasury Department

In 2011, the Korean financial market experienced three interest rate hikes during the first half of the year. They were driven by high prices and the central government's determination to normalize its policy rate. Despite this, later economic conditions were such that uncertainties lingered throughout the year. These included the severe earthquakes in Japan at the end of the first quarter; high oil prices during the second quarter; the financial crisis in Europe and the downgrading of the US's credit ratings in the third quarter; and the death of Kim Jong-il in the fourth quarter. As a result of these various events, the market interest rate continued its downward movement, narrowing the spread between long- and short-term interest rates significantly.

The movement to establish new risk management policies for the world's financial systems continued apace. The Basel Committee outlined its policies regarding capital liquidity controls in the second half of 2010, following the publication of its financial regulations in 2009.

The Treasury Department carried out a quantitative impact study on the bank's Liquidity Coverage Ratio and Net Stable Funding Ratio, in keeping with the requirements of the Financial Supervisory Service and Basel III. We also established a number of liquidity management strategies in conjunction with the bank-wide Asset and Liability Management (ALM) System Upgrading Task Force Team. The goal of these activities was to help the bank cope with a host of new liquidity regulations in an efficient and effective manner.

In the won currency sector, we maintained a stable



We will seek growth in terms of both sales and profits, and strengthen our efforts to develop new revenue sources by innovating our products and services.

loan-to-deposit ratio by instituting a policy of increasing deposits by our customer base. In addition, we enhanced the stability of our funding by issuing bonds. We also continued with our interest rate risk management strategies to reduce the volatility of our earnings in the wake of the previously-mentioned dramatic changes in interest rates. As a result, we were able to maintain stable liquidity ratios and add to our interest income.

Operating profit margin for our investment bonds exceeded our benchmark indices. This resulted from our decision to implement differentiated operational strategies by portfolio, based on interest rate forecasts.

In the foreign currency sector, we established annual foreign currency ALM plans, developed optimal annual target portfolios for each asset and business division, and monitored their performances on an ongoing basis. This allowed us to manage our foreign currency liquidity operations in a stable manner, even in the midst of the Euro financial crisis. We also deflected uncertainties regarding refinancing in the future by floating USD 0.7 billion worth of global bonds.

The bank is seeking to diversify its funding sources by utilizing the US and Euro CP programs and the Global MTN program. It will also focus on maintaining its foreign currency liquidity operations at a stable level by continuously strengthening its relationships with overseas financial institutions.

In 2012, we expect that the direction of the market will be determined by how well it copes with the financial crisis in the Euro zone. We will also have to guard against uncertainties triggered by the uprisings in Egypt and Libya. As a result, the Department will work to establish liquidity risk management systems that meet any and all international standards. We will also develop systematic and well-thought-out ALM strategies.

We plan to concentrate our energies on stabilizing our earnings structure, based on the bank's ALM strategies. In addition, we will institute new risk

management paradigms grounded upon BASEL III, and enhance our funding structure through the further diversification of our financing vehicles.

International Trade Business Department

In 2011, the International Trade Business Department launched a number of differentiated products and services. It also improved its brand awareness and competencies in foreign exchange, despite confusion in the international market due to the financial crisis in Europe. As a result, we recorded USD 150 billion in the imports and exports sector, USD 29.3 billion in invisible trade remittances, and USD 4.1 billion in foreign exchange.

In the corporate banking area, we focused on increasing our customer base for foreign exchange and foreign-currency settlement accounts. As a result, our growth in the imports and exports market ballooned by 15% from the year before.

We also strengthened our market position by enhancing our competitiveness in products. This includes forfeiting, which is type of sell-down export financing transaction.

In the personal banking sector, we endeavored to offer more unique and competitive products and services and enhance our foreign currency brand image. These efforts included engaging in marketing with our affiliates to increase customer value, and publicity activities in a variety of media outlets. As a consequence, we strengthened our leading position in the foreign exchange market, while broadening the gap between other banks in terms of market share.

In addition, we enhanced our operating abilities by adding to our employee training programs in the area of foreign exchange. We also held an Import and Export Academy and workshops to strengthen our ties with our corporate customers.

In 2012, we will strengthen our market position and our competitiveness in the imports and exports, foreign exchange, and invisible trade remittance

RISK MANAGEMENT GROUP

markets. We will also continue to enhance our operations and add to customer convenience through affiliated marketing, optimized business processes, and collaborations with our overseas branches.

With regard to imports and exports and overseas remittances, we will establish detailed strategies that focus on qualitative growth and seek profit-oriented quantitative growth. In the area of foreign exchange, we will maintain our market leadership and add to our competitiveness by boosting our brand image and enhancing our affiliated operations. In order to attract major customers through our global cash management service, we will calibrate our management indicators to achieve qualitative growth.

We will also build our image as the number one player in the foreign currency service, and strengthen our competitiveness in the foreign exchange and remittances sector. This will be done by increasing the use of foreign exchange transactions through non-direct channels, and continuously seeking synergies within the SFG companies. In addition, we will continue supporting marketing endeavors by our overseas branches, and enhance their customer services by leveraging the strengths of our global network.

We will also focus on qualitative growth. This will be done by increasing our profitability, and through the more efficient management of our foreign currency-denominated assets. Instead of focusing on quantitative results, we will seek growth in terms of both sales and profits, and strengthen our efforts to develop new revenue sources by innovating our products and services.

In addition, we will improve the efficiency of our foreign currency-denominated asset management processes by increasing our number of sell-down export financing transactions. We will also attend to our social responsibilities, by adding to our training in foreign exchange and financial assistance targeting mid-sized, export-oriented companies.

Risk Management Group

The purpose of risk management is to ensure the bank's soundness and stability and maximize shareholder value. Our guiding philosophy is that our employees must find a "golden mean" between risk and profits for our continuing sustainable growth. Each business unit that is exposed to risk or is likely to generate it is responsible for its own risk management practices. This includes having its own risk managers.

The Risk Management Group is responsible for managing the bank's risks. This is carried out separately from its general business operations, and includes identifying, evaluating, monitoring, controlling for, and reporting risks.

The bank has also developed a number of consultative bodies to ensure more efficient risk management. They include a Risk Management Committee, a Credit Policy Committee, and an ALM Committee. We also operate a Derivatives and Structured Products Risk Review Council, a Fair Value Appraisals Council, and an IB Deal Pre-Review Council. All of them are tasked with analyzing potential risk factors before new products and businesses are released onto the market.

In order to ensure that our processes met all the requirements of the Basel II Accord, we obtained the approval of the FSS to use our in-house market risk model and the Foundation Internal Ratings Based Approach to Credit Risk, which is used to calculate capital adequacy and BIS ratios. We also utilize a system that measures credit, market, interest rate, and liquidity risks to ensure that they remain at appropriate levels.

We are also tasked with coping with changing outside regulations. This means that we must become familiar with a wealth of new rules, including those contained in the International Financial Reporting Standards (IFRS) and the Basel III regulations.

Credit Risk Management

We double-check for credit risk in both corporate



and individual loans. Our number of business loans is limited by both country and industry, to prevent an over-concentration in specific sectors. Loans to individuals take the borrower's credit ratings and repayment history into account.

