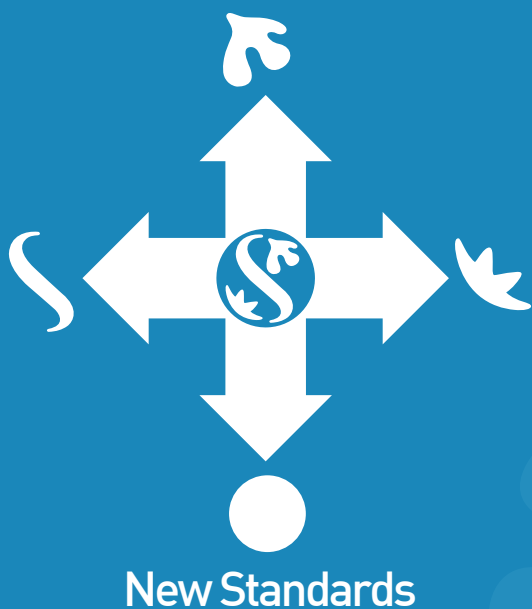




Creativity and Innovation:
Setting new standards

Creativity and Innovation: Setting new standards

Shinhan Bank is committed to revamping its corporate structure to reflect ongoing changes in its operating environment and strengthen its relationships with its customers and the communities it serves. This includes training talented human resources and enhancing our organizational vitality.



Shinhan Bank is constantly setting new standards for creativity and innovation

Imbued with a pioneering spirit and passion, Shinhan Bank (SHB) has been a leading innovator in the Korean financial industry. SHB will continue to set new standards and lead the way for the future of the industry.

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PROFILE

In 2012, Shinhan Bank (SHB) proved itself once again to be the 'No. 1 Bank in Korea'. We managed to achieve substantial accomplishments on such key performance indicators as profitability and soundness. This success was due to our efforts to expand our customer base in retail and corporate businesses and maintain asset soundness.

We have practiced "compassionate finance" in order to make a better world through the power of finance. Furthermore, we have improved our policies and regulations, and introduced a number of new products tailored for low-incomes and small- and medium-sized enterprises (SMEs).

We have also made a significant investment in the future of SHB. This was realized through the successful application of the new WM and CIB business models, which are designed to harness the integrated capabilities of Shinhan Financial Group. In addition, we ranked first in the retirement pension category.

In the area of global business, we have established a strategic bridgehead in another emerging market by acquiring an Indonesian bank, while continuing to expand our key network, the Asian financial belt. As a result of continued efforts, we were able to generate a net income in all of the key overseas markets.

SHB was selected as Korea's Best Bank in the categories of customer satisfaction, employee satisfaction, social contribution, and brand value. SHB also became the first Korean bank to receive a presidential citation for quality management at the 38th Korea National Quality Awards. Not only that, our bank was selected once again as the primary bank for Korea's national pension fund, which is one of the three largest pension funds in the world.

As a result of these achievements, SHB ranked 86th on the 'Global 100 Most Sustainable Corporations in the World' list at the Davos Forum in January 2013, a "first" for Korea's financial industry. Also in February, SHB was listed as Korea's highest-ranked banking brand by 'The Banker' for the second consecutive year. It was also listed 51st among world's top 500 banking brands, up from 57th last year.

Customers and Shareholders, Shinhan become a leading bank in Korea thanks to your loyal support. Thank you for your support once again. Imbued with a pioneering spirit and passion, we have been a leading innovator in the financial industry. We will continue to set new standards and lead the way for the future of the industry as we always have.





FINANCIAL HIGHLIGHTS

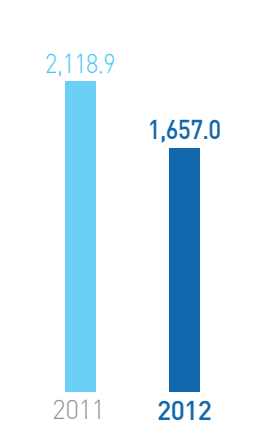
	In billions of Korean won		In millions of US dollars ¹⁾	
	2012	2011	2012	2011
Bank Account				
For the Year				
Total Operating Income	5,615.9	6,130.8	5,243.1	5,315.9
Operating Income	2,891.1	2,626.0	2,699.2	2,276.9
Net Income	1,657.0	2,118.9	1,547.0	1,837.3
At Year-End				
Total Assets	234,102.7	228,907.8	218,562.9	198,480.7
Total Loans	169,140.9	163,638.0	157,913.3	141,886.7
Total Deposits	166,820.3	162,582.3	155,746.7	140,971.4
Total Stockholders' Equity	20,272.0	19,289.8	18,926.3	16,725.8
Financial Ratios ²⁾				
Return on Average Assets	0.72	0.69		
Return on Average Equity	9.00	8.56		
NPL Ratio by FSS	1.08	1.09		
Net Interest Margin	1.99	2.22		
BIS Capital Adequacy Ratio	15.81%	15.26%		
(Tier 1 Capital Ratio)	12.62%	12.43%		
(Tier 2 Capital Ratio)	3.19%	2.82%		

Note1) Translated into US dollars at the rates of KRW 1,153.30/USD 1 and KRW 1,071.10 /USD 1 respectively--those prevailing on December 31, 2011 and December 31, 2012

Note2) Based on separate financial statements.

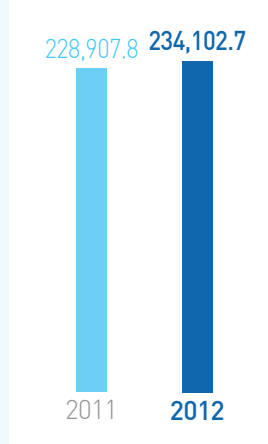
Net Income*

(Billions of Korean won)



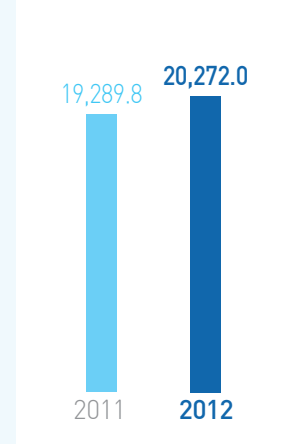
Total Assets*

(Billions of Korean won)



Total Stockholders' Equity*

(Billions of Korean won)



* Bank account only



2012 AT A GLANCE



February: The Opening of the Smart Banking Center

Shinhan Bank (SHB) became the first in the country to open an online banking branch called the Smart Banking Center, which offers video consultation services and new financial products to its clients through non-direct channels such as the Internet and smartphone apps. The Smart Banking Center is an online branch designed to assist SHB to keep up with rapidly changing consumer trends and social environment and to become a leading player in the future. The center is designed to offer all the financial services provided by a real branch and more, since it also offers search capabilities in addition to transaction and consultation services.

March: The Opening of the Beijing Wangjing Sub-Branch

Shinhan Bank (China) LTD. opened its 13th Chinese branch in Wangjing, Beijing. The Beijing Wangjing Sub-Branch is currently serving its customers. At the Beijing Wangjing Sub-Branch, SHB's unique customer service policies and esteemed financial services will be introduced to the Chinese market. This move means SHB is one step closer to launching successful global retail financial services.



June: Selected by *Asiamoney* for the Eighth Year Running for 'Best Domestic Bank' Award

It was selected by the prestigious Hong Kong based global finance and economic magazine *Asiamoney* as the 'best domestic bank in Korea in 2012'. In its selection, *Asiamoney* gave a particularly high evaluation of the bank's expansion of a differentiated customer base and of its outstanding financial management in terms of profitability and asset soundness. It was also deeply impressed by the bank's performance in nonfinancial areas including its product innovation and its leading role in non-face-to-face channels such as Internet and mobile banking.

July: Relocation of the Trading Center

SHB opened its new trading center equipped with the latest systems to respond more effectively to the swiftly changing domestic and international financial market environment and to the widely ranging needs of its customers. The trading center is magnificently equipped with large-scale wall boards with eighteen 47-inch screens, IP method dealer phones, and specialist manufactured dealer desks.



August: Enters into Retirement Pension Business Agreement with Mizuho Corporate Bank

SHB signed an MOU on Retirement Pension Business with Mizuho Corporate Bank. Under this agreement SHB and Mizuho Corporate Bank will cooperate together with the aim of pooling retirement pension services and know-how. Thanks to the agreement, the two banks will institute mutual support and counseling in regard to a system for the retirement pension sphere.

September: SHB Opens its 9th Japanese Branch in Nagoya

Shinhan Bank Japan (SBJ), the bank's Japanese subsidiary, opened the Nagoya Branch as its ninth branch (the 13th office when exchange offices are included). Nagoya will serve as a major economic hub that links the area of Tokyo with that of Osaka.



December: Presidential Citation for Quality Management at the National Quality Management Convention

SHB was awarded a presidential citation for quality management for the first time in the banking industry at the 38th National Quality Management Convention. The Korea National Quality Award is awarded to businesses and organizations that have made significant improvements to the quality of their services and increased productivity. At the award ceremony, SHB pledged to continue to strive to become a leading banking institution that grows with its customers by developing new initiatives to enhance the quality of the service industry.

December: The Acquisition of Indonesia's Bank Metro Express

SHB signed a stock purchase agreement with Bank Metro Express in Jakarta, Indonesia, acquiring a 40% share in the local bank. The acquisition will add to SHB's global network of 63 branches and subsidiaries in 14 countries including Japan, Vietnam, and China, and serve as a bridgehead in the Indonesian market.



Awards & Accolades

January 2012:

- Received an '2012 Outstanding Consumer Protection Program' certificate from the Financial Supervisory Service

February 2012:

- SFG listed as one of 'The Banker's Top 500 Banking Brands', and ranked first other Korean banks (*The Banker*)
- Selected as 2011 Korea's Best Private Bank (*Euromoney*)
- Included in Korea's Most Admired Companies for ninth consecutive year, and awarded the All Star Award for the seventh consecutive year (KMAC)

March 2012:

- Ranked first in private banking category in 2012 Korea Customer Satisfaction Index (Korea Brand Management Association)
- Received the 'Best Retail Bank by Country' for the third time (*The Asian Banker*)

May 2012:

- Received grand prize in smart banking category at the 2012 Customer-Satisfying Brand Awards (*The Economist*)

June 2012:

- Selected as Korea's Best Bank for eighth consecutive year (*Asiamoney*)
- Ranked first in private banking category in 'The Proud KS-Premium Brand Index' (KMAC)

July 2012:

- Received the 2012 Korea's Best Bank for third consecutive year (*Euromoney*)
- Ranked first in private banking category in the 2012 Premium Brand Index (KSA, Seoul National University Economic Research Institute, Ministry of Knowledge Economy)
- Ranked first in 'Customer Contact Management' category in KS-SQI (Korean Standard Service Quality Index) (KMAC)

August 2012:

- Selected the Best Wealth Management Bank in Korea in 2012 (*The Asset*)

September 2012:

- Ranked first in '2012 K-GWPI (Korea Great Work Place Index)' for fifth consecutive year (KMAC)
- Ranked first in four categories including 'Best Bank' in Korea and CMS (*Asiamoney*)

October 2012:

- Ranked first in KS-SQI for eleventh consecutive year (KMAC, Seoul National University Economic Research Institute)
- Included in '100 Best Companies to Work For' for fifth consecutive year (GWP Korea)
- Received the Global Excellence Awards in Customer Satisfaction Management for eight consecutive year (Global Management Committee, JMAC)
- Ranked first in KSI (Korean Sustainability Index) (KSA)

November 2012:

- Shinhan PWM selected as the 'Best PB Center in 2012' by *Hankyung Business Weekly* (*Hankyung Business Weekly*)
- Shinhan Bank Vietnam was awarded by the Minister of Planning and Investment of Vietnam (Korean Ministry of Knowledge Economy and Vietnamese Ministry of Planning and Investment)
- Ranked first in Internet Communication Satisfaction Index (Korea Internet Communication Association of the Korea Communications Commission)
- Awarded a Presidential Citation for Quality Management at the 38th National Quality Management Convention (Ministry of Knowledge Economy and Korea Standards Association)



MESSAGE FROM THE CEO



Jin Won Suh _ President & Chief Executive Officer

Dear Customers:

First of all, I would like to express my sincere gratitude to you for your continued support and encouragement.

In 2012, the Korean economy was faced with a myriad of challenges associated with the global economic downturn. Despite the global recession, Korea's current account surplus hit a record high thanks to the efforts of those in various sectors of the financial industry.

Even in such a challenging environment, Shinhan Bank (SHB) managed to achieve excellent operating results in every market sector and proved itself to be the 'No. 1 Bank in Korea'.

The number of active customers increased significantly, and we now have a wider pool of both retail and corporate customers. I am confident that this is due to our employees' efforts to provide the best service to each and every one of our customers. We have focused our attention on supporting private and small- and medium-sized enterprises (SMEs). As a result, we were able to ensure sustainable growth.

We established a preemptive risk management system in order to provide impetus to such growth. In terms of profitability, our absolute profit margin decreased due to a decline in benchmark interest rates and an increase in loan loss reserves. However, this means only that our efforts came to fruition in areas different to those of our competitors. Throughout these changes, we were able to achieve balanced and sustainable growth.

We have practiced "compassionate finance" in order to make a better world through the power of finance. Furthermore, we have improved our policies and regulations, and introduced a number of new products tailored for low-income earners and small- and medium-sized enterprises (SMEs). Through these endeavors, we will ultimately expand the range of our social contributions as a responsible corporate citizen.

