

SHARE INFORMATION

Number of Shares Issued

As of December 31, 2013

Type of Stock	No. of Shares
Registered common stock	474,199,587
Registered redeemable preferred stock	11,100,000
Total	485,299,587

Stock Performance (Common Stock)

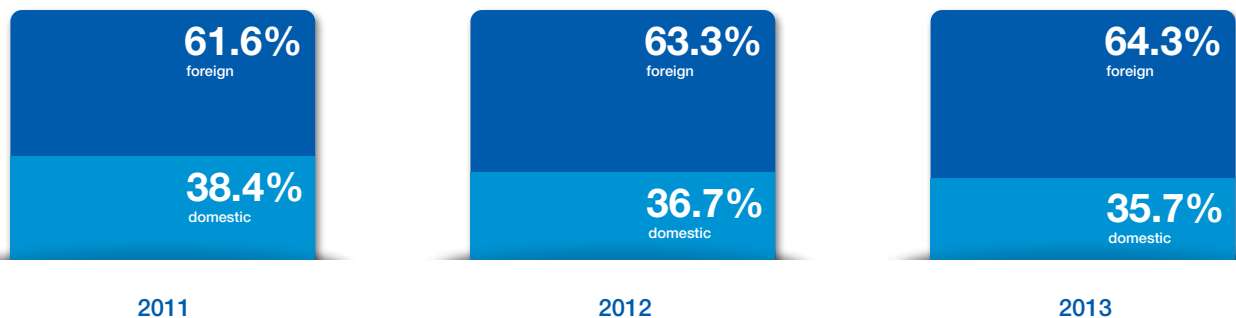
	2013	2012
Average Daily Trading Volume	1.0 million shares	1.2 million shares
Share Price high	₩ 48,650	₩ 47,000
Share Price Low	₩ 35,950	₩ 33,350
Share Price (Year End)	₩ 47,300	₩ 38,850
Market Capitalization (Year End)	₩ 22.4 trillion	₩ 18.4 trillion
Weighting in the KOSPI (Year End)	1.9%	1.6%
Dividend Per Share	₩ 650	₩ 700
Total Dividend Paid	₩ 308 billion	₩ 332 billion

Shareholders Holding Ownership of More than 1%

As of December 31, 2013

Name of Shareholder	% Owned	Name of Shareholder	% Owned
National Pension Service	8.81%	Samsung Asset Management	1.27%
BNP Paribas	5.35%	Mizuho	1.26%
SFG Employee Stock Ownership Association	4.08%	ABU DHABI INVESTMENT AUTHORITY LENDI	1.17%
Saudi Arabian Monetary Agency	3.61%	DIMENSIONAL EMERGING MARKETS VALUE	1.14%
CITIBANK.N.A (ADR DEPT.)	2.56%	FUND	
The Government of Singapore	2.03%	Others	66.80%
The Lazard Fund Inc.	1.92%	Total	100.00%

Share Ownership



FINANCIAL HIGHLIGHTS

	2013	2012	change amount	% change
For the Year (KRW billions)				
Operating Income Before Provisioning	3,821.73	4,500.34	-678.61	-15.1
Net Income	1,902.81	2,321.89	-419.08	-18.0
As of Year End (KRW trillions)				
Total assets	371.5	366.8	4.7	1.3
Total loans	205.7	200.3	5.4	2.7
Total deposits	178.8	173.3	5.5	3.2
Total stakeholders' Equity	27.5	26.4	1.1	4.4
Key Financial Ratio (%)				
ROA	0.66	0.83		-0.17
ROE	7.17	9.29		-2.12
Group Net Interest Margin	3.17	3.36		-0.19
Cost to Income Ratio	52.37	47.44		4.93
NPL(Substandard and below loans) Ratio	1.26	1.34		-0.08
NPL Coverage Ratio	163.46	170.33		-6.87
Group BIS Ratio	13.43	12.46		0.97
Shinhan Bank BIS Ratio	16.29	15.83		0.46
(Common Equity Tier 1 Ratio)	12.48			n.a
BPS(KRW)	54,614	52,145	2,469	4.7
EPS(KRW)	3,819	4,688	-869	-18.5

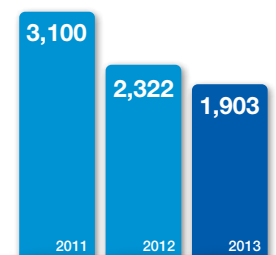
Credit Ratings

	S&P	Moody's	Fitch	JCR
Shinhan Bank	Long Term	A	A1	A
	Short Term	A-1	P-1	F1
Shinhan Card	Long Term	BBB+	-	A-
	Short Term	A-2	-	F2

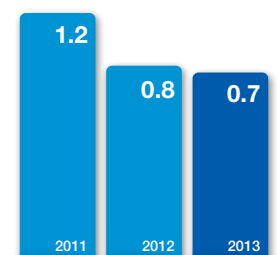
Total Assets KRW in trillion



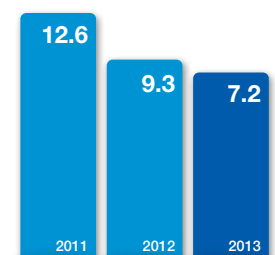
Net Income KRW in billion



ROA %



ROE %



>> Contents

SFG Message

SFG Overview

- 010 Message from the Chairman
- 014 BOD and Management
- 016 Vision and Strategy
- 020 Corporate Governance
- 022 Risk Management
- 024 Shinhan Way
- 026 Organization
- 027 Business Portfolio

Review of Operations

- 030 Synergy
- 032 Retail Banking
- 034 Corporate Banking
- 036 Credit Card
- 038 Investment Banking
- 040 Wealth Management
- 042 Brokerage
- 044 Insurance
- 046 Asset Management

Social Stewardship

- 050 Compassionate Finance
- 052 Corporate Social Responsibility
- 054 Sustainability Management
- 056 Ethical Management

Financial Section

- 060 Management's Discussion and Analysis
- 075 Independent Auditor's Report
- 076 Consolidated Financial Statements
- 082 Notes to Financial Statements

Global Networks /

Investor Information



Financial Highlights here

To some people, Shinhan Financial Group means “Stability”

To some people, Shinhan Financial Group means “Innovation”


To some others, Shinhan Financial Group means “Warmth”

These different meanings are inspired by Shinhan Financial Group’s different way of thinking. We view the world from your perspective. We see things differently because we see them through your eyes. Our different perspectives lead to different ways of thinking. As such, we take our first steps as a uniquely creative financial group.

Different Thinking, New Beginning
Shinhan Financial Group

**We prepare for a bigger and
brighter future**





Understanding our past and present,
and standing again at the starting line
implies our solemn will to reach higher
in this changing time.

**This is why Shinhan Financial Group
is preparing for a “New Beginning”**

**1st in terms of net income among domestic
financial institutions, 6 years in a row**

1st

Shinhan Financial Group's 2013 net income was KRW 1,903 bil., the highest among domestic financial institutions for 6 consecutive years. A solid profit base resulting from a diversified business portfolio, efficient management of margins and costs, preemptive risk management all contributed to this success. Based on these know-how's Shinhan Financial Group once again starts anew, this time to become a truly global financial group.



**We pursue new challenges
to overcome difficulties**

Think up new ideas and pursue new ideas.
This is how we overcome difficulties and
make an impact on the world.

This is why Shinhan Financial Group seeks 'Different Thinking'

Net income contribution by Subsidiaries

62% : 38%[↗]
Bank Non-Bank

Shinhan Financial Group's profit contribution from its non-banking subsidiaries is comparatively greater than those of other domestic financial group peers. Furthermore, SFG's non-banking sector is recognized as a "golden portfolio that drives profit." It was only made possible by our differentiated approach to build a new portfolio while others were solely focusing on building their banking sector profits. This demonstrates how SFG's "creative thinking" has become an asset of its own; an asset that differentiates us and keep us competitive.

A close-up photograph of a person's hand holding a blue baton. The hand is positioned on the left side of the frame, with the baton extending towards the upper right. The background is a bright blue sky with wispy white clouds. The text "We grow hand-in-hand with our customers" is written in a bold, black, sans-serif font, rotated 45 degrees counter-clockwise, and placed over the baton.

**We grow hand-in-hand with
our customers**

Success can only be achieved through teamwork. We can all accomplish our aspirations when we work hand-in-hand. That is why Shinhan Financial Group truly values the teamwork with its customers.

**And this is why we practice
“Compassionate Finance”**



**Globally ranked 30th in terms of
Corporate Sustainability**

30th

Shinhan Financial Group's "Compassionate Finance" is receiving recognition both domestically and globally. SFG not only became the first Korean financial holding company to join the DJSI World Index, but was also ranked 30th among the Global 100 Most Sustainable Corporations by the Davos Forum. SFG promises more growth through the second phase, "Compassionate Finance 2.0."

MARKET CAPITALIZATION

22.4

KRW in trillion

Shinhan Financial Group's market capitalization stood at KRW 22.4 trillion at the end of 2013, representing an increase of 21.8% from the previous year. Our market capitalization is the largest among financial institutions and the 8th largest in KOSPI.

NET INCOME

1,903

KRW in billion

In 2013, SFG posted net income of KRW 1,902.8 billion, the highest figure among financial institutions for six consecutive years.

Key Performance Indicators 2013

NETWORK LOCATIONS

1,447

As of the end of 2013, SFG's branch network totaled 1,447, including 81 branches overseas

CAPITAL ADEQUACY (BASEL III, CET 1)

12.5%

Bank

As of the end of 2013, SFG and Shinhan Bank each recorded common equity ratio of 10.0% and 12.5%, respectively.

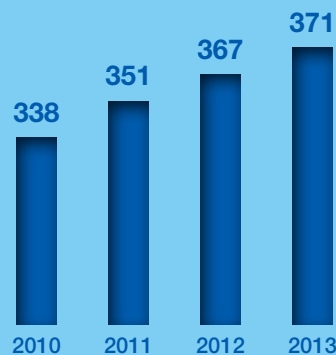
SHINHAN FINANCIAL GROUP

TOTAL ASSET

371

KRW in trillion

As of the end of 2013, SFG has total assets of KRW 371 trillion.



ASSET QUALITY,
NPL COVERAGE RATIO

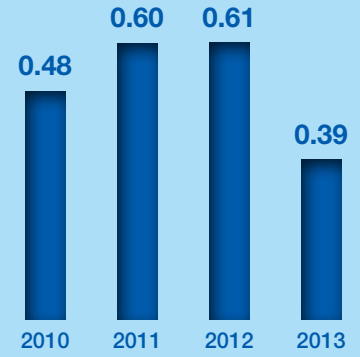
163%

As of the end of 2013, NPL ratio for the Group recorded 1.26% and NPL coverage ratio of 163%, outperforming other financial group peers

ASSET QUALITY,
DELINQUENCY RATIO

0.39%

As of the end of 2013, Shinhan Bank has a delinquency ratio of 0.39%, the lowest among Korean financial institutions.



NET INCOME CONTRIBUTION BY
SUBSIDIARIES

38.3%

Non-banking subsidiaries contributed 38.3% to total net income, illustrating our balanced and diversified profit base.

GROUP SUBSIDIARIES

12

As of the end of 2013, SFG has 12 subsidiaries across the financial industry including banking, credit card, brokerage, insurance, and asset management.



EMPLOYEES

24,134

As of 2013, the number of SFG's employees was 24,134. Our employees continually strive to maximize customer value.

CUSTOMER BASE

29

million

As of 2013 end, the number of SFG's customers was 29 million. More than half of the Korean population is our customers.

Message from the Chairman

010



DEAR VALUED CUSTOMERS AND SHAREHOLDERS:

Last year, the global economy showed signs of both growth and lingering uncertainties. While developed economies gradually recovered, the anxiety in emerging markets escalated in response to the US Fed's tapering. Here in Korea, the real economy continued to struggle due to sluggish corporate investments and consumption.

Despite these challenges, Shinhan Financial Group(SFG) was able to generate quality earnings through stable asset growth and enhanced risk management.

Stable and solid performance despite internal and external challenges

In 2013, SFG posted KRW 1,902.8 billion in net income, the highest profit among all financial holding companies in Korea. Numbers show we are indisputably leading the Korean financial industry.

Although margins were reduced due to falling interest rates, our banking sector achieved a net income of KRW 1,387.1 billion and the non-banking sector, on the strength of Shinhan Card's stable performance, also maintained its 38% contribution to the overall Group's net income. This again proves a well-diversified business portfolio is the key to our underlying strength.

Our consistent effort to practice "Compassionate Finance" was also recognized worldwide. SFG not only became the first Korean financial holding company to join the DJSI World Index, but was also ranked 30th among the Global 100 Most Sustainable Corporations by the Davos Forum. That is the highest ranking of any Korean company. Further, The Banker ranked us 43rd globally in financial brand value, once again proving SFG's leading brand value in the Korean financial industry.

Focusing on the core of finance, Securing future competitiveness

It seems unlikely that we will be seeing significant change from the current low-growth environment in the near future. In this situation, mere quantitative growth is not enough. Rather, we believe it is crucial to go back to the basics and strengthen our core competitiveness.

Shinhan Financial Group will produce products and services that are ahead of the curve, finding creative and innovative ways to build the foundation for future success. We will also work towards our corporate mission of "Compassionate Finance," growing hand in hand with our customers, shareholders and community.

Traditionally, SFG has had a strong corporate system and innovative culture, allowing us to outstand in darker times. By adapting to the changing financial environment and striving towards the goal of “Different Thoughts, New Beginning,” we promise to continually provide differentiated value and excellence to our customers and community.



Our strategic goal for 2014 therefore is “Different Thoughts, New Beginning” and we propose to do the following:

First, we will continue to strive towards the goal of “Compassionate Finance” through our corporate system and culture.

Our staff and leaders will go the extra mile to continue developing trust with our customers and community through excellent business performance and corporate responsibility based on implementation of “Compassionate Finance”.

Second, we will continually explore new ways to sharpen the competitiveness of our core business, swiftly and flexibly responding to market changes.

The success of our core business lies in the excellence of our financial products, services and capital management, which must evolve in response to the changing environment. In this era of economic and social changes, Shinhan will continually explore and venture into new areas of finance to ensure continued success.

Third, we will provide financial solutions to the rapidly increasing retired population. Further, we will continually expand new opportunities in global markets and strengthen our local presence.

In order to provide the best retirement products and services, we will continue to build long-term relationships based on trust and promptly response to customers’ needs. Also our global products and services will be developed based on a deep understanding of the nuances of various local contexts.

013

Finally, we will timely and swiftly adopt technology to innovate our sales channels and better satisfy customers' needs.

In response to the development in technology, which is fundamentally changing financial transactions, Shinhan will holistically integrate and streamline various channels across the Group, increasing efficiency and customer satisfaction.

Traditionally, SFG has had a strong corporate system and innovative culture, allowing us to outstand in darker times. By adapting to the changing financial environment and striving towards the goal of "Different Thoughts, New Beginning," we promise to continually provide differentiated value and excellence to our customers and community.

We ask for your continued support and encouragement and wish you and your family everlasting health and happiness.

Thank you.



Chairman & CEO of Shinhan Financial Group

Dong Woo Han

Board of Directors and Management

The Board of Directors of Shinhan Financial Group is currently composed of 12 directors: 1 executive director, 1 non-executive director and 10 outside directors. The Chairman of the Board is Mr. Hoon Namkoong, who was appointed by the BOD among the 10 outside directors on March 26, 2014.

Management of the Company includes current Chairman & CEO of the group, Mr. Dong Woo Han, 6 deputy presidents and 1 executive vice president.

Executive Director

DONG WOO HAN

Date of Birth : November 10, 1948
Current Position : Chairman & CEO, Shinhan Financial Group
Education : LL.B., College of Law, Seoul National University, Seoul, Korea
Main Work Experience :
2007. Vice Chairman, Shinhan Life Insurance
2002. Chief Executive Officer, Shinhan Life Insurance
1999. Vice President, Shinhan Bank

Non-Executive Director

JIN WON SUH

Date of Birth : April 20, 1951
Current Position : President & CEO, Shinhan Bank
Education : B.A. in Historical Science, Korea University, Seoul, Korea
Main Work Experience :
2007. Chief Executive Officer, Shinhan Life Insurance
2006. Deputy President, Shinhan Financial Group
2004. Deputy President, Shinhan Bank

Outside Directors

BOO IN KO

Date of Birth : December 25, 1941
Current Position : CEO, Sansei Co., Ltd
Education : B.A., Meiji University
Main Work Experience :
2005-Current. CEO, Sansei Co., Ltd
2009-2010. Outside Director, Shinhan Financial Group
2005-2009. Outside Director, Jeju Bank
2002. Director, JEU International Convention Center
1998. Advisor, The National Unification Advisory Council
1998. Vice Chairman, Korea Chamber of Commerce and Industry in Tokyo

Outside Directors (Continued)

TAE EUN KWON

Date of Birth : January 29, 1941
Current Position : Former Professor, Nagoya University of Foreign Studies
Education : Ph.D. in Business Administration, Nanzan University
Main Work Experience :
2010-2012. Dean, Department of Global Business, School of Contemporary International Studies, Nagoya University of Foreign Studies
2004-2012. Professor, Department of Global Business, School of Contemporary International Studies, Nagoya University of Foreign Studies
1983-2010. Chief Executive Officer, Nam Bu Ham Co., Ltd
1997-2009. Committee member, Korean Residents' Union HQ in Japan
1991-2008. Counsel and Director, Korea Education Foundation

KEE YOUNG KIM

Date of Birth : October 7, 1937
Current Position : Former President, Kwangwoon University
Education : Ph.D. in Business Administration, Washington University
Main Work Experience :
2009-2013. President, Kwangwoon University
2004-2009. Outside Director, GS Holdings Corp.
2003. Outside Director, KTB Networks, currently KTB Investment & Securities Co., Ltd.
2000. Dean, Graduate School of Information, Yonsei University
1979-2003. Professor, School of Business, Yonsei University

SEOK WON KIM

Date of Birth : April 29, 1947
Current Position : Former Chairman, Credit Information Companies Association
Education : Ph.D. in Economics, Kyung Hee University
Main Work Experience :
2009-2012. Chairman, Credit Information Companies Association
2006-2009. Chairman, Korea Federation of Savings Banks
2005-2006. Outside Director, Woori Bank
2002-2005. Vice President, Korea Deposit Insurance Corporation
1999-2001. Head of the Korea-OECD Multilateral Tax Center

HOON NAMKOONG

Date of Birth : June 26, 1947
Current Position : Former Chairman, Korea Life Insurance Association
Education : M.A. in public administration from University of Wisconsin at Madison
Main Work Experience :
2009-2011. Outside Director, KORAMCO (Korea Real Asset Management Company)
2005-2013. Outside Director, Samsung Electro-Magnetics Co., Ltd
2005-2008. Chairman, Korea Life Insurance Association
2000-2004. Member, Monetary Policy Committee, Bank of Korea
1999-2000. Chairman and President, Korea Deposit Insurance Corporation

MAN WOO LEE

Date of Birth : November 22, 1954
Current Position : Professor, Korea University Business School
Education : Ph.D. in Business Administration from University of Georgia
Main Work Experience :
1988-Current. Professor, Korea University Business School
2007-2008. Chairman, Korean Accounting Association
2006-2007. Chairman, Korean Academic society of taxation
2001-2007. Committee member of Securities listing, Korea Exchange

Outside Directors (Continued)

SANG KYUNG LEE

Date of Birth : September 20, 1945

Current Position : Representative Attorney, Law Firm WONJON

Education : B.A. in Law, Chung-Ang University

Main Work Experience :

2010-Current. Representative Attorney, Law Firm WONJON

2009-2010. Lawyer, DW Partners Law Firm

2005-2009. Lawyer, Law Firm LEEWOO

2004-2005. Chief Judge, Constitutional Court of Korea

2002-2004. President, Busan High Court

2000-2002. President, Daegu District Court & Incheon District Court

2000-2000. Senior Presiding Judge, Patent Court of Korea

1992-2000. Senior Judge, Daegu High Court

1981-1992. Judge, Seoul High Court

JIN CHUNG

Date of Birth : March 18, 1937

Current Position : Chairman, Jin Corporation

Education : B.A. in Economics, Nihon University

Main Work Experience :

1994-Current. Chairman, Jin Corporation

2006-2012. Chairman, Korean residents union in Japan

2003-2006. Vice Chairman, Korean residents union in Japan

1978-1994. President, Daitou Co., Ltd.