Credit risk accounts for more than 80% of the bank's total risk. Classified as either expected or unexpected loss, it is calculated on the basis of the bank's bankruptcy and recovery ratios. Our loan loss provisions are then derived from the expected losses and put in reserve. Their value is based on either the K-IFRS guidelines or the Financial Supervisory Service's guidelines, depending on which one is higher.

Unexpected loss refers to risk capital that the bank is obliged to hold against credit losses that exceed its anticipated volume. It is measured and managed based on both regulatory capital and economic capital standards. Regulatory capital is calculated by using risk-weighted assets modeled on the Basel II Foundation Internal Rating-Based Approach. It is mainly utilized in the management of BIS ratios. Economic capital is used to establish loan limits and conduct performance evaluations.

The various components that we use when calculating expected and unexpected losses were approved by the Korean government's Financial Supervisory Service (FSS). They meet all the standards included in the FSS's Credit Risk Foundation Internal Rating-Based Approach.

Market Risk Management

Market risk refers to risk generated by fluctuations in market prices, such as interest rates, share prices, exchange rates, and commodity prices. Its management is geared toward ensuring that the maximum amount of loss falls within permissible, pre-established levels. It is managed by establishing value-at-risk limits, investment limits, position limits, transaction limits, loss limits, and stop-loss selling limits.

The Risk Management Department ensures that these limits are adhered to, although the limits themselves are established by the ALM Committee. In addition, the Department evaluates the degree of

risk associated with new products or deals within each business sector prior to their launch.

To measure market risk, the bank uses VaR, which is a statistical method for calculating a maximum potential loss due to fluctuations in the market. We can calculate market risk with 99% accuracy by using historical simulation methods. We calculate our capital adequacy levels by estimating the maximum potential loss of our trading positions in the event of an emergency.

Finally, we use a market risk management system called RiskWatch to measure for risk and establish limits. This is done on a daily basis. The system makes calculations based on data about the level of trading in stocks, bonds, and derivatives--all of which are prime targets for market risk measurement. All our results must be reported to upper management. We use the same data to establish portfolio risk and hedge strategies.

Middle Office

We transferred the functions of the Middle Office to the Risk Management Group in February 2009. The goal of this move was to act as a go-between between the front and back offices. This helps to make our risk management processes more efficient and systematic.

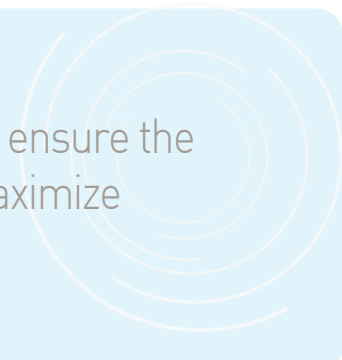
The Middle Office for securities and derivative products manages market data and analyzes the value and probity of transactions concluded by the front office. It also calculates risk (in terms of sensitivity levels, positions, and investment status) and losses that have been incurred at the desk or dealer levels. In addition, it monitors the front office to ensure that it complies with the bank's stop-loss limits. It also ensures that the ALM Committee's loss and risk limit levels are being observed by each department, desk, and front.

Asset & Liability Management (ALM)

Interest Rate Risk Management

Interest rate risk refers to the possibility of losses generated by unfavorable interest rate movements.

The goal of interest rate risk management is to



The purpose of risk management is to ensure the bank's soundness and stability and maximize shareholder value.

ensure stable earnings and maintain the bank's net asset value. This is done by forecasting changes in income due to alternations in interest rates, and managing them within allowable ranges.

Shinhan Bank manages interest rate risk from the perspective of both earnings and economic value. It also measures it on a regular basis through its ALM system.

Interest rate risk tolerance including interest rate gap and VaR is established at the beginning of the year, with the approval of the Risk Management Committee or the ALM Committee. Its management is monitored by each relevant division. We also cope with interest rate risk by conducting "stress tests." The results are then reported to management.

Liquidity Risk Management

Liquidity risk refers to the possibility of unpredictable losses (such as abnormal asset disposals or high interest rates) and/or the potential inability to fulfill payment obligations on time due to discrepancies in the due dates between assets and liabilities. It includes funding liquidity risk and market liquidity risk.

The goals of liquidity risk management are to minimize risk arising from capital shortages and to ensure stable earnings. It does this by predicting liquidity fluctuation factors in advance in relation to financing and capital management in the banking and trust accounts, and by ensuring a proper level of liquidity through systematic management. It also guarantees that the bank has enough high-quality liquid assets to cope with emergencies.

Shinhan Bank follows all the liquidity-related guidelines that have been established by the Korean financial industry's supervisory organizations, including those that deal with liquidity ratios. It also develops contingency plans to guard against unexpected shortages of cash that could result from sudden changes in the Korean and overseas market environment or their monetary policies.

The bank also establishes limit control indicators. Their management is reported to the Risk Management Committee and the ALM Committee on a regular basis. The results of liquidity "stress

tests" are also presented to management to lessen the possibility of liquidity risk.

Operational Risk Management

Operational risk refers to risk resulting from direct and/or indirect losses caused by incomplete or incorrect internal processes, employee speculation, system errors, or external factors.


Shinhan Bank's operational risk management structure involves three major lines of defense, in addition to the BOD and upper management. They include its sales organizations, its support departments (which are tasked with the development and operation of its risk management systems), and its examination departments (which are responsible for conducting inspections). In addition, the bank has been operating an operational risk management system since February 2006.

Our in-house operational risk management system includes six modules: Risk and Control Self-Assessments, Key Risk Indicators, Loss Data Collections, Operational Risk Measurements, Scenario Analyses, and Operational Risk Culture. They meet all the quantitative and qualitative requirements for operational risk management laid out by the Basel Committee and the FSS.

Risk Model Validation

We use risk model validation to minimize the possibility of risk resulting from operating errors or defects in the models themselves. It is also done to ensure that we can cope with changes in our internal and external operating environment, and to meet the requirements of Korea's financial supervisory authorities.

In 2010, we carried out validation tests on our corporate, retail, and SOHO credit assessment systems, the PD/LGD/CCF estimation system, the market risk management system, and the risk-weighted asset calculation system. We also expanded the range of validation and conducted validation tests on our early warning system for loans and our collection source management system. The results were presented to upper



We support stable growth at our overseas branches and subsidiaries by strengthening their risk management abilities.

management and the Risk Management Committee. Operating divisions are notified about areas that need to be improved.

In the future, we will enhance the performance and utilization of our various risk models by adding to the list of targets for validation. We will also introduce new methodologies, and train our employees in charge of risk management in their use.

Global Network Risk Management

We support stable growth at our overseas branches and subsidiaries by strengthening their risk management abilities. Our major strategy is to foster their healthy growth in relation to their potential for risk, and prevent the transfer of their risks to our home operations. This includes ensuring that the bank and its overseas branches share a consistent risk management structure, and helping them to establish credit risk models and a major risk indicator monitoring system.