We have done our best to provide more comprehensive and practical help to individuals and SMEs through individual loan restructuring, 'Support for the recovery of long-term customers' CSP (Corporate Success Program), and interest rate/fee reduction. In particular, we have made an extra effort to establish the 'New Hope Spore Loan' in order to provide customized services to customers, launching low interest loan products, and opening three inclusive bank branches and twenty service desks designed to offer inclusive banking services. We have also spent more than KRW 72 billion in lowering interest rates, converting to installment loans, and deferring interest through the 'SHB Household Debt Healing Program', which was made available in October last year in response to the government's call for a 'soft landing for household debt'.

We have also made a significant investment in the future of SHB. This was realized through the successful application of the new WM and CIB business models, which are designed to harness the integrated capabilities of Shinhan Financial Group. In addition, we ranked first in the retirement pension category.

In the area of global business, we have established a strategic bridgehead another emerging markets by acquiring an Indonesian bank, while continuing to expand our key network, the Asian financial belt. As a result of continued efforts, we were able to generate net income in all of the key overseas markets.

SHB was selected as Korea's Best Bank in the categories of customer satisfaction, employee satisfaction, social contribution, and brand value. SHB also became the first Korean bank to receive a presidential citation for quality management at the 38th Korea National Quality Awards. Not only that, our bank was selected once again as the primary bank for Korea's national pension fund, which is one of the three largest pension funds in the world.

As a result of these achievements, SHB ranked 86th on the 'Global 100 Most Sustainable Corporations in the World' list at the Davos Forum in January 2013, a "first" for Korea's financial industry. Also in February, SHB was listed as Korea's highest-ranked banking brand by 'The Banker' for the second consecutive year. It was also listed 51st among world's top 500 banking brands, up from 57th last year.

We couldn't have achieved so much without your loyal support and encouragement. I would like to thank you again for this.

In 2013, we're experiencing low interest rates, low exchange rates, and low growth, and this state of affairs isn't going to change any time soon. We're in a new business environment where profits are low and risks are high. Banks are asked to do much more than in the past. We are to support those on a low-income as well as SMEs, protect financial consumers, and contribute to society.

Coexistence is now a key social value. We now need to realize this value in addition to ensuring sustainable growth. To do this, we need to perform a thorough analysis of our past and current practices so as to set our own new standards. We have therefore developed a strategy to establish new 'Shinhan' standards based on creativity and innovation, which has entailed setting a number of objectives.

First of all, we'll set out to create a new financial environment based on the trust of our customers and community.

We will need to do more than just modify our current systems to simply accommodate the new policies and regulations. Rather, we will create a new financial paradigm in which core principles are always applied and doing the right thing is of utmost importance. We will follow the law, regulations and procedures, and improve our capabilities in order to provide improved financial solutions and better protect financial consumers.

In addition, we will further practice "compassionate finance" and establish a new corporate culture so we can extend warmth to every corner of society. This includes improving our system and infrastructure to make them more friendly to those on a low-income and SMEs, and ensure the active participation of every employee in this matter. With the catchphrase "compassionate finance", we'll develop a new business model that can bring about new social values and financial results.

Our second objective is to make fundamental improvements in our structure for qualitative growth.

Even in the face of a prolonged period of low economic growth and economic uncertainties, we will continue to stand firm as one of the healthiest banks through preemptive risk management. We will eliminate the causes of excessive spending and inefficient operations to increase our growth potential, while also focusing on creating a smart working environment where decisions can be made faster and more efficiently.

In our marketing areas, we'll move away from price competition and find better ways to adapt to the new environment. We will take an evolved business approach to coexist and grow with our community, and deliver results by providing products and services that provide customers with greater value.

Customers and shareholders, Shinhan became one of Korea's leading banks due to your support. Thank you once again. Imbued with passion and a pioneering spirit, Shinhan Bank is a leading innovator in the Korean financial industry. We will continue to set new standards and lead the way for the future of the industry.

Thank you.

A handwritten signature in black ink that reads "Jin Won Suh". The signature is written in a cursive, flowing style.

Jin Won Suh
President & Chief Executive Officer

Creativity and Innovation:

Overhauling our structure and achieving qualitative growth

We are committed to developing new sources of high-quality growth through a wide range of differentiated products and services, making improvements to our organizational efficiency, and strengthening our risk management processes and procedures.



New Growth Patterns



VISION & STRATEGY

Vision

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.

Customers: Seeking to become a premier financial institution that grows with its customers for a better future.

The Market: Leading future trends in the finance industry through change and innovation

Employees: Developing a great workplace, in which our employees work with pride as members of the country's number one bank

Mission

Compassionate Finance: Benefiting society through the finance business



What Compassionate Finance Means

1. Protecting and creating value for our customers

We analyze all our products and services to ensure that they benefit our customers and meet their needs, and offer them guidance and advice on how to protect themselves and their assets. This demonstrates our commitment to customer value and protection, pursuing profits only when we are assured that we have put optimal risk management policies and processes in place.

2. Fulfilling our social responsibilities for a better and happier world

This means sharing the fruits of our success with all the members of our society. It includes helping the underprivileged to become fully contributing members of society.

Management Goals and Strategies

SHB's strategic goal for 2013 is to "Set New Shinhan Standards based on Creativity and Innovation". To achieve this goal, we will develop and implement detailed plans aimed at turning Shinhan into a solid and sound banking institution.

We will assess all factors of management in order to overcome the difficulties arising from prolonged downturn in the global economy, and ultimately ensure sustainable growth. We will do this under our 2013 strategic goal: "Set new Shinhan standards based on creativity and innovation". We understand that this is equivalent to setting new standards for the financial industry at large, and we're fully aware that we need to change our way of thinking if we want to achieve this goal.

Standard 1. Structural improvement for survival and sustainable growth

We will improve our fundamental structure based on the understanding that unlike in the past, we need to remain competitive in other areas than our competitors in order to survive in the harsh and rapidly changing business environment. We will maintain our position as a leading bank in terms of financial health through preemptive risk management, as a basis for turning a crisis into an opportunity for a fresh start. We will steer away from price competition. Instead, we'll focus on developing new and niche markets by implementing advanced marketing techniques with which to create new revenue in more effective ways. We will also optimize our sales channels as well as our management system and processes so that we can get rid of excessive costs and causes of inefficient operations through which to add to our potential for future growth.

Standard 2. A new financial environment for earning the trust of our customers and the communities

Today's financial institutions are required to meet higher social expectations, so we'll stay up to date with the new paradigm for increasing consumer protection while also following the regulations and maintaining fair business practices aimed at protecting the rights of financial customers. All these are in line with our "compassionate finance" for those on a low-income and SMEs.

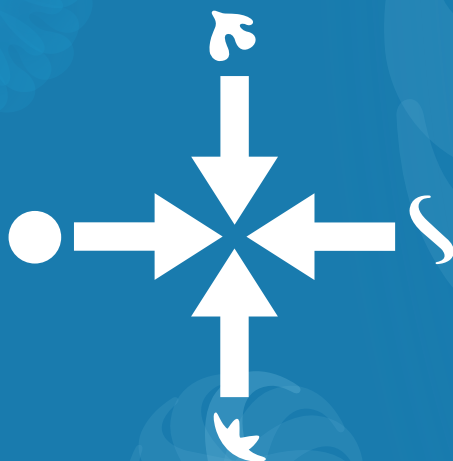
Standard 3. Human resources development and business promotion with creativity and innovation in mind

In order that employees are willing to set new 'Shinhan Standards' as mentioned above, we need to first create a corporate culture where they can show their best performance. Employees need to grow with the organization: This is why we're going to build an energetic, healthy corporate culture by improving communication within the 'Human Resources Development Team'.

Creativity and Innovation:

Strengthening relationships with the communities we serve

Shinhan Bank takes its responsibilities to the larger society very seriously. This includes engaging in “compassionate finance” and carrying out a broad range of social contribution activities to assist the communities in which we operate.



Strengthening Relationships



SOCIAL CONTRIBUTIONS

"Making a better world through the power of finance"

Shinhan Bank: Working Together for a Better Future

Shinhan Bank (SHB) has been promoting a 'Compassionate Finance' business philosophy in order to meet its social responsibilities as a premier financial institution, aiming to 'create a better world through the power of finance' and 'open a new chapter in financial industry'.

The institution's primary goal is to build a better tomorrow for its customers and society at large as a trendsetter and earn respect from both customers and stakeholders in the process. SHB also strives to share the fruits of its labor and values by undertaking a variety of activities that contribute to society based on these three key values: 'Prosperity', 'Symbiosis', and 'Sympathy'.

Strategic Direction of Social Contribution for Sustainable Management

Conscious of its societal role as a financial institution, SHB has been benchmarking global leaders in SCR in order to establish a strategic plan to enable social contributions based on the three key values of coexistence, sympathy, and symbiosis. As a result, SHB is now engaged in a variety of social contribution activities aimed at achieving 'Coexistence', 'Sympathy', and 'Symbiosis'.

Framework and Organization for Social Contribution

Ever since establishing the SHB Volunteer Group in July 2004, SHB has made efforts to fulfill its role as a model corporate citizen.

In 2007, SHB also established a 'Corporate Social Responsibility Department' for the management of social responsibility initiatives and the department has been responsible for a number of social contribution programs with SHB's strategic direction in mind. SHB has actively participated in global SCR initiatives by joining the CDP (Carbon Disclosure Project) in 2007, UN Global Compact and UNEP FI (United Nations Environment Programme Finance Initiative) in 2008, and C4C in 2010. As a result, SHB now plays a leading role in setting global standards for social responsibility management.

SHB also organized a 'Compassionate Finance Promotion Committee' under the supervision of the Strategy Planning Department to more efficiently promote 'Compassionate Finance', while also improving the quality of customer-oriented products and services.

Social Responsibility Management through Communication

SHB's vision is to 'build a better future as one of the most respected and favored premier financial institutions'. SHB aims to earn the respect of not only its customers and employees, but also those involved in the industry, local communities, and environmental protection. SHB will strive to exceed expectations and achieve this goal, ultimately becoming a financial institution that is a source of pride for all those associated with it.

Guided by this vision, SHB is making a concerted effort to share the fruit of its labor and value with the local community through various social contribution activities with three key values in mind: 'Coexistence (Improvement of Welfare and Education)', 'Sympathy (Mecenat)', and 'Symbiosis (Environmental Preservation)' aimed at making stakeholders feel hopeful and proud.

To achieve these goals, SHB offers a number of communication channels such as 'Plaza 2.0' and 'Beautiful Bank' as integrated channels for social contribution; Voice of Customer, dedicated to gathering the opinions of the local community; and 'CSR e-Newsletter' for the promotion of corporate social responsibility. In an approach to corporate social responsibility, SHB also actively participates in social networking media such as Facebook, Twitter, and me2day as an informal means of communication between employees and customers as well as various members of the local community.

SHB also implemented a 'Consumer Evaluation System' in 2012 to invite the participation of stakeholders in the evaluation of financial products and services prior to launch.



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 ethical 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.

In 2012, we have further consolidated the ethical conduct of our employees, based on a new ethical management system with a revised Code Ethics.

Ethical Management Programs

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.

Pledge of Ethical Practices: Every employee signed a 'Pledge of Ethical Practices' in 2012 as a means of strengthening their resolve for ethical management.

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 putting up a legal advice system about ethical management on our Intranet, 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 regard to 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 highly-sensitive departments' increasing demand for legal advice 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.

Audit Department

Shinhan Bank (SHB)'s audit structure consists of the Audit Committee, Audit Division, and the Audit Department. Audit Department carries out audits under the authority of the Head of the Audit Division.

In 2013, the SHB Audit Committee established the Audit Department by integrating Management Audit Department and Audit Department. The former body concentrated on planning, head office divisions and overseas branches, while the latter one assumed responsibility for internal controls and monitoring at the branch level.

The new Audit Department plans to perform monitoring of the retail and corporate businesses based on risk factors, whereas the former department focused mainly on the head office divisions and the bank's branches.

The new Audit Department identifies with the slogan 'Make Shinhan Bank More Reliable'. The department plans to bring about a healthy risk management culture for SHB through preemptive risk monitoring, development of improvement measures, provision of management consulting services, and prevention of financial malfeasance. All these activities are aimed at assisting the institution to achieve its business goals.

The Department will also focus on creating a healthy environment in which SHB can operate and be trusted within society. The bank aims to engender trust by further monitoring unfair practices that may lead to violating customers' rights and interests.

Internal Control Support Program

The Audit Department operates a crisis prevention program for employees in order to strengthen their sense of ethical responsibility and prevent financial malfeasance. In 2012 alone, a total of 6,968 employees participated in the program.

Furthermore, the department has assigned more than 300 auditors to all the bank's branches and regional head offices in order to support internal controls over financial reporting.

In 2010, SHB implemented a whistleblower system called 'Shinhan Guardian' and developed a mobile app, which is designed specifically for both local and overseas branch employees to report unethical practices.





BOARD OF DIRECTORS

The Board of Directors (BOD) consists of ten 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 2012, mainly dealing with the enactment of and/or revisions to major regulations, the acquisition of overseas banks, 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

Sung Ho Wi

Director & Deputy President,
Wealth Management Group

Jung Kee Min

Non-executive Director &
Deputy President,
Shinhan Financial Group

Dong Hwan Lee

Director & Deputy President,
Corporate & Investment Banking Group

Outside Directors

Se Jin Park

Director,
Former Vice-minister,
Ministry of Government Legislation

Hee Jin Lee

Director,
Professor,
Yonsei University

Hisamatsu Kenzo

Director,
Chief Executive Officer,
Recto Inc.