HARUKI HIRAKAWA

Date of Birth : November 7, 1964

Current Position : CEO, Hirakawa Shoji Co., Ltd

Education : B.A. in Political Science & Economics, Kinki University

Main Work Experience :

2008. CEO, Kokusai Kaihatsu Co., Ltd

2006. CEO, Shinei Shoji Co., Ltd

1994. CEO, Hirakawa Shoji Co., Ltd

PHILIPPE AGUIGNIER

Date of Birth : September 26, 1957

Current Position : Head of Retail Banking for Asia, BNP Paribas

Education : Ph.D. in Far Eastern Studies, Universite Paris III (Inalco)

Main Work Experience :

2010-Current. Head of Retail Banking for Asia, BNP Paribas

2006-2009. Vice-President, Bank of Nanjing Head of Retail Banking for China, BNP Paribas

2002-2006. Head, BNP Paribas Group Investor Relations and Financial Information

Deputy Presidents

HYUNG JIN KIM

Date of Birth : August 7, 1958

Current Position : Deputy President, Shinhan Financial Group

Education : Executive Education, Wharton School

Advanced Management Program, Seoul National University

B.Sc. in Economics, Yeungnam University, Gyeongbuk, Korea

Main Work Experience :

2005. President, Shinhan Data Systems

2009. Deputy President, Shinhan Bank

2007. Managing Director, Shinhan Bank

Deputy Presidents (Continued)

JAE GWANG SOH

Date of Birth : August 15, 1961

Current Position : Deputy President, Shinhan Financial Group

Education : MBA, University of Rochester, New York, USA

B.A. in Business Administration, Korea University, Seoul, Korea

Main Work Experience :

2009. Deputy President, Shinhan Card

2007. Managing Director, Shinhan Card

2003. Controller, LG Card

JUNG KEE MIN

Date of Birth : March 13, 1959

Current Position : Deputy President & CFO, Shinhan Financial Group

Education : Graduate school of International Economics, Seoul

National University, Seoul, Korea

B.A. in College of Humanities, Seoul National University, Seoul, Korea

Main Work Experience :

2009. General Manager of GS Tower Corporate Finance Center, Shinhan Bank

2008. Head of Strategic Planning Team, Shinhan Financial Group

SIN GEE LEE

Date of Birth : July 12, 1956

Current Position : Deputy President, Shinhan Financial Group

Education : B.A. in Commerce and Trade, Yeungnam University, Gyeongbuk, Korea

Main Work Experience :

2011. Executive Vice President, Shinhan Bank

2009. Head of Daegu-Gyeongbuk Division

2005. General Manager of Tokyo Branch

YOUNG JIN LIM

Date of Birth : November 2, 1960

Current Position : Deputy President, Wealth Management Planning Office

Education : B.A. in Business Administration, Korea University, Seoul, Korea

Main Work Experience :

2013. Deputy President & Head of Management Support Group

2010. Head of Gyeonggi-Dongbu Division

2009. General Manager of Retail Business Development Department

DONG HWAN LEE

Date of Birth : September 18, 1959

Current Position : Deputy President, Corporate & Investment Banking Planning Office

Education : MBA, Duke University, Durham, USA

B.A. in Business Administration, Yonsei University, Seoul, Korea

Main Work Experience :

2012. Executive Vice President, Shinhan Financial Group

2009. Head of Capital Market Trading Division, Shinhan Bank

2007. General Manager of Yeouido Financial Center, Shinhan Bank

2005. Head of IR, Shinhan Financial Group

Executive Vice President

BO HYUK YIM

Date of Birth : March 11, 1961

Current Position : Executive Vice President, Shinhan Financial Group

Education : B.A. in Business Administration, Korea University, Seoul, Korea

Main Work Experience :

2011. Managing Director & Head of Risk Management Team, Shinhan Financial Group

2008. General Manager of Strategy Planning Department, Shinhan Bank

2006. General Manager of Hakdong Branch, Shinhan Bank

Since the establishment of the financial holding company in 2001, Shinhan Financial Group has strived to become Korea's leading financial group. With this goal in mind, we pursued balanced growth across financial sectors, created value from new growth drivers and our differentiated business model, and installed globally competitive systems and capabilities.

Shinhan Financial Group's Vision

01

Develop Foundation: ~2002

- Transform into Holding Company
- Align / Expand Business Lines
 - Acquired Jeju Bank
 - Acquired Good Morning Securities
 - Established Shinhan-BNPP ITMC

Make a Leap: 2003~2009

- Build up Bank's Scale
 - Acquired CHB
- Strengthen Non-banking Business
 - Acquired LG Card
 - Launched Shinhan BNPP Asset Management
 - Fully owned Shinhan Life Insurance

02

03

Develop Leadership: 2010~2015

- Secure "Local Best" Position under "New Normal" Environment

ACHIEVE VISION 2015

WORLD-CLASS FINANCIAL GROUP

04

Shinhan Financial Group enters 2014 with a strategic objective of "Different Thoughts, New Beginning." With this new objective, we will achieve our target of firmly establishing the nation's No. 1 financial brand by 2015.

Long Term Strategic Direction

The "new norm" of today's new environment post the global financial crisis can be summarized by the following; tightened regulations, an increased emphasis on stability, reduction in debt balance, and overall low-growth, low-profitability. In particular, protracted low-growth, low-profitability has created a fundamentally different operating environment that we must cope with. Furthermore, as demands for social responsibility on the financial sector have become louder, our proactive responses to such have become more important.

In responding to these impending changes while achieving our vision of becoming a "World Class Financial Group," Shinhan Financial Group has established its strategic objective to become a "firmly established nation's No. 1 financial brand" by 2015 and have prioritized customer value and good growth. This means that we will become Korea's distinguished No. 1 player in the domestic financial markets as a first step to come a world-class financial group. It also means that in this process we must equip ourselves with sustainable growth, stable profitability and the greatest capabilities.

In order to achieve our strategic objectives, we have set out the following four core strategies.

Core Strategy #1: Solidify "local best" positions across all of our core businesses

In order to build a differentiated brand that fits our leadership position, we will proactively lead the changes required under the changed business environment in the banking and credit card sectors. Also, we plan to solidify our "local best" position by providing unmatched customer experiences that cannot be replicated by our competitors. In order to do so, we must solidify No. 1 position in the banking business. For credit card, our goal is to further strengthen our competitive capabilities that set new rules of the game. Moreover, we will work to

find differentiated competitiveness to allow sustainable growth in the capital leasing business.

Core Strategy #2: Strengthen non-interest income portfolio

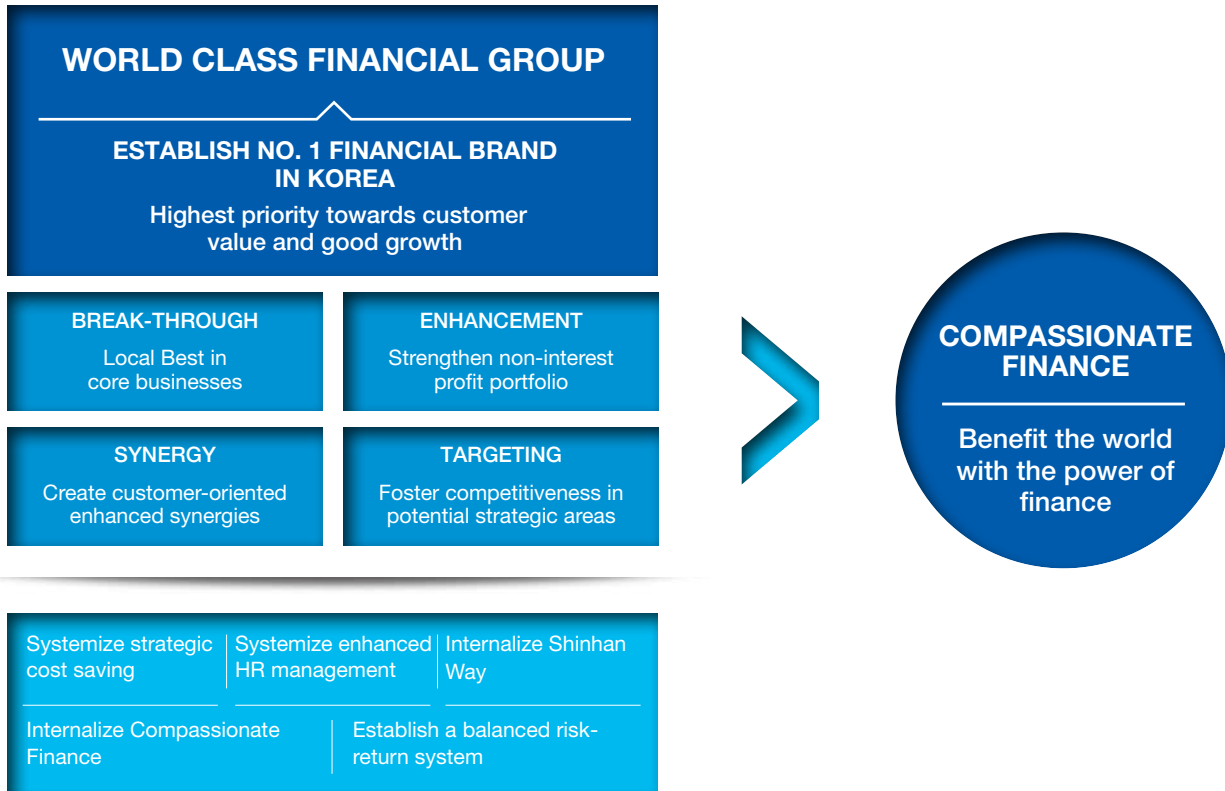
We plan to expand and strengthen our non-interest income portfolio by increasing competitiveness in non-interest income businesses such as asset management, insurance and securities businesses. For the securities business, it is important that we create a positive circle between distribution and product generation by strengthening asset management businesses. For the asset management business, we will build a leading asset management brand based on new product

design capabilities that continue to maximize customer value. For the insurance business, our aim is to pursue steady, organic growth while looking for opportunities to increase our size.

Core Strategy #3: Generate next-generation customer-focused synergies

When we first established the holding company, we had a goal to provide new and exciting values to our customers. We plan to revisit that initial goal and lead the market by realizing next-generation synergies that cater to our customer's individual lifestyles. As a first step, we will build successful cases that were realized through healthy coopera-

SFG Long-term Strategy



tion among Group entities. Doing so will enable us to establish and substantiate a clear joint marketing model and build a differentiated cooperation mechanism within the Group.

Core Strategy #4: Secure competitiveness in potential strategic growth areas

The Korean financial industry is maturing, showing low growth in its life-cycle. Against this limitation, our priority is to build sustainable competitiveness by identifying strategic growth areas at the Group level. We will continue pursuit of our global strategies around the Asian region. In addition, we will continue to develop new business opportunities such as the convergence of the retail and telecommunications sectors.

In order to effectively execute the four core strategies mentioned above, we will continue to build out our long-term growth drivers by reinforcing core competencies and infrastructure. Specifically, we plan to internalize and systemize strategic cost reduction, HR management, our "Shinhan Way," balanced risk-return management system and "Compassionate Finance."

2014 Group Business Plan

Strategic Objective: "Different Thoughts, New Beginning : Providing Creative Total Financial Services for our Customers"

Due to the changes in socioeconomic drivers such as low growth, aging population, and advancement in information communication technology, the existing business model for finance is gradually losing its validity. Faced with a different competitive environment, the Korean finance industry must solve a task on how to change its systems and practices that better fit with the changing paradigm. Now is a time that we must objectively reflect on our past efforts and work to drive concrete results with innovative challenges.

For 2014, SFG is taking a step forward towards systemically internalizing our core philosophy and value of 'Compassionate Finance' and build it as core Shinhan's culture. In this low growth, low interest rate environment, a fundamental role of finance—generating stable return

on customers' assets—is increasingly becoming more important. As such, we equally emphasize the doctrine of 'creative finance,' by increasing return from asset management and bringing innovative products and services.

Furthermore, we will focus on executing and driving concrete results from retirement markets, global businesses, channel innovation, and strategic cost savings.

Strategy #1: Compassionate Finance

Compassionate Finance will be a core part of Shinhan's unique culture and our customers will be able to experience Compassionate Finance when doing business with us. In order to do so, our systems and infrastructure need to be continually improved. Through a trust-based relationship with our customers built through Compassionate Finance, SFG will surely further solidify its differentiated competitiveness.

Strategy #2: Creative finance

The main objective of creative finance is to increase the returns on our customers' assets. The fundamentals of finance lie in jointly maximizing returns for our customers and for our company. As such, we would like to build our capabilities and use it as a differentiating factor for Shinhan. In order to generate above-industry average returns, it is crucial that we innovate our asset management methodologies.

Strategy #3: Retirement business

We aim to actively prepare ourselves for today's aging society by effectively positioning ourselves in the retirement business. We will aggressively invest in increasing our retirement service capabilities and thereby differentiate ourselves in the growing retirement market.

Strategy #4: Global business

Our goal is to continue pursuit of glocalization and expansion into new markets. As the Group's future growth driver, we will not only localize our global businesses but also seek market penetration into new markets with high growth potential.

Strategy #5: Channel management strategy

Channel management will be innovated through integration of direct and indirect channels. Faced with changes in system and advanced technology, we plan to set a new direction through revisiting our current organization, staffing, and CRM that are currently centered on direct channels.

Strategy #6: Strategic cost savings

Lastly, we would like to drive for tangible results on strategic cost savings. Simple, ad-hoc cost reductions cannot be fundamental answers to a structural change. As such, we seek to increase efficiency by introducing systematic changes in our business model, organization structure, and management system.

SFG's 2014 Strategic Goals and Key Strategies



Shinhan Financial Group pursues transparent and responsible corporate governance to offer more value to stakeholders and shareholders.

Shinhan Financial Group practices transparent and responsible corporate governance to maximize value to stakeholders and shareholders and to advance into a world-class financial group. Focus is being placed on streamlining the Group's ownership structure by making use of the most advantageous characteristics of a holding company and enhancing transparency of the Group's decision-making structure. Furthermore, in order to improve the Group's corporate governance structure and the independence and expertise of the members of the

Board of Directors, the Group adopted the 'Standard Terms and Conditions of Outside Directors' in February 2010, in compliance with the 'Code of Best Practice for Outside Directors of Financial Institutions' promulgated by the Korea Federation of Banks.

Composition of the BOD and sub-committees

Shinhan Financial Group places the highest priority on strengthening the independence and professionalism of the BOD. The independence of BOD was enhanced by separating the chairperson of the BOD and the representative director (CEO) and appointing the chairperson among outside directors since 2010. Moreover, to increase the professionalism of the BOD, ten outside directors were appointed in 2011 AGM Meeting compared to 2010 meeting when only eight were appointed. In addition, separate sessions by outside directors are being held to ensure the independence and authority of the outside directors in monitoring and supporting general business operations.

SFG's 2014 Strategic Goals and Key Strategies



Outside Director Recommendation Committee: As of Feb, Members of Outside Director Recommendation Committee will be appointed by our Board of Directors if and only to the extent necessary to recommend and nominate candidates for our outside director positions and related matters.

The sub-committees of the BOD enable individual directors to be fully incorporated into various BOD activities. Each committee is specifically designed to represent the interests of stakeholders, shareholders in particular, as well as to keep the business operations of executive management in check and provide constructive alternatives to practices and problems. To assist with their fiduciary duties as board members, a BOD secretariat providing transparent information on corporate management and explanation of BOD's agenda has been put in place.

Board Steering Committee

The committee is responsible for ensuring the efficient operations of the board and the facilitation of the board's functions. The committee's responsibilities also include reviewing and assessing the board's structure and the effectiveness of that structure in fulfilling the board's fiduciary responsibilities.

Risk Management Committee

The committee oversees and makes determinations on all issues relating to our comprehensive risk management function. In order to ensure our stable financial condition and to maximize our profits, the committee monitors our overall risk exposure and reviews our compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions, reviews riskbased capital allocations, and reviews the plans and evaluation of internal control.

Audit Committee

The committee oversees our financial reporting and approves the appointment of and interaction with our independent auditors and our internal audit-related officers. The committee also reviews our financial information, audit examinations, key financial statement issues and the administration of our financial affairs by the Board of Directors. In connection with the general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the Board of Directors for each general meeting of stockholders.

Compensation Committee

This committee is responsible for reviewing and approving the management's evaluation and compensation programs.

Outside Director Recommendation Committee

Members of this committee will be appointed by our Board of Directors if and only to the extent necessary to recommend and nominate candidates for our outside director positions and related matters. The committee meetings are called by the chairman of this committee, who must be an outside director.

Audit Committee Member Recommendation Committee

Members of this committee will be appointed by our Board of Directors if and only to the extent necessary to recommend and nominate candidates for our audit committee member positions and related matters. The committee should consist of all of the outside directors of the Group.

Corporate Governance & CEO Recommendation Committee

The committee is responsible for overall corporate governance matters of the Company. It will deliberate on matters related to corporate governance of the Company, such as the code of conduct and code of ethics, size of the Board of Directors and matters necessary for improvements to the Company's corporate governance structure. The committee is also responsible to develop, operate and review the Company's management succession plan, including setting CEO qualification criteria, evaluating CEO candidate pool and recommending CEO candidates. The Chair of this committee will be elected among the outside director members. The participation, and voting right, of the incumbent CEO will be limited if he or she is included in the CEO candidate pool.

In 2013, the Korean market witnessed large-scale corporate restructurings around conglomerates. In this difficult environment, SFG was able to maintain excellent asset soundness through preemptive and active risk management. With preemptive risk management, we will continue to realize differentiated growth in 2014.

SFG's Risk Management Philosophy

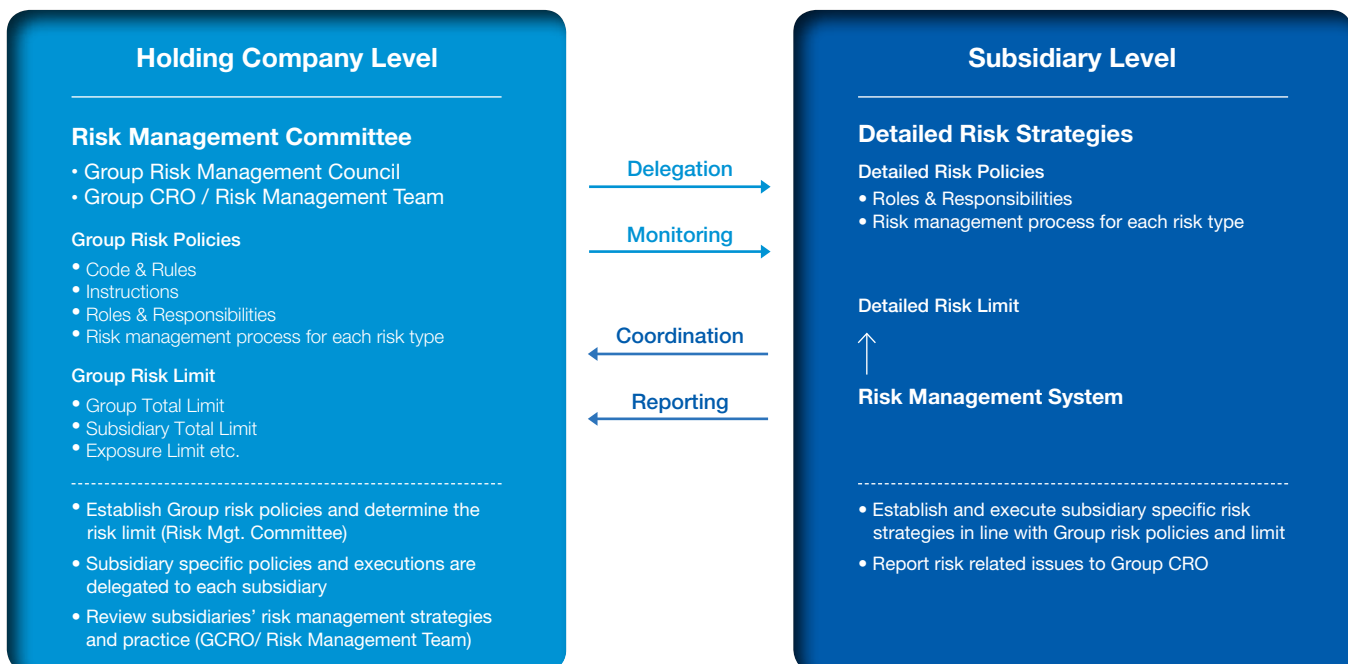
"In the interest of sustainable growth, all employees shall maintain a sense of responsibility for managing risks and shall pursue a balance between risk and return in their business practices." Shinhan Financial Group shares this proprietary risk philosophy within the group to ensure that this becomes the basic business philosophy for all of our

employees. Under this basic philosophy, we manage diverse risk that can occur in each of our business areas. We built a semi-matrix type risk management organization system between the holding company and Group subsidiaries. The system not only manages the risk at each subsidiary, but also plays a key role in comprehensive, Group-wide risk management. It acts as an efficient mediator among entities.

Despite large-scale restructurings around shipbuilding and construction industries such as STX and Ssangyong Construction in 2013, SFG was able to maintain better asset quality than our peers by carrying out preemptive and active credit risk management.

In 2014, we will continue to deploy active risk management by planning and executing active response plan against various risk factors such as a base rate increase following Fed's tapering and financial difficulties in emerging markets.