To this end, we streamline their risk management organizations, establish risk exposures, build risk management systems, and standardize risk management by type. We also help local subsidiaries by establishing their total risk limits, monitoring their risk management capabilities, and helping them to improve their shortcomings. In addition, we assist them in building risk management platforms so that they can carry out their own risk management programs and processes. This includes establishing credit risk models, risk data marts, and systems for calculating market risk.

Information Quality Management

The Risk Management Group supports speedy and accurate decision-making and policy development by providing the bank with information that is both correct and accurate. This is done to help the bank cope with a rapidly changing financial environment, and to guarantee the accuracy and reliability of the information that will be reported to its supervisory bodies.

Correct and accurate information helps us to maximize our business outcomes by making us

more competitive. To this end, we are tasked with establishing strategies and guidelines to enhance and measure the quality of our data. We also carry out a bank-wide data cleansing campaign on a regular basis.

In 2012, we will create additional business rules to improve our information quality. We will also upgrade our data quality management systems, mainly by enhancing our monitoring functions.

Credit Review

Shinhan Bank's credit review processes include credit monitoring by an early warning system, credit planning and supervision, corporate credit risk evaluations, and reviews of loans that are granted by our branches without further supervision. Their overall goal is preemptive risk management.

The early warning system, established in February 2006, was upgraded in December 2007 and again in February 2012 to reflect the rapidly changing financial industry environment. It focuses on sound asset management through the preemptive and selective management of companies that show signs of becoming insolvent. In addition, we engage in planning and supervision activities at all times, mainly by identifying weak business types, sectors that we should focus our attention on, and other issues. The results are shared with relevant divisions and departments for use in determining the bank's loan management policies.

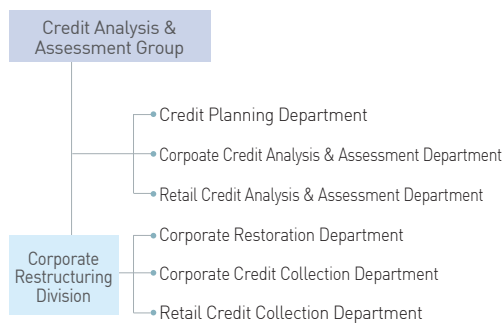
We conduct both regular and random corporate risk evaluations to improve the quality of our assets. This includes detecting signs of possible insolvencies early on, approving loans that reflect the repayment abilities of borrowers, making recoveries, and liquidating companies with poor recovery prospects in a prompt and preemptive manner.

The permanent supervision of loans extended by our branches focuses on product risk and credit indemnification plans. Our credit review operations are based on preemptive risk management, and the belief that they result in the growth of healthy assets.

CREDIT ANALYSIS & ASSESSMENT GROUP

Credit Analysis & Assessment Group

The Credit Analysis & Assessment Group manages the bank's overall loan-related systems and processes, including credit approvals and assessments and the management of delinquent loans. It comprises one division and six departments.



The Credit Planning Department establishes loan policies and regulations, manages the bank's loan-related systems, analyzes its soundness indicators, devises strategies and measures by industry and issue, and assists the bank with credit analyses and assessments.

The Corporate Credit Analysis & Assessment Department and the Retail Credit Analysis & Assessment Department are tasked with loan analyses and assessments and general risk management. They develop credit analysis and assessment programs, evaluate and assess credits, and establish and monitor credit exposure.

The Corporate Restructuring Division was created in January 2012 to support small- and medium-sized enterprises that were having difficulties with their liquidity levels. It also assists in the restructuring of badly run companies.

The Corporate Restoration Department provides liquidity to companies that show a potential for

recovery. It also carries out credit analyses and assessments of companies and business types that are threatened with insolvency.

The Corporate Credit Collection Department and the Retail Credit Collection Department are tasked with minimizing credit-related losses by undertaking legal procedures involving bad loans, as well as individual and corporate restructurings and restructuring programs.

The total value of the bank's loans in 2011 was KRW 166.5 trillion, an increase of KRW 11.4 trillion from the year before. This included healthy growth in both household loans and loans to relatively healthy large corporations.

The bank boasted a superior level of asset soundness compared to its competitors. For example, its delinquency ratio was a mere 0.65%, while its ratio of non-performing loans to total loans was only 1.09%.

In 2012, we believe that a number of factors will impact negatively on the bank's soundness indicators. They include slowing growth in the face of continuing economic uncertainties, and intensifying competition following the reorganization of the banking industry. Given this situation, we will focus on stable, profit-oriented growth. Our strategies for achieving this goal are as follows.

Strengthen preemptive crisis management

We will manage for enhanced asset soundness by detecting risk factors in a timely manner and coping with them preemptively. This will include analyzing the bank's loan assets from a variety of viewpoints, and managing business sectors that are especially sensitive to changing economic conditions more proactively. In addition, we will enhance the soundness and the qualitative growth of our overseas networks by closely monitoring their loan practices, policies, and processes.

Foster qualitative growth through asset growth, with a focus on prime-quality assets

BUSINESS IMPROVEMENT GROUP

We will support the bank's strategies for achieving qualitative growth. This will include helping large and healthy corporations and well-established companies whose financial statements are examined by independent auditors to increase their market share. We will also assist in the development of products that will increase the volume of loans extended to high-quality SMEs and the reformulation of SME loan assets and household- and SOHO-oriented products.

Increase level of support for front-line operations

We will ensure that we adhere to our loan management principles, and enhance our communications with our front-line operations. In order to ensure strong front-of-the-house operations, we will upgrade their loan policies and processes and strengthen the ability of their employees to decide whether or not to extend credit to customers.

Business Improvement Group

The Business Improvement Group is the bank's primary business innovation organization. It provides our employees with a "speedy and smart" workplace, allowing them to add to the bank's productivity and value. To achieve this, the Group has established three strategic goals and nine core tasks.

The strategic goals include enhancing the effectiveness of our business supports to help build more efficient and effective front-line operations, developing new and innovative services to improve its business outcomes, and increasing the efficiencies of its operating systems and synergies. Our core tasks include improving the bank's business process innovations and efficiencies, and enhancing the marketing skills of its branches.

The Group is composed of the IT Planning Department (which is tasked with IT strategies, budgeting, and architecture management to improve bank-wide business and customer services); the Information Security Office (which develops service quality controls and carries out inspections); the IT Development Division (which develops and operates IT services); and the Business Improvement Division (which is tasked with enhancing the efficiency of the various business processes that take place at the bank's branches and head office divisions).

IT

Our strategic goals for 2011 were business-centric IT service delivery and organizational innovations to improve our competitiveness in the future.

We have established three strategies to help us achieve them. They include providing efficient and effective services through a zero-defect policy; offering IT services to help our business groups achieve their strategies; and adding to the bank's organizational and process innovations to make it more competitive. The details are as follows.

First, we strengthened our internal management



systems and increased our operational efficiency by developing an automated testing system and an Information Technology Service Management system. We also centralized the management of our Web Contents Management System operations.

In addition, we enhanced our major systems, strengthened our monitoring, and optimized our software. We also finished the speeding-up of exclusive lines for branches and the construction of mobile communications network for self-service branches. In addition, we took steps to respond to any possibility of hacking, and established methods for dealing with increasingly tightening industry regulations.