Joon Kyung Kim

Director,
Professor, KDI School of Public
Policy and Management

Kyung Suh Park

Director,
Professor,
Korea 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 Jin Lim

Deputy President,
Management Support Group

Young Pyo Kim

Deputy President,
Retail Business Unit & Retail
Business Development Group

Sang Ho Lee

Deputy President,
Risk Management Group

Young Suk Lim

Executive Vice President,
Institutional Banking Group

In Jong Joo

Deputy President,
Credit Analysis &
Assessment Group

Young Soo Choi

Deputy President,
Business Improvement Group

Hyun Ju Seo

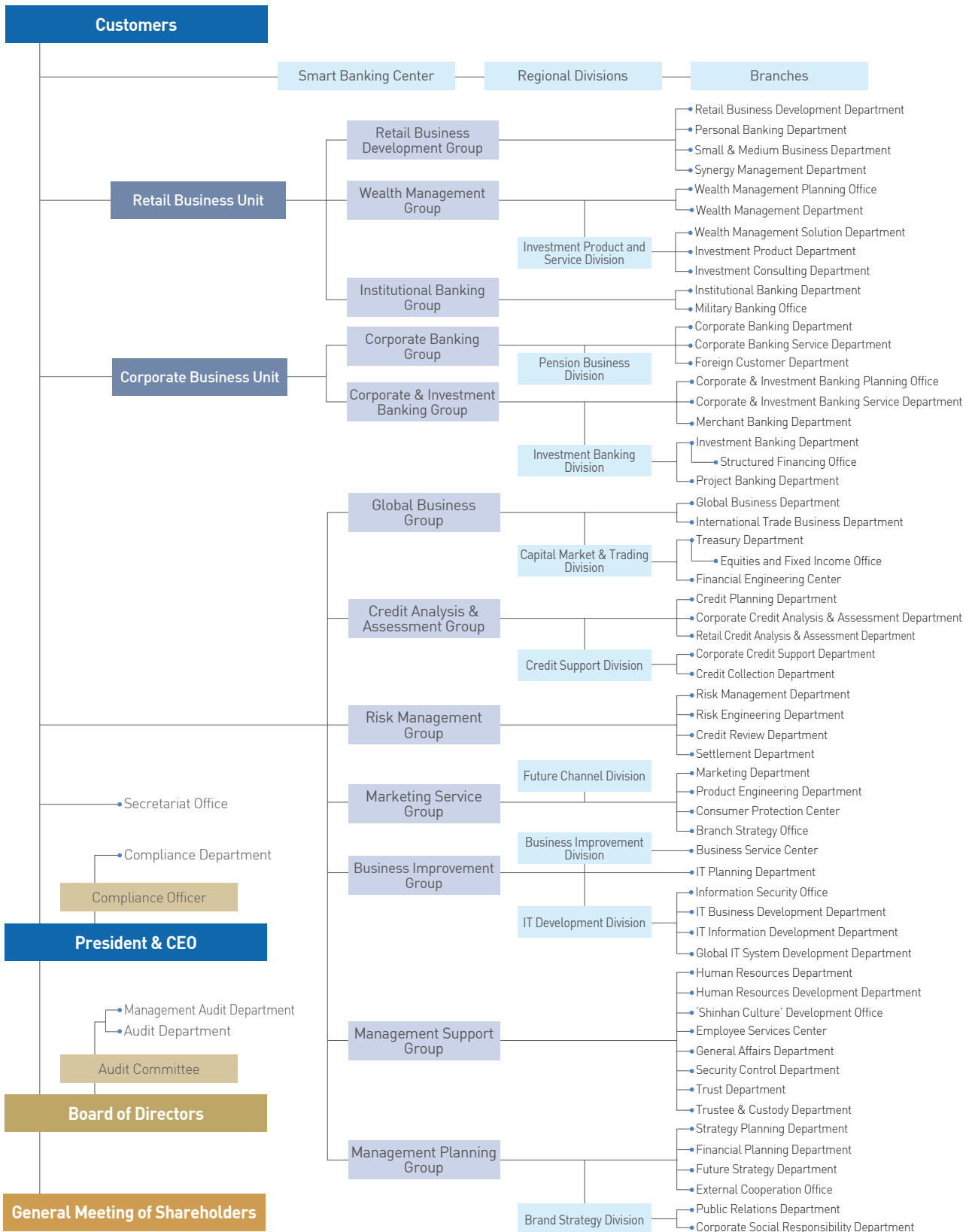
Executive Vice President,
Marketing Service Group

Won Ho Lee

Executive Vice President,
Management Planning Group



ORGANIZATION (As of December 31, 2012)

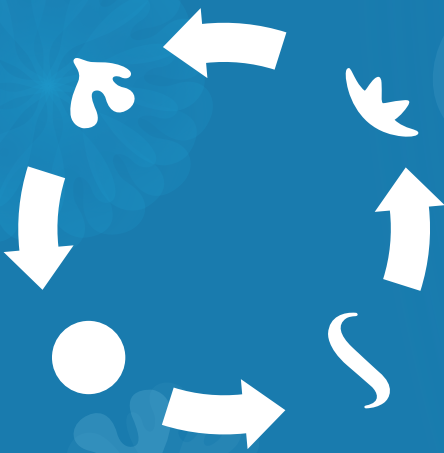


REVIEW OF OPERATIONS

Creativity and Innovation:

Cultivating talented human resources and enhancing our organizational vitality

We increase customer value and prepare ourselves for a brighter future by fostering the development of multi-faceted human resources and augmenting the vitality of our organization. This includes building a state-of-the-art customer service system that offers enhanced information on all our products and services.



Dynamic Organization



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 encroach upon 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 2012, 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-four other institutions.

We were selected as the main bank for the National Pension Service over other major banks. This further added to our brand value.

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 S20," an exclusive brand for college students in their twenties, and secured an unrivalled position in the military salary transfer market.

In 2013, we plan to continue being one of Shinhan Bank's core groups. Our strategic objective is to build solid foundations for long-term growth to cement our number one position in the institutional banking market. To achieve this goal, we have set out three core tasks: expand our new growth foundations by identifying customer value, add to our sustainable profitability in institutional banking, and support business development.

First, we'll attract new institutional customers through pre-sales activities, while also launching a marketing campaign targeted at young, potential customers as a way of getting a head start for the future.

We'll further concentrate on improving the profitability of our institutional customers and maintain our leading position in the institutional banking market by retaining all of our maturing contracts.

Finally, we will strengthen our support for business development by providing more support to the bank's front-line workers and adding to our employees' skills sets.

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 2013, 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

The Retail Business Development Group's primary objective is to provide training and business support programs based on strategies and action plans established for Shinhan Bank (SHB)'s retail sector, branch evaluations and feedback. More specifically, it is tasked with establishing mid- to long-term strategies and business plans for SHB's retail sector, including Retail Mass, Wealth Management (WM), government offices, and small- and medium-sized enterprises (SMEs). In order to follow these strategies for the various retail business channels, the Group sets goals for each branch of the bank that correspond to the management indicators derived for them by business groups. It also develops conferencing systems to be used as a communication channel between the Group and branches so that its strategies are delivered, carried out, and assessed more effectively. In addition, it develops programs and educates front-line employees to boost channel sales and develops customer management systems.

The Retail Business Development Group absorbed the Synergy Management Department as a result of a reshuffle in 2013, in addition to its three existing departments: Retail Business Development, Personal Banking, and Small & Medium Business. The Group now comprises four departments, under which there are 22 regional head offices in charge of managing 823 branches that serve as customer points of contact across the business with 1,925 bank tellers and 8,080 full-time employees (including 2,162 Smart Banking Center employees). This means there are a total of 10,005 employees under the direct and indirect supervision of the Group. SHB's ultimate strength lies in its seamless, field-oriented sales organization structure made up of the general manager, regional heads, managers, deputy managers, and 'JUMP' managers. Other banks have tried to emulate SHB's benchmark retail business system, but without success. Based on the belief that strong field resources make for a strong central organization, SHB classifies all branches by region. The managers and deputy managers of high-performing branches are promoted to regional supervisory positions or retail relationship managers, serving as coaches and mentors for front-line staff 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.

To this end, we at the Retail Business Development Group developed the slogan 'Great Retail! New Start! 1! 2! 3!'. Here, the phrase 'Great Retail' represents our volition to maintain our position as a leading player in the retail banking sector with core expertise in front-line management, while 'New Start' is a reminder to ourselves that we should deviate from old, outdated business practices and embrace creative innovation to keep pace with trends in order to build a better future for SHB. '1! 2! 3!' – these numbers represent our commitment to achieving our three main goals. Our first goal is to meet all our profit and loss objectives and maintain our position as the healthiest bank in Korea. Goal number two is to achieve KRW 2 trillion in low-cost deposits. And finally, our third goal is to attract 200,000 more office workers, high-net-worth individuals, and self-employed customers.

In 2013, the retail business environment will be harsher than ever. Low growth rates, low interest rates, high risks, and strict financial regulations pose a threat to profitability, whilst there is a gloomy forecast for NIM (Net Interest Margin) management and sustainable asset growth.

We plan to cope with the paradigm shift preemptively and achieve balanced growth in terms of both profitability and soundness, by expanding our pool of core and potential customers and establishing a customer and field-oriented business system. In short, we plan to come out the winner in any business situation in 2013. Our strategic goal for 2013 is to emerge victorious in retail banking by developing a differentiated, competitive edge in this period of low growth. To achieve this goal, our specific objectives will focus on the following: achieve balanced growth, profitability, soundness (Basics of Banking), improved selection and concentration, future growth, competitiveness (Efficiency in Marketing), and customer-oriented channels and staffing.

Our primary focus will be to ensure balanced growth, profitability, and soundness (Basics of Banking).

We'll increase the volume of prime-quality assets and provide a high quality income stream. We also plan to improve our loan portfolio, particularly in terms of prime-quality household loans, and to increase the ratio of fixed interest rate household loans to improve our business



structure. As for corporate loans, we will continue to increase assets and improve the structure of our prime-quality self-employed customer base.

We will also continue to increase the volume of low-cost and installment-type deposits as we did last year. In addition, we will add to the rate of household deposits and attract more customers with new installment saving plans that will be made available through the upcoming tax reform this year. This will be followed up with non-interest banking such as bancassurance and funds.

We will utilize early household loan management and the "Shinhan Healing Program" to ensure 'asset soundness', and become the number one bank in delinquency management through preemptive management of business loans.

Our second set of keywords consists of selection and concentration, future growth, and efficiency in marketing.

Our three key target markets for the year 2012 were high net asset customers, office workers, and the self-employed. This year, we will continue to focus on attracting an influx of customers from these three key markets. We plan to launch a multi-directional marketing campaign aimed at office workers so we can establish a larger pool of customers transferring both their salary and retirement pension to a Shinhan Bank account. In other words, we will focus more on retail, business, and corporate investment banking. As for the self-employed, our marketing activities will be further customized to meet their specific, financial needs such as business cycle. At the same time, we will make extra efforts to attract more high-net-worth customers by providing more asset management services. In addition to these three key markets, we will turn our attention to other core market segments such as soon-to-be-wed couples and foreigners living in Korea.

While diversifying our marketing channels to attract more customers, we will also optimize our use of resources by offering a greater variety of customer-friendly services through smartphone banking, which is fast becoming a powerful engine for future growth.

We plan to provide the right products at the right time and bolster our current product lineup, by building a new front-line supply chain of products customized to specific customer needs.

Thirdly, we will strengthen our customer service channel

and employees' capabilities (Customer Trust).

We will revamp the front-line services we offer to our customers and gradually enhance the competitiveness of our service channels. We will increase the number of points of contact with our customers in order to improve our competitive edge in front-line marketing. To realize this goal, we will roll out a new integrated mobile device called 'S-Kit'. In addition to providing one-stop services through the branch teller system, we will further improve the quality of our custom-tailored services by separating the services we offer into savings plans and general banking. This is because we can best use the enhanced skills of our employees by having them specialize.

We also plan to improve our customer management system. We will make our 'Tops Program' more customer-oriented towards major customers, and strengthen both our direct and non-direct marketing channels.

We will offer a more custom-tailored marketing program called the 'Jump Program' for our branch employees in order to strengthen their skill sets. The aim is to enhance our operational support systems in order to be more suitable for front-line business processes to improve branch employees' marketing capabilities. We're planning to create a rich pool of human resources by appointing talented managers while also promoting more deputy managers to relationship managers in order to strengthen our retail marketing activities at our branches.

In addition to all this, we will continue to expand our support activities for both small- and medium-sized enterprises (SMEs) and those on a low-income, particularly at regional head offices, in order to comply with our "Compassionate Finance" stance, an underlying principle of banking.

For those of us in the Retail Business Development Group, our main objective is to set new standards for Shinhan based on creativity and innovation. To realize this, we plan to take preemptive measures to cope with the rapidly changing retail business environment, listen to our customers and front-line employees, and distinguish ourselves from the competition. Shinhan Bank has thrived in retail banking in some of the most difficult business situations therefore we at Shinhan believe that we can turn a crisis into an opportunity. This is why we're confident in saying that we will emerge victorious again this year in the retail banking sector, and maintain our competitive edge even in this period of slow economic growth.