An overview of the group's risk management procedure



Differentiated Group Risk Management Tools

Adhering to the Group's risk philosophy and principles

SFG established a risk philosophy and seven risk management principles. We have incorporated risk management to all business activities so that risk management may be practiced at branch offices on a daily basis.

Comprehensive group-level risk monitoring system

SFG operates a comprehensive monitoring system encompassing macroeconomic indicators, key risk metrics of the group, as well as up-to-date risk status of the group. With this system, we regularly identify potential risks and key issues for the group in a timely manner. Once risk factors and core issues are identified, they are scanned through SFG's risk impact analysis before the implementation of pre-emptive countermeasures at the group level.

Group-Level Risk Expert Network (REN)

To upgrade our overall risk management competencies, we have selected and assembled a team of risk experts based on their work experience and working knowledge within each business area and risk type. Through risk training and workshops, SFG is spreading the group-wide risk philosophy, and at the same time developing risk management specialists.

Organizational Structure

SFG's risk management organization consists of the group Risk Management Committee, the group Risk Management Council, the group Chief Risk Officer (Group CRO), Group Risk Management Team, and relevant risk committees and risk teams at the subsidiary level.

Group Risk Management Committee

The Group Risk Management Committee is the highest decision-making body that is responsible for establishing the group's risk management policies and strategies. The constituents are the outside directors of SFG's board who are responsible for resolving the following items:

- Establishing fundamental risk management policies that are in line with management strategies
- Making decisions on appropriate risk levels for the holding company and each subsidiary
- Approving appropriate investment limits and maximum loss limit (VAR)
- Establishing and revising risk management policies and rules for the Group Risk Management Council

Group Risk Management Council

The Group Risk Management Council deliberates on risk policies and strategies to be implemented by the group and subsidiaries. It also approves action plans to carry out policies established by the group Risk Management Committee. The council is made up of the Group CRO and risk officers from major subsidiaries. The council's responsibilities include the following:

- Establishing risk appetite at the Group and subsidiary levels
- Establishing and revising risk limits for the Group and subsidiaries
- Operating the assessment system for the Group and subsidiaries
- Decision-making on matters that require coordination at Group-level risk management
- Decision-making on risk management issues relating to financial support for subsidiaries

Group Chief Risk Officer (Group CRO)

The Group CRO assists the Group Risk Management Committee in implementing risk policies and strategies delivered by the Committee. Group CRO also oversees consistent implementation across subsidiaries. Furthermore, the Group CRO oversees risk activities at the subsidiary level. These include evaluating risk officers and monitoring risk management practices.

The Group risk management team supports the Group CRO. The risk management committees and risk organizations at the subsidiaries implement group-wide risk policies and strategies and report regularly to the holding company. Furthermore, the group risk management team controls risk within subsidiaries and makes constant improvements to its risk management systems.

Group's Asset Soundness Ratios

	2013	2012	2011
Precautionary & below loans Ratio	2.43	2.89	2.46
NPL Ratio	1.26	1.34	1.25
Delinquency Ratio (Bank)	0.39	0.61	0.60
(Card)	1.80	2.35	2.01
NPL Coverage Ratio	163%	170%	166%

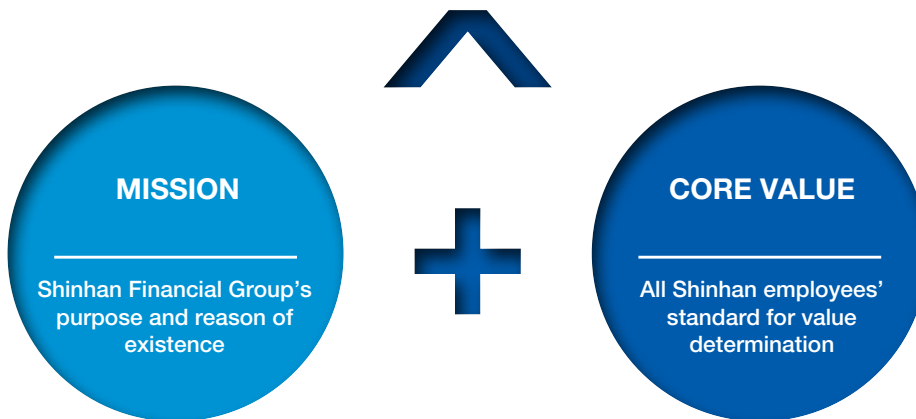
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“Compassionate Finance” is a heritage from Shinhan’s founding spirit. In 2014, we are renewing this concept via “Compassionate Finance 2.0: Compassionate Finance sharing the Future.” Shinhan’s core mission of “Helping the world through the basic function of finance”, along with “Creative finance” will help SFG to achieve differentiated growth and maturity.

Shinhan Way Values



“Shinhan Way” is the value system and guiding principle for all Shinhan employees’ thoughts and actions. It is what SFG strives to achieve. Shinhan way consists largely of mission and core values.



SFG has continuously worked to achieve its mission of contributing to our nation's development through finance and delivering new value to customers and society. Based on its founding spirit, SFG has established "Compassionate Finance" as the group's mission and has continuously put this into practice. In 2014, we seek to build on the trust of our customers and the society. As such, we have launched phase two; "Compassionate Finance 2.0: Compassionate Finance of the Future"

Major Accomplishments of Shinhan Way in 2013

In 2013, we constantly practiced Shinhan Way while strengthening the understanding and capabilities of 'Compassionate Finance.' In particular, we held regular Shinhan Way training sessions, developed online training contents, and shared case studies. Furthermore, we installed programs to promote communication and a sense of unity among different Group subsidiaries, departments, and employees. As a result, we were able to foster mutual respect within Group.

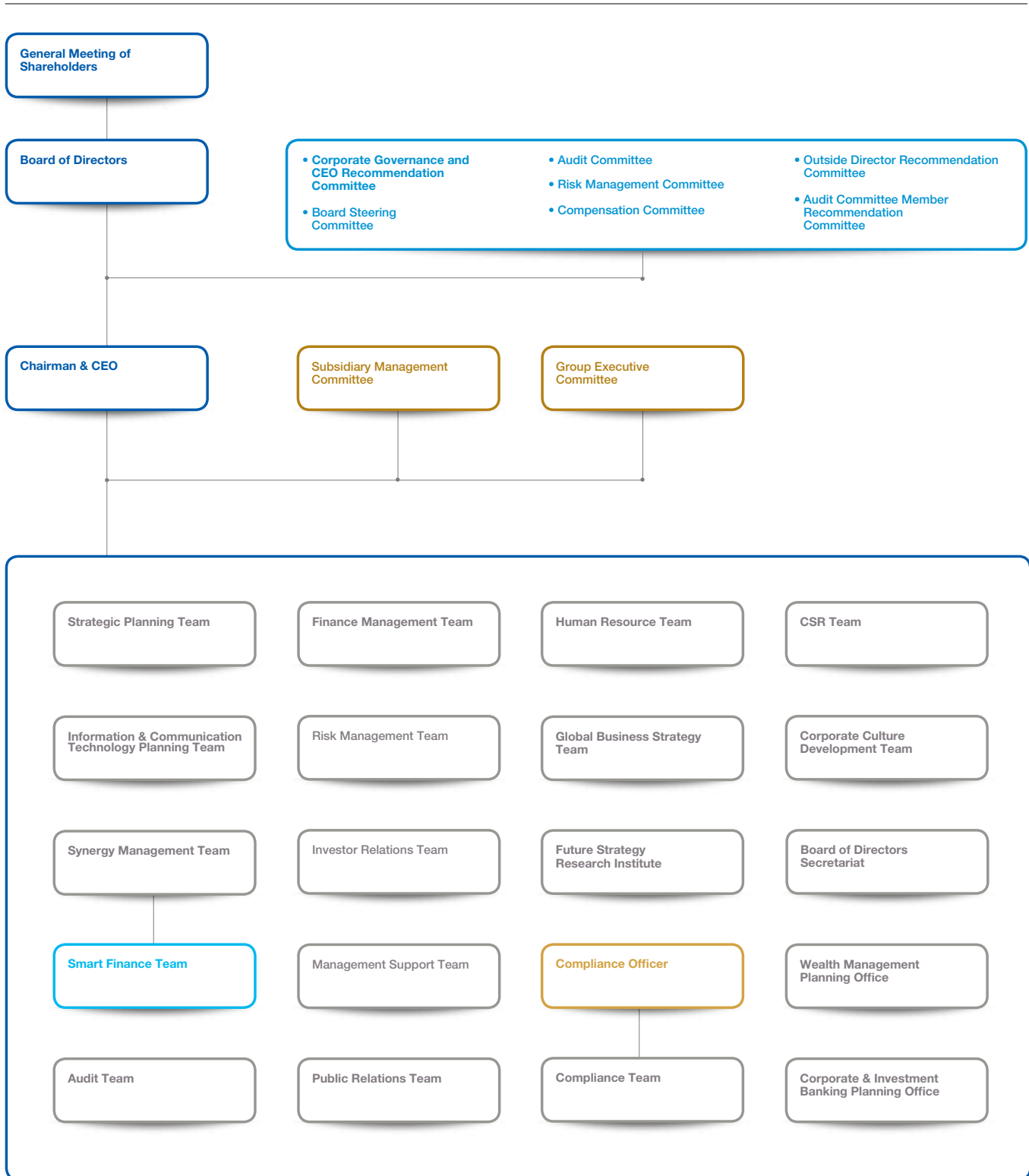
Encouraging Shinhan Way	<ul style="list-style-type: none"> • 2013 Shinhan Management Forum • 2013 Shinhan Way Joint Seminar • 2013 Shinhan Way Award • Encouragement programs at department level (year round)
Strengthening Capabilities for Compassionate Finance	<ul style="list-style-type: none"> • Creating contents on Compassionate Finance (Founding spirit and Shinhan culture DNA) • Identifying and spreading successful Compassionate Finance cases • Fostering environment to encourage active implementation
Fostering communication and mutual respect	<ul style="list-style-type: none"> • 'Mutual Respect' programs at PWM (Private Wealth Management) centers • Joint clubs, group mentoring programs • Increase communications through various channels including WAF and internal newspaper

2014 Shinhan Way Plan

For 2014, we plan to focus on internalizing Compassionate Finance so that our employees practice this concept naturally in their everyday work. To achieve this, we have three action plans: 1) leading change from top down, 2) encouraging members' participation, and 3) building infrastructure and systems.

Leading the change from top down	<ul style="list-style-type: none"> • Have top leaders sponsor implementation activities and run on-site coaching programs • Host 2014 Shinhan Management Forum • Host training sessions targeting department heads across all Group companies
Encouraging members' participation	<ul style="list-style-type: none"> • Host an implementation program at each department across all Group companies • Establish principles for Compassionate Finance implementation at each subsidiary • Establish and activate change organizations (Change Agents)
Building infrastructure and system	<ul style="list-style-type: none"> • Form a designated organization for management of Compassionate Finance • Develop a Compassionate Finance internalization index and conduct surveys • Improve evaluation and reward systems to reward outstanding employees / organizations

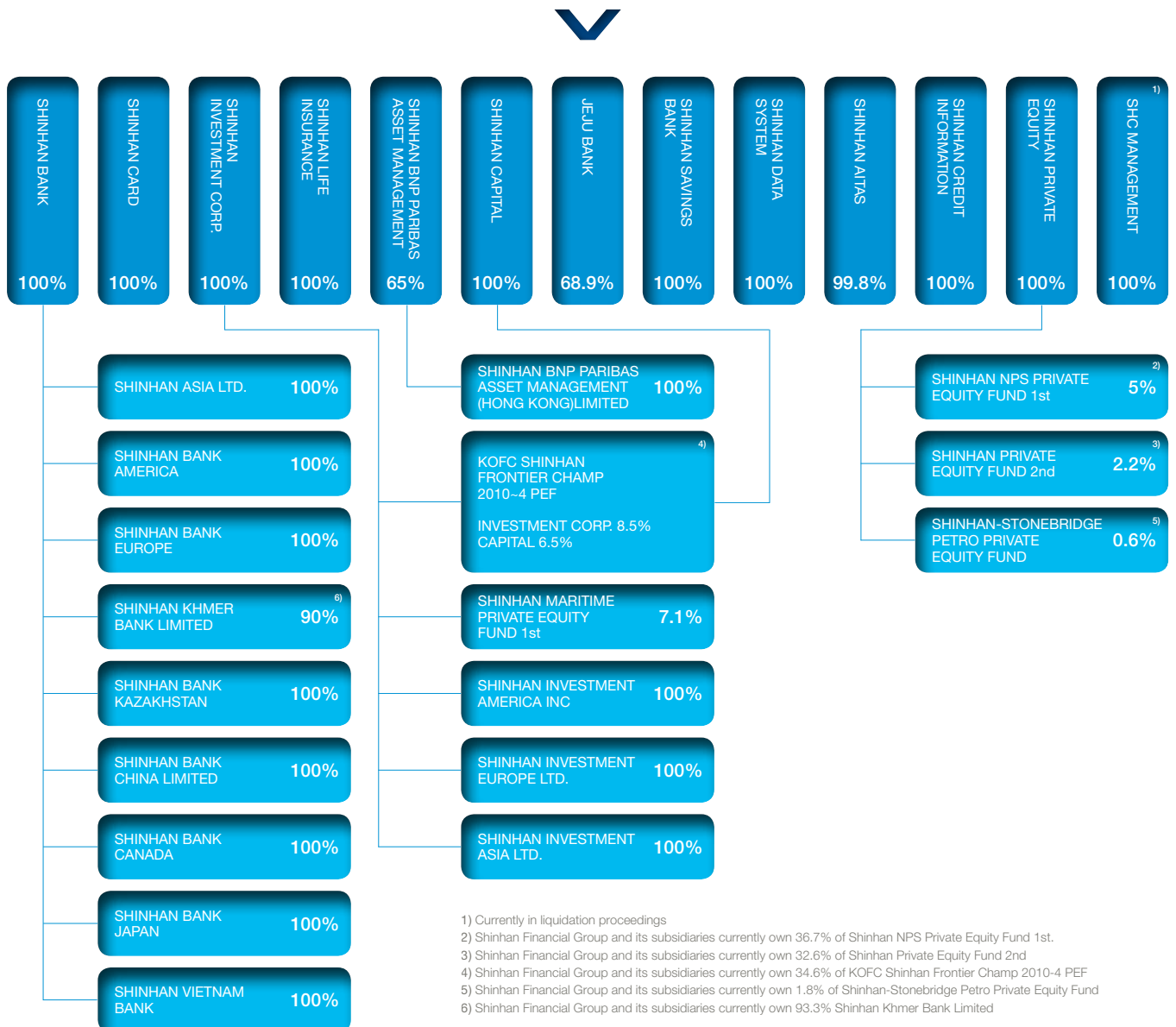
Organization



Business Portfolio

Through continuous organic growth combined with several rounds of noteworthy M&As, SFG has established a well-balanced business platform upon which an array of integrated financial products are provided for customer value maximization. This platform is a key to the differentiating competitiveness that enables higher profitability and sustainable growth.

SHINHAN FINANCIAL GROUP



and asset management. The group has created and
ans developing hybrid products and joint marketing programs,
Insurance, and Shinhan Investment while subsequently
ively pursued four core projects. Since 2009, we have
etween our credit card and banking businesses, we
vants and taxi drivers. For the first time in the banking
bn and these loans are expected to continue to
rown to 6 million, showing a 6.8% growth year-on-
nts" across other Group subsidiaries. In order
group's main customer loyalty program. Under
re included new premium services for the group's
d most important trend in the fast changing
up members built smart applications and
usiness We systemized the maintenance of
ormation security have attracted much attention
lizing customer information in a safe manner.
ompanies. In order to strengthen our
mbers. In addition, we are delivering stable
tual fund products. In order to create synergies
up companies' receivables, referral activities
nancing customer value through cross sales" as
nnel management." To achieve these goals, we
ough a successful launch of Tops Club. We plan
our VIP customers. To achieve this goal, we
ntinue to develop new business models. Our aim
i analyzing new markets such as the medical and
ompanies. We plan to conduct joint marketing hand-
vice'. Continue improving system and infrastructure
sidiaries and improve systems. We will revisit the
revamp information sharing processes among Group
a, will be further strengthened. In addition, we plan to
nch to increase communication at the front office and
nking consist of headquarters and 20 regional headquarters
up and Institutional Banking Group) and 12 divisions. Retail
urge of high-net-worth customers and institutional clients and the
ers. Particularly, we have completed the structuring of the
t steps in strengthening our capability in the retirement market,
structured our loan portfolio around high quality unsecured personal
portion of fixed-rate mortgage loans and reduced the proportion
nted business practices and focusing on increasing quality assets with
her solidifying our customer base and profit base for the bank. In terms of
n and Shinhan Healing program. In addition, despite fierce competition in the
e customers and future growth, and strengthening competitiveness (Efficiency
f-employed customers. In addition, we put forth great efforts to encourage our
vernment servants, and personal taxi drivers. For self-employed customers, we
attracted new customers with high net worth by providing high quality service
particular, to increase our sales activities by diversifying contact methods with our
marketing program for employees at our branches, to reinforce their marketing capabilities.
ncing channels for mid-income earners, drafting 'hope supporters' and increasing 'new hope'
uccessful 2013 results were possible through the following; a thorough analysis of the rapidly
the Retail Bank in 2014 is "Forward thinking, Quick execution, Retail 1!3!3!" "Forward thinking"
adarity and drive, despite difficult operating environments. Finally, "Retail 1!3!3!" refers to our goal
usiness environment against negative prospect relating to the Fed's tapering. In order to achieve greater
"Strong Execution! Build a strong retail base through innovative value operations." Under this objective, we
erating a productivity-oriented channel, employee, system (Channel Value). To achieve a profitability-oriented
customers, settlement accounts for merchant customers, and copper trading accounts for copper businesses. Our
urrency exchange, wire transfer and export/import settlement and focus on more profitable lines of foreign
delinquency that has a direct impact on profitability. Our goal is to expand our niche target markets from 5 to 10 and
on future growth areas such as
customers. First, we plan to
expertise of our employees
also be improved so
f i n a n c e .
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o f

nurtured greater synergy than its market competitors with approximately 1,447 sales
referring customers across platforms and engaging up-selling activities. These
developing stronger synergies. For 2013, SFG established "responding to paradigm shift
focused on cross selling as the core area for synergy marketing. In 2013, this strategy was
analyzed sophisticated alliance marketing practices and performed joint marketing between the
sector, we launched a truck loan product that is linked to truck installment financing. By targeting
grow. Shinhan Investment Corp and Shinhan Life Insurance have also pursued cross-selling marketing
year. In addition, we have continued to focus on new product developments such as formation savings
to support collaboration among Group subsidiaries, we formally established an internal revenue/cost
the revised Tops Club system, which is due to launch in 2014, our customers will be able to enjoy various
outstanding cross-platform customers so that they may consider it a privilege to transact with SFG
financial environment and that it will play an increasingly important role as a pull marketing channel
we led the mobile payment market by developing a new app card. In addition, we launched a new
databases that were previously conducted at each of the subsidiaries and increased utility and
we subsequently face stricter regulations on utilizing customers' personal information, we need
It is known that SFG has the best business portfolio among Korean financial holding
differentiated and competitive position, we have continued to conduct training and
results in traditional synergy areas through bank channels, such as soliciting new
with our savings bank, we built an IT infrastructure and launched bank-lined "hug
on delinquent loans that are held by our corporate clients are increasingly
its fundamental strategic direction. In 2014, we will additionally pursue "new
will take initiatives on the following four business strategies. We are
to implement a pull marketing strategy by constantly improving both
will establish a consultation board to manage the group's VIP
is to create new marketing opportunities by pursuing joint
transportation industries. In the growing debit card and
in-hand with joint product development and agree on
related to synergies. Building successful case
overall Group database collection and
companies. Strengthen synergy product
further support our savings bank, credit
cultivate a culture that will create
that oversee 784 sales branches.
Business Development Group
government, respectively.
headquarter organization
a future growth area.
loans to foster
of interest-only
guaranteed
asset quality,
marketplace, we
in Marketing). In
customers to
carried out initiatives
including expanding PWM
centers and providing matching support at retail bran
customers, we introduced an integrated mobile terminal called "S-KIT." By using this de
Also, our sales support system was refurbished to better support activities at the fro
loans. Our efforts were well received with attention and trust from our customers
changing business environment, our will to let go of traditional methods and pe
refers to moving forward and differentiating ourselves through a continuous
of "achieving 100% of the profit target, increasing retail loans of KRW 3 tr
profitability, improve asset quality, maximize productivity, increase cor
have established the three core tasks of 1) strengthening profitability
business, we need to expand our retail loan balance and improv
focus will be on increasing non-interest income by expanding e
exchange businesses. We will increase agency fee business
initiate targeted marketing towards new niche markets suc
We will also increase coverage on high-net-worth custo
employees at sales branches. We further plan to i
as CAP and MAP. Our customer management pol
indirect marketing will be strengthened. Lastly
continue to expand support for middle clas
backed by effort from our passionate em
services such as corporate deposits, lo
496 relationship managers (RMs), to
to become the #1 leading corpo
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product launched in J
desks to provide org
a basis to grow ou
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Review of Operations