Secondly, we enhanced our IT support systems for external marketing (including solution selling), established smart workplaces by utilizing smart equipment, and replaced aged and problematic equipment. We also helped to increase the bank's competitiveness in terms of service and heighten its customer satisfaction levels by transferring our operating systems to our overseas subsidiaries, including those in Japan, Vietnam, Canada, and Europe.

Thirdly, we hired human resources with a background in information protection and system and security monitoring. In addition, we enhanced the core competencies of our IT people through the Shinhan Financial IT Academy. We also built a roadmap for IT development, and made improvements to our evaluation systems.

Our strategic goal for 2012 is to establish strong IT foundations that will enhance the bank's competitiveness. Our strategic directions include building front-line-centered IT systems, improving our organizational and human resources systems, and optimizing our infrastructures and strengthening our internal controls. The details are as follows.

First, we will develop a smart workplace. This will be done by encouraging document integration management by means of an Enterprise Data Management System, and building a risk data mart for our overseas branches and subsidiaries. We will also enhance our global IT management support

systems. This will be done by assisting in the development of credit rating models and monitoring systems. In addition, we will introduce more smart banking functions by carrying out next experience banking, upgrading our corporate customer relationship management system, and streamlining our market risk systems.

Secondly, we will enhance our IT development evaluation indexes and schemes, establish mid- to long-term IT strategies, and strengthen our internal controls, including human security/system authority management. We will also make improvements to our IT contingency plans to ensure business continuity. Some of our other goals are the expansion of our disaster recovery (DR) drills, and the extension of our DR systems and networks.

Thirdly, we will enhance our security system to prevent the leakage of customer information. We will also add to our systems and number of disks, upgrade our non-direct channel networks, and monitor our system and disorder management. In addition, we will build a new data center to provide the bank with a more stable infrastructure environment.

Business Process Reengineering (BPR)

Promoted BPR in branches

We launched our first-phase BPR project in 2006, and completed the centralization of all our branch operations on a stage-by-stage basis. This included slips, forms, logistics, Image Processing Service operations, household loans, deposits, and foreign exchange services.

In 2011, we leveraged our experience and BPR infrastructures to support the bank's growth. We also helped the bank generate earnings by implementing loans up-sale marketing, and centralized operations that our branches find difficult to handle, including Shinhan My Car loans.

In 2012, we will build operational support systems that will create or increase customer value. This is part of our goal of developing efficient and effective front-line work sites that will lead change and innovations.

MANAGEMENT SUPPORT GROUP

Enhanced BPR in head office divisions

We enhanced our business efficiencies in three main areas.

First, we have been operating a business consultation center that handles enquiries from branch employees who need help understanding the bank's rules and regulations since 2010. It is staffed by advisors who can deal with their problems in a speedy and accurate manner. This has led to a reduction in the workload of employees at the bank's business groups and divisions, helping them provide customers with better and faster advice.

We also improved the efficiencies of our head office divisions. This involved centralizing operations that had been carried out by them from 2010 till 2011, and automating the preparation of reports required by outside organizations, thus freeing group division employees to perform other duties. In addition, we simplified the mutual agreement methods among divisions, shortening the period required for agreements by about 2.9 days. We also introduced a web-fax system to improve approval keys and help build a paperless environment. These improvements have enabled the bank's business groups to utilize their employees in a more flexible manner and ensure that they receive speedy and accurate support in the performance of their duties.

In 2012, we will continue to enhance the efficiency of operations at our head office divisions to increase the bank's competitiveness and improve on our support methods.

Promoted bank-wide innovation processes

In 2012, we assisted in increasing the efficiency of our head office divisions by reorganizing our structure into a one division-one center system. We will also create a smart workplace and become a leader in the area of creative business innovations by promoting bank-wide innovations.

Management Support Group

Trustee & Custody Department

The Trustee & Custody Department is responsible for the trusteeship and custody of institutional investment assets, as per regulations contained in the Financial Investment Services and Capital Markets Act. At the end of 2011, we had KRW 70 trillion in assets belonging to about 100 institutional customers under custody.

We have been providing trustee and custodial services for the country's national pension fund since 2007. In addition, we engage in asset investment activities for a number of fund clients, including the Ministry of Strategy and Finance's Investment Pool for Public Funds and the Government of Singapore Investment Corporation (GIC).

Our goals for 2012 are to maintain the bank's position as a leading custodial institution, and to build a global custodial banking system. To do so, we will carry forward a number of action plans.

They will include encouraging collaboration with our affiliates, including Shinhan Investment, Shinhan BNP Paribas Asset Management, and Shinhan Aitas. In addition, we will increase our share of the domestic market through marketing efforts targeting institutional customers. We will also promote both qualitative and quantitative growth by diversifying our revenue sources. We will do this by securing new growth engines, including the equities lending, inbound custody, and hedge fund custody businesses. In addition, we will assist in the development of global networks and strengthen the bank's global capabilities.

We engage in overseas asset investment activities in conjunction with a number of other financial institutions, including Citibank, JP Morgan, HSBC, Brown Brothers Harriman, China Construction Bank, Euroclear, State Street Bank, and Clearstream.

MARKETING SERVICE GROUP

In addition, we will develop specialists in our field through training programs. This will be done in collaboration with custodial banks from around the world. We will also add to our expertise in custodial and management operations by managing information regarding the overseas assets of the national pension fund, and offering hedge fund trustee and custodial services. We will also ensure the ultimate in customer satisfaction through enhanced investor protection in a rapidly changing capital market, and continue to assist in the bank's sustainable growth and development.

Trust Department

In 2011, the Trust Department enhanced its competitiveness in the special money trust sector by supplying prime-quality assets to the bank's sales channels and launching Shinhan Premier Advisory Trust, a new asset management product. The Department also enhanced its ability to respond to market trends and customer needs by completing the full-scale revamping of its trust business computerization system. Finally, we ranked first in the Korean banking industry in terms of total assets under management.

Our goal for 2012 is to secure a leading position in the market through qualitative growth. To do so, we will seek out new growth engines and improve our processes for the sale of special money trusts. We will also strengthen our asset trust operations, enhance our business efficiencies by installing newly-developed systems, and foster the development of professional human resources.

In addition, we plan to launch asset management-type trusts for prime-quality customers, as well as social contribution-type trusts and post-retirement trusts. This is the result of our R&D into innovative new products, and is in line with the revised Trust Act, which is scheduled to take effect this July. We will also strengthen our risk management and internal controls to cope with a rapidly changing market environment and add to our competitive edges, including our returns on pension-type trusts.


Marketing Service Group

The reorganized Marketing Service Group consists of the Marketing Department, the Consumer Protection Center, the Product Engineering Department, the Branch Strategy Office, and the Future Channel Division. Our goals are to enhance the bank's competitiveness and develop our channels as growth engines, maximizing synergies.