Wealth Management Group

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

The 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. We provide business planning, management, and evaluation services to 'Shinhan PWM Channel', which operates like a 'Branch with Branch' that offers both banking and investment services.

Since 2012, our WM business model has been providing consolidated asset management solutions based on the co-location of banking and investment branches and joint management by the PWM Center and the bank's retail-linked branches.

The net assets of PWM and PB channels rose by KRW 1.1 trillion over the year and reached KRW 31.1 trillion in total. The Group currently has a clientele of 5,541 customers, adding to its leadership in the asset management market.

In 2012, the WM Department posted the best results of any domestic bank in the "carriage trade" market. Some reasons for this success involved increasing the competitiveness of its channels on a Group-wide basis, increasing the growth potential of our prime-quality customer base, and making our products and services even more superior to those of our competitors.

As of the end of 2012, the Group's number of customers with deposits of over KRW 100 million grew by 9.2% over the year to reach 179,000, while the number of those with a balance of over KRW 1 billion increased by 12.5% to reach 5,997. The Group's total retail customer deposits also rose by KRW 3.3 trillion to exceed KRW 50 trillion.

It also converted seven of its PB centers into PWM

Centers, and created the Shinhan PWM Apgujeong Main Center and Shinhan PWM Privilege Gangnam Center by applying the new WM business model on a Group-wide level. As a result, the bank currently boasts a nation-wide network of 24 PWM/PB centers (13 PWM and 11 PB).

For 2013, the Group set a strategic goal of securing leadership in asset management by improving the performance of our WM business model and increasing its market share of affluent customers. To achieve this goal, the Group has elected to focus on three main objectives.

To meet this challenge, the Department will enhance the competitive edge of our WM business model in Korea's asset management market by improving the performance of retail and investment departments and further strengthening collaboration between them.

We will continue to increase our PWM coverage rate while also promoting businesses that are under joint management with retail bank branches and enhancing synergistic operations through cooperation with Shinhan Investment.

Secondly, we will increase our market share of high-net-worth customers by identifying core target markets. We will identify emerging and niche markets and enhance our marketing campaigns aimed at attracting more high-net-worth individuals and bringing potential customers with high net worth. This will increase our pool of high net asset customers.

Our third and final objective is to enhance our competitiveness in asset management through human resources development. This year, we are investing in the capabilities of our asset management staff. To encourage staff to develop to their full potential, we will implement a new outstanding employee award system.

By working through these objectives of dividing our customers into different groups, we at the Wealth Management Group will sharpen the competitive edge of our WM business model and assume a position at the forefront of the asset management market.

Investment Product & Service Division

The Investment Product & Service Division consists of the Wealth Management Solution Department, the Investment Product Department, and the Investment Consulting Department, each staffed with investment



managers, product managers, and wealth managers. Together, they make up an unrivalled team of specialists dedicated to offering customers a broad range of products and services that include both banking and securities as well as top-of-the-line asset management solutions.

Wealth Management Solution Department

The Department provides asset management business support, investment seminars, and asset management strategy training programs for Shinhan employees. It's also tasked with developing and offering professional investment solutions.

In 2012, the Department played an instrumental role in cementing Shinhan Bank (SHB)'s reputation as a leader in the asset management industry. One of its major achievements was to offer customers asset management consultation services in the convenient surroundings of their own homes. A team of experts visited customers, offering 460 "At-Your-Home" professional consultation sessions. The Department also hosted 340 seminars and lectures on asset management for 25,000 customers, as well as 1,100 training sessions on asset management methods for 27,000 Shinhan employees.

Importantly, the Department operates a team of industry experts with years of experience providing tailored products and consultation services, specifically in the private banking and securities fields. The team's unique services set the Department apart from other financial institutions.

In addition, the Department also brought home the concept of 'compassionate finance' by optimizing its portfolio through sensitive management of customers who had invested in poorly-performing overseas investment funds.

In 2013, the Department will offer three important services designed to achieve this strategic goal: "Improve the performance of each branch and provide solutions that are optimized to enhance the skills sets of front-line employees."

First, we will strengthen the branch marketing approach in order to improve their performance. We will promote the 'Six Core Asset Management Services for 2013' such as "At-Your-Home" consultations, "Customized Solutions Team", and "Mini Seminars and Lectures on Investment Techniques for Front-Line Employees" throughout the

branches so that they can fully utilize the expertise of our department staff in their marketing activities.

Second, we will further support the asset management training programs currently offered. Conscious of the diverse needs of retirees, we also plan to offer staff training in retirement planning so that our employees can become better educated about this field. We will also improve and offer more advanced expert asset management programs to meet the needs of our employees undertaking education programs. We will add an advanced PB training program with the help of external experts in order for staff to learn about advanced asset management concepts and strategies. These efforts are aimed at further developing our employees into some of the best asset managers in Korea.

Finally, our objective is to encourage customers to adopt a 'portfolio approach'. We will expand our use of 'S-Solution', a unique approach to sales that provides various investment solutions, enabling us to provide customers with a higher predicted rate of return, even in this period of low interest rates. We will schedule a number of events designed to educate our employees about the new system, such as "B2B Sales Competition" and "Virtual Portfolio Profitability Competition".

We at the Wealth Management Solution Department will continue to provide a broad range of asset management services and propose innovative asset management solutions to exceed the expectations of our customers.

Investment Product Department

The Investment Product Department includes the Fund Team, Bancassurance Team, PWM Product Team (which offers customized products to PWM and PB channels) and Gold and Derivatives Team (responsible for gold and ELD: equity-linked deposits). Together, these teams develop product strategies that best suit the Group's investment protocol and current market issues. They provide the best lineup of investment products in the country.

Despite the slowing of the funds market, the Department's sales for 2012 amounted to KRW 2.1 trillion, the highest of all Korea's banks. We achieved this by providing custom-tailored products that best answer the needs of high net worth customers while also offering medium risk/return funds and other relatively safe investment options such as ELF and bond funds.

In 2012, the WM Department posted the best results of any domestic bank in the “carriage trade” market.

In August 2012, we became the first financial institution to develop a product platform customized for PWM and PB customers. This allows us to reflect customer needs in new product development and ultimately improve the quality of our asset management services. In addition, we have also established a process for strengthening cooperation between the bank's CIB Group, Hong Kong IB (Shinhan Asia Limited), Shinhan Investment Corp., and other business divisions in the international network of Shinhan Financial Group (SFG) in an effort to maximize the synergy between the subsidiaries of SFG.

The Bancassurance area plays a pivotal role in satisfying a variety of customer needs with regard to reducing tax obligations and fostering stable asset management. This is the reason why we have implemented an aggressive marketing strategy in the area and achieved record-breaking results (posted net profit of KRW 144 billion in Bancassurance sales, up KRW 48.3 billion from 2011). We were also able to ensure sustainable growth by implementing an advanced compliance business system in addition to a number of support programs based on feedback from our front-line workers.

The Gold and Derivatives Team, which was the first in Korea to introduce a gold banking service, has firmly established a leading position in the market by continuously improving its business models such as the 'Shinhan Bank Gold Bar', 'Golf Gift Service', and 'Gold Bar Pre-Order Service'. The team has also launched market-leading products such as ELD (Equity-Linked Deposit), which guarantees a minimum interest rate so that customers can enjoy an additional return on their 'time deposit'. This added return on a deposit not only attracted more customers, but also enhanced our business opportunities.

For this year, we at the Investment Product Department have set a strategic goal to become a leading provider of customer-oriented investment products and services. For this, we have outlined three main objectives.

Our first objective is to build more investment portfolios based on the market forecast and a differentiated service platform for PWM/PB channels so we can stay ahead in a changing market.

Our second objective is to build a basis for long-term growth by identifying new markets. To realize this objective, we will develop high quality products through cooperation with other subsidiaries of SFG, diversification

of our customer base by expanding non-direct channels, introduction of more gold banking services, identification of new business opportunities, and the development of new business models in other investment areas.

Finally, we will strengthen our customer-oriented services and business operations. We will develop new processes that can improve the efficiency of our customer management system, after sales services, and investment product compliance in order to become a leader in creating customer value through investment products.

We at the Investment Product Department will continue to develop creative investment products and services that best suit the needs of our customers so we can retain our leadership in the ever more competitive market, and continue to play a pivotal role in asset management.

Investment Consulting Department

The Investment Consulting Department has three teams composed of 27 experts in research, tax, and real estate services. 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 investment directions. To this end, it set the strategic goal of becoming a leading expert in the marketing field in 2013 by providing out-of-office consultation services.

The Department sets guidelines for applying investment strategies in front-line operations. It analyzes political and economic issues in the market for investment management and quickly delivers the data to front-line employees. Since the beginning of 2013, it has been hosting the 'Shinhan Financial Techniques Healing School' and a number of other seminars on creating a customer map for successful asset management for customers as a part of its marketing campaign.

The Research Team offers investment strategies for the stock, fund, foreign exchange, and asset management markets and publishes the 'Shinhan WM Investment Guide' by compiling the results of conferences on investment strategies and products. The Team also provides up-to-date reports such as 'Shinhan Weekly Briefing', which offers 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.

The Tax Team mainly provides front-line tax consulting services. Some of its services include the 'Tax Angel' (a tax service custom-tailored to fit different needs of different customers), 'Tax Alarm' (a tax service that provides important tax information notifies the customers when certain taxes are due one month prior to the due date), and 'Tax in Your Palm' (a small pocket-sized book on tax). All these are supplied to the branches every quarter of the year.

Our Real Estate Team provides a 'Real Estate Consulting Service', which analyzes the marketability of real estate as well as legal restrictions on the property for customers who are interested in investing in real estate. After the analysis, the team provides customers with a report as part of the consultation process. It also offers the 'Field Academy', in which customers are accompanied by a real estate consultant when visiting any of the potential real estate properties. The team also promotes the Investment Consulting Department's brand by hosting a number of seminars and contributing articles to a number of newspapers on real estate.

Our out-of-office investment consulting service regularly provides potential investors with the latest outlook and information on overseas and domestic investment products. The investment consulting team also provides 'Shinhan Daily Briefing' on the current conditions of the asset management market and a daily 10-minute 'MCC (Morning Conference Call)' between front-line employees and the Department's research, tax, and real estate experts. In addition, the team publishes more than 15 different types of financial reports such as 'Investment Consulting Focus', containing an analysis and forecast of the real estate and asset management markets.

In 2012, the Investment Consulting Department contributed to increasing the total amount of deposits and loans by KRW 382.95 billion in the areas of PWM and PB, while hosting 7,166 consulting sessions and 250 seminars on tax and real estate as part of its support activities for front-line employees.

In 2013, we at the Investment Consulting Department will implement improved action plans to become Korea's best consulting services provider recognized for its front-line support. Furthermore, we will focus on helping our customers through customer-friendly programs like the 'Shinhan Financial Techniques Healing School' rather than just generating sales.

Corporate Banking Group

Corporate Banking Department

The Corporate Banking Department's strategic goal for 2013 is to establish corporate financial standards based on the idea of 'coexistence and innovation'.

The main objectives of the Department are as follows:

Establishment of Business Plans for the Corporate Banking Group

The Department is tasked with the following responsibilities: Increase the assets and ensure the growth of the Financial Center; carry out marketing activities; and develop customer management plans.

Marketing Planning

Launch marketing and promotional campaigns aimed at improving the business operations of the Financial Center, and develop action plans realize the goals set forth.

Also assist the marketing activities of the bank's branches.

Corporate Loan and Deposit Management

Respond to various interest rate approval requests and answer to questions from branches regarding payment gateways.

Promote the sales of corporate products and manage products.

Build a joint management system with branches for the management of delinquent corporate customers.

Evaluation and RM Personal Evaluation Management of the Financial Center

Set goals with numerical financial and non-financial indexes of the Financial Center.

Share the goals with branches and evaluate the branches' annual and semi-annual performances.

Also evaluate individual RMs.

Assessment of Branch Performance and Follow-Up Consulting

Form three 'JUMP' teams and send the team members to the branches to analyze their particular strengths and weakness.



Consult the branches and propose optimal sales techniques to them.

In 2013, we will carry out the following tasks.

Continue to Strengthen our Foundations for Long-Term Growth

Develop strategic products for each target product group in order to ensure sustainable growth of the Corporate Banking Group's target assets. Gain asset growth momentum through continued marketing of well-performing assets in consideration of overall profitability.

Extensive Market Development

Contribute to creating new markets and future revenues by launching marketing campaigns in growth industries such as exports, overseas investments, and foreign-invested enterprises.

Preemptive Risk Management

Strengthen the quality of assets through preemptive risk management of potentially delinquent companies.

Upgrade Sales Support System for RMs

Build a support system tailored for RMs' front-line sales operations and provide policy and product support to them as well. Encourage RMs to build a solid corporate customer management system.

True Application of 'Compassionate Finance'

With the idea of "making a better world through the power of finance" in mind, continue to provide free consulting services to SMEs and offer front-line training sessions to spread the idea of 'compassionate finance'.

Pension Business Division

The 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 Marketing, Solution and Group 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 2012, the total value of our retirement pension assets under management was KRW 7.1 trillion, making us Korea's industry leader for the third consecutive year. We also ranked first in terms of reserves for management operations, at KRW 6.3 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 deposits 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. We also became the first financial institution in Korea to develop a smartphone tutorial app for new customers. This educational app is customized to suit different needs of different age groups, and also different customer groups.