Group-wide
customers and
marketing in markets in
mobile markets we will
collaboration methodologies
studies is crucial, in order to
utilization process and
sales and reinforce synergy
information business, and
voluntary synergies between
At headquarters, there are
is in charge of retail channels,
There were 10,192 employees
by establishing Future Plannin
Balanced growth, profitab
differentiated growth of qualit
mortgage loans. It was especi
appropriate margins. We ranke
we maintained our position as
maintained our No. 1 position in
2013, we concentrated on steady
utilize our bank as their primary ban
to expand usage of our account as their
providing matching support at retail bran
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trillion takes up 77.0% of our total corporate lending balance,
growing product, was an area that we actively concentrated our
balance grew to KRW 3,382.5 billion, up by KRW 733.3 billion from
is KRW 8,818.6 billion, the highest among Korean banks for four
order to provide customer oriented comprehensive network financial services,
financial centers starting with major branch offices and particularly in regions where
market share in corporate lending. Furthermore, we are running IB help desks and
programs between RMs and PMs in order to facilitate joint sales between Shinhan Bank
Investment Corp. In order to increase customer value, we have established a comprehensive
employees of our corporate clients. In addition, we are expanding the banking relationship to the employees
linking salary accounts and selling exclusive loan products for such employees. In 2013, Corporate Banking Group
a service program for the long-term preferred clients. The previous 212 companies became 455 by year-end. Corporate
in convincing such customers to use Shinhan as their main banking relationship. The group provided various services and
towards 207 companies. In order to strengthen our corporate finance sales capabilities, we continued to train prospective
and 31 Intensive RMs. Simultaneously, we reinforced 'Corporate Jump Consulting,' a consulting program for our branch
to new RMs and new financial centers 115 times, thereby increasing corporate finance and sales capabilities of our
corporate bank in Korea," Corporate Banking Group set 'Challenge! Top 2014, corporate finance expanding
strategic directions, we will continue to execute the following core action items. In order to expand solid
target customer coverage to include blue chip unaudited companies, in addition to the audited ones,
We will strengthen our customer value oriented marketing activities that focus on not only
become their main transaction bank. As with last year, our goal is to improve the

er value through cross sales" as its strategic direction. With this objective in mind, the group identified and actively pursued while we continued to seek new areas for synergy marketing. In order to foster cross-selling two companies. As a result, we developed new loan products for active military members, public these niche areas, we have been able to attract more than 13,000 new loans of KRW activities on new customers. Due to these efforts, the number of joint customers / card and expanded the application of Shinhan Card's "my Shinhan system. In addition, we are revamping Tops Club to reposition it as services that also include non-financial services. In particular, we companies SFG believes that smart channel is the strongest based on voluntary participation of customers. In 2013, internet-based subscription system for our life insurance marketing efficiency. As issues on personal to take a new approach in collecting and with advanced synergy activities among Group promotion activities to promote a sense of teamwork among Group credit card members and settlement accounts, as well as selling bancassurance and loans." In terms of Shinhan Credit Information, in addition to collection services for becoming more active. For 2013, SFG set "responding to paradigm shift and business development and strategic cost saving through increased efficiency in planning a marketing platform for cross-selling targeting our VIP customers CRM and customer management processes via indirect sales channels establish communication guidelines at the holding company level. which we have existing alliances such as the child-care market continue to lead the market by cooperating with other Group for developing new joint product/services such as 'Combo facilitate fair distribution of cost and performance among improve the accuracy of the database. Furthermore, we culture. Cross sales activities, a traditional synergy Jeju Bank. In particular, we will reorganize our Family HQ and sales offices. As of January 2014, our retail 3 groups (Retail Business Development Group, WM while WM Group and Institutional Banking Group are in including 8,410 full-time employees and 1,782 RS Center under WM Group. With this move, we took our and asset quality (Basic of Banking). For retail lending, we and increase overall profitability. In addition, we increased the in that we deployed a differentiated strategy of moving away from scale- and 1st among competing banks in terms of deposit growth rate from consistent sales on low-cost deposits, the No. 1 bank with overwhelming performance, which was achieved through proactive management of retail the retirement pension market for 4 consecutive years by consistently focusing our sales efforts. Focusing on ly increasing businesses with our three core target groups; high net worth customers, salaried employees and ik. For salaried employees, we expanded specialty customer groups to include tax officers, firefighters, military / merchant settlement account and improved quality around outstanding customers. For high-net-worth customers, ches. We worked to enhance the competitiveness of our channels, especially around customer-facing front offices. evice, we successfully increased new businesses and customers while saving costs. Moreover, we upgraded JUMP, a nt offices. Most importantly, we put "Compassionate Finance" into practice around regional headquarters by expanding and society. In addition, we were recognized by FSS as the 'best financial organization for public finance for 2013.' Our rsure new changes, and our employee's collaboration and teamwork, backed by a strong sense of ownership. The slogan pursuit of change and innovation. 'Quick execution' implies to our will to become a first mover through quick execution in illion, and increasing low-cost deposits by KRW 3 trillion." In 2014, there are mixed sentiments; a sense of optimism on the npliance, and practice Compassionate Finance in this uncertain business environment, we have set our strategic objective -oriented asset portfolio (Asset Value), 2) expanding creative business foundation for long term (Business Value), and 3) re margins. In addition, we will continue to expand low-cost deposits including main deposit accounts for retail cross-selling financial products. We will also expand from the traditional FX businesses such as foreign eses such as Yellow Umbrella Annuity. Lastly, we plan to proactively manage our asset quality and ch as medical businesses and government-owned subsidiaries. Also, we plan to initiate coverage omers. We hope to better meet the needs of our customers by upgrading our understanding of our ncrease our sales capability by strengthening our retail RMs and organization. In addition, the icy and system will be revamped so that they are more customer-oriented. Our Tops system will y, we will internalize a compassionate finance culture that focuses on the fundamental role of is and SME owners. With "Innovative Challenge, Differentiated Growth" as our goal for employees. Corporate Banking Group, which oversees financing services to SMEs, consists ans and FX transactions, it provides various accretive financial services such as electronic p-level specialists in corporate finance, are working diligently to offer optimized financial orporate finance bank, Corporate Banking Group's strategic objective was to 'establish ed our customers based on the status of the growth cycle of their businesses and the number of our corporate clients to 16,088, an increase of 2,129 (15.25%) provided support for high tech companies. As a result, Shinhan was the biggest une 2013, with a total lending of KRW 207.7 billion by year-end. In addition, to anic support through RMs in Korea and overseas. Through global support desks, ar customer base. In 2010, we launched 'Inside Bank,' a CMS (Cash Management the product as of the end of 2013, which is an increase of 3,557 from 28,358 xpand loan to investment-grade companies (with internal credit rating of BBB- or iding credits. As a result, the loan to investment grade companies of KRW 27.2 ntributing to our stable asset structure. Retirement pension, a long dated and g efforts on. As a result, Corporate Banking Group's retirement pension r. Shinhan Bank's total retirement pension balance utive years. In e expanding ave the lower n toring d Shinhan nsaction system our corporate xpanded coverage of nking Group played a ferred rates on KRW 838 ls by educating 40 new ces. During the year, we ch offices. In order to achieve ory' as the strategic objective for n base in the corporate finance market, ditional customer group. This will reinforce ng the number of corporate clients but also Shinhan's retirement pension business, thereby

2013 was the year that SFG put a great emphasis on delivering results in this difficult low-growth environment. Also, it was the year that we embarked on a journey to find a way to highlight our raison d'être. Shinhan Financial Group puts its customers above all else. We institute guiding principles of Compassionate Finance and put them in practice. We exceed our customers' needs in this fast-changing environment by implementing Creative Finance. We are confident that these are the new growth drivers for SFG.



SFG's synergy business is based on the Group's resources and capabilities, including our channels, IT/DB and shared networks. Through these resources and capabilities, we create differentiated and customer-oriented synergies such as comprehensive financial solutions, stapled products, co-marketing, cross-selling and channel sharing.

Shinhan Financial Group offers diverse products, services, and integrated financial solutions based on a highly efficient business portfolio that consists of a stable banking business, a credit card business with No. 1 market share, and other competitive businesses including securities, insurance and asset management. The group has created and nurtured greater synergy than its market competitors with approximately 1,447 sales channels and 29 million customers.

Number of Customers

29

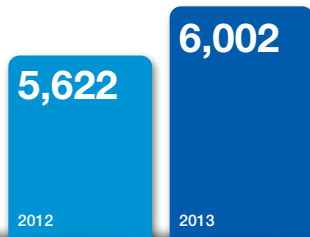
Persons in million

SFG serves 29 million, more than half of the population

Synergy-based sales not only means cross-selling various financial products through subsidiaries. It also means developing hybrid products and joint marketing programs, referring customers across platforms and engaging up-selling activities. These activities allow us to meet the financial needs of various customers through the sales channels of Shinhan Bank, Shinhan Card, Shinhan Life Insurance, and Shinhan Investment while subsequently developing stronger synergies.

Active Cross-Selling Customers

Unit: Persons in thousand

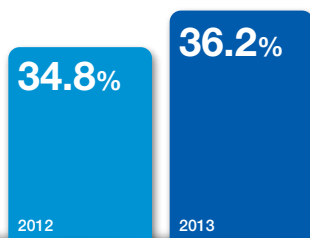


Review of 2013 Management Goals and Performance Results

For 2013, SFG established "responding to paradigm shift and enhancing customer value through cross sales" as its strategic direction. With this objective in mind, the group identified and actively pursued four core projects.

Proportion of Cross-selling Customers

Proportion of Cross-selling Customers :
Active Cross-Selling Customers / Effective Cross-Selling Customers (16.6 million as of Dec. 2013)



Cross-sales through expanding resource sharing across Group subsidiaries

Since 2009, we have focused on cross selling as the core area for synergy marketing. In 2013, this strategy was consistently pursued while we continued to seek new areas for synergy marketing. In order to foster cross-selling between our credit card and banking businesses, we analyzed sophisticated alliance marketing practices and performed joint marketing between the two companies.

As a result, we developed new loan products for active military members, public servants and taxi drivers. For the first time in the banking sector, we launched a truck loan product that is linked to truck installment financing. By targeting these niche areas, we have been able to attract more than 13,000 new loans of KRW 400bn and these loans are expected to continue to grow. Shinhan Investment Corp and Shinhan Life Insurance have also pursued cross-selling marketing activities on new customers. Due to these efforts, the number of joint customers has grown to 6 million, showing a 6.8% growth year-on-year. In addition,

tion, we have continued to focus on new product developments such as formation savings / card and expanded the application of Shinhan Card's "my Shinhan points" across other Group subsidiaries.

System-based sales support

In order to support collaboration among Group subsidiaries, we formally established an internal revenue/cost system. In addition, we are revamping Tops Club to reposition it as the group's main customer loyalty program. Under the revised Tops Club system, which is due to launch in 2014, our customers will be able to enjoy various services that also include non-financial services. In particular, we have included new premium services for the group's outstanding cross-platform customers so that they may consider it a privilege to transact with SFG companies.

Smart channel and marketing database upgrading

SFG believes that smart channel is the strongest and most important trend in the fast changing financial environment and that it will play an increasingly important role as a pull marketing channel based on voluntary participation of customers. In 2013, Group members built smart applications and we led the mobile payment market by developing a new app card. In addition, we launched a new internet-based subscription system for our life insurance business.

We systemized the maintenance of databases that were previously conducted at each of the subsidiaries and increased utility and marketing efficiency. As issues on personal information security have attracted much attention we subsequently face stricter regulations on utilizing customers' personal information, we need to take a new approach in collecting and utilizing customer information in a safe manner.

A fair, positive and voluntary synergy culture

It is known that SFG has the best business portfolio among Korean financial holding companies with advanced synergy activities among Group companies. In order to strengthen our differentiated and competitive position, we have continued to conduct training and promotion activities to promote a sense of teamwork among Group members.

In addition, we are delivering stable results in traditional synergy areas through bank channels, such as soliciting new credit card members and settlement accounts, as well as selling bancassurance and mutual fund products.

In order to create synergies with our savings bank, we built an IT infrastructure and launched bank-lined "hug loans." In terms of Shinhan Credit Information, in addition to collection services for Group companies' receivables, referral activities on delinquent loans that are held by

our corporate clients are increasingly becoming more active.

Business Plans for 2014

For 2013, SFG set "responding to paradigm shift and enhancing customer value through cross sales" as its fundamental strategic direction. In 2014, we will additionally pursue "new business development and strategic cost saving through increased efficiency in channel management." To achieve these goals, we will take initiatives on the following four business strategies.

Increase cross selling on Group's VIP customers

We are planning a marketing platform for cross-selling targeting our VIP customers through a successful launch of Tops Club. We plan to implement a pull marketing strategy by constantly improving both Group-wide CRM and customer management processes via indirect sales channels for our VIP customers. To achieve this goal, we will establish a consultation board to manage the group's VIP customers and establish communication guidelines at the holding company level.

Continue to develop new business models

Our aim is to create new marketing opportunities by pursuing joint marketing in markets in which we have existing alliances such as the child-care market and analyzing new markets such as the medical and transportation industries. In the growing debit card and mobile markets we will continue to lead the market by cooperating with other Group companies. We plan to conduct joint marketing hand-in-hand with joint product development and agree on collaboration methodologies for developing new joint product/services such as 'Combo Service'.

Continue improving system and infrastructure related to synergies

Building successful case studies is crucial, in order to facilitate fair distribution of cost and performance among subsidiaries and improve systems. We will revisit the overall Group database collection and utilization process and improve the accuracy of the database. Furthermore, we will revamp information sharing processes among Group companies.

Strengthen synergy product sales and reinforce synergy culture

Cross sales activities, a traditional synergy area, will be further strengthened. In addition, we plan to further support our savings bank, credit information business, and Jeju Bank. In particular, we will reorganize our Family Branch to increase communication at the front office and cultivate a culture that will create voluntary synergies between HQ and sales offices.

In 2013, Compassionate Finance was thoroughly practiced in retail banking. As a result, we are proud to be selected as the 'Best financial institution for general public in 2013' by Financial Supervisory Service. We believe this is a clear indicator of Shinhan's true capabilities. In 2014, customer value will again be the top priority of our retail banking business.

2013 Best Financial Institution for General Public by FSS

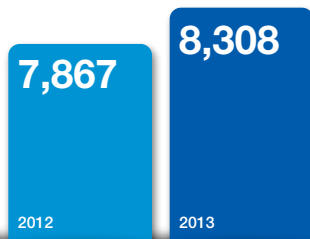
1st

SFG provided the most support among domestic financial institutions with 'New Hope Seed Loan' to the underprivileged customers. In addition, we have expanded our coverage by opening dedicated channels for low income customers.

Active Customers

Unit: Persons in thousand

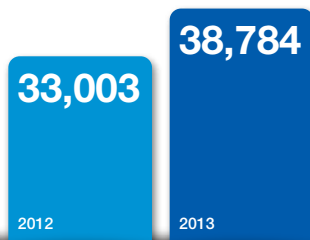
Active customers are defined as those with a monthly average deposit balance of at least KRW 300,000, or who have outstanding credit of any amount



Low Cost Deposits (Retail)

Unit: KRW in billions

Average balance



As of January 2014, our retail banking consist of head-quarters and 20 regional headquarters that oversee 784 sales branches. At headquarters, there are 3 groups (Retail Business Development Group, WM Group and Institutional Banking Group) and 12 divisions. Retail Business Development Group is in charge of retail channels, while WM Group and Institutional Banking Group are in charge of high-net-worth customers and institutional clients and the government, respectively. There were 10,192 employees including 8,410 full-time employees and 1,782 RS tellers. Particularly, we have completed the structuring of the headquarter organization by establishing Future Planning Center under WM Group. With this move, we took our first steps in strengthening our capability in the retirement market, a future growth area.

Review of 2013 Management Goals and Performance Results

Balanced growth, profitability and asset quality (Basic of Banking)

For retail lending, we restructured our loan portfolio around high quality unsecured personal loans to foster differentiated growth of quality assets and increase overall profitability. In addition, we increased the proportion of fixed-rate mortgage loans and reduced the proportion of interest-only mortgage loans. It was especially meaningful in that we deployed a differentiated strategy of moving away from scale-oriented business practices and focusing on increasing quality assets with guaranteed appropriate margins.

We ranked 1st among competing banks in terms of deposit growth rate from consistent sales on low-cost deposits, further solidifying our customer base and profit base for the bank. In terms of asset quality, we maintained our position as the No. 1 bank with overwhelming performance, which was achieved through proactive management of retail loan and Shinhan Healing program. In addition, despite fierce competition in the marketplace, we maintained our No. 1 position in the retirement pension market for 4 consecutive years by consistently focusing our sales efforts.

Focusing on core customers and future growth, and strengthening competitiveness (Efficiency in Marketing)

In 2013, we concentrated on steadily increasing businesses with our three core target groups; high net worth customers, salaried employees and self-employed customers. In addition, we put forth great efforts to encourage our customers to utilize our bank as their primary bank. For salaried employees, we expanded specialty customer groups to include tax officers, firefighters, military / government servants, and personal taxi drivers. For self-employed customers, we

carried out initiatives to expand usage of our account as their merchant settlement account and improved quality around outstanding customers. For high-net-worth customers, we attracted new customers with high net worth by providing high quality service including expanding PWM centers and providing matching support at retail branches.

Strengthening capabilities of our channels and employees (Trust of Customers)

We worked to enhance the competitiveness of our channels, especially around customer-facing front offices. In particular, to increase our sales activities by diversifying contact methods with our customers, we introduced an integrated mobile terminal called "S-KIT." By using this device, we successfully increased new businesses and customers while saving costs.

Moreover, we upgraded JUMP, a marketing program for employees at our branches, to reinforce their marketing capabilities. Also, our sales support system was refurbished to better support activities at the front offices. Most importantly, we put "Compassionate Finance" into practice around regional headquarters by expanding financing channels for mid-income earners, drafting 'hope supporters' and increasing 'new hope' loans. Our efforts were well received with attention and trust from our customers and society. In addition, we were recognized by FSS as the 'best financial organization for public finance for 2013.'

Our successful 2013 results were possible through the following; a thorough analysis of the rapidly changing business environment, our will to let go of traditional methods and pursue new changes, and our employee's collaboration and teamwork, backed by a strong sense of ownership.

Business Plans for 2014

The slogan for the Retail Bank in 2014 is "Forward thinking, Quick execution, Retail 1!3!3!" 'Forward thinking' refers to moving forward and differentiating ourselves through a continuous pursuit of change and innovation. 'Quick execution' implies to our will to become a first mover through quick execution in solidarity and drive, despite difficult operating environments. Finally, "Retail 1!3!3!" refers to our goal of "achieving 100% of the profit target, increasing retail loans of KRW 3 trillion, and increasing low-cost deposits by KRW 3 trillion."

In 2014, there are mixed sentiments; a sense of optimism on the business environment against negative prospect relating to the Fed's tapering. In order to achieve greater profitability, improve asset quality, maximize productivity, increase compliance, and practice Compassionate Finance in this uncertain business environment, we have set our strategic objective as "Strong Execution! Build a strong retail base through innovative value operations." Under this objective, we have es-

tablished the three core tasks of 1) strengthening profitability-oriented asset portfolio (Asset Value), 2) expanding creative business foundation for long term (Business Value), and 3) operating a productivity-oriented channel, employee, system (Channel Value).

First, strengthen a profitability-oriented asset portfolio (Asset Value)

To achieve a profitability-oriented business, we need to expand our retail loan balance and improve margins. In addition, we will continue to expand low-cost deposits including main deposit accounts for retail customers, settlement accounts for merchant customers, and copper trading accounts for copper businesses. Our focus will be on increasing non-interest income by expanding cross-selling financial products. We will also expand from the traditional FX businesses such as foreign currency exchange, wire transfer and export/import settlement and focus on more profitable lines of foreign exchange businesses. We will increase agency fee businesses such as Yellow Umbrella Annuity. Lastly, we plan to proactively manage our asset quality and delinquency that has a direct impact on profitability.

Second, expand creative business foundation for the longer term (Business Value)

Our goal is to expand our niche target markets from 5 to 10 and initiate targeted marketing towards new niche markets such as medical businesses and government-owned subsidiaries. Also, we plan to initiate coverage on future growth areas such as employees of unaudited companies and self-employed persons. We will also increase coverage on high-net-worth customers. We hope to better meet the needs of our customers by upgrading our understanding of our customers.