Marketing Department

The Marketing Department consists of the planning, CRM, and strategic market teams. It is tasked with devising and implementing bank-wide marketing strategies, enhancing the bank's marketing efforts among working people, women, and senior citizens, developing and carrying out customer management strategies, and developing state-of-the-art marketing tools. In 2010, we focused on increasing the bank's customer base and its number of major customers. We also built bank-wide marketing support systems and carried out a number of tasks to support the bank's front-line operations. They included supporting marketing targeting the bank's core markets, promoting the Retail Shinhan Way to ensure improved customer management, creating an M-Desk to support speedy and effective marketing of our front-line operations, and establishing support schemes to improve the operational capabilities of business enterprises.

In 2012, we will carry forward a host of projects in support of customer-oriented, innovative marketing so that our customers will choose us as their main bank. We will also carry out information-based customer management activities. This will include promotional campaigns to increase the number of customers who use us as their main bank, building business models to add to our number of female customers, creating a post-retirement products and services research team, strengthening Shinhan Kids Plus marketing, and revamping our customer management systems. The end result will be state-of-the-art marketing



Our goals are to enhance the bank's competitiveness in marketing and to develop our channels as growth engines, maximizing synergies.

activities that reflect our customers' values, an increased customer base, and futuristic marketing that truly distinguishes us from our competitors.

Product Engineering Department

The Department is tasked with developing new products and services for all of the bank's business groups, including loans, foreign exchange, and hybrid financial instruments linked with SFG companies or other industries. In addition to carrying out market surveys, analyses, and studies relating to new product development, it suggests ways to enhance the competitiveness of new products, and carries out research in such areas as discovering why selected products are successful.

In 2011, we strengthened our market leadership by introducing a variety of innovative new products, including the Shinhan Interest Rate Safety Mortgage Loan. In addition, we developed a wide range of new customer markets, such as college students, office workers, and retirees. We also developed a broad range of synergy products in linkage with Shinhan Card, strengthened our existing customer bases, contributed to the promotion of sales, and diversified our range of financial products. Much of this diversification involved launching new loan products to increase the value of the assets of high-quality SMEs, helping us to fulfill our social responsibilities.

In 2012, we will continue leading the market by developing even more innovative and competitive products that will add to the bank's customer base and enhance its brand value. Some of our other plans are as follows.

- Lead market by developing new installment savings, deposit, and liquid products
- Develop combined products by utilizing new channels, such as smart financing
- Develop convergence products in collaboration with other industries

- Add to our service areas by developing loans with varying interest rates, redemption requirements, and maturities
- Expand auto financing area
- Develop products that suit new corporate banking markets and reflect the needs of prime-quality customers
- Encourage more cross-selling by developing products that target women, seniors, and potential customers
- Develop social contributions products that reflect the importance of green banking and Korea's low birth rate

Consumer Protection Center

The Center is tasked with quality control in general. Our goal is to meet all our customers' needs, including those that they might not even be aware of yet. We are also responsible for consumer protection.

Our major tasks include carrying out bank-wide customer service (CS) strategies, training employees in the use of the Service Capability Level (SCALE), supporting front-line operations at our branches, and developing a CS culture and promotional programs. We also train the bank's employees in the use of service quality controls, deal with customer grievances, and mediate between parties when disputes arise.

We ranked first in a number of customer satisfaction surveys. They included the Korean Standard Service Quality Index (by the Korea Standards Association), the NCSI (by the Korea Productivity Center), the KSQI (by KMA Consulting), and the Global Brand Competency Index (by JMA Consulting). We also won the Korea Service Grand Prix for the eighth consecutive year, and were inducted into the Hall of Fame. In addition, we were the only financial institution to receive an Outstanding Consumer Protection Program certificate from the Financial Supervisory Service.



In 2012, the Center will provide even better service through further innovations in service quality. This will include encouraging the development of thinking that is oriented to consumer protection, strengthening the bank's front-line operations, innovating its systems, and establishing new ones to deal with policies and customer complaints more effectively and efficiently.

Branch Strategy Office

The Office is in charge of the bank's branches, including self-service ones. Its motto is "enhancing sustainable growth for the future." It supports the establishment, transfer, integration, and consolidation of branches, and offers training and special events services to newly-opened ones. Consisting of the Channel Development Team and the Transferring Branch Team, its duties include planning and instituting strategies for bank-wide, domestically-situated offline channels. It is also tasked with monitoring and managing the bank's offline channel operations, the development and management of its offline channel designs, the operation and management of GIS, and the operation of the bank's mobile branches.

In 2011, the Office carried out a number of tasks to make the bank's branches more competitive. They included establishing branches for a more balanced network, opening customer intimacy-oriented branches, and renewing channels. Other activities included strengthening our channels' competitiveness through updates and renovations; adding to the operational competitiveness of branches through market replacements; relocating branches to make them more attractive to customers; and integrating and consolidating branches to grow our institutional banking operations and increase the efficiency of our channels.

In 2012, the Office will take steps to strengthen and improve all the bank's channels, and maximize the power of its national network. Our major tasks are as follows.

- Maximize the power of the bank's national network
- Reconfigure channels in areas where they have a low market share
- Support the establishment of the PWM Center
- Increase level of support of the Smart Banking Center following its expansion
- Develop future-oriented channel models
- Enlarge the Foreign Currency Center
- Operate mobile branches in ways that distinguish us from the competition
- Increase efficiency and effectiveness of channels
- Restructure channels by redefining their markets
- Make low-efficiency branches more productive

Future Channel Division

The Division plays an instrumental role in the bank's growth through smart banking operations utilizing non-direct and consolidated channels that offer new values to customers.

In 2011, the Division carried out three core tasks. They included increasing the bank's marketing and customer bases, supporting the operation of its direct channels, and providing new services. Its goal was to strengthen the bank's foundations for future channels by adding to its network of non-direct customer bases and systematizing their marketing. We were awarded the grand prize in the smart banking category at the 2011 Best Brand of the Consumer Awards and the 2011 Asia Today Financial Awards.

In 2012, the Division has established three strategic directions. They include increasing the customer base by utilizing non-direct channels, adding to customer values by making the channels more competitive, and developing new growth engines by entering into new businesses. In addition, it will work with the Smart Banking Center to grow the non-direct channels into main ones, creating new customer bases and market values.



Smart Banking Center

The Center was established to meet the bank's goal of becoming Korea's leader in terms of non-channel transactions. This will be accomplished through the use of new smart equipment technologies. It will offer users a wide range of customer-oriented, non-direct services to reach its goal of ensuring the bank's leadership in the area of future channels by putting new non-direct channel business models into place at the earliest possible opportunity.