In 2013, the Division will carry out a sophisticated marketing campaign to ensure that we remain the number one player in our sector. We will strive to build a strong foundation for the qualitative growth of retirement pension funds. We will also build a management system for retirement pension fund account holders, and develop custom-tailored services for the individual retirement pension market. In addition, we will strengthen our marketing capabilities in order to attract more major companies to open an IRP account with us, while also building a customer service system to retain and manage our current customers.

Corporate & Investment Banking Group

The Shinhan Financial Group (SFG) launched its CIB Group in January 2012. Our goal was to meet the ever-increasing needs of corporate customers, maximize customer value, and ensure the bank's sustainable growth.

It was formed by combining Shinhan Bank (SHB)'s IB organization, a special banking service channel for large corporations, and Shinhan Investment's IB organization into one business unit to solve the problem of having a two-pronged operating system. Now integrated into the SFG's corporate culture, the Group is fast becoming a growth engine for the future.

Consisting of the Corporate and Investment Banking Planning Office, the Corporate and Investment Banking Service Department, the IB Division, and the Merchant Banking Department, SHB's CIB Group provides Korea's most comprehensive range of financial services through CIB business model. 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, based on our strong relationship with them.

Shortly after the launch of CIB Group in January 2012, the IB divisions of SHB and Shinhan Investment as well as the Merchant Banking Department began sharing the same space within the head office of Shinhan Investment in Yeouido. The co-location of these three business divisions within the head office resulted in the seamless integration of their PM functions and expertise, and led to 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 a referral marketing system. By using a dual-RM system, Shinhan Bank and Shinhan Investment can carry out joint account planning and other types of collaboration aimed at improving their marketing efficiency.

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 delivering solutions.

Based on the successful implementation of the management system, we have made significant achievements in just one year. As of the end of 2012, our total transaction volume (deals size: KRW 5.3 trillion) doubled over the year and estimated income (advance payment fee and total interest margin before deal deadline amounted to KRW 37.6 billion) rose by over 350%.

The performance is noteworthy when considering the fact that the IB market has been very slow throughout the year, and it offers proof that the Group is making significant contributions to enhancing synergies between the two companies.

In the past, collaboration between the two showed a pattern that suggested that the focus was on simply introducing the same old products of each individual company to the customers. After the launch of the CIB Group, however, the two companies have been achieving qualitative growth. This is largely due to the introduction of package deals that meet various customer needs through joint operation, and such package deals are developed through continuous joint research and proposal by the two companies.

For instance, the SFG's CIB division did more than just putting banking and securities products together to meet the customers' funding needs. Instead, it also assisted in improving the corporate customers' financial structure by utilizing equity financing and 'advanced structuralization' techniques in addition to offering professional solutions and creating tracking record containing data associated with these activities.

With the aim of expanding its business areas, it also created synergy between CIB and WM (high-net-worth customers) by structuring prime-quality IB assets and developing investment products for retail customers.

SHB's CIB Group has been playing a pivotal role in corporate and investment banking even in the challenging business environment in 2012, by focusing on risk management and building a growth engine based on this new system.



As a result, the Group posted KRW 485.9 billion in operating revenue and KRW 316.5 billion in EBT (earnings before taxes) in terms of financial gain, and saw only a 0.18% increase in MS in the 34 main debtor groups as it stood at just 9.35%, ranking second in the private banking sector excluding the government-owned banks.

One of the Group's most significant achievements is that it has built a solid business structure for CIB and made all the preparations necessary to improve the overall performance in this financial market sector. Now that the Group has established a foundation in 2012, it will now concentrate on becoming a market leader in CIB with differentiated services that only Shinhan can offer. As a pioneer in the Korean CIB market, the Group will develop new areas of business, improve the quality of its programs, and build a strong corporate environment.

The growth of the CIB market in 2013 is forecast to remain extremely lackluster, with competition more fierce and stagnation more pronounced.

To cope with these unfavorable headwinds, the CIB Group plans to adopt a new growth strategy using its competitive position and marketing capabilities

First, it will sharpen the bank's competitive edge to ensure sustainable growth, and ultimately take a leap forward in the market by adding value to its services. The Group will take more initiatives in the growing direct financial market while enhancing the competitiveness of the CIB business model. Through this, the Group will continue to demonstrate leadership in the CIB market and deliver more value to the customers by improving organizational efficiency and realizing qualitative growth.

Second, the Group will stick to the basics in carrying out its business in order to better cope with the difficult operating environment. The Group will upgrade its revenue structure and the quality of loans, and put its focus on core customer groups such as large corporations and major IB customers based on its strong customer relations. It will also improve its preemptive risk management, which is another of Shinhan's strong points.

Finally, the CIB Group will strive to build a better future based on creativity and innovation. It will focus particular attention on developing and diversifying its revenue models in coping with the changing market environment,

while building a stronger foundation for growth through the identification of business opportunities and new market segments related to the global market and/or indirect investment vehicles. In addition to this, it will continue to develop and implement new training programs in order to add to the expertise of its RMs and PMs, who are sure to lead the future of the CIB Group.

The CIB Group will "take a leap forward" in 2013. We at Shinhan believe in turning a crisis into an opportunity. This serves as a mainstay of our corporate culture, as well as the driving force behind our growth.

Global Business Group

The Global Business Group will lay the groundwork for global operations enabling it to outperform its competitors by developing differentiated business models and tapping emerging markets. In addition, it will carry forward global expansion strategies from a long-term perspective.

It will particularly focus on adding to the competitiveness of its infrastructures such as the bank's overseas networks and IT/non-direct channels, particularly in the Asian financial belt that includes Japan, Vietnam, China, and India. This will be done by teaching its marketing, customer management, and risk management techniques to branch employees in these countries through its strategy of selection and concentration.

The Group's main goal is to make Shinhan one of the world's top banks. It will do this by continuing with its localization strategies, adding to its customer base, achieving world-wide synergies, and developing growth and revenue models that meet the needs of each operating area.

The Global Business Group's major results for 2012 were as follows.

1. 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-three bases in fourteen countries, with an emphasis on local subsidiaries.

(1) Opened branches of local subsidiaries

- Shinhan Bank China: Beijing Wangjing Sub-Branch (March 2012)
- Shinhan Bank Japan: Nagoya Branch (September 2012)
- Shinhan Bank China: Shenzhen Branch (September 2012)
- Shinhan Khmer Bank: Teuk Thla Branch (December 2012)

(2) Signed a stock acquisition agreement with an Indonesian Bank (December 2012)

Indonesia is one of the top emerging markets in Asia with the fourth largest population in the world. It has a great growth potential, largely due to its rapidly growing middle class and rich natural resources.

SHB is planning to tap the market because it sees it as one of the most important in the Asian financial belt along with Japan, China, Vietnam, and India.

To achieve this goal, SHB chose the Indonesian bank 'B' and recently signed a stock acquisition agreement.

(3) Establishment of Myanmar head office:

Myanmar is the largest country in Indochina and also a blue ocean with a substantial potential for economic growth, particularly because the country is opening up and going through democratic reforms. For this reason, the first movers will likely have the advantages of gaining an early edge in the market and can be the first to tap the natural resources. To this, SHB opened an office in Myanmar in April 2013.

2. Enhanced global operating abilities and strengthened infrastructures

Hired people who can work and thrive anywhere

(1) Strengthen abilities of resident employees at home:

- Shared information in order to provide human resources for local management through training programs prior to sending resident employees.
- Implemented three-month-long OJT at overseas branches.

(2) Added to the competencies of local employees:

- Increase the quality of overseas branches' talent cultivation operations by putting in place optimal training schemes based on annual training plans.
- For core markets, training programs encompassing major areas such as loans, deposits, and foreign exchange are mandatory. Other programs focus on building a foundation for the branch as an independent corporation by establishing plans tailored to suit the local conditions.
- Provided talented local employees with an opportunity to work at a branch in Korea and take a group training course as a means to add to their abilities and motivation.

(3) Promoted corporate culture



- Had the employees share the same corporate values through 'Global Shinhan Way' follow-up training.
- Had the employees participate in newly-established in-house official events on 'Shinhan Global Way'.

(4) Put corporate vision into practice:

- Offered incentives to outstanding long-term employees through the 'Global Core Personnel Program'.
- Rewarded outstanding employees and offered them training opportunities through the 'Global JUMP Manager' program, which enabled them to work at a branch in Korea.
- Selected employees to join the 'Global Young Force' and learn Shinhan's corporate culture through introductory training.

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.

Products and Services Development

- Improved quality of services by increasing networking between domestic and overseas channels to attract both domestic and local customers.
Ex: Collaboration between branches at home and abroad and real-time transfers.
- Enhanced customer services by establishing alliances with domestic and overseas companies.
Ex: Duty free shop and debit card affiliated service.
- Developed products tailored for different channels
Ex: Developed strategic retail products for Vietnam, Japan, China, and other countries where marketing targets at retail sectors.

Global IT System

- Installed Aither, a new banking system for business standardization, at all the overseas branches. (January 2, 2013)
- Aither is an upgraded in-house version of 'Oasis' designed for timely provision of services and stable system maintenance.
- Provided wholesale and retail business support, non-direct channels, and strategic products at the right time. Also strengthened internal control system, built a database of reports, and provided management information.
- This year, the Group plans to build a unit operation system linked to the system mentioned above, and further upgrade it for improved user convenience.

Enhanced quality of non-direct channel services

- The Group is currently building the CMS for Shinhan Bank China that will be relocated in May this year. The provision of CMS to local businesses is expected to improve customer service, attract customers, and create new revenue streams.
- Firm Banking service is being developed at Shinhan Bank Vietnam, which is to be relocated in the second half of this year. This is expected to improve customer service, attract customers, and create new revenue streams.
- Upgraded the Internet banking system, which will now be applied in more areas. This is expected to enable product affiliation and improve customer convenience as well as service quality.
- Websites for overseas branches are being built, and renewal support is provided to all the branches.
- 'Swift Score' service using the Swift network is being developed. This will provide various forms of CMS.

Strengthened internal controls

- The operational risks of overseas branches were monitored in 2011 to better comply with the central government's supervisory programs and policies. As a result, individual branches' special objectives, work processes, BCP guideline, and field training were improved.

In addition, the Group developed and shared educational



materials such as error case studies of overseas branches in English, and added an anti-money laundering program to the filtering system of Aither to better cope with the global trends and comply with new and more strict regulations.

In 2013, the Global Business Group will strengthen its operations by gaining an early edge in emerging markets and building a differentiated business model as Korea's leading financial institution.

1. 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.
- The aim is to create a local market-oriented global business system for overseas subsidiaries to assist them in their localization efforts, by building a new network, ensuring stable procurement and management of funds, developing an optimal business model, and launching new global products and services so that they can be firmly established in the local market in a relatively short period of time.

2. 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.

3. Enhance the quality and quantity of our networks

- We have built efficient and effective networks in all our key operating areas. In 2013, we will expand our overseas networks, with a focus on those in emerging markets such as Japan, Vietnam, and China. We will also see to it that our most successful business abilities are adopted in our international operations.

4. Stabilized global IT and enhanced quality of non-direct channels

- The Group installed Aither, a new banking system for business standardization, at all the overseas branches, and plans to provide all the support necessary for system maintenance.

- The Group will rebuild websites, CMS, and non-direct channels for overseas branches, in order to provide local businesses with asset management services, improve customer service, attract more customers, and create more revenue.

5. Develop global human resources and increase social contribution activities in the region

- Human resources development is an important factor in the growth of global businesses. This is why we will continue to add to the competencies of our resident and local employees and focus on social contributions in the region. We will strengthen relationship with the local community by identifying more areas in need of help through which to coexist with the community and gain its trust.

Treasury Department

In 2012, the financial market saw a rapid downturn on the possibility of financial instability within the Euro zone. In the second half of the year, however, the market gradually stabilized as the U.S. and European countries fought to counter threats to market instability. Nevertheless, the financial market instability had a negative impact on the potential growth of both advanced and emerging countries, and the economic downturn led to the lowering of the growth rate of the financial market.

In addition to the international economic slump, the Korean financial market was hit hard by dull real estate sales and high household debt in addition to a number of other structural problems. This led to a higher possibility of a prolonged low growth and low interest rate environment. By contrast, Korea's credit rating was upgraded as well as liquidity increased, and the KRW gained strength.

In 2012, 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. In keeping with the requirements of banking supervisory authorities

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such as the Basel Committee and Korea's Financial Supervisory Service, the Treasury established a number of liquidity management strategies to help the bank cope with the new liquidity regulations in an efficient and effective manner.

In January 2013, the Basel Committee issued the Basel III Framework and put in place processes to ensure the consistent global implementation of liquidity regulations as well as new criteria for "high quality liquid assets".

To this, the Department carried out a quantitative impact study, and plans to establish concrete measures in accordance with the guidelines from the Financial Supervisory Service.

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-denominated sector, we maintained a stable loan-to-deposit ratio by instituting a policy of increasing deposits. 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 fiscal crisis. We also defused uncertainties regarding refinancing in the future by floating USD 0.35 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 2013, 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 political unrest 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 on BASEL III, and enhance our funding structure through the further diversification of our financing vehicles.