Third, operate a productivity-oriented channel/employee/system (Channel Value)

First, we plan to increase our channel productivity by optimizing the number of employees at sales branches. We further plan to increase our sales capability by strengthening our retail RMs and organization. In addition, the expertise of our employees will be upgraded through training programs on new employees such as CAP and MAP. Our customer management policy and system will be revamped so that they are more customer-oriented. Our Tops system will also be improved so that it is more customer-friendly. Joint marketing between direct and indirect marketing will be strengthened. Lastly, we will internalize a compassionate finance culture that focuses on the fundamental role of finance. Compassionate finance will be practiced at the regional HQ level and continue to expand support for middle class and SME owners.

With "Innovative Challenge, Differentiated Growth" as our goal for 2014, we are confident that we can build on the past legacies and produce stellar results, backed by effort from our passionate employees.

In 2013, we again became the No. 1 provider of corporate retirement pension service among banks for four consecutive years. In addition, we provided 'Corporate Jump Consulting' to our corporate banking clients 115 times throughout the year. Furthermore, we provided the most financial support for SMEs among commercial banks, thereby offering differentiated solutions for our corporate clients.

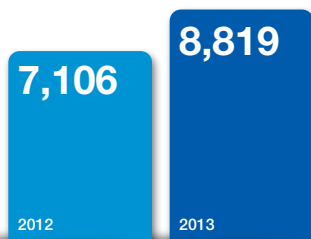
Retirement Pension Accounts of Shinhan Bank

1st

Ranked first in the retirement pension market for four consecutive years. (in terms of asset under management)

Asset under Management

Unit: KRW in billions



Corporate Banking Group, which oversees financing services to SMEs, consists of 5 headquarter departments and 185 sales branches. In addition to traditional services such as corporate deposits, loans and FX transactions, it provides various accretive financial services such as electronic settlements, cash management, and corporate Internet banking. Furthermore, our 496 relationship managers (RMs), top-level specialists in corporate finance, are working diligently to offer optimized financial solutions to meet the changing needs of our corporate customers.

Review of 2013 Management Goals and Performance Results

In 2013, with the goal to become the #1 leading corporate finance bank, Corporate Banking Group's strategic objective was to 'establish corporate finance standards through co-prosperity and innovation'.

Expand growth platform

As a means to expand customer base, we segmented our customers based on the status of the growth cycle of their businesses (entrepreneurial, growth-stage, globalized) and strengthened customized marketing activities. As a result, we were able to expand the number of our corporate clients to 16,088, an increase of 2,129 (15.25%) from the previous year. In order to expand into niche markets and provide technological finance support, we proactively provided support for high tech companies. As a result, Shinhan was the biggest lender among Korean banks of 'Technology Entrepreneur Support Loan,' a new government sponsored product launched in June 2013, with a total lending of KRW 207.7 billion by year-end.

In addition, to support the growth of export companies or globally expanding companies, we established global support desks to provide organic support through RMs in Korea and overseas. Through global support desks, we provide various initial support services such as legal and tax, real estate and local financing, which serve as a basis to grow our customer base.

In 2010, we launched 'Inside Bank,' a CMS (Cash Management Service) product to promote long-term banking relationships. The program has been a great success; 31,915 companies used the product as of the end of 2013, which is an increase of 3,557 from 28,358 companies the previous year. Despite the difficult external economic environment and increased competition, we were able to expand loan to investment-grade companies (with internal credit rating of BBB- or above) by KRW 1 trillion from last year by introducing new catered

products and actively providing credits. As a result, the loan to investment grade companies of KRW 27.2 trillion takes up 77.0% of our total corporate lending balance, thereby contributing to our stable asset structure. Retirement pension, a long dated and growing product, was an area that we actively concentrated our marketing efforts on. As a result, Corporate Banking Group's retirement pension balance grew to KRW 3,382.5 billion, up by KRW 733.3 billion from last year. Shinhan Bank's total retirement pension balance is KRW 8,818.6 billion, the highest among Korean banks for four consecutive years.

Establish a profit structure centered on customer value

In order to provide customer oriented comprehensive network financial services, we are expanding financial centers starting with major branch offices and particularly in regions where we have the lower market share in corporate lending. Furthermore, we are running IB help desks and mentoring programs between RMs and PMs in order to facilitate joint sales between Shinhan Bank and Shinhan Investment Corp.

In order to increase customer value, we have established a comprehensive transaction system for the employees of our corporate clients. In addition, we are expanding the banking relationship to the employees of our corporate clients by linking salary accounts and selling exclusive loan products for such employees.

Strongly support front office sales

In 2013, Corporate Banking Group expanded coverage of 'Premier Club,' a service program for the long-term preferred clients. The previous 212 companies became 455 by year-end. Corporate Banking Group played a significant role in convincing such customers to use Shinhan as their main banking relationship. The group provided various services and preferred rates on KRW 838 billion of new loans towards 207 companies. In order to strengthen our corporate finance sales capabilities, we continued to train prospective RMs by educating 40 new RM college graduates and 31 Intensive RMs. Simultaneously, we reinforced 'Corporate Jump Consulting,' a consulting program for our branch offices. During the year, we conducted consulting services to new RMs and new financial centers 115 times, thereby increasing corporate finance and sales capabilities of our branch offices.

Business Plans for 2014

In order to achieve our goal of becoming a "leading corporate bank in Korea," Corporate Banking Group set 'Challenge! Top 2014, corporate finance expanding territory' as the strategic objective for 2014. Building on to last year's 3 strategic directions, we will continue to execute the following core action items.

'Strengthen core of corporate sales' (Tighten core business)

In order to expand solid growth base in the corporate finance market, Corporate Banking Group plans to expand its target customer coverage to include blue chip unaudited companies, in addition to the audited ones, our traditional customer group. This will reinforce our profit base and improve our asset portfolio.

We will strengthen our customer value oriented marketing activities that focus on not only expanding the number of corporate clients but also improving the quality of the relationship so that we may become their main transaction bank. As with last year, our goal is to improve the drivers for Shinhan's retirement pension business, thereby transforming our scale advantage to quality improvement. As for our FX business, we will strive to differentiate our sales activities by expanding export/import branches and providing new export/import products in time with changing market conditions. To proactively manage asset quality, we plan on conducting periodic loan reviews and visiting customers with potential delinquencies. These activities will allow us to identify signs of delinquency early on and respond proactively, thereby preventing short-term delinquencies from becoming longer-term delinquencies.

Improve efficiency-based sales methods

Our plan is to improve our existing RM management model and establish efficient RM sales model that caters to our customers and market condition. We will revamp our corporate internet banking system to allow us to utilize indirect channel. Further, we plan to expand contact points with our clients by facilitating corporate client introductions to our retail branch. In addition, by upgrading our corporate sales system, we aim to build an efficient marketing platform and constantly expand into new and niche markets using big data analysis.

Secure growth momentum for the future (Pioneer new markets)

In order to secure future growth drivers, we need to upgrade our global support desk. With the goal to enhance substantive support for export companies and companies expanding overseas, we plan to increase support infrastructure and expand coverage countries. We will further solidify our position as the leading technology finance bank by incorporating technology assessment into our lending process, developing exclusive products and increasing our technology financing capabilities. In practicing "Compassionate Finance," we solidified our brand image by becoming the #1 corporate bank for SMEs and giving financial support of KRW 1,667.1 billion in 2013. This year, we will again put forth our efforts to gain a competitive edge in customer sentiment by spreading our Compassionate Finance success stories.

2013 was the year that we aimed to achieve “Big to Great.” Responding to changes in business environment, we planned a new future-oriented organization structure. This change has led to innovative developments in products and services, which further solidified our strong leadership position in the credit card industry.

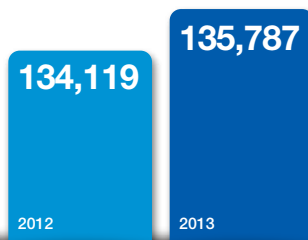
Market Share

22.3%

No. 1 Market Share, strengthened our competitive advantage in terms of customer base and furthered our domestic market leadership (market share based on retail credit purchase volume)

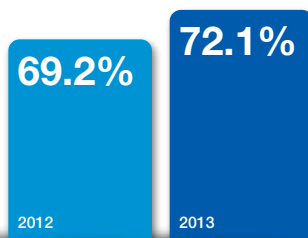
Transaction Volume

Unit: KRW in billions



Utilization Ratio

Effective Customer /
Active Customer



Shinhan Card remains an unwavering leader of the credit card industry despite the turbulent market environment. At the same time, Shinhan Card leads in investments across various areas, which will allow it to spearhead the future of the credit card industry.

Review of 2013 Management Goals and Performance Results

For 2013, Shinhan Card's goal was to preemptively respond to rapidly changing market conditions followed by the tightened regulatory environment, while re-establishing a solid growth platform at an early stage. As such, our business objective for the year was 'new environment, preemptive response, re-establish solid growth platform.'

In order to minimize regulatory impacts on size and profitability, Shinhan Card put forth comprehensive efforts to innovate business methods and improve cost structure. Consequently, the firm leveraged its economies of scale to achieve the highest growth in retail transaction volume (KRW 4.4 trillion). In addition, Shinhan Card also sustained its unrivaled profitability by achieving net income of KRW 658.1 billion (ROA 3.0%) despite the implementation of various regulations.

We also established an internal structure for future growth. Furthermore, we launched and stabilized a new business incorporating new technology and marketing methods.

Our strategic objective was 'Big to Great,' stressing our intent to evolve from the largest company in the industry to a company that is highly respected both by customers and the overall market. To this end, we are actively pursuing various projects. In addition, we built a forward-looking organization structure and revamped management processes. Further, we created a 'Big Data' center to analyze our largest database in the industry and provide new value to our customers.

We also achieved great performance in terms of future-orientation of the credit card industry. Based on our competitive and unique operations of a next-generation IT system, we launched 'Cube,' a new product that enables customers to choose benefits. Also, we developed 'Combo' services that allow customers to add benefits of their choice to their existing credit cards. Consequently, we changed the paradigm in the credit card service industry from a card plate-based platform to a service based platform. In addition, we launched App-type mobile cards for the first time in the industry, which allowed us to further strengthen our leadership position in the mobile payment market.

Based on these achievements, we received wide recognition as industry leader in 2013. We won the Nation Quality Innovation Award in the 2013 Nation Quality Competition and received Presidential recognition. In addition, we received the most recognitions and rewards in the industry.

Business Plans for 2014

In 2014, it seems inevitable that we will see negative impacts from low growth prevalent in the industry. Furthermore, such negative impacts may further aggravate as regulations on financial product pricing get implemented. Moreover, we anticipate a shift in paradigm across the credit card industry; a rapid rise in debit card use and growing awareness on information security.

Given the changes in market situations and regulations, we believe it is time that we increase strategic investment to the business. This will allow us to defend our leadership position while enabling us to realize new growth in the stagnated market. Our strategic objective for 2014 is 'Big to Great.' It stresses our intent to evolve from the largest company to a highly respected company through new perspective and innovative challenges. To meet this objective, we have established 6 strategic agendas; innovate our marketing system, strengthen core capabilities, diversify our business model, strategically reduce costs, internalize Compassionate Finance, and restructure the overall organization.

To further solidify our commanding position in the market as the industry leader, we will innovate our marketing system and lead the market by proposing a new sales paradigm. We plan to further differentiate ourselves by reinforcing our core capabilities by leveraging big data, bargaining power, and industry leadership. In addition, it is important that we diversify our business model by revisiting existing business lines and actively launching new businesses. Moreover, we will establish a low-cost platform by fundamentally improving our business structure. And finally, from this, we will strategically reduce our costs.

Internalizing Compassionate Finance, a group-wide initiative to gain trust and respect from the market, will help us strengthen our execution capability. We will stabilize our revamped future-oriented organization structure so that we can promote creativity in the organization.

Furthermore, we will effectively respond to changes in the sales environment following the personal information leakage incident in early

2014. To prevent such incidents in the future, customer information protection will be our utmost priority. We will strengthen our information management structure and lead the industry-wide efforts to regain trust as the industry leader.

2013 Key Figures

	KRW in billions, thousands, %		
	2013	2012	2011
Transaction amount (retail + debit card)	93,794.4	89,412.1	86,849.4
Active credit card members	13,385	15,070	15,424
Active debit card members	12,497	11,361	10,417
Utilization ratio	72.1	69.2	68.8
Market share	22.3	22.4	23.8



• Korea Customer Satisfaction Management Awards (Korea Management Association, 5 consecutive years)



• Korea Service Grand Prix (Korean Standards Association, 4 consecutive years)

The CIB Group of Shinhan Bank and the IB Group of Shinhan Investment Corp. began their co-location and successfully launched the CIB Group in 2012. The goal was to overcome limits of their respective business models and to provide integrated financial solutions for corporate customers. In 2013, we witnessed unlimited synergy potential through the CIB system. We will go beyond our current synergies created between Shinhan Bank and Shinhan Investment Corp, and will creatively take on the role of the 'IB Solution Provider' within SFG.

Shinhan's CIB unit was successfully launched in January 2012 by co-locating Shinhan Bank's CIB Group and Shinhan Investment Corp's IB Group. This was designed to overcome limits of the existing silo business structure and provide comprehensive financial solutions by combining capabilities of both firms.

Review of 2013 Management Goals and Performance Results

2012 marked the beginning of the CIB Group that set the systematic foundation for the soft-landing of new business models such as Duo-RM. By implementing different initiatives and accumulating collective capabilities based on the foundation set in 2012, we brought meaningful improvements in the quality of synergies in 2013. For example, we can see a positive trend in collaboration index. Not only was there a significant increase in the number of collaboration deals (1.6 times) and estimated profits from those deals (4.3 times), but there also was a meaningful shift in the type and quality of synergy that was created from the CIB system. In particular, it was very encouraging to see that the proportion of simple corporate bond issuance deals declined, which had been the majority of collaborated deals in the past, while other complex deals like securitization increasingly becoming more prevalent.

These figures prove that the collaboration model of CIB is indeed a success. Moreover, we need to take note of the changes in our synergy capabilities behind those indices.

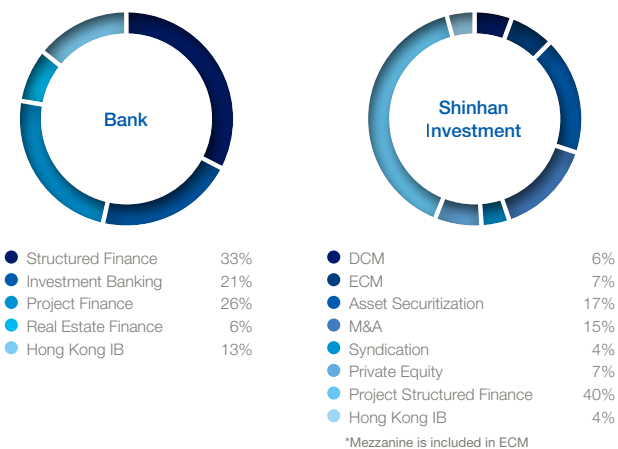
Admittedly, in the beginning, collaborations were initiated by external pressures to form a collaboration board. However, there have been marked improvements in the level and quality of the collaborations. For example, task forces are proactively formed by relevant divisions between the two groups around various issues without any guidance from the control tower. By constantly upgrading the core collaboration model of Shinhan CIB, it is our strong intent to create synergies that exceed existing products and markets.

Rather than limiting synergies between just Shinhan Bank and Shinhan Investment Corp, Shinhan CIB is actively evolving into the role as the IB solution provider within SFG. The following are a few examples of collaborations beyond CIB:

Results of Collaborative Business Trades in 2012 and 2013



Profit Contribution by Business Line



Synergies beyond CIB Group

Type	Highlights	Examples
Collaborations with Retail	Product structuring (based on blue chip high profitability/stability IB assets) is tailored to meet needs of retail investors	<ul style="list-style-type: none">• Structuring of a BTL asset (dormitory of a national university) and distribution through WM channel• Structuring of KP/Dimsum-Repo Bond issued in Hong Kong and distribution through WM Channel• Formation of citizen fund for Seoul Metro line 9
Collaboration with SME	Providing IB solutions such as equity-linked products to SME market, which is dominated by loan products	<ul style="list-style-type: none">• Training and sales support for SME channel employees• Equity-linked product distribution, follow-on equity raising, KONEX listing support
Collaboration with other Group companies	Collaboration with other Group companies, such as Shinhan Card etc., on blue chip IB deals	<ul style="list-style-type: none">• Securitization of mobile phone installment receivables• Trade payable rebalancing for corporate clients

Business Plans for 2014

The key word for 2014 is 'creative asset management.' It is an implication of our intent to improve both investment return and growth profile by increasing investing activities on IB alternative assets. It is also a reflection of our intent to strategically respond to the hyper competitive environment by overcoming limitation of traditional asset management.

This also links to the spirit of Compassionate Finance, focusing on the basic function of finance and providing value to the world by increasing customer assets.

Specifically, we plan to strategically segment markets into developed markets that require further market expansion and markets that require initial growth and penetration. As such, we will be able to provide optimal solutions that meet customer needs by each target market.

In addition, we acknowledge that the success of 'Next CIB' is largely dependent on establishing a comprehensive collaboration system by expanding Shinhan CIB. As such, we plan to continue our focus on expanding pan-CIB networks across Group members and market participants. In this era of uncertainties, we promise that we will continue to evolve by proactively responding to changes in market conditions.

Shinhan Private Wealth Management(PWM) provides the Group's 'house views' through its IPS (Investment Products & Services) department that are highly trusted by our customers. It also establishes product strategies to structure and distribute new products in a timely fashion. Furthermore, it provides customer-oriented asset management services by providing a differentiated product guide on issued products so as to prevent any potential loss for the customers.

The Group WM division, launched in 2012 to lead a new WM business model in Korea's asset management market, made a significant stride during 2013. Namely, it made marked results in AUM and customer growth, while receiving positive recognitions both internally and externally. By co-locating Shinhan Bank's PB and Shinhan Investment Corp's PWM within the same branch, we provide a one-stop shop for products and services across banking and securities. In 2013, we opened 6 new PWM centers, thereby increasing the number of PWM channels to 19.

Private Banking brand

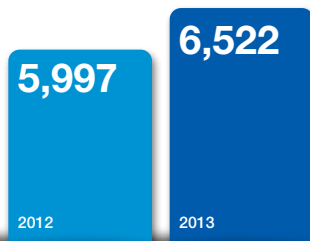
1st

Ranked 1st in the PB category of the Korea Standard – Premium Brand Index (six years in a row, jointly organized by the Korea Standards Association, Choseon Ilbo, and Seoul National University)

Customers with more than KRW 1 billion in assets

Shinhan Bank

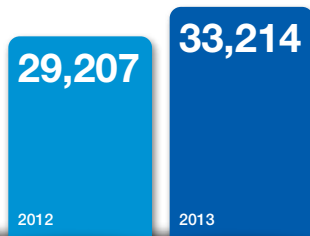
Unit: Person in thousand



Customers with more than KRW 100 million in assets

Shinhan Investment Corp.

Unit: Person in thousand



Review of 2013 Management Goals and Performance Results

Shinhan WM runs IPS (Investment Product and Services) department, Korea's first comprehensive investment solution provider. By combining the group's product, investment, real estate, and tax expertise into one organization, we provide asset management products and services that fit our customers' needs, as needed.

Product

Shinhan PWM focuses on providing stable returns to our customers through mid-return, mid-risk structured products. On the other hand, we are leading the market with an expanded investment asset universe that includes overseas products such as Chinese Dimsum CD, Yuen-denominated deposits, and short-term US government bonds. Other products include principle-guaranteed products and long-term tax efficient products such as Brazilian bonds and inflation-linked bonds.

Service

Within IPS department, Shinhan Bank's comprehensive investment solution provider, we have Catered Solutions Team that consists of 10 experts from the bank and securities area, with expertise in different areas such as equities, fixed income, commodities and asset allocation. Catered Solutions Team provides comprehensive and structured services to high net-worth customers.

AUM growth

Based on its differentiated competitiveness backed by the Shinhan WM business model, Shinhan PWM experienced stellar growth, two years after its inception. Despite persisted difficulties due to low interest rates, PWM center has produced good results by raising KRW 2.1 trillion of new assets in 2013 (KRW 3.4 trillion since inception).

Customer growth

During 2013, we also produced noteworthy results in terms of high-net-worth customer growth. Growth rates in high-net-worth customers for Shinhan Bank (with assets above KRW 1 billion) and Shinhan Investment Corp (with assets above KRW 100 million) were both the highest in their respective industries.

Business Plans for 2014

With the vision to “create an environment where the customers visit on their own accord”, we plan to differentiate ourselves with customer-oriented asset management and acquire an unrivaled competitive advantage. To this end, we are putting the following initiatives in place: First, we will expand PWM centers (6 more by 2014 year end) to provide extended coverage in wealthy locations and regional areas such as Daejeon and Daegu.

Second, by upgrading IPS competitiveness, we will increase our lead against our competitors in providing better financial products and services.

Third, we will provide top quality asset management services by further developing our asset management talents to be the best in the industry.

Fourth, in order to reinforce customer-oriented asset management, we aim to increase investment return for our customers and strengthen investor service systems.