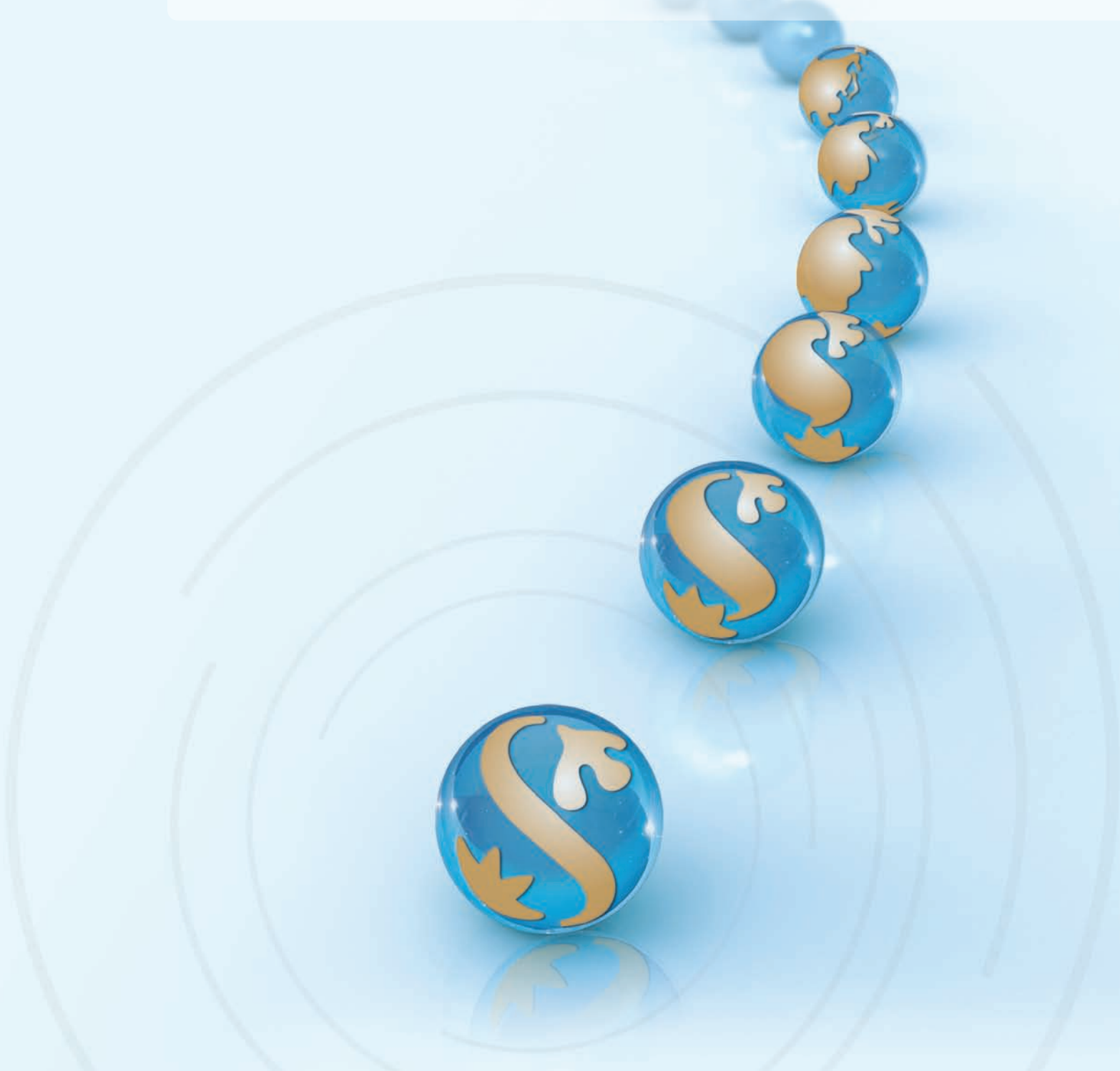
Our smart banking service, launched in February 2012, is basically a cyber branch. It can be used by customers anytime and anywhere, making it a "first" for Korea's financial institutions. It follows six major business models. They include three full-banking ones (the Smart Fund Center, the Smart Loan Center, and the Money Mentor), two new-customer-creating ones (Family Banking and Mission Plus), and a new customer management one (Smail). All six of them are synchronized, so there is no difference in service if a customer uses the Web or an app to access them.

Going forward, the Center will continue its leadership in the area of non-direct marketing and sales supports. It will increase its level of assistance to the bank's existing call center functions, and offer BPR loan advice and marketing support operations through its smart banking service. To do so, it will leverage the expertise of three teams with a total of 1,520 employees, including 1,476 consultants (as of the end of January 2012).

We will add to the operations of the Smart Banking Center over the next five years in three stages. First, we will focus on putting its activities into operation and ensuring that they run smoothly. After that, we will begin building cyber branches that can offer customers more complete services. Finally, we will maximize our synergy effects by developing omni-directional customer services in collaboration with existing branches and the new cyber branches.

The goal of our smart banking service is not to turn our direct channel customers into non-direct channel ones. Instead, our focus is to create new customers and maximize synergies between the bank's direct and non-direct channels. We will do this by enlarging the customer base of our non-direct channels through a broad range of financial services that satisfy customer needs and add to their convenience. In overall terms, the Center is committed to helping the SFG become the leader of Korea's smart banking market, creating new customer values through the development of new growth engines and the creation of business models that distinguish us from our competitors.

MANAGEMENT DISCUSSION & ANALYSIS



Financial Highlights

	In billions of Korean won		In millions of US dollars ¹⁾	
	2011	2010	2011	2010
Bank Account				
For the Year				
Total Operating Income	6,130.8	5,751.7	5,315.9	5,050.2
Operating Income	2,626.0	2,037.9	2,276.9	1,789.4
Net Income	2,118.4	1,670.0	1,836.8	1,466.4
At Year-End				
Total Assets	228,907.8	213,151.8	198,480.7	187,155.8
Total Loans	163,638.0	153,777.4	141,886.7	135,022.7
Total Securities	43,392.4	39,148.3	37,624.6	34,373.8
Total Deposits	162,582.3	146,573.4	140,971.4	128,697.3
Total Stockholders' Equity	19,289.8	18,639.7	16,725.8	16,366.4
Financial Ratios ²⁾				
Return on Average Assets	0.69	0.78		
Return on Average Equity	8.56	9.83		
Substandard & Below	1.66	1.36		
NPL Ratio by FSS	1.09	1.31		
Net Interest Margin	2.22	2.18		
BIS Capital Adequacy Ratio ³⁾	15.26%	15.93%		
[Tier 1 Capital Ratio]	12.43%	13.21%		
[Tier 2 Capital Ratio]	2.83%	2.72%		

* Note1) Translated into US dollars at the rates of KRW 1,138.90/USD 1 and KRW 1,153.30/USD 1 respectively--those prevailing on December 31, 2010 and December 31, 2011

* Note2) Based on non-consolidated financial statements.

* Note3) BIS Capital Adequacy Ratio for 2010 as K-GAAP.

Overview

Shinhan Bank's net income increased by KRW 448.4 billion year-on-year to KRW 2.1 trillion at the end of 2011. This was mainly attributable to improved net interest margins, led by a rise in the benchmark interest rate, and a decline in debt expenses due to its efforts to promote the optimal growth of loans with a focus on prime-quality assets.

Won-currency deposits increased by KRW 11.4 trillion due to an upturn in time deposits. Won-currency loans grew by KRW 11.5 trillion, thanks to steady growth in household and corporate loans.