International Trade Business Department

In 2012, we at the ITB Department strengthened our market position and our competitiveness in the imports and exports, foreign exchange, and invisible trade remittance markets despite the global economic downturn.

We added our support for the export sector, by enhancing our competitiveness in products. This includes exchange commission, forfaiting, and training in foreign exchange, as well as improved CNY payment service aimed at coping with the increasing demand for payments in local currency in international trade. We have also increased our support for corporate foreign currency management by enhancing our CMS (Cash Management Service) in order to cope with the growth of international growth.

Through market-specific marketing, we have expanded our range of services in invisible trade (foreign currency exchange and remittance) such as overseas express money transfer, global debit card, collaboration with Korea Post in money transfer, and market segmentation. As a result, we were able to maintain our number one market position.

Today's financial institutions are urged to take on more

social responsibilities. To this end, we have strengthened our CSR activities such as the program for educating the underprivileged about the ins and outs of the financial world and the economy as a whole, improvement of consumer protection, and Corporate Finance Call Center for SMEs.

In 2013, we plan to generate stable revenue and achieve qualitative growth by adding to our foreign exchange customer base and support.

First, we will strengthen our financial assistance to mid-sized, export-oriented companies having difficulties tackling worsening international trade conditions. We will also build a foundation on which the Bank can grow with corporate customers by attracting more foreign exchange customers through consulting services aimed at mediating conflicts in special and international trade. Our support also includes trade finance, foreign exchange, and training program on foreign exchange and imports/exports for SMEs in the export industry.

Second, we plan to strengthen our affiliated marketing, enhance the quality of non-direct channel services, and develop niche markets through which to establish a basis for invisible trade. In addition, we will improve our target marketing efforts through customer segmentation and sharpen our competitive edge by introducing new products and services that can deliver more value to our customers.

Finally, we will maximize synergies between our services in the areas of overseas money transfer, trade finance, and overseas branch-linked products in order to become a truly global player by utilizing the SFG's global network.

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

Credit risk refers to the potential economic loss that can arise when a borrower fails to make payments due to the causes such as bankruptcy. 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 rates. Our loan loss provisions are then derived from the expected losses and reserves. Their value is based on either the K-IFRS

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

guidelines or the Financial Supervisory Service's guidelines, depending on which are 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. This 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.

We separate credit risk into household and corporate loans to ensure more effective risk management. We double-check for credit risk in household loans in order to prevent an over-concentration in specific sectors such as mortgage loans. We also promote the sale of mortgage loans and increase of prime loans to act preemptively against a further decline in the real estate market. We also analyze risk by household loan product to minimize the possibility of insolvency.

The number of business loans is limited by both industry, country, and ceilings. Loans to individuals take the borrower's maximum limit into account.

Other factors taken into account are credit ratings, so we can expand, maintain, and manage our portfolio of customers with a high credit rating.

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 the 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.

We measure the market risk of foreign exchange, stocks, bonds, and derivatives by entering and managing the data in the front system. This is automatically interfaced with the Market Risk Management System, which in turn uses the database of deals to calculate risk and establish limits on a daily basis, so that it can be presented to upper management. We conduct a cause analysis of risk above a specified level, and the results are shared with relevant divisions and departments for use and reported to upper management for review in the form of a document. This is done to strengthen our control systems.

We use the same data to establish portfolio risk and hedging strategies, as well as historical simulation methods in order to make non-linear risk measurement and risk management more accurate.

We plan to cope with the new regulations that will follow the implementation of Basel III requirements.

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. Our front system has also been improved to establish a more accurate valuation system. We also plan to develop and implement more measures to improve the system in order to come up with a more efficient way to manage the market data.

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. It makes continued efforts in building a database of profit and loss and sensitivity levels of securities and derivatives calculated by the Middle Office, in order to ensure timely reporting and accurate risk management.

Asset & Liability Management

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 ensure stable earnings and maintain net asset value by forecasting changes in interest rate risk related to the bank's net interest income and net asset value, 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 gap and VaR limits are established at the beginning of the year, with the approval of the Risk Management Committee or the ALM Committee. Their management is reported to the head office. We also conduct quarterly "stress tests" to calculate potential losses in the event of market crises. Those results are reported to the ALM Committee.

Liquidity Risk Management

Liquidity risk refers to the potential inability to fulfill contractual payment obligations on time, being forced to raise capital at higher-than-market prices, or maintaining operating funds at lower than market rates. 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 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. This is also done to ensure that we can cope with changes in our internal and external operating environment, and 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/

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

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 senior 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 operating rules to improve our information quality. We will also upgrade our data quality management systems, mainly by increasing our number of monitoring displays.

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 cash-flow difficulties. 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 2012 was KRW 158.1 trillion, an increase of KRW 1.8 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 0.61%, while its ratio of non-performing loans to total loans was only 1.08%.

In 2013, 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.

1. Preemptive Risk Management

We will continue to improve our NPLs through efficient management of delinquencies and non-performing assets while detecting signs of possible household and corporate insolvencies.

2. Upgraded Sales Support System for RMs

With the economic recession looming ahead, we will implement a strategy for loan operations, and we will improve our industry analysis to identify growing industries, the screening of prime-quality corporate customers prior to opening an account, and evaluation capabilities by taking the minimum level of revenue into account.

We will ensure the qualitative growth of overseas branches by focusing on risk management by improving our loan operations system, in addition to keeping a keen eye on the industries and policies in the region.

3. Added Support for Low-Income/SMEs Segments and Improved Loan Operations

We will provide more inclusive financing services in compliance with the government's debt relief program through debt restructuring and social contributions in order to practice 'compassionate finance'. In addition, we will also continue to offer CSP (Corporate Success Program) to SMEs experiencing temporary financial difficulty as a measure of liquidity support.

Furthermore, we will strengthen training for our branch employees and monitoring staff in loan operations while also supporting Prior Loan Approval System to add to the capabilities of our front-line workforce.



Business Improvement Group

The Business Improvement Group is the bank's primary business innovation organization. It provides our employees with a "future-oriented workplace" to ensure sustainable innovation, 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 establishing a stable IT management system, further improving front-line services, and ensuring timely development of core strategic products and services. Our core tasks include ensuring successful relocation of our data center, further protecting customer information, and improving our smart workplace.

The Group is composed of the IT Planning Department (which is tasked with IT strategies, budgeting, and system architecture management); 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).

In addition, there is also the independently run Information Security Office which develops service quality controls and carries out inspections under the supervision of the CISO (Chief Information Security Officer).

IT

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

First, we have developed a smart workplace. This was 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 have also enhanced our global IT management support systems. This was done by assisting in the development of credit rating models and monitoring systems. In addition, we have introduced more smart banking functions by carrying out banking, upgrading our corporate customer relationship

management system, and streamlining our market risk systems.

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

Thirdly, we have enhanced our security system to prevent the leakage of customer information. We have also added to our systems and number of disks, upgraded our non-direct channel networks, and monitored our system and management. In addition, we have built a new data center to provide the bank with a more stable infrastructure environment.

Our strategic goal for 2013 is to improve our IT infrastructure and processes so as to enhance the bank's competitiveness in the future. We have three strategic directions. They involve building a future-oriented infrastructure, improving front-line-centered IT systems, and providing business strategies on a timely basis. The details are as follows.

First, we will develop a future-oriented infrastructure. This will be done by ensuring the successful relocation of our data center and improving our backup center management system. We will also upgrade our DBMS (Data Base Management System) and enhance our management system for global IT infrastructure. In addition, we will continue to monitor and update our security system to prevent the leakage of customer information, and implement a more advanced information protection system with enhanced anti-hacking features.

Secondly, we will enhance our IT systems custom-tailored to front-line requirements, extend our systems paying special attention to the advent of the BYOB (Bring Your Own Device) trend, build more Internet service channels, and further promote the use and stabilization of EDMS in order to raise workforce productivity. We will more IT support so staff can focus more on their main activities such as marketing. We will also upgrade i-Flow, a business process support system designed to add to the



skill sets of our front-line employees, as well as IT RM functions in order to better support the business activities of our head office divisions.

Thirdly, we will provide a number of differentiated financial services for enhancing customer experience and value, by restructuring smart banking (Shinhan S Bank) system, expanding the scope of our out-of-office financial service (S-KIT), and increasing the number of smart branches (S20 Smart Zone), all of which are aimed at providing business strategies on a timely basis. In addition, we also plan to develop products and services that are better tailored to meet region-specific needs with the aim of successfully implementing our localization strategies and differentiating our services. Furthermore, we will generate synergy in business activities by broadening the scope of services linked to branches in Korea, provide more Internet banking and non-direct channels, and improve the quality of our overall IT services to strengthen local targeted marketing by establishing new risk assessment and CRM systems.

Business Improvement Division

In 2012, the Business Improvement Division was created by integrating the innovative functions of the former BPR (Business Process Reengineering) and Process Improvement Division. Our structure was reorganized into a one division-one center system that will result in increasing the efficiency of our branches and head office divisions. The main aim was to have one central division to promote bank-wide innovations.

Following the integration, we set a goal of maximizing business and customer value through innovation. The details are as follows:

- 1) Create a growth engine through innovation.
- 2) Increase business support by creating customer value.
- 3) Strengthen operational competitiveness by providing custom-tailored services.

The details are as follows.

Firstly, we have devised the 'Smart Working Way' to create a growth engine through innovation and launched the 'Work Diet' campaign to improve the way of working and realize bank-wide cost reduction. As a result, we have saved 793m² of space for a total of 24 offices in head office divisions by integrating their archive rooms into one, and

also added to the accessibility of the archive by placing all the paper documents in one place for both branches and head office divisions. This increased office space efficiency and cut down the cost of paper document management. As a follow-up to the 'Paperless Office' campaign in 2011, we have improved the system search method by using scanned images instead of paper in the credit assessment process. In the 'Work Diet' campaign, a total of 757 employees submitted their ideas. These ideas were used to improve our deposit/withdrawal/money transfer and bond exchange processes, ultimately cutting down logistics costs. As a result, we have saved approximately KRW 7.6 billion in a total of nine different areas. In addition to this, we have also identified a new set of objectives for improving the efficiency of non-financial areas such as document inventory management at the branches, ultimately contributing to cutting down the workload for the bank's branches.

Secondly, we have provided more support in creating customer value, optimized direct and non-direct channels for customers, and improved the branches' capabilities in the areas of front-line sales operations. We have concentrated on time-consuming and complicated processes such as home lease loans, Shinhan My Car Used Car Loans, return for damage caused by phishing scams, and B2B loan transfer notification, and also organized a sales support team in order to develop support measures based on the opinions of front-line workers. The sales support team has improved overall performance of the Goldwing system in order to enhance communication. It also built a strong workplace by providing personal training manuals and comprehensive information on work processes for employees. So far it has created over 1,000 integrated process manuals and Q&As on regulations and banking systems. In addition, it upgraded a smart scanner app in order to provide out-of-office loan consultant services and accept credit card applications, while also improving work efficiency by integrating password change cycles for a wide variety of systems.

Thirdly, we provided tailored support by type and added to the expertise of the consulting center in order to strengthen marketing capabilities. We helped the bank's branches respond to questions from customers faster and more accurately by implementing remote consulting systems while also providing additional consulting support at the consulting center, particularly in the high demand areas such as pension trust, SOHO CSS, and MIDAS services. We formed a new team dedicated to helping new employees



MANAGEMENT SUPPORT GROUP

get familiar with their branch in a shorter period of time. This is tasked with periodically sending questionnaires and responding to messages in addition to answering calls from new employees and providing phone consulting services. We also set up a QA Team within the consulting center in order to minimize inadequate consultation, and focused on improving the capabilities of the consultants and increasing response rate. In December 2012, we established a system in which we can respond to 90% of the questions and provide consulting services on time.

In 2013, we will continue to implement our work diet program that can bring changes to work processes and methods in addition to cutting down costs in accordance with the R&R needs of the division tasked with realizing bank-wide process innovation. We will also listen to front-line workers and identify problems at each of the service desks to make improvements in the order of necessity. Having the Center process utility payments, new home lease loans, SOHO loan deferment, and individual retirement pension transfer will save time for branch windows dedicated to these services, ultimately strengthening branches' operations. In addition, we will also build a new information protection system with different access rights to customers' personal information according to employees' position and connection system.

Management Support Group

Trustee & Custody Department

The Trustee & Custody Department is responsible for the trusteeship and custody of institutional investment assets, as per regulations stipulated in the Financial Investment Services and Capital Markets Act. At the end of 2012, we had KRW 84 trillion in assets belonging to about 120 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 2013 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 embrace 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 equities lending, 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 HSBC, State Street Bank, Brown Brothers Harriman, Citi Bank, JP Morgan, China Construction Bank, Euroclear, and Clearstream.

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 has focused on improving the profitability of individual pension trusts as personal pension savings became one of the hot topics of the year. As a result, SHB posted a higher earnings rate than its competitors, according to the 'Comparative Disclosure Statement of Pension Savings' provided by the Financial Supervisory Service.

This higher earnings rate than its competitors had been used much to the favor of customers. We have further improved our investor protection measures to prevent mis-selling of specified money-in-trust in order to protect the rights and interests of trust account holders.

The Trust Department's strategic goal is to expand the basis for trust operations by gaining customer trust and realizing qualitative growth. In specified money-in-trust, we will offer more trust products that meet customer needs, and promote sales through marketing collaboration with the bank's branches. In addition, we will focus on creating more business opportunities by expanding the network of financial institutions in the sales of money trusts. We will make additional efforts to increase dividend rates for pension-type trusts and improve follow-up services for existing customers. We will also cope with the tax reform of 2012, and reflect changes in our marketing activities to satisfy customers' needs for pension products.