Fifth, we will strengthen our retirement business by creating a dedicated team to build a channel and develop total solutions.

Lastly, we will increase brand recognition to firmly cement Shinhan PWM as the most favored WM brand.

MAJOR ACCOLADES AND RECOGNITION IN 2013

- Best Private Bank in Korea (Euromoney, 2 consecutive years)
- Korea Best Wealth Manager (The Asset, 2 consecutive years)
- Premium Brand Index, #1 in PB (Korea Standard Association, 6 consecutive years)
- The Proud Korea Luxury Index #1 (Korea Efficiency Consulting, 4 consecutive years)



• Best Private Bank in Korea (Euromoney, 2 consecutive years)



• Korea Best Wealth Manager (The Asset, 2 consecutive years)

Shinhan Investment Corp. provides leading comprehensive financial investment services to institutional and retail customers. In particular, we deliver customer satisfaction in various and creative ways through our industry-leading research, overseas sales capabilities, stable product management, advanced risk management system and top caliber staff.

As of the end of 2013, Shinhan Investment Corp. had a network of 99 domestic sales offices (75 branches, 18 Private Wealth Management centers, 6 branch-in-branch locations) and 4 overseas sales offices (2 local subsidiaries and 2 foreign offices). This is the result of a comprehensive financial investment service that allows for structured, organized and efficient risk management. Our advanced technology and the attraction of high caliber staff are the drivers for our strong competitiveness.

Research

1st

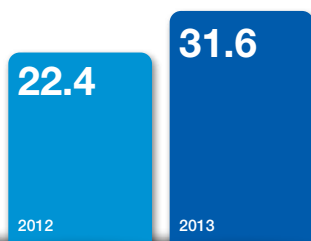
Shinhan Investment Corp was ranked first for two consecutive years by Maeil Business Newspaper, in the “2013 first/second half best securities firm, research center” sector.

Review of 2013 Management Goals and Performance Results

In order to achieve mid / long-term vision that we established in 2012, we set our 2013 strategic objective as ‘expanding customer base from differentiating products and services throughout business areas’ Specifically, we set out the follow goals to help us focus on evolving into a differentiated financial investment company; 1) shifting into an asset management sales model, 2) complete sales and trading model, 3) enhance competitiveness in WM/CIB, and 4) strengthen our ability to survive through downturn. Based on our strong will to accomplish our vision, we realized balanced growth across all of our businesses despite last year’s difficult operating environment.

Financial Product Assets

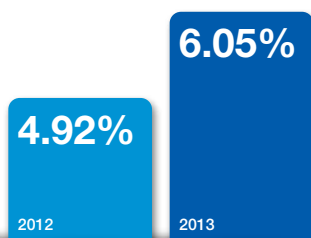
Unit: KRW in trillion



Retail: transformation into an asset management model

Beginning in 2012, the retail department has reorganized system and sales policies in order to transform into an asset management business model. Specifically, we revamped sales and sales support organizations by opening PWM and IPS units. In addition, we built a systematic asset management sales system based on the stable structuring and distribution capabilities of sales and trading. As a result, we exceeded the performance target for 2013 and remained as one of top tier companies in financial product income and trust asset size.

Brokerage Market Share (Stock)



In 2013, our financial product income of KRW 51.4 billion represents an increase of 75% from the previous year. Year-end balance on financial products was KRW 12.7 trillion, up by KRW 4.0 trillion from the previous year. Overall, retail’s trust account balance was KRW 44.1 trillion at the end of 2013, representing an increase of KRW 6.4 trillion from the previous year.

On the other hand, our brokerage business witnessed contraction in retail trading volume. However, our market share grew slightly as we represented 2.36% of the total market volume and 4.19% of retail volume. From these results, retail department generated net operating

income of KRW 234.3 billion. Negatively impacted by a slowdown in retail income, brokerage income, our biggest income contributor (63% of total), declined by 3% from the previous year. However, the decline in operating income was partially offset by favorable performance from asset management.

Wholesale: grow our scale by increasing sales capabilities to better cater to blue chip institutional clients and defend our #1 overseas leadership position

Wholesale department continues to pursue the strategic objective of ‘retaining competitiveness by concentrating on selected core areas.’ Despite increased competition in the wholesale market, we were able to retain our market leading position in areas that we are highly regarded (#1 market share in overseas equities, #2 market share in futures, and #4 market share in options). In addition, we posted top tier results in fee income and financial product balance. We were recognized as #1 in institutional sales by Korea Economic Daily, a clear recognition of our superb sales capabilities.

IB: Profit through market contraction, relatively positive performance in scale

Our strategic target for 2013 was “increase competitiveness in CIB.” We systemized our synergy sales and worked on building our IB track record and expanding our client base. Due to the contraction in the IB industry, overall income from IB department was reduced. However, we had meaningful results in league table which include: #1 in ABS underwriting, #2 in lead underwriting, #5 in corporate bond underwriting and #3 in rights offering. Also, we were chosen as one of top 3 advisors by KONEX.

Sales and Trading Group: Increased product distribution capabilities, increased asset management result in equities and derivatives

Since forming a separate business unit with product structuring, distribution and management responsibilities, S&T Group is playing the core role in our asset management business model. With the strategic objective of “completing sales & trading model” for 2013, we funneled our efforts in structuring and managing products, which contributed in our expanding client base. In terms of management, income from fixed income decreased due to negative interest environment; however, income from derivatives and equities management jumped by more than 100% to post operating income of KRW 47.2 billion. In terms of product distribution, we expanded our market presence in derivatives-linked securities issuances and were ranked #2 in ELS issuance and #5 in DLS issuance. Also, we maintained our lead in product diversity by expanding our equity swap business. Leveraging our stable management, RP balance increased to KRW 5.4 trillion, up by 32% from year before.

Business Plans for 2014

We will continue to adapt to volatile changes in the securities industry. Our 2014 strategic objective is “increasing brand value through building a customer-oriented business platform.” As a member of SFG, we will internalize Compassionate Finance and materialize the concept in a progressive manner. Also, we will give our best efforts to practice Innovative Finance to increase returns in this business environment. In pursuing our objectives, we aim to accomplish the following 5 strategic tasks.

First, increase customers’ return through building asset management capabilities

We plan to enhance our asset management expertise by strengthening PB capabilities and research support. In order to achieve this, we aim to increase our asset management capabilities for our customer accounts and enhance product development capabilities to ensure timely supply of new products. In addition, we will build a differentiated WM brand by revamping retirement business model and expand product range to include overseas products and absolute return products.

Second, increase asset management return through product / strategy diversification We will increase alternative investments to safeguard the rate of return on new products. We plan to expand product offerings by diversifying targets and strategies. Lastly, we will improve our sales & trading business structure by fine tuning management strategy and evaluation processes.

Third, realize tangible results in CIB model

By strengthening the synergy system within the group, we will build a business model that can compete with large IBs. Specifically, we will significantly revamp the role of RM and build our expertise in sourcing and structuring alternative investments

Fourth, implement strategic cost reduction to be prepared for any crisis

We aim to build an efficient organization through innovating our channel strategy and establish a joint sales system based on cooperation.

Fifth, establish customer-oriented organization culture by internalizing Compassionate Finance

To internalize Compassionate Finance, we plan to establish a code of conduct and relevant evaluation metrics. Furthermore, we will revamp customer protection organization and structure. Lastly, we will work on expanding Compassionate Finance by publishing success stories and diversify practice.

Shinhan Life Insurance, with wide offerings of advanced insurance products and financial services based on Shinhan Financial Group's total financial network, has grown into a trusted insurer by practicing Compassionate Finance. The trust we receive from our customers is the product of our compassionate business philosophy that emphasizes mutual growth with customers however difficult operating environment may become.

Shinhan Life Insurance has achieved balanced growth by providing diversified products (insurance products such as life insurance and third-party insurance, and individual / retirement pension) and services through its diversified sales channel including FCs, direct sales (telemarketing and online), AM (agency marketing), bancassurance and self-enrolling program (online).

Shinhan Life Insurance generates industry-leading rate of returns from managing our assets including loans to the insured customers, secured and unsecured loans, and securities such as equities, fixed income, and derivatives. We have also enhanced business stability through extensive management of risk and business efficiency.

Insurance Financial Strength Rating

AAA

Shinhan Life obtained the highest (AAA) rating in the insurance financial strength rating (IFSR) for six consecutive years

Review of 2013 Management Goals and Performance Results

For 2013, Shinhan Life Insurance established our strategic goal, "Big Shinhan, Different Win-Win 2013" with the aim to realize win-win growth between the company and the customers in this difficult business climate with heightened regulations and increased competition by differentiating ourselves from maximizing our fundamental competitiveness. With the pursuit of quality management as the underlying theme, we actively pursued the three strategic tasks – (1) marketing differentiation in crisis response (2) active practicing of customer-oriented "Compassionate Insurance" (3) increasing our capabilities on future growth drivers.

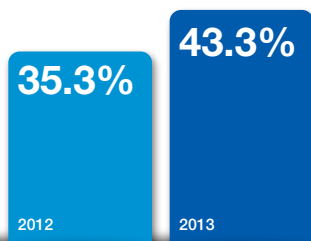
First, differentiating marketing activities

As we looked to differentiate by focusing on the fundamental role of life insurance, we focused on total marketing around products and services. We enhanced our sales strategy around protection product, pension and variable insurance. Also, by developing popular protection products (3 large health protection product and Double Dream Annuity), we were able to increase our market share in the protection product market by 8%. These allowed us to strengthen our stable income base.

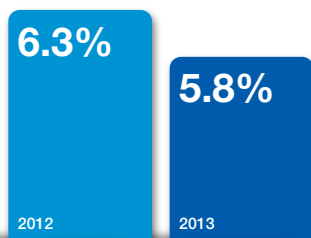
Second, practicing Compassionate Insurance

We practiced "Compassionate Finance" by initiating "Compassionate Happy Service", a service in which our financial consultants pay a visit to our customers and spread the value of Compassionate Insurance. We also actively spread our goodwill to the society by organizing 'Big Dream Volunteers', a group consist of our financial consultants. In

Proportion of Protection Product



Incomplete Sales Ratio



In addition, we introduced quality management index and enhanced our 'Compassionate Insurance' practice by establishing the code of conduct for our financial consultants.

Third, enhancing capabilities

As a new strategic growth initiative, we launched smart internet insurance, thereby spearheading the internet insurance market. In addition, we are increasing our global capabilities. Furthermore, we have reinforced on-the-job training and put forth great efforts in building our financial consultants' talent by holding financial consultant expertise contests. Lastly, we increased strategic cost reduction efforts such as implementing a branch-based profit-loss management system and building risk management capabilities.

Business Plans for 2014

We expect the volatile business environment and heightened regulations to persist; as such, we expect 2014 to be another difficult year. In order to withstand the difficult business environment and establish the foundation to achieve 'BIG SHINHAN,' we have put forth the following 7 strategic tasks, titled 'Challenge 7_Big Shinhan'.

Challenge 7 is composed of 3 strategic orientation and 7 tasks. The 3 strategic orientations are: maintaining the industry position, establishing a stable income structure, and strengthening internal capabilities. 7 tasks are to (1) restore our market position, (2) increase mortality profit ratio, (3) improve interest income, (4) realize tangible results from strategic cost savings, (5) stabilize compassionate insurance, (6) increase competitiveness in new channels, and (7) increase competitiveness of our human resources.

1. Restore our market position

We will make notable advancement in our market position by pursuing differentiated growth through channel innovation, implementing total marketing on innovative products, and building brand identity around customer experience.

2. Increase mortality profit ratio

We will achieve an appropriate level of mortality profit ratio by increasing proportion of insurance against death product portfolio, strengthening insurance payout process, and spreading an underwriting culture internally.

3. Improve interest income

By implementing risk-adjusted asset management, we seek to im-

prove interest income, ability to respond to market changes, and asset management expertise.

4. Realize tangible results from strategic cost savings

We aim to rationalize cost, bring efficiency in sales organization management, and stabilize funding sources through expanding extended insurance.

5. Stabilize compassionate insurance

We will implement customer protection processes, reorganize processes to make it customer-friendly, and internalize Compassionate Finance.

6. Increase competitiveness in new channels

We plan to build a separate business around in-person channel and stabilize other indirect smart-based sales channels. In addition, we will build a sound retirement planning and global business models.

7. Increase competitiveness of our human resources

We will reinforce human resource capabilities, increase expertise and loyalty, and develop innovative talents.

2013 Major Accomplishments

	2013	2012	Chg Amt	Chg %
No. of branches	219	244	-25	-10.2%
Personnel	8,086	9,708	-1,622	-16.7%
Assets				
• Premium received	4,670.6	4,912.6	-242.0	-4.9%
• Monthly initial Premium	78.2	104.3	-26.1	-25.0%
• Total assets	19,385.2	16,942.0	2,443.1	14.4%
Net income	79.7	215.3	-135.6	-63.0%
RBC	253.1	287.7		-34.6%p
Proportion of protection products	43.3	35.3		8.0%p
Incomplete sales ratio	5.8	6.3		-0.5%p

Persons, KRW billions, %

Shinhan BNP Paribas Asset Management is the leader in asset management based on its differentiated global asset management know-how and strong sales network. In particular, our stable profit base and close coordination with the other Group companies have allowed us to gain customer trust and create significant synergies.

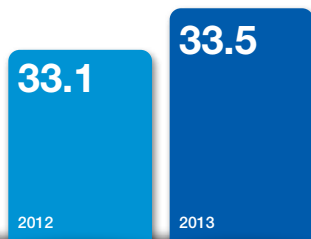
Asset Management Ranking

4th

Shinhan BNP Paribas Asset Management's assets under management (AUM), including discretionary investment management assets, surpassed KRW 33.5 trillion in 2013. We rank Fourth among the 85 Korean asset management firms in terms of AUM.

Asset Under Management

Unit: KRW in trillions



Shinhan BNP Paribas Asset Management is a joint venture between Shinhan Financial Group and BNP Paribas Group. Since its inception in 2009, the company has grown into a truly leading company in the asset management market by securing a stable profit base and creating synergies between BNP Paribas Group's strong asset management know-how and the strong sales network of SFG.

Shinhan BNP Paribas Asset Management is the Group's main asset management subsidiary. It is owned jointly between SFG and BNP Paribas Group, with 65% and 35% stake respectively. Its business philosophy is "to become a long-term partner that places customers first, a provider of a wide variety of investment solutions and reliable specialties." Based on this business philosophy, we provide various domestic and overseas investment solutions in traditional equities and fixed income products, as well as structured products (derivatives, ELF, etc) and alternative investment products (real estate, mezzanine, and infrastructure). We aim to earn trust from customers on the basis of excellent long-term performance.

As of the end of 2013, Shinhan BNP Paribas Asset Management was the fourth largest asset management company, with AUM of KRW 33.5 trillion, among 85 domestic asset management companies.

Review of 2013 Management Goals and Performance Results

In 2013, US Fed's tapering and Japan's low Yen policy had negative impacts on the recovery of domestic industries and caused greater anxiety on overseas investments. In addition, the market rattled from capital outflow from equities and inflows to domestic fixed income funds, led by institutional investors. By proactively responding to all these changes, we retained our leading position in the asset management industry.

Based on our stellar long term track record, Shinhan BNP Paribas Asset Management received various recognitions and rewards in 2013 such as "Korea's Most Outstanding Asset Management Company from The Asset Magazine in Hong Kong (4 consecutive years)," "Outstanding AMC, Mixed Type, Korea Fund Award by Maeil Business" and "Best Active Equities, Asia Fund Award by Asia Economic Daily

(3 consecutive years).” In addition, recognizing our continued social activities through SRI fund and children fund, Shinhan BNP Paribas Asset Management received awards such as “Leading AMC, Youth support, 2013 Forbes Social Contribution Award,” and “#1 AMC in Korea Sustainability Competition.”

With a new CEO in place, we implemented various change initiatives and increased communication in 2013. Also, it was the year that we built the foundation not only to become a differentiated global solution provider but also for a sustainable profit. Shinhan BNP Paribas Asset Management has the industry-leading research capability, valuation model, and fund management expertise. Through an organic combination of these characteristics, we have garnered continuity in asset management that results in outstanding and stable return over long term. In addition, we continue to build up asset management capabilities through expertise transfer program with BNP Paribas Group and by learning their asset management know-how.

Business Plans for 2014

In 2014, risk factors such as US Fed’s tapering, market volatility in emerging market economies, contraction of retail business, heightened customer protection regulation and reduced profitability from increased trust activities of institutional clients are expected to persist. At the same time, we also see opportunities for growth in long-term investment funds market stemming from a rapid expansion of retirement markets such as personal pension and retirement pension fund. Also, we see opportunities in terms of asset allocation service for a large pension and expansion of online sales channel. In this market environment, Shinhan BNP Paribas Asset Management will actively research customers’ needs and market climate and develop products that serve client and market needs. In order to reinforce our position as a trusted asset management company, we will focus our efforts on the following tasks:

1. Strengthen our market dominance in pension products by expanding and increasing competitiveness of our product offerings
2. Provide differentiated products and contents for Fund Online Korea and other indirect channels
3. Strengthen consulting capabilities for our existing customers and build up product portfolio
4. Expand domestic equities / fixed income product offerings to overseas clients

Apart from the four initiatives mentioned above, we are also increasing our effort to develop our flagship product and maximize Group synergies through active cooperation with other Group members. With these initiatives, we aim to further solidify our position as a trusted leading asset management company.

2013 AWARDS AND RECOGNITIONS

- Asia Asset Management Best of Best Award, Korea Institutional Investor Best Manager (5 consecutive years)
- The Asset AAA Investment Awards (Hong Kong), Korea’s Most Outstanding Asset Manager (4 consecutive years)
- 12th Annual Korea Fund Award by Maeil Business, Outstanding AMC, Mixed Type
- Asia Fund Award by Asia Economic Daily, Best Active Equities Fund (3 consecutive years)
- 2013 Zero-in Fund Award, Outstanding manager chosen by institutional investors
- 2013 Korea Sustainability Competition by Korea Standard Association, #1 in Korea Sustainability Index – Asset Management Companies
- 2013 Finance Award by Asia Today, Asset Management
- 2013 Korea Securities Award by Seoul Economy, Most Outstanding in Fixed Income Fund
- 2013 Fund Award by Herald Economy, Most Outstanding Domestic Fund (Shinhan BNPP Good Morning Hope Fund)
- 2013 Market Leader by e-today, Best Asset Manager

led us to focus primarily on risk management and made us activities through appropriate financial products and solutions. The current environment. Therefore, we must identify new nimize returns and provide needed funding to promising nhan's value will also grow. Furthermore, if Shinhan co-prosperity,' a phenomenon in which the customer, ch is possible through Creative Finance. • Training ch, we supported 5,781 people to achieve their W 207.7 billion towards new businesses with Es. With the aim to foster co-prosperity between iculties. • Restructuring long term customers We w Hope Seed Loan We extended total loans of ercentage. • Designated customer service representatives to provide marketing coverage. s for long term low income customers We interest-free installment payment service on their ir points by providing status updates and their customers' return. First introduced ned-lecturers on financial education, this ning to 8,053 senior citizens and contributed to rVICES* to 62,669 customers. (*Major 5 y products) • Payment of uncollected insurance urance. • Insurance premium discount to social porting their financial transactions. Since its areas where we can make substantial impacts ancial and economic education as one of its social e groups from elementary school students to senior ened a Youth Finance Center, Gwanghwamoon Shinhan Youth Finance Experience School" and "Shinhan ucation to children from low-income families at local dents. Participating teenagers make visits to KRX, hear ncial Classroom" for the elderly. The insurer conducts th rement plans by giving financial and tax consulting around Shinhan Smile Microcredit Bank (SSMB): SSMB provides contributed KRW 70 billion thus far. • Shinhan Scholarship ortunities for underprivileged students. As of the end of 2013, oject: The project aims to build small libraries at local children's festival, which has been held in April and May since 2008, is a large- ivities such as decorating walls of disability centers, promoting national rve cultural heritage with Cultural Heritage Administration in 2005. he bank. Since 2012, we are supporting the growth of social companies 05, we founded Korea Financial History Museum, a specialty museum with s support program, with the aim to contribute to the development of classical oarships and opportunities to study at renowned international music schools. • areness of environmental conservation. All proceeds are used for environment welfare centers. Moreover, it is actively engaged in "1 m2 park" campaign. So far it nvironment preservation campaign for the past 10 years. As at the end of 2013, there were n to support KRW 800 million over a period of 3 years beginning 2013 and provide vital ome level in Vietnam. • Medical service: Since 2008, Shinhan Bank has been providing medical port surgery on patients suffering from heart disease, yet have no means of receiving treatment enhouse gas emission through resource and energy conservation, managing green financial nected "Group Environmental Management Standard" and applied to all Group members. In addition, closure requests from external stakeholders. Lastly, SFG is leading various environment-friendly cial initiatives In 2014, Shinhan Bank recruited 400 part time employees for its retail services part among employees, only work 4-5 hours per day and still enjoy comparable benefits. With the part time system, Shinhan income customers in need of short term liquidity needs. Particularly, we provide interest-free installment payment customers tend to use Shinhan Card more over the longer term. The resulting trust from customers is a big support sustainable growth. • Included as a member of Dow Jones Sustainability Indexes World for the first time among company to be in the list (86th place) in 2013 and won the highest place among Korean companies (30th) in Corporate. Governance Service and was the sole recipient of order to achieve sustainable growth, it is imperative that we consider actions. First, in order to assess internal / external issues related to CSR, stakeholders and analyze best practices of global CSR leaders. Third, we Peer-based Norms, Stakeholder Behavior and Concerns, Societal Norms). Last, management is governed by compliance officers. As the revised Financial Holding group's ethical practices. The compliance office at the holding company is responsible backbone for a uniform application of ethical management philosophy. This is an update Conduct was established to reinforce execution of ethical practices. Moreover, each followed as corporate citizens and participants in the finance industry. This provides employees Management CoP has been in effect since August 2010 to ensure the integrity of subsidiaries' codes subsidiary participate in the program. To implement ethical management, SFG conducts various We constantly make updates and modifications to the program to ensure practicality of the program. The every year. The pledge contains core parts of the code of ethics, and by signing it employees confirm their annual pledge to comply with the code of conduct. Shinhan Card, recognizing the importance of consumer employees' actions towards consumers. Moreover, SFG runs a financial transactions reporting system to prevent any are also running a voluntary compliance program for fair transactions.