Net Income Summary

(In billions of Korean won, %)

	FY2010	FY2011	YoY
Total Operating Income (a=b+c)	5,751.7	6,130.8	6.6%
Interest Income (b)	4,590.1	4,971.1	8.3%
Non-interest Income (c)	1,161.7	1,159.7	-0.2%
General and Admin Expenses (d)	2,525.6	2,819.9	11.7%
Operating Income before Provisioning (e=a-d)	3,226.1	3,310.9	2.6%
Provision for Credit Losses (f)	1,188.2	685.0	-42.3%
Operating Income (g=e-f)	2,037.9	2,626.0	28.9%
Gains on Investment Stock Using Equity Method (h)	12.5	29.0	131.8%
Income before Taxes (i=g+h)	2,050.4	2,654.9	29.5%
Income Tax (j)	380.0	536.0	41.1%
Net Income of Subsidiary before Joining the Group (k)	0.0	0.0	0.0%
Income from Discontinued Operations (l)	0.0	0.0	0.0%
Net Income (m=i-j-k-l)	1,670.5	2,118.9	26.8%
Net Income Attributable to Controlling Interest	1,670.0	2,118.4	26.8%
Net Income Attributable to Non-controlling Interest	0.4	0.5	20.6%

Interest income climbed by 8.3% over the year to KRW 5.0 trillion. Bad debt expenses fell by 42.3% to KRW 685.0 billion. As a result, operating income surged by 28.9% to KRW 2.6 trillion. Net income soared by 26.8% to KRW 2.1 trillion.

Non-Interest Income

[In billions of Korean won, %]

	FY2010	FY2011	Increase	YoY
Fees & Commissions	881.1	885.6	4.5	1%
Fees on Trust Accounts	58.0	62.2	4.3	7%
Securities-related Income	633.1	614.9	-18.2	-3%
Gains on Sale of Securities	624.2	642.7	18.5	3%
Gains on FX/ Derivatives Transactions	195.4	219.4	23.9	12%
Others	-547.9	-560.2	-12.2	-2%
Total	1,161.7	1,159.7	-2.0	0%

Non-interest income declined by KRW 2.0 billion over the year to reach KRW 1.2 trillion at the end of 2011. This happened because securities-related and other income fell in the aftermath of the financial crisis in Europe. However, gains on foreign exchange and derivative transactions grew by KRW 23.9 billion over the year, due the stabilization of foreign exchange rates.

Net Interest Income

[In billions of Korean won, %]

	FY2010	FY2011	Increase	YoY
Interest Revenue (a)	8,855.7	9,371.1	515.4	6%
Loans	7,076.2	7,646.3	570.1	8%
Securities/ Others	1,779.5	1,724.8	-54.7	-3%
Interest Expense (b)	5,011.8	5,247.0	235.2	5%
Deposits	3,762.0	4,027.4	265.4	7%
Debentures/ Borrowings	1,249.8	1,219.6	-30.2	-2%
Net Interest Income (a-b)	3,843.9	4,124.1	280.2	7%

* Note) NII is based on the methodology used to calculate Net Interest Margin, and is different from the NII stated on the earnings presentation material, which is based on the current accounting standard.

Net Interest Margin

[In billions of Korean won, %]

	FY2010	FY2011	Increase	YoY
Interest Earning Assets (Average Balance)	176,152.9	185,966.2	9,813.3	6%
Net Interest Income	3,843.9	4,124.1	280.2	7%
Interest Income in Won	3,710.9	4,003.3	292.5	8%
Interest Income in FC	133.0	120.8	-12.3	-9%
Net Interest Margin (Accumulated Basis)	2.18	2.22	0.0	2%
NIM in Won	2.33	2.38	0.1	2%
NIM in FC	0.80	0.68	-0.1	-15%

NIM-related interest income increased by KRW 280.2 billion to KRW 4.1 trillion at the end of 2011. NIM stood at 2.22%, up 4 basis points from the previous year-end.

Total Loans

[In billions of Korean won, %]

	FY2010	FY2011	Increase	YoY
B/A	144,152.2	156,686.6	12,534.4	9%
Loans in Won	127,632.4	139,082.4	11,450.1	9%
Retails	60,858.6	65,227.6	4,369.1	7%
Mortgage	42,535.2	45,570.9	3,035.7	7%
Others	18,323.4	19,656.8	1,333.4	7%
SMEs	51,266.2	52,268.3	1,002.1	2%
Large & Public	15,507.6	21,586.5	6,078.9	39%
Loans in FC	5,524.2	5,876.6	352.4	6%
Bills Bought in FC	4,786.2	4,570.3	-215.9	-5%
Call Loans, RPs	1,581.7	1,589.7	8.0	1%
Others	7,449.6	7,156.9	-292.7	-4%
(Loan Loss Allowance)	2,821.9	1,589.3	-1,232.6	-44%
Merchant A/C and Other Consolidating Entities	9,625.2	6,951.4	-2,673.8	-28%
T/A	527.1	566.0	38.9	7%
Total Loans (Consolidated)	153,777.4	163,638.0	9,860.6	6%

Won currency loans grew by KRW 11.5 trillion over the year to KRW 139.1 trillion. This was led by even growth in mortgage loans and loans to large companies and SMEs.

Total Securities

[In billions of Korean won, %]

	FY2010	FY2011	Increase	YoY
Stocks	4,350.3	3,761.9	-588.4	-14%
Government Bonds	10,795.6	8,849.8	-1,945.8	-18%
Finance Debentures	10,213.2	13,875.9	3,662.7	36%
Corporate Bonds	8,957.4	11,132.1	2,174.7	24%
Beneficiary Certificates	1,924.7	1,052.7	-872.0	-45%
Others	3,111.1	4,891.9	1,780.8	57%
Total	39,352.3	43,564.4	4,212.1	11%

Securities held by the bank amounted to KRW 43.6 trillion, an increase of KRW 4.2 trillion from a year earlier. Government and municipal bonds declined by 18% over the year to KRW 8.8 trillion, while financial bonds and corporate bonds grew by 36% and 24%, respectively, to KRW 13.9 trillion and KRW 11.1 trillion.

Total Deposits

[In billions of Korean won, %]

	FY2010	FY2011	Increase	YoY
B/A	133,734.1	150,353.6	16,619.4	12%
Low Cost Deposits	44,021.6	45,773.6	1,752.0	4%
Demand	14,517.3	14,687.5	170.2	1%
Low Cost Saving	29,504.3	31,086.1	1,581.8	5%
Time Deposits	77,117.4	88,532.6	11,415.2	15%
Installment Deposits	5,444.3	6,681.3	1,237.0	23%
CDs	2,848.4	2,462.9	-385.5	-14%
RPs & Bills Sold	389.1	643.3	254.2	65%
Deposits in FC	3,913.3	6,259.9	2,346.6	60%
Merchant A/C and Other Consolidating Entities	12,839.2	12,228.8	-610.5	-5%
T/A	9,796.0	14,000.4	4,204.5	43%
Total	146,573.4	162,582.3	16,009.0	11%

Won-currency deposits increased over the year, thanks to ample capital liquidity in the market and our customers' preference for risk-free assets. Time deposits grew by KRW 11.4 trillion to KRW 88.5 trillion.