As for the protection of customers' rights and interests, we will strengthen the protection of specified money-in-trust account holders as well as control over risk management and internal controls in order to gain customers' absolute confidence in our trust products.

Marketing Service Group

The reorganized Marketing Service Group consists of the Marketing Department, Product Engineering Department, Branch Strategy Office, Consumer Protection Center, Future Channel Division, and Smart Banking Center.

We set five key management indicators for each of the divisions in order to establish mid-term strategies for the bank to become a true leading financial institution within three years from 2013. The five key management indicators are as follows:

- (1) Primary Customer Ratio
- (2) Number of hit products
- (3) Number of grand prize awards from outside institutions
- (4) Branch optimization ratio
- (5) Smart banking utilization rate

We will strive to achieve the five goals so as to take a leading position in the market, and become a true leading bank that customers can count on.

Marketing Department

The Marketing Department consists of the marketing sensing, next generation, and support teams. It is tasked with the following responsibilities:

- Create customer data, utilize internal and external market databases, use customer insight.
- Improve marketing performance in strategic segments such as working-class, women, and seniors.
- It also develops and implements marketing programs for major markets.
- Operates marketing support systems, and supports front-line sales activities.

In 2012, we at the Marketing Department focused on increasing the bank's retail customer base and attracting potential customers. We also developed marketing strategies custom-tailored for different customer groups, and carried out the following marketing support activities.

- (1) Launched campaigns on five liquidity strategies for the working-class segment.



- (2) Established Shinhan post-retirement products and services research team and pioneered the retirement market.
- (3) Operated and improved the 'Mint Lady Club', the only non-direct marketing aimed at women in the Korean financial industry.
- (4) Implemented a new DM system and established a direct marketing process.
- (5) Supported customer management by restructuring the corporate CRM, 'Smart SPURT'.

In 2013, we set it as a strategic goal to gain a different level of competitive advantage by sensing the market. To achieve this goal, we will carry forward a host of projects aimed at developing strategies based on market/customer databases, launching micro marketing to take over the leadership, managing our marketing performance, and providing optimal support for front-line operations.

- (1) Promote market intelligence
- (2) Set market trends and pioneer new market categories
- (3) Develop a marketing performance index and build a support system
- (4) Build a customer value-based management system (Retail Shinhan Way)
- (5) Manage changes with Smart SPURT, provide marketing opportunities, and develop a corporate customer management support system

* Note: Market Sensing refers to the process of generating data about the market/customers to be analyzed and utilized as a source of troubleshooting and developing future businesses with the aim of playing a leading role in the market.

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 2012, we have contributed to building a stronger customer base, improving sales, and diversifying financial products by introducing a number of innovative new products such as Green Energy Package (deposit, installment savings, factoring) for shared value (energy saving) and My Car Used Car Loan, which is the first loan of its kind offered by a bank.

In addition, we have also practiced social responsibility management by launching a total of 12 inclusive financial services for customers on low-incomes and SMEs, such as 'New Spore of Hope Loan' and SME Partner Loans.

The SME Partner Loan won the grand prize in banking category at the 'eDaily Premium Banking Products Awards'

- Strove for differentiation amid fierce interest rate competition by launching Green Energy Package for shared value (energy saving)
- Developed niche markets by introducing strategic products for targeted customer groups such as policemen, member stores, and foreign-invested companies.
- Created a new market with My Car Used Car Loans and Home Collateral Loans
- Maximized positive synergies with debit card-linked package products.
- Practiced social responsibility management with 12 inclusive financial products and new products for SMEs

In 2013, we will retain our market leadership by developing sub-category products after an analysis of core markets and strategic products that can keep pace with the new trends. We will continue to support the development of new products for people on a low-income and SMEs, in addition to those already launched in 2012.

- Create a new market with new products that meet the latest trends.
- Diversify the real estate market portfolio
- Expand product lineup in accordance with the tax reform.
- Group retirement products into smaller segments.
- Continue to introduce differentiated products for inclusive financing and SMEs.
- Develop new main package products.

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

Branch Strategy Office

The Branch Strategy Office is always there for front-line workers, because the office staff work under the motto, "Build an energetic, communicative, and impressive workplace". The office people are currently planning to create 935 manned, unmanned, and mobile branches.

The office is divided into the Channel Planning Team and Mobile Branch Team. Their main tasks are as follows.

- Develop and implement strategies for bank-wide offline channels (Manned, unmanned, and mobile branches only. Overseas branches are excluded).
- Monitor offline channels and provide follow-up service
- Create, relocate, and close down offline channels
- Operate mobile branches.

In 2012, the Office has established a mid- to long-term strategy for bank-wide channel innovation in order to improve channel competitiveness and productivity, and set five strategic objectives as follows.

Five Strategic Objectives

- 1) Open branches for market segmentation (new emerging markets, new promising regions, etc.)
- 2) Optimize channels (channel size, reconfigure channels in accordance with their conditions, integrate/close down, turn into a banking center, etc.)
- 3) Improve marketing efficiency of new branches. (Added training for new branches, establish marketing plans before and after opening a branch, etc.)
- 4) Implement direct/non-direct channels (S20 Smart Zone and others)
- 5) Form a channel strategy committee (Determine efficient and effective ways to manage channels)

The Office's strategic goal for 2013 is to create optimal, efficient, and leading channels under the title 'Channel Innovation 2.0'. The Office will continue to implement the channel strategies first developed and implemented in 2012. The details are as follows.

- Open new channels in the core markets to ensure sustainable growth and introduce more channels custom-tailored to suit the market.

- Relocate channels for channel optimization and/or turn them into a banking center.
- Implement a 'work diet' program to improve efficiency of channels.
- Contribute to creating advanced channels by diversifying and differentiating mobile channels, and implement new channel designs that best suit the local environment.

Consumer Protection Center

The Center has been tasked with consumer protection in addition to quality control in general since January 26, 2012, when its customer satisfaction activities were expanded to include consumer protection. 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 consumer protection, 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 conducted in 2012, as a result of our bank-wide implementation of the SCALE aimed at assessing the service capabilities of the service desk employees, development of custom-tailored services for front-line operations, and application of the 'Consumer Protection Index' for the first time in the banking industry. They included the Korean Standard Service Quality Index (by the Korea Standards Association) and the Global Customer Satisfaction Competency Index (by JMA Consulting). We were also rewarded with a presidential citation for quality management category at the 38th National Quality Award.

In 2013, the Center plans a complete overhaul of its consumer protection system. This will enable consumer protection-oriented front-line operations, improve other relevant systems, and improve the bank's consumer protection policy in order to provide premier banking services to customers. The Center is making multi-faceted efforts to maintain a leading position in consumer value and protection.



Future Channel Division

The Division utilizes non-direct channels in product/service planning and management. It also develops direct/non-direct channel integration strategies in order to provide customer-oriented smart banking services.

In 2012, the Division carried out three core tasks. They included increasing the bank's customer base by utilizing non-direct channels, improving customer value by enhancing the competitiveness of the channels, and creating a sustainable growth engine by carrying out new projects.

As a result, Shinhan S Bank was awarded the grand prize in the smart banking category at the 2012 Customer-Satisfying Brand Awards and 2012 Best Brand of the Consumer.

In 2013, the Division has established three strategic directions in order to create a 'New Growth Engine for Shinhan' and enhance 'Smart Banking'. They include maximizing the competitiveness of non-direct channels to turn them into a core channel, and developing new smart businesses/services to ensure sustainable future growth.

Smart Banking Center

The Center consists of the Planning, Marketing, Foreign Exchange/Overseas Koreans, Loan Deferral, In/Outbound Team, and Self-Service Branch/Incheon Teams. Together, they carry out the following tasks.

- Establish and implement bank-wide non-direct sales strategies.
- Provide consulting services and operation support through non-direct channels.
- Operate and manage self-service branches and automated systems.

In 2012, they made SHB the first bank in Korea to launch a 'Smart Banking Center', a non-direct channel through which to provide video consulting services and offer products online. To build a foundation for non-direct channel operations, they carried out the following:

- Create new business opportunities through the new smart banking service.
- Promote smart banking through collaboration with the

bank's branches.

- Provide differentiated and competitive services by opening the Center for Overseas Koreans and Voice Phishing Task Force Team.

They achieved excellent performance in implementing these strategic projects and providing financial services. As a result, SHB ranked first in the KS-CQI (Korean Standard Contact Service Quality Index) and received the grand prize in the corporate category at the Internet Communication Award.

In 2013, the Smart Banking Center established a strategic direction aimed at creating customer-oriented non-direct sales models to ensure future growth. To make its non-direct channels as competitive as a direct channel, the Center plans to carry out the following:

- Implement measures to promote smart banking through non-direct sales models.
- Establish a front-line support system in order to expand the scope of sales through the combination of direct and non-direct channels.
- Improve service quality by upgrading consulting service base and operation systems.
- Strengthen financial consumer protection to enhance customer satisfaction.

Establish a customer- and front-line-oriented non-direct sales model through these activities to turn smart banking into a growth engine for the bank.

MANAGEMENT DISCUSSION & ANALYSIS

Creativity and Innovation



Financial Highlights

	In billions of Korean won		In millions of US dollars ¹⁾	
	2012	2011	2012	2011
Bank Account				
For the Year				
Total Operating Income	5,615.9	6,130.8	5,243.1	5,315.9
Operating Income	2,891.1	2,626.0	2,699.2	2,276.9
Net Income	1,657.0	2,118.9	1,547.0	1,837.3
At Year-End				
Total Assets	234,102.7	228,907.8	218,562.9	198,480.7
Total Loans	169,140.9	163,638.0	157,913.3	141,886.7
Total Deposits	166,820.3	162,582.3	155,746.7	140,971.4
Total Stockholders' Equity	20,272.0	19,289.8	18,926.3	16,725.8
Financial Ratios ²⁾				
Return on Average Assets	0.72	0.69		
Return on Average Equity	9.00	8.56		
NPL Ratio by FSS	1.08	1.09		
Net Interest Margin	1.99	2.22		
BIS Capital Adequacy Ratio	15.81%	15.26%		
(Tier 1 Capital Ratio)	12.62%	12.43%		
(Tier 2 Capital Ratio)	3.19%	2.82%		

Note1) Translated into US dollars at the rates of KRW 1,153.30/USD 1 and KRW 1,071.10 /USD 1 respectively--those prevailing on December 31, 2011 and December 31, 2012

Note2) Based on separate financial statements.

Overview

Shinhan Bank was one of the first Korean financial institutions to recover profitability and soundness despite economic uncertainties and volatile market conditions, and prepared itself for the impact of lower interest rates by achieving optimal growth of loans. SHB was also one of the best performers in the industry, thanks to its conservative risk management and ethically sound business practices. Overall, 2012 was a year in which SHB showed that it stands out even in the most competitive environments and that it always sticks to the basics.

On the basis of consolidation including SHB, overseas subsidiaries, and companies subject to consolidated accounting, SHB's total assets rose by KRW 5.3 trillion over the year to KRW 234 trillion. This is ascribable to an increase of KRW 5.5 trillion in loans, centered on custom-tailored loans, home lease loans, and SOHO loans. Assets in the overseas subsidiaries are continually rising due to the growth of their sales at Shinhan Vietnam Bank. Total bank account liabilities increased by KRW 4.3 trillion, due to a KRW 4.2 trillion increase in deposits, particularly from time deposit accounts. Deposits continue to rise as the demand for safer assets has increased in the face of continuous economic uncertainties, coupled with the bank's efforts in loan-to-deposit ratio and liquidity management.

Net Income Summary

(In billions of Korean won)

	FY2011	FY2012	Increase	YoY
Total Operating Income (a=b+c)	6,130.8	5,615.9	-515.0	-8.40%
Interest Income (b)	4,971.1	4,751.6	-219.5	-4.42%
Non-interest Income (c)	1,159.7	864.3	-295.5	-25.48%
General and Admin Expenses (d)	2,819.9	2,724.7	-95.2	-3.37%
Operating Income before Provisioning (e=a-d)	3,310.9	2,891.1	-419.8	-12.68%
Gains on Investment Stock Using Equity Method (f)	29.0	21.9	-7.1	-24.48%
Pre-provision Income (g=e+f)	3,339.9	2,913.0	-426.9	-12.78%
Provision for Credit Losses (h)	685.0	831.4	146.4	21.37%
Income before Taxes (i=g+h)	2,654.9	2,081.6	-573.3	-21.60%
Income Tax (j)	536.0	424.6	-111.4	-20.78%
Consolidated Net Income(m=i-j)	2,118.9	1,657.0	-461.9	-21.80%
Net Income Attributable to Controlling Interest	2,118.4	1,656.8	-461.6	-21.79%
Net Income Attributable to Non-controlling Interest	0.5	0.2	-0.3	-64.95%

SHB posted KRW 1,656.8 billion in consolidated net income, and KRW 1,649.6 billion in net income in 2012. The difference of KRW 7.2 billion arose mainly due to consolidation effects from including revenues of overseas subsidiaries and those of consolidated companies as well as the removal of in-house transactions. As for commissions and operating profit from other areas, its bancassurance sales commissions went up 51.1%, while fund sales commissions fell by 26.2%. Net gain on available-for-sale financial assets dropped KRW 329.1 billion, compared to the previous year. This was largely due to the base effect of a large amount of gains on stock sales in Hyundai Engineering & Construction in 2011.