It also means maximizing our customer's returns through good asset management. The methods that fit well with the current environment in terms of products, services, and asset firms through Creative Finance. If our customer's values grow, Shinhan will also become does business with more customers and supports their success, resources will be efficiently company, and society all grow together. Overall, Compassionate Finance 2.0, phase 2 of for small entrepreneurs Jointly with entrepreneurship institutions, we have pursued a bank-wide dreams by providing them with entrepreneurship training. • Loan support to technology entrepreneurs nigh technology. With the initiative, we make contributions to our economy's growth potential and job companies and bank, we provided various supports (extending new credit, extending maturity, reduce offer preferential rate to long term customers facing temporary liquidity issues. We provided assistance KRW 320.5 billion to low income, low credit customers. It was a social responsibility product jointly representatives / approval group for senior customers As the number of senior customers increases, We provided catered services for senior customers such as assistance in ARS registration and relieved difficulties of our long term, low income customers (10+ years of relationship with hospital bills. • Recycling unused points through Group channels In order to minimize instruction on how to use them. • Introduction of return assessment on whole asset 12 years ago for equity sales employees, it was expanded to include returns on program helps senior citizens and volunteers set retirement plans by giving their happy retirement planning. • Compassionate Happy Service In order to maintenance services: provide guidance on benefits of existing insurance payment Through a campaign, we paid 29,914 counts, KRW 61 minorities We provided preferential discounts on insurance establishment, Shinhan Financial Group has recognized the through finance and leading systemized activities in three contribution activities as a means to contribute to society citizens. Shinhan's financial and economic education Camp that has the same set up as a branch Finance School" program. Shinhan Card children's centers across the nation. stories on equity investing, play trading program by visiting approximately preparations for retirement and microfinance services to low-Foundation: The foundation the contributions stood centers with poor scale CSR program treasures, cleaning Since then, the with businesses 6,500 historical m in Korea Environmental preservation has turned 35 idle small parcels of land into community parks. • Environment Preservation 76 outings with 9,600 participants. • Job Training: SFG established "Korean-Vietnam education support to the low income adolescents such as computer lessons, Korean service in Tashkent, Uzbekistan in collaboration with Seoul National University Ho in Uzbekistan. Shinhan Financial Group acknowledges that environmental iss products that support green businesses and green life, and actively foster we established 'Comprehensive Environmental Management System' in movements and launching various environment-related financial prod former female employees who previously decided to retire due to Bank not only reduced burden resulting from labor costs but also service to our long-term, low income customers on their medic for Shinhan Card's sustainable management, as it can sat Korean financial groups in 2013. • Selected as one of GI 2014. • Received 95A in Carbon Disclosure Project and 'Company with Outstanding Governance Structure' how our activities impact our society and put cor we analyze global sustainability standards suc assess the importance of the CSR issues pr we establish CSR action plans on the key Companies Act became effective in F for supervising internal control and from "SFG Ethics Charter on Fi subsidiary also has put in plac with specific guidance on of ethics and enhance e programs in complian group also requires commitment to e protection, cons potential conf The program monitoring 102 traini in finan and fa No v "VO to s The cus em e l a n 201 em own mad legal ethical and new financial

Social Stewardship

order to achieve sustainable growth, it is imperative that we consider actions. First, in order to assess internal / external issues related to CSR, stakeholders and analyze best practices of global CSR leaders. Third, we Peer-based Norms, Stakeholder Behavior and Concerns, Societal Norms). Last, management is governed by compliance officers. As the revised Financial Holding group's ethical practices. The compliance office at the holding company is responsible backbone for a uniform application of ethical management philosophy. This is an update Conduct was established to reinforce execution of ethical practices. Moreover, each followed as corporate citizens and participants in the finance industry. This provides employees Management CoP has been in effect since August 2010 to ensure the integrity of subsidiaries' codes subsidiary participate in the program. To implement ethical management, SFG conducts various We constantly make updates and modifications to the program to ensure practicality of the program. The every year. The pledge contains core parts of the code of ethics, and by signing it employees confirm their annual pledge to comply with the code of conduct. Shinhan Card, recognizing the importance of consumer employees' actions towards consumers. Moreover, SFG runs a financial transactions reporting system to prevent any are also running a voluntary compliance program for fair transactions.

publishing a manual, enacting the guidelines and training and responsible for fair trading at the head office in 2013 (a total of internal transactions and published a manual to prevent irregularities among subsidiaries. Accordingly, SFG strives to enhance the transparency and report the appropriateness of internal transactions every quarter. In Partners of SFG to promote win-win growth with our partners. In 2013, we set up receive any complaints and notices from our partners. As such, we are making every effort partners and lay the foundation for contributing to our local communities and the environment. financial accidents in advance with our Financial Irregularities Reporting System, through which law and/or irregularities by employees. Also, we have Whistleblower Reporting System in place through which internal violations of the law, company rules or code of ethics. SFG provides online/offline training programs to awareness on issues such as a transparent promotion culture, proper stock transactions, healthy investment practices bribery during holiday seasons. We are working to make ethical practices a natural part of Shinhan's culture. Constant ethical provided to all employees in order to strengthen the ethical standards and legal compliance in all business activities. All management strategy meeting, partake in rank-specific training, or online training session at least once a year. Since subsidiaries via a joint Group-wide ethical and legal compliance online education, apart for Shinhan Bank who has its easily understand and execute Group's philosophies and basic values of ethical management. Shinhan Bank has Education Week ("ABC Week"). During this period, the bank conducts training on the latest ethical and recent financial incidents, financial acts and regulations and best practices. In addition, a mandatory employees. The bank also provides rank-specific training courses to newly hired employees session to all employees on raising awareness on legal compliance and preventing

ESG assessment by Korea aspects of our society. In from our corporate research on Business

ossible ach of n report ployee evention of mpliance training is required to attend a pported all Group s allows all Group companies to ek of every month Compliance culating "Compliance Letter" covering d legal compliance course is opened online for all employees. Shinhan Card provides annual online training

today's world, the 'basic function of finance' means supporting our customers to meet their needs. We call this process 'Creative Finance.' Our customer methodologies that are well adapted to core profitable, and consequently more customers will want to do business with Shinhan. As a result, allocated, thereby increasing the overall value to society. We call this the 'virtuous cycle of Compassionate Finance, can be defined as this 'virtuous cycle of co-prosperity' training program for people wanting to create their own businesses. Last In order to foster growth of creative entrepreneurs, we extended loans of growth. • Corporate Success Program and support restructuring of interest rate) to competitive companies facing temporary liquidity to 5,860 cases with total interest reductions of KRW 33.4 billion • launched with other banks and aimed to expand banking we began to operate a designated team of customer service identification. • Interest-free installment payment on hospital annual income of less than KRW 26 million) by providing an unused points, we support various ways for our members to utilize introduced a new employee assessment system that links performance customers' total portfolio including financial products. • Shinhan Happy Silver finance training With retirees-financial and tax consulting on how to prepare for retirement and avoid financial scams. We provided spread the true value of insurance and provide timely service to our customers, we provided maintenance products, provide details on insurance payout, update information, select beneficiaries, and suggest billion of uncollected insurance payments. Through this act, we aimed to deliver the true value of to 56,182 low income families or families with disabilities or multiple children, thereby has committed itself to social responsibility-based management. We are focusing on (coexistence), culture (sympathy) and the environment (symbiosis). SFG offers finance. In 2013, we provided finance education to 40,223 people of different companies focusing on the respective areas of expertise. Shinhan Bank Center, Shinhan Bank conducts experimental education programs such as infrastructure projects by building libraries and conducting financial conducts "Compassionate Finance Camp" for middle and high school Shinhan's key offices. Shinhan Life hosts "Shinhan Happy Silver citizens across the nation. This program helps senior citizens set financial scams. Social Contribution Activities in Welfare Sector • personal and business credit. SFG founded SSMB in late 2009 and with contributions from group subsidiaries to provide educational Scholarships were awarded to 741 students in 2013. • Arumin Library end of 2013, about 344 Arumin Libraries were opened. • Volunteer Festival: participate in. With 16,825 volunteers from Shinhan Group, we carried out various marathon in 2013. • Traditional Culture Preservation: Shinhan Bank signed a contract to cultural heritage preservation activities. The employees take active part in such activities via the nationwide network and creating cultural jobs with a fund of KRW 500 million in cooperation with Cultural Heritage Administration. In museum, we open exhibits and run various programs. • Shinhan Music Award: This award is a culture and is the first of its kind in the domestic financial industry that we initiated in 2009. Winners are awarded ed in 1994, the contest is held annually to renew interest in Korea's beautiful landscape and raise Shinhan Bank supports low-carbon movements by supporting solar panels and erecting roof top gardens on Jeju Island: Since its launch in April 2004, Jeju Bank has conducted "Jeun Purmi" campaign, an se Economy Technology Education Center," a job training center for underprivileged adolescents. We n lessons, and accounting lessons. Through this program, we aim to reduce jobless rates and raise the spital and Seoul National University Dental Program. We also provide training to local medical staff and eues have significant impacts on a company's sustainability. As such, we actively pursue minimizing ring green communications. In 2013, the Group CSR committee, consist of Group subsidiary CEOs, in order to effectively manage environmental data and proactively respond to environmental information icts. Through these initiatives, we will turn environmental risks into opportunities. Cost-saving through family related obligations. Part time employees, despite their relatively lower pay compared to full time reduced training costs by rehiring experienced employees. Shinhan Card provides financial support for low- al bills. Provision of such service reduces our income in the short-term; however, we have found that those nsfy both societal value and corporate performance. We have received much praise for our efforts to foster obal 100 Most Sustainable Corporations in the World from World Economic Forum. We were the only Korean d selected as 'Carbon Disclosure Sector Leader' in Korean banking industry in 2013. • Received A+ rating from recognition in Korean financial industry in 2013. As a corporate citizen, Shinhan Financial Group impacts various ntinued efforts to best manage them. SFG conducts materiality tests in order to assess societal issues stemming ch as GRI G4 Guideline, ISO 26000, Dow Jones Sustainability Index, and CDP. Second, we conduct feedback ool based on AA1000SES' 5-Part Materiality Test (Short-term Financial Impacts, Policy-related Performance, y issues and create value by systematically implementing them. Shinhan Financial Group's ethical ebruary 2010, a compliance officer of the holding company was appointed to oversee the d ethical management. In June 2011, we implemented SFG Code of Ethics to provide a nance Employees" that we had in place since July 2005. In 2012, Employees' Code of e its own standards of ethical practice that prescribes the ethical virtues and values to be e standards of conduct that they can refer to in their daily jobs. The Group Ethical thical awareness among employees. Those responsible for ethical management at each ce with the group's management philosophy and each subsidiary's code of ethics. all employees to sign a "pledge of ethical practice" at each subsidiary level thical practices. At Shinhan Bank, employees use the intranet to make their stituted Financial Consumer Protection Charter which sets the standard of our ict of interest with business partners. In order to prevent unfair competition, we n includes establishing a voluntary compliance system for fair transactions, systems. Shinhan Bank twice conducted training sessions for units ees participated in 2013). The group has enacted the guidelines for cial transactions, including capital, assets and human resources, erness of operations, by encouraging each subsidiary to review 2012, we established Code of Behavior for partners" mechanism in our homepage to the sustainable growth of our is prepared to detect any can report

SFG believes that profit is not an end goal by itself. Rather, we believe it is a byproduct of activities that elevate our customers' value. Furthermore, we believe a company's sustainable growth is only possible on the premise of a sound contribution to the growth of society. Shinhan Financial Group believes that socially responsible management is a wise way to lead to sustainable growth. We seek to implement socially responsible management by contributing to the society through basic functions of finance and seeking mutual growth between society and a company by enhancing customer value.



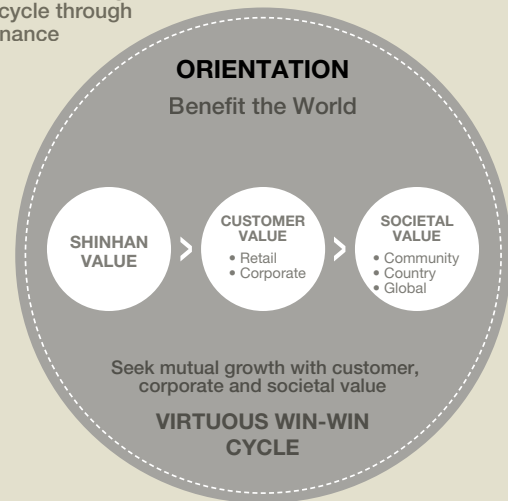
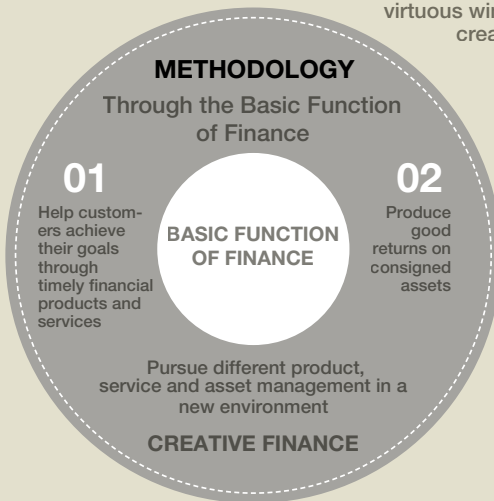
Compassionate Finance



Compassionate Finance 2.0 refers to the concept of ‘benefitting the world by the power of finance.’ It means building a virtuous cycle in which our customers, Shinhan and our society co-prosper. It means moving away from traditional methodologies in terms of products, services, and asset management and adopting different ways and creative methods that meet today’s new environment.

COMPASSIONATE FINANCE SHARING THE FUTURE

Benefit the world from creating a virtuous win-win cycle through creative finance



2014 will be an important turning point in Shinhan’s history. Rapid increase in uncertainty post the financial crisis is gradually being subsided, while the economy is slowly picking up led by the growth in developing markets. While market uncertainties and continued restructuring in the past led us to focus primarily on risk management and made us cautious to take new steps, it is time for us to be more aggressive, focus on the ‘basic function of finance’ and win our battles.

Changes in Values Expected by Society

In today’s world, the ‘basic function of finance’ means supporting our customers to meet their objectives through appropriate financial products and solutions. It also means maximizing our customer’s returns through good asset management. The key tools required in ‘basic function of finance’ are products, services, and asset management methodologies that are well adapted to the current environment. Therefore, we must identify new methods that fit well

with the current environment in terms of products, services, and asset management methodologies. We call this process ‘Creative Finance.’

Compassionate Finance 2.0 Through Creative Finance

Our customer’s value will grow if we are able to maximize returns and provide needed funding to promising firms through Creative Finance. If our customer’s values grow, Shinhan will also become more profitable, and consequently more customers will want to do business with Shinhan. As a result, Shinhan’s value will also grow.

Furthermore, if Shinhan does business with more customers and supports their success, resources will be efficiently allocated, thereby increasing the overall value to society.

We call this the ‘virtuous cycle of co-prosperity,’ a phenomenon in which the customer, company, and society all grow together.

Overall, Compassionate Finance 2.0, phase 2 of Compassionate Finance, can be defined as this ‘virtuous cycle of co-prosperity’ which is possible through Creative Finance.

COMPASSIONATE FINANCE IN ACTION

BANK

- **Training for small entrepreneurs**

Jointly with entrepreneurship institutions, we have pursued a bank-wide training program for people wanting to create their own businesses. Last year, we supported 5,781 people to achieve their dreams by providing them with entrepreneurship training.

- **Loan support to technology entrepreneurs**

In order to foster growth of creative entrepreneurs, we extended loans of KRW 207.7 billion towards new businesses with high technology. With the initiative, we make contributions to our economy's growth potential and job growth.

- **Corporate Success Program and support restructuring of SMEs**

With the aim to foster co-prosperity between companies and bank, we provided various supports (extending new credit, extending maturity, reduce interest rate) to competitive companies facing temporary liquidity difficulties.

- **Restructuring long term customers**

We offer preferential rate to long term customers facing temporary liquidity issues. We provided assistance to 5,860 cases with total interest reductions of KRW 33.4 billion

- **New Hope Seed Loan**

We extended total loans of KRW 320.5 billion to low income, low credit customers. It was a social responsibility product jointly launched with other banks and aimed to expand banking coverage.

CREDIT CARD

- **Designated customer service representatives / approval group for senior customers**

As the number of senior customers increases, we began to operate a designated team of customer service representatives to provide marketing coverage. We provided catered services for senior customers such as assistance in ARS registration and identification.

- **Interest-free installment payment on hospital bills for long term low income customers**

We relieved difficulties of our long term, low income customers (10+ years of relationship with annual income of less than KRW 26 million) by providing an interest-free installment payment service on their hospital bills.

- **Recycling unused points through Group channels**

In order to minimize extinction of unused points, we support various ways for our members to utilize their points by providing status updates and instruction on how to use them.

SHINHAN INVESTMENT CORP

- **Introduction of return assessment on whole asset portfolio**

We introduced a new employee assessment system that links performance to their customers' return. First introduced 12 years ago for equity sales employees, it was expanded to include returns on customers' total portfolio including financial products.

SHINHAN LIFE INSURANCE

- **Shinhan Happy Silver finance training**

With retirees-turned-lecturers on financial education, this program helps senior citizens and volunteers set retirement plans by giving financial and tax consulting on how to prepare for retirement and avoid financial scams. We provided training to 8,053 senior citizens and contributed to their happy retirement planning.

- **Compassionate Happy Service**

In order to spread the true value of insurance and provide timely service to our customers, we provided maintenance services* to 62,669 customers. (*Major 5 maintenance services: provide guidance on benefits of existing insurance products, provide details on insurance payout, update information, select beneficiaries, and suggest new products)

- **Payment of uncollected insurance payment**

Through a campaign, we paid 29,914 counts, KRW 61 billion of uncollected insurance payments. Through this act, we aimed to deliver the true value of insurance.

- **Insurance premium discount to social minorities**

We provided preferential discounts on insurance premiums to 56,182 low income families or families with disabilities or multiple children, thereby supporting their financial transactions.



Corporate Social Responsibility

We help the weak and the less fortunate, and conserve traditional values and culture. We understand the value of the environment, as well of the fact that environmental issues can adversely affect a company's sustainable development. Shinhan Financial Group is well aware that only when a company fulfills its duties as a socially responsible citizen can it truly become a global leader in the financial industry.

Since its establishment, Shinhan Financial Group has recognized the importance of and has committed itself to social responsibility-based management. We are focusing on the areas where we can make substantial impacts through finance and leading systemized activities in three core sectors -- welfare (coexistence), culture (sympathy) and the environment (symbiosis).

Financial and Economic Education

SFG offers financial and economic education as one of its social contribution activities as a means to contribute to society through basic functions of finance. In 2013, we provided finance education to 40,223 people of different age groups from elementary school students to senior citizens. Shinhan's financial and economic education is conducted by our Group companies focusing on the respective areas of expertise. Shinhan Bank opened a Youth Finance Center, Gwanghwamoon Campus that has the same set up as a branch office. At Youth Finance Center, Shinhan Bank conducts experimental education programs such as "Shinhan Youth Finance Experience School" and "Shinhan Finance School" program.

Shinhan Card participates in educational infrastructure projects by building libraries and conducting financial education to children from low-income families at local children's centers across the nation.

Shinhan Investment Corp conducts "Compassionate Finance Camp" for middle and high school students. Participating teenagers make visits to KRX, hear stories on equity investing, play trading simulation games, and visit Shinhan's key offices.