Asset Quality

[In billions of Korean won, %]

	FY2010	FY2011	Increase	YoY
Normal	150,802.7	162,625.4	11,822.7	8%
Precautionary	2,168.5	1,992.1	-176.4	-8%
Substandard	1,406.2	1,156.9	-249.2	-18%
Doubtful	406.5	265.5	-141.0	-35%
Estimated Loss	221.5	392.6	171.1	77%
Total	155,005.4	166,432.5	11,427.1	7%
Substandard & Below ratio	1.31%	1.09%	-0.22%p	-17%
Precautionary & Below ratio	2.71%	2.29%	-0.42%p	-16%
Allowance + Reserve	2,768.4	3,014.9	246.6	9%
Allowance	1,779.2	1,542.3	-236.9	-13%
Reserve for Credit Losses	989.1	1,472.6	483.4	49%
Coverage Ratio Against				
Bad Loan	283.3%	234.4%	-0.49%p	-17%
Substandard & Below	136.1%	166.1%	0.30%p	22%
Precautionary & Below	65.9%	79.2%	0.13%p	20%

Total loans increased by KRW 11.4 trillion over the year, while the ratio of non-performing loans (NPL) to total loans fell by 0.22%p to 1.09%. The NPL coverage rate was 166%, up 30%p from a year ago.

Provisions

[In billions of Korean won, %]

	FY2010	FY2011	Increase	YoY
Loan Loss Provision by Sector				
Consumer	103.3	87.4	-15.9	-15%
Corporate	981.2	579.5	-401.7	-41%
Sub-Total	1,084.5	667.4	-417.1	-38%
Write-Off by Sector				
Consumer	87.7	63.7	-24.0	-27%
Corporate	685.0	743.1	58.1	8%
Sub-Total	773.0	807.1	34.1	4%
NPL Sales by Sector				
Consumer	84.7	76.8	-7.9	-9%
Corporate	466.6	601.2	134.6	29%
Sub-Total	551.1	677.1	126.0	23%

Amortization and depreciation amounted to KRW 1,484.2 billion at the end of 2011, increasing by KRW 160.1 billion from KRW 1324.1 billion at the previous year-end.

Capital Adequacy

[In billions of Korean won, %]

	FY2010	FY2011	Increase	YoY
Total Capital	18,677.5	18,826.5	149.0	0.8%
Tier 1 Capital	15,488.2	15,342.5	-145.7	-0.9%
Tier 2 Capital	3,189.3	3,484.0	294.7	9.2%
Risk-weighted Assets	117,262.7	123,385.3	6,122.6	5.2%
BIS Capital Adequacy Ratio	15.93%	15.26%	-0.67%p	-4.2%
Tier 1 Ratio	13.21%	12.43%	-0.78%p	-5.9%
Tier 2 Ratio	2.72%	2.83%	0.11%p	4.0%

The bank's BIS capital ratio edged down by 0.67%p over the year to 15.26% at the end of 2011, still above the 15% level. Risk-weighted assets totaled KRW 123.4 trillion, up 5.2% over the year.

Delinquency Ratios

[In billions of Korean won, %]

	FY2010	FY2011	Increase	YoY
Total Loans	146,439.4	156,293.0	9,853.6	7%
Retail	61,274.4	65,707.0	4,432.6	7%
Corporate	85,165.0	90,586.0	5,421.0	6%
SME	57,142.8	57,499.0	356.2	1%
SOHO	20,973.7	23,769.0	2,795.3	13%
Large Corp.	28,022.2	33,087.0	5,064.8	18%
Loans in KRW + Loans in Trust Account	127,478.6	138,928.0	11,449.4	9%
Retail	61,274.4	65,706.0	4,431.6	7%
Mortgages	43,490.7	47,676.0	4,185.3	10%
Others	17,783.7	18,030.0	246.3	1%
Corporate	66,204.2	73,222.0	7,017.8	11%
SME	51,348.2	52,329.0	980.8	2%
SOHO	19,985.5	22,775.0	2,789.5	14%
Large Corp.	14,856.0	20,894.0	6,038.0	41%
Total Delinquent Loans ¹⁾	704.1	944.0	239.9	34%
Retail	183.6	258.0	74.4	40%
Corporate	520.4	686.0	165.6	32%
SME	491.7	597.0	105.3	21%
SOHO	113.6	109.0	-4.6	-4%
Large Corp.	28.7	89.0	60.3	210%
Delinquent Loans in KRW and Trust Account ¹⁾	636.9	858.0	221.1	35%
Retail	183.6	258.0	74.4	40%
Mortgages	55.0	147.0	92.0	167%
Others	128.7	111.0	-17.7	-14%
Corporate	453.2	600.0	146.8	32%
SME	442.5	557.0	114.5	26%
SOHO	106.9	97.0	-9.8	-9%
Large Corp.	10.8	43.0	32.3	300%
Delinquency Ratio_Total Loan ¹⁾	0.48%	0.60%	0.12%	26%
Retail	0.30%	0.39%	0.09%	31%
Corporate	0.61%	0.76%	0.15%	24%
SME	0.86%	1.04%	0.18%	21%
SOHO	0.54%	0.46%	-0.08%	-15%
Large Corp.	0.10%	0.27%	0.17%	163%
Delinquency Ratio_KRW and Trust Account ¹⁾	0.50%	0.62%	0.12%	24%
Retail	0.30%	0.39%	0.09%	31%
Mortgages	0.13%	0.31%	0.18%	144%
Others	0.72%	0.62%	-0.11%	-15%
Corporate	0.68%	0.82%	0.13%	20%
SME	0.86%	1.06%	0.20%	24%
SOHO	0.53%	0.43%	-0.11%	-20%
Large Corp.	0.07%	0.21%	0.13%	184%

* Note1] Principal or interest is delinquent for 1 month and over.

The one month or longer delinquency ratio was 0.60% at the end of 2011. The ratio for household loans was 0.39%, while that for corporate loans rose marginally from a year earlier, affected by markets for project financing and ship financing.

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CORPORATE DATA

(As of December 31, 2011)

- **Date of Establishment:** Shinhan Bank (established in 1982) and Chohung Bank (established in 1897) merged to form the new Shinhan Bank on April 1, 2006
- **Major Shareholder:** Shinhan Financial Group (100%)
- **Business Network:** Domestic: 970 branches and offices
Overseas: 7 overseas branches, 9 local subsidiaries,
50 local subsidiaries' branches, 2 representative offices
- **Number of Customers:** 20,387,246
- **Number of Employees:** 11,151 (regular permanent employees only)
- **Members of Shinhan Financial Group:** Shinhan Bank (100%)
Shinhan Card (100%)
Shinhan Investment Corp. (100%)
Shinhan Life Insurance (100%)
Shinhan BNP Paribas Asset Management (65%)
Shinhan Capital (100%)
Jeju Bank (68.88%)
Shinhan Savings Bank (100%)
Shinhan Data System (100%)
Shinhan Credit Information (100%)
Shinhan Private Equity Investment Management (100%)
SHC Management (100%)

* () shows Shinhan Financial Group's holdings in its subsidiaries.



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