Interest Income and Margin

(In billions of Korean won)

	FY2011	FY2012	Increase	YoY
Interest Earning Assets	185,966.2	194,878.6	8,912.5	4.79%
Interest Revenue	9,366.4	9,376.2	9.8	0.10%
Loans	7,641.6	7,616.9	-24.7	-0.32%
Securities/Others	1,724.8	1,759.3	34.5	2.00%
Interest Bearing Liabilities	170,057.1	178,923.4	8,866.3	5.21%
Interest Expense	5,247.0	5,493.5	246.5	4.70%
Deposits	4,027.4	4,296.8	269.4	6.69%
Debentures/Borrowings	1,219.6	1,196.7	-22.9	-1.88%
Net Interest Income ¹⁾	4,119.4	3,882.7	-236.7	-5.75%
Interest Income in Won	3,998.6	3,804.6	-194.0	-4.85%
Interest Income in FC	120.7	78.1	-42.7	-35.34%
Net Interest Spread in Won	2.41%	2.11%	-0.30%	-12.27%
Average Lending Rate	5.54%	5.25%	-0.29%	-5.22%
Average Deposit Rate	3.13%	3.14%	0.01%	0.20%
Net Interest Margin	2.22%	1.99%	-0.23%	-10.30%
NIM in Won	2.38%	2.13%	-0.24%	-10.28%
NIM in FC	0.68%	0.46%	-0.22%	-32.60%

Note1) NII is based on the methodology applicable 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.

Interest income fell by 4.4% over the year to KRW 219.6 billion, owing to a sharp decrease in annual NIM (Net Interest Margin) which was only partially offset by the growth of loan assets, largely due to the development of loans custom-tailored for policemen. The NIM decrease was more pronounced because interest income from loans declined with interest rates, trailed by a dip in the interest rates of funding accounts whose interest rate expires much later. Nevertheless, the bank made multi-faceted efforts in both procurement and operations. In terms of procurement, efforts were focused on increasing the volume of low-cost deposits and controlling procurement costs by retaining time deposits before their maturity at a lower interest rate. In terms of operations, efforts were made to increase interest revenue.

G&A Expenses

(In billions of Korean won)

	FY2011	FY2012	Increase	YoY
Employee Benefits	1,270.0	1,240.3	-29.7	-2.34%
Salaries & Employee Benefits	997.3	1,082.1	84.8	8.50%
Termination Benefits	72.7	43.1	-29.6	-40.69%
Provision for Current Year Severance and Retirement Benefits	200.1	115.1	-84.9	-42.46%
Depreciation	153.2	141.6	-11.6	-7.57%
Other General and Administrative Expenses	1,396.6	1,342.8	-53.8	-3.85%
Occupancy, Furniture & Equipment Expenses	1,305.9	1,248.9	-57.0	-4.37%
Taxes	90.7	93.9	3.2	3.51%
G&A Expenses	2,819.9	2,724.7	-95.2	-3.37%

In G&A expenses, there was an increase in labor costs such as pay raises and voluntary retirement benefits. However, labor costs dropped following actuarial adjustment of the reserve/provision for employee retirement benefits and performance incentives. Selling and general administrative expenses shrank by KRW 95.2 billion or 3.4%, compared to the previous year, mainly due to the bank's continuous effort to control and cut expenses.

Summary of Loans and Deposits

(In billions of Korean won)

	4Q2011	4Q2012	Increase	YoY
Loans				
Bank Account	156,696.0	162,617.8	5,921.8	3.78%
Loans in Won	139,082.4	144,228.0	5,145.6	3.70%
Retail	65,227.6	69,803.6	4,575.9	7.02%
Mortgage	45,570.9	45,668.0	97.1	0.21%
Others	19,656.8	24,135.6	4,478.8	22.78%
Corporate	73,854.8	74,424.5	569.7	0.77%
SME	52,268.3	51,323.7	-944.7	-1.81%
(SOHO)	22,773.6	24,984.4	2,210.8	9.71%
Large Corp. & Public	21,586.5	23,100.8	1,514.3	7.02%
Loans in FC	5,876.6	5,900.1	23.5	0.40%
Bills Bought in FC	4,570.3	4,107.2	-463.1	-10.13%
Call Loans, RPs	1,589.7	4,798.5	3,208.9	201.86%
Others	7,156.9	5,232.8	-1,924.2	-26.89%
Loan Loss Allowance(△)	1,579.9	1,648.8	68.8	4.36%
Trust Account	566.0	559.7	-6.3	-1.12%
Merchant A/C and Other Consolidating Entities	6,376.0	5,963.5	-412.6	-6.47%
Total Loans (Consolidated)	163,638.0	169,140.9	5,502.9	3.36%
Loan to Deposit Ratio*	98.9%	98.0%	-0.93%	-0.94%

Note) Based on monthly average balance, Excluding CDs

(In billions of Korean won)

	4Q2011	4Q2012	Increase	YoY
Deposits				
Bank Account	150,353.6	155,142.4	4,788.8	3.19%
Low Cost Deposits	45,773.6	47,105.0	1,331.4	2.91%
Demand	14,687.5	15,745.7	1,058.2	7.20%
Low Cost Saving	31,086.1	31,359.3	273.2	0.88%
Time Deposits	88,532.6	91,922.4	3,389.8	3.83%
Installment Deposits	6,681.3	8,290.3	1,609.0	24.08%
CDs	2,462.9	943.1	-1,519.8	-61.71%
RPs & Bills Sold	643.3	361.9	-281.4	-43.74%
Deposits in FC	6,259.9	6,519.6	259.7	4.15%
Trust Account	14,000.4	15,452.8	1,452.4	10.37%
Merchant A/C and Other Consolidating Entities	-1,771.7	-3,774.9	-2,003.2	113.07%
Total Deposits	162,582.3	166,820.3	4,238.0	2.61%

KRW-denominated assets and securities in operation rose KRW 9.6 trillion and KRW 2.5 trillion, respectively, over the previous year, chiefly owing to an increase in KRW currency loans (KRW 7.2 trillion). Foreign currency-denominated funds dropped KRW 0.5 trillion, compared to 2011, due to an overall decline of foreign currency deposits and loans.

Asset Quality

(In billions of Korean won)

	4Q2011	4Q2012	Increase	YoY
Normal	162,625.4	163,852.1	1,226.7	0.75%
Precautionary	1,992.1	2,111.0	118.9	5.97%
Substandard	1,157.0	1,078.7	-78.3	-6.76%
Doubtful	265.5	333.1	67.6	25.45%
Estimated Loss	392.5	402.2	9.7	2.47%
Total	166,432.5	167,777.1	1,344.6	0.81%
Bad Loan Ratio	0.40%	0.44%	0.04%	10.85%
Substandard & Below Ratio	1.09%	1.08%	-0.01%	-0.85%
Precautionary & Below Ratio	2.29%	2.34%	0.05%	2.27%
Allowance + Reserve	3,011.3	3,107.8	96.5	3.20%
Allowance	1,542.3	1,629.1	86.8	5.62%
Reserve	1,468.9	1,478.7	9.8	0.66%
Coverage Ratio Against				
Bad Loan	234.38%	221.54%	-12.84%	-5.48%
Substandard & Below	165.91%	171.32%	5.41%	3.26%
Precautionary & Below	79.10%	79.18%	0.08%	0.10%

Bad debt expenses on the basis of the impairment loss of financial assets rose 26.6% to KRW 817.7 billion, compared to 2011, due to restructuring of large corporations/construction companies, and more strict reserve standards for companies with impaired capital.

Delinquency Ratio by Sector

(In billions of Korean won)

	4Q2011	4Q2012	Increase	YoY
Total Loans	156,293.0	158,120.2	1,827.2	1.17%
Retail	65,707.0	70,275.9	4,568.9	6.95%
Corporate	90,586.0	87,844.3	-2,741.7	-3.03%
SME	57,499.1	54,951.7	-2,547.5	-4.43%
(SOHO)	23,769.5	25,799.0	2,029.5	8.54%
Large Corp.	33,086.8	32,892.7	-194.2	-0.59%
Total Delinquent Loans ¹⁾	944.3	970.2	25.9	2.74%
Retail	258.3	375.4	117.1	45.35%
Corporate	686.0	594.8	-91.2	-13.30%
SME	596.7	486.5	-110.2	-18.47%
(SOHO)	109.3	132.0	22.7	20.78%
Large Corp.	89.3	108.3	19.0	21.27%
Delinquency Ratio_Total Loan ¹⁾	0.60%	0.61%	0.01%	1.56%
Retail	0.39%	0.53%	0.14%	35.90%
Corporate	0.76%	0.68%	-0.08%	-10.59%
SME	1.04%	0.89%	-0.15%	-14.69%
(SOHO)	0.46%	0.51%	0.05%	11.28%
Large Corp.	0.27%	0.33%	0.06%	21.99%

Note1) Principal or interest delinquent for 1 month and over

Delinquency rates for household and small- and medium-sized enterprises (SMEs) stood at a manageable levels of 0.53%, and 0.89%, respectively, mainly due to loan write-offs and disposal amounting to KRW 1 trillion 345.6 billion in 2012. The ratio of non-performing loans to total loans was at a healthy level of 1.08%.

Delinquency Ratio by Industry(SME) ¹⁾

(In billions of Korean won)

	4Q2011	4Q2012	Increase	YoY
Manufacturing	0.70%	0.39%	-0.31%	-43.89%
Construction	1.92%	2.05%	0.12%	6.48%
Wholesale & Retail	0.41%	0.59%	0.18%	44.18%
Accommodation & Restaurants	1.53%	0.41%	-1.12%	-73.48%
Trans. and Storage	0.24%	0.48%	0.24%	99.53%
Telecommunication	0.04%	0.60%	0.56%	1443.76%
Finance and Insurance	3.30%	-	-3.30%	-100.00%
Real estate/ Rent	1.86%	1.89%	0.03%	1.83%
Science and Technology	0.63%	0.26%	-0.37%	-59.03%
Educational Service	0.16%	0.53%	0.37%	228.69%
Health and Social Benefits	0.52%	0.38%	-0.14%	-27.09%
Entertainments and Sports	1.27%	1.20%	-0.06%	-5.07%
Others	1.81%	0.61%	-1.20%	-66.32%
SME Total	1.04%	0.89%	-0.15%	-14.69%

Note1) Principal or interest delinquent for 1 month and over

Capital Adequacy

(In billions of Korean won)

	4Q2011	4Q2012	Increase	YoY
Tier I Capital	15,342.5	16,325.4	982.9	6.41%
Paid in Capital	7,928.1	7,928.1	-0.0	0.00%
Capital Surplus	403.2	403.2	-0.0	0.00%
Retained Earnings	5,483.8	6,563.2	1,079.4	19.68%
Hybrid Bond	2,329.8	2,329.8	0.0	0.00%
Others	-0.9	-92.8	-91.9	10,404.33%
Deductions(-)	801.4	806.0	4.6	0.58%
Tier II Capital	3,484.0	4,126.3	642.2	18.43%
Provisions	887.8	890.8	2.9	0.33%
Subordinated Debt	1,858.0	2,532.0	674.0	36.28%
Others	824.0	797.7	-26.4	-3.20%
Deductions(-)	85.9	94.2	8.3	9.71%
Total BIS Capital	18,826.5	20,451.7	1,625.2	8.63%
RWA	123,385.3	129,333.4	5,948.1	4.82%
Credit Risk RWA	110,965.5	112,700.4	1,734.9	1.56%
Market Risk RWA	2,604.7	6,400.3	3,795.6	145.72%
Operation Risk RWA	9,815.1	10,232.7	417.6	4.25%
BIS Capital Adequacy Ratio	15.26%	15.81%	0.55%	3.64%
Tier I	12.43%	12.62%	0.19%	1.51%
Tier II	2.82%	3.19%	0.37%	12.99%

Shinhan Bank maintains a more conservative liquidity management policy than the minimum liquidity ratios prescribed by the financial supervisory bodies (KRW liquidity ratio of 100% and foreign currency ratio of 85%). By securing committed lines to cope with crises, even before the European fiscal crisis, Shinhan Bank has been showing excellent competence in foreign currency liquidity management. The bank maintains a liquidity management system differentiated by diversifying maturity structures or procurement sources, by being fully in compliance with strict liquidity management guidelines, and by establishing a policy on liquidity risk management based on liquidity gaps and debt ratios by maturity.



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CORPORATE DATA (As of December 31, 2012)

- **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 : 949 Branches and offices
Overseas : 14 countries and 63 outlets
(7 overseas branches, 9 local subsidiaries)
- **Number of Customers:** 21,131,083
- **Number of Employees:** 12,990
- **Members of Shinhan Financial Group:** Shinhan Bank (100%)
Shinhan Card (100%)
Shinhan Investment Corp. (100%)
Shinhan Life Insurance (100%)
Shinhan Capital (100%)
Jeju Bank (68.9%)
Shinhan BNP Paribas Asset Management (65%)
Shinhan Data System (100%)
Shinhan Credit Information (100%)
Shinhan Private Equity Investment Management (100%)
SHC Management (100%)
Shinhan Savings Bank (100%)
Shinhan AITAS (99.8%)

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



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