Shinhan Life hosts "Shinhan Happy Silver Financial Classroom" for the elderly. The insurer conducts this program by visiting approximately 240 welfare centers for senior citizens across the nation. This program helps senior citizens set retirement plans by giving financial and tax consulting around preparations for retirement and how to safeguard against financial scams.

Social Contribution Activities in Welfare Sector

• **Shinhan Smile Microcredit Bank (SSMB):** SSMB provides microfinance services to low-income families with poor personal and business credit. SFG founded SSMB in late 2009 and has contributed KRW 70 billion thus far.

• **Shinhan Scholarship Foundation:** The foundation was established in 2006 with contributions from group subsidiaries to provide educational opportunities for underprivileged students. As of the end of 2013, the contributions stood at a total of KRW 100 billion. Scholarships were awarded to 741 students in 2013.

• **Arumin Library Project:** The project aims to build small libraries at local children's centers with poor educational environment. As of the end of 2013, about 344 Arumin Libraries were opened.

• **Volunteer Festival:** The festival, which has been held in April and May since 2008, is a large-scale CSR program that all executives and employees participate in. With 16,825 volunteers from Shinhan Group, we carried out various activities such as decorating walls of disability centers, promoting national treasures, cleaning National Cemetery, and supporting wheel chair marathon in 2013.

Social Contribution Activities in Cultural Sector

• **Traditional Culture Preservation:** Shinhan Bank signed a contract to preserve cultural heritage with Cultural Heritage Administration in 2005. Since then, the bank has steadily engaged in cultural heritage preservation activities. The employees take active part in such activities via the nationwide network of the bank. Since 2012, we are supporting the growth of social companies with businesses relating to cultural treasures and creating cultural jobs with a fund of KRW 500 million in cooperation with Cultural Heritage Administration. In 2005, we founded Korea Financial History Museum, a specialty museum with 6,500 historical artifacts and documents. At the museum, we open exhibits and run various programs.

• **Shinhan Music Award:** This award is a culture and arts support program, with the aim to contribute to the development of classical music in Korea by finding promising talent. This is the first of its kind in the domestic financial industry that we initiated in 2009. Winners are awarded scholarships and opportunities to study at renowned international music schools.

Social Contribution Activities in the Environmental Sector

• **Environmental Photography Contest:** First launched in 1994, the contest is held annually to renew interest in Korea's beautiful landscape and raise awareness of environmental conservation. All proceeds are used for environment preservation projects.

• **Environment Preservation:** Shinhan Bank supports low-carbon movements by supporting solar panels and erecting roof top gardens in welfare centers. Moreover, it is actively engaged in "3.3m² park" campaign. So far it has turned 35 idle small parcels of land into community parks.

• **Environment Preservation on Jeju Island:** Since its launch in April 2004, Jeju Bank has conducted "Jeun Purmi" campaign, an environment preservation campaign for the past 10 years. As at the end of 2013, there were 76 outings with 9,600 participants.

Social Activities Overseas

• **Job Training:** SFG established "Korean-Vietnamese Economy Technology Education Center," a job training center for underprivileged adolescents. We plan to support KRW 800 million over a period of 3 years beginning 2013 and provide vital education support to the low income adolescents such as computer lessons, Korean lessons, and accounting lessons. Through

this program, we aim to reduce jobless rates and raise the income level in Vietnam.

• **Medical service:** Since 2008, Shinhan Bank has been providing medical service in Tashkent, Uzbekistan in collaboration with Seoul National University Hospital and Seoul National University Dental Program. We also provide training to local medical staff and support surgery on patients suffering from heart disease, yet have no means of receiving treatment in Uzbekistan.



Sustainability Management

Shinhan Financial Group acknowledges the importance of corporate social responsibility and sustainable growth. In display of our commitment, we are participating in various global initiatives. In 2006, we became one of the signatories of Carbon Disclosure Project. In 2007, we participated in and signed the United Nations Global Compact – The Ten Principles, which covers the areas of human rights, labor, the environment and anti-corruption. In addition, on the same year, we enrolled in UNEP FI(United Nations Environment Programme Finance Initiative)

Environmental Management

Shinhan Financial Group acknowledges that environmental issues have significant impacts on a company's sustainability. As such, we actively pursue minimizing greenhouse gas emission through resource and energy conservation, managing green financial products that support green businesses and green life, and actively fostering green communications.

In 2013, the Group CSR committee, consist of Group subsidiary CEOs, enacted "Group Environmental Management Standard" and applied to all Group members. In addition, we established 'Comprehensive Environmental Management System' in order to effectively manage environmental data and proactively respond to environmental information disclosure requests from external stakeholders.

Lastly, SFG is leading various environment-friendly movements and launching various environment-related financial products. Through these initiatives, we will turn environmental risks into opportunities.

Social Management

Cost-saving through social initiatives

In 2014, Shinhan Bank recruited 400 part time employees for its retail services part among former female employees who previously decided to retire due to family related obligations.

Part time employees, despite their relatively lower pay compared to full time employees, only work 4-5 hours per day and still enjoy comparable benefits. With the part time system, Shinhan Bank not only reduced burden resulting from labor costs but also reduced training costs by rehiring experienced employees.

Revenue generation through social initiative

Shinhan Card provides financial support for low-income customers in need of short term liquidity needs. Particularly, we provide interest-free installment payment service to our long-term, low income customers on their medical bills. Provision of such service reduces our income in the short-term; however, we have found that those customers tend to use Shinhan Card more over the longer term. The resulting trust from customers is a big support for Shinhan Card's sustainable management, as it can satisfy both societal value and corporate performance.





External Assessments on Sustainability

We have received much praise for our efforts to foster sustainable growth.

- Included as a member of Dow Jones Sustainability Indexes World for the first time among Korean financial groups in 2013.
- Selected as one of Global 100 Most Sustainable Corporations in the World from World Economic Forum. We were the only Korean company to be in the list (86th place) in 2013 and won the highest place among Korean companies (30th) in 2014.
- Received 95A in Carbon Disclosure Project and selected as 'Carbon Disclosure Sector Leader' in Korean banking industry in 2013.
- Received A+ rating from ESG assessment by Korea Corporate Governance Service and was the sole recipient of 'Company with Outstanding Governance Structure' recognition in Korean financial industry in 2013.

Materiality Test System

As a corporate citizen, Shinhan Financial Group impacts various aspects of our society. In order to achieve sustainable growth, it is imperative that we consider how our activities impact our society and put continued efforts to best manage them. SFG conducts materiality tests in order to assess societal issues stemming from our corporate actions. First, in order to assess internal / external issues related to CSR, we analyze global sustainability standards such as GRI G4 Guideline, ISO 26000, Dow Jones Sustainability Index, and CDP. Second, we conduct feedback research on stakeholders and analyze best practices of global CSR leaders. Third, we assess the importance of the CSR issues pool based on AA1000SES' 5-Part Materiality Test (Short-term Financial Impacts, Policy-related Performance, Business Peer-based Norms, Stakeholder Behavior and Concerns, Societal Norms). Last, we establish CSR action plans on the key issues and create value by systematically implementing them.

Revenue generation / Cost saving case studies through environmental management

	Detail	Results	
Green products	<ul style="list-style-type: none"> • Green Love Life Installment Deposit • Green Love Energy Term Deposit 	<ul style="list-style-type: none"> • Provide preferential interest rates to customers who save energy or make energy donations for customers who joined the product, thereby making energy conservation a part of everyday life 	<ul style="list-style-type: none"> • Green Energy Installment Deposit: KRW 948bil. (new deposits in 2013) • Green Energy Term Deposit: KRW 12,954bil. (new deposits in 2013)
	<ul style="list-style-type: none"> • New Green Corporate Loan 	<ul style="list-style-type: none"> • Provide funding to green companies and companies in the field of green industries in order to encourage growth in green economy 	<ul style="list-style-type: none"> • KRW 445bil. (outstanding balance as at the end of 2013)
	<ul style="list-style-type: none"> • Green Energy Factoring 	<ul style="list-style-type: none"> • Support the expenses used in improving the energy efficiency of facilities, such as replacing LED, and the energy user repays the construction fee to the bank with the money saved from using less electricity. 	<ul style="list-style-type: none"> • KRW 13bil. (outstanding balance as of the end of 2013)
Increase office energy efficiency	<ul style="list-style-type: none"> • Save energy by switching lights of our office buildings to LED bulbs 	<ul style="list-style-type: none"> • Annual cost saving KRW 330mil. (2012 estimate) 	
Reduce paper usage	<ul style="list-style-type: none"> • Reduce paper usage by introducing 'credit approval paper imaging system' 	<ul style="list-style-type: none"> • Annual savings of 280mil. sheets of paper (2012 estimate) 	



Ethical Management

SFG's code of ethics takes precedent over any other management principle. With transparency and clarity, we are putting ethical management program in practice. This is the promise that we make to you and is the foundation for the trust we receive as a leading financial institute from our customers, shareholders, and the society.

Shinhan Financial Group's ethical management is governed by compliance officers. As the revised Financial Holding Companies Act became effective in February 2010, a compliance officer of the holding company was appointed to oversee the group's ethical practices. The compliance officer at the holding company is responsible for supervising internal control and ethical management.

Establishment and Enforcement of a Code of Ethics

In June 2011, we implemented SFG Code of Ethics to provide a backbone for a uniform application of ethical management philosophy. This is an update from "SFG Ethics Charter on Finance Employees" that we had in place since July 2005. In 2012, Employees' Code of Conduct was established to reinforce execution of ethical practices. Moreover, each subsidiary also has put in place its own standards of ethical practice that prescribes the ethical virtues and values to be followed as corporate citizens and participants in the finance industry. This provides employees with specific guidance on the standards of conduct that they can refer to in their daily jobs.

The Group Ethical Management CoP has been in effect since August 2010 to ensure the integrity of subsidiaries' codes of ethics and enhance ethical awareness among employees. Those responsible for ethical management at each subsidiary participate in the program.

Various Ethical Management Practice Programs

To implement ethical management, SFG conducts various programs in compliance with the group's management philosophy and each subsidiary's code of ethics. We constantly make updates and modifications to the program to ensure practicality of the program.

The group also requires all employees to sign a "pledge of ethical practice" at each subsidiary level every year. The pledge contains core parts of the code of ethics, and by signing it employees confirm their commitment to ethical practices.

At Shinhan Bank, employees use the intranet to make their annual pledge to comply with the code of conduct. Shinhan Card, recognizing the importance of consumer

protection, constituted Financial Consumer Protection Charter which sets the standard of our employees' actions towards consumers.

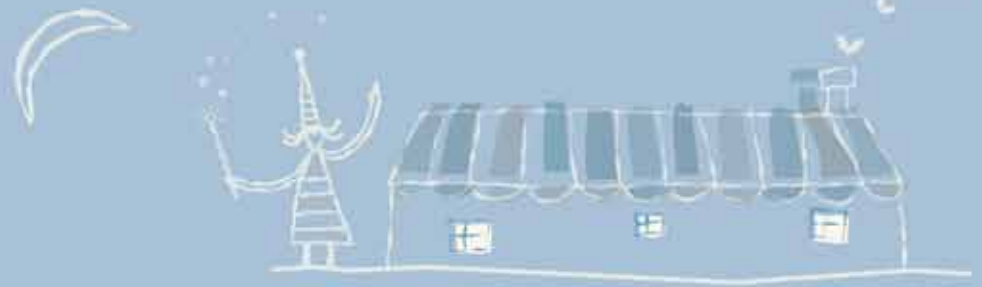
Moreover, SFG runs a financial transactions reporting system to prevent any potential conflict of interest with business partners. In order to prevent unfair competition, we are also running a voluntary compliance program for fair transactions. The program includes establishing a voluntary compliance system for fair transactions, publishing a manual, enacting the guidelines and training and monitoring systems. Shinhan Bank twice conducted training sessions for units responsible for fair trading at the head office in 2013 (a total of 102 trainees participated in 2013).

The group has enacted the guidelines for internal transactions and published a manual to prevent irregularities in financial transactions, including capital, assets and human resources, among subsidiaries. Accordingly, SFG strives to enhance the transparency and fairness of operations, by encouraging each subsidiary to review and report the appropriateness of internal transactions every quarter.

In November 2012, we established Code of Behavior for Partners of SFG to promote win-win growth with our partners. In 2013, we set up "VOC from partners" mechanism in our homepage to receive any complaints and notices from our partners. As such, we are making every effort to support the sustainable growth of our partners and lay the foundation for contributing to our local communities and the environment.

Leading a Transparent Financial Culture

The group is prepared to detect any possible financial accidents in advance with our Financial Irregularities Reporting System, through which customers can report breaches of law and/or irregularities by employees. Also, we have Whistleblower Reporting System in place through which employees can report internal violations of the law, company rules or code of ethics. SFG provides online/offline training programs to elevate employee awareness on issues such as a transparent promotion culture, proper stock transactions, healthy investment practices and the prevention of bribery during holiday seasons. We are working to make ethical practices a natural part of Shinhan's culture.



Ethical Management Training

Constant ethical and legal compliance training is provided to all employees in order to strengthen the ethical standards and legal compliance in all business activities. All employees are required to attend a management strategy meeting, partake in rank-specific training, or online training session at least once a year.

Since 2011, SFG has supported all Group subsidiaries via a joint Group-wide ethical and legal compliance online education, apart for Shinhan Bank who has its own program. This allows all Group companies to easily understand and execute Group's philosophies and basic values of ethical management.

Shinhan Bank has made the third week of every month Compliance Education Week ("ABC Week"). During this period, the bank conducts training on the latest ethical and legal issues by circulating "Compliance Letter" covering recent financial incidents, financial acts and regulations and best practices. In addition, a mandatory ethical management and legal compliance course is opened online for all employees. The bank also provides rank-specific training courses to newly hired employees and newly promoted employees.

Shinhan Card provides annual online training session to all employees on raising awareness on legal compliance and preventing financial accidents. In 2013, 4,108 employees completed the course. In addition, employees are also required to perform self-compliance checks once a year.

Shinhan Investment Corp. conducts an annual compliance awareness survey to gauge our employees' general level of understanding of ethics and legal compliance. This initiative also aims to explore what the right way is to further develop ethical management. Moreover, we provide annual ethical compliance training sessions to our employees. At retail branch offices, we endeavor to raise the awareness on compliance by providing education on the changes in finance-related laws and regulations, main compliance monitoring tasks, and incident prevention.

At Shinhan Life Insurance, we have dedicated the every third week of the month to "Compliance Practice Week," where share issues on ethics and legal compliance. In addition, we have included ethical and legal compliance training to general training program for new hires and promoted employees. In 2013, we conducted guest speaker trainings twice, to raise ethical awareness at the top management level including CEO.

External Assessment of Ethical Management

Shinhan's efforts for ethical management are well received by external parties. Shinhan Bank was named an All Star (one of the top 30 companies) for the eight straight years on the 2013 Korea's Most Admired Company survey by the Korea Management Association (KMA). Shinhan Bank was also nominated as #1 company in Korea's Most Admired Company in the Banking Industry category.

In addition, Shinhan Bank was selected as #1 Company in banking industry on Korean Sustainability Index (KSI*) for 2 consecutive years.

Shinhan Card topped the 2011 Korea's Most Admired Companies list for six years in a row, and won the first place on the Korea Sustainability Index by the Korean Standards Association (KSA) for four consecutive years.

Shinhan Investment Corp received the following awards:
Top PD (designated dealer of government bond) for 1H 2013 (Ministry of Strategy and Finance), Grand prize for 2013 100 Great Work Place in Korea, Financial sector (GWP Korea), Highest honor in Customer Satisfaction, Korea Securities Award (Seoul Economy), Grand prize, 2nd Annual Korea Education Donation Award, Corporate (Korea Science Innovation Foundation)

Shinhan Life Insurance received high recognition in both ethical management and customer satisfaction with the following accolades:
Grand prize winner for 2013 Customer Satisfaction Management Award, Finance / Insurance Sector (Korea Economic Daily, Korea Sustainability Evaluation), Minister award for 2013 Labor Culture Award (Ministry of Employment and Labor)

Shinhan Financial Group will continue to put forth our best efforts to practice ethical management at the highest level. We will endeavor to firmly stand as a sustainable financial group who meets all social responsibilities as a good corporate citizen.



Note.

* KSI was developed by the Korea Standards Association and the Korea Development Institute School of Public Policy and Management to measure companies' fulfillment of social responsibilities and sustainability on the basis of the ISO 26000 relating to corporate social responsibility.

households, improved employment conditions and favorable economy was hampered by a stream of destabilizing events, and, developing countries such as Brazil, India and commodities and inflation concerns. The Korean financial markets armed with a weaker Yen. It also did not help that occurred in the real estate markets. Overall it was a year of uncertainty. Low growth, low interest rates, and a new regulatory environment where credit card fees increased toward the second half of the year. A slowdown in 2013, the financial sector continued to move forward with management measures were implemented; such companies at risk. Through these activities, we adapted to changes in societal expectations such as, recently, we had to cope with changes in internal market growing uncertainty and volatility, SFG achieved results in those of others. It achieved sustainable growth that set SFG apart from its peers with its net income was mainly driven by a reduction in interest income of KRW 1,387.1 billion, a decrease in quality clients. However, net interest margin and lower bancassurance fees and impairment losses in our portfolio in an environment where restructuring, 10% below last year. It was negatively impacted by the same. However, net income contribution to the Group's positive contributions to Group level ROA. On a stand-alone basis, 29% and 4% of the consolidated net income for 2013, KRW 50.4 billion, and 20.5 billion, using-Finance Corporates' mortgage loan assets. On a stand-alone basis, each grew its assets by 13.5% and 14.4%. Shinhan Bank's overall financial crisis, we have focused on growing our portfolio preemptive sales or writing off on bad debts. As a result, in 2013, the NPL ratio of Shinhan Bank and Shinhan Card (29%) and Shinhan Card (323%) are well above their industry counterparts. The Group posted a consolidated net income of KRW 1,902.8 billion, a 10% growth, net interest margin continued to suffer due to reduction in interest income negatively impacted by tightened regulations and market conditions under control and we were able to reduce bad debt expenses in an environment where all recorded pronounced reductions in net income. In addition, we have carried forth various initiatives to generate stable profits and expand profit margins in our banking and non-banking businesses, we have strengthened our core competencies of each of the business units into a matrix organization centered on the banking and securities businesses. In order to increase profits from overseas, the Group is taking on initiatives to stabilize our business by implementing long-term, strategic cost reduction initiatives. In the banking sector, efforts were continued to defend its profitability on its cash cow business, which was reduced by 5.4% as the Group's net interest margin declined by 19 bps from last year. The decrease in non-interest income, as well as impairment losses from securities and other businesses. Despite additional provisions for bad debt expenses towards other businesses, this can be attributed to the growth of quality assets, lowered provisions from more stringent regulations, as it declined from 0.67% recorded last year to 0.59%. On sector-by-sector level, net interest margin, NIM and non-interest income, while reduced fees and tightened regulations on non-banking businesses, reduced funding cost, and a gain on selling shares of Visa International positively impacted net income, a 9% increase in net income from last year, largely due to a rebound in brokerage revenue and sales gains from securities and reduced sales gains from fixed income trading. Shinhan Capital's net income grew by 19.5 billion (-17.4%) lower than 2012. Interest income was KRW 4,350.5 billion, KRW 418.2 billion (-8.8%) lower than 2012 as because commission income from fund and bancassurance sales decreased and a large impairment loss on securities. Even with one-off provision events such as restructurings of construction companies and other businesses, reduced debt expenses from rigorous delinquency management. Delinquency ratio for household and SME loans were stable and stabilized bad debt expenses; however, the current difficult market conditions and competition for quality investment opportunities. In order to stay competitive and proactively respond to the changing environment. With this management and operating systems. We will bring differentiated solutions to our customers and systemize Compassionate Finance practices throughout 2012. Net interest margin was sharply reduced as lowered market interest rate focus on high quality assets had an adverse affect on NIM as it drove lending rates higher. In 2013, Shinhan Bank posted a NIM of 1.76%, 23 bps lower than last year. Funding costs from maturing high cost deposits, improvement in delinquency ratio and implementing profitability-oriented deposit management, such as reducing high-interest deposits, reduced interest income by moving away from being scale-focused to profitability-focused business. Commission income decreased by KRW 56.7 billion as a result of large fluctuation in FX rates, FX trading and derivatives income also declined by KRW 20.5 billion. On a stand-alone basis, selling Hynix and other securities. Despite an increase in wage and severance payments for voluntary employees, our strategic cost saving initiatives such as scaling back on advertising. Despite a reduction in SG&A expenses, operating income reduced by KRW 454.7 billion. During 2013, the business environment deteriorated as a fiscal market. As a result, real household income slowed to recover and discretionary spending sentiment contracted. "merchant fee system restructuring" and "comprehensive measures to restructure our business" were able to maintain its profitability and stability by continuing to scale from 13.4 million effective members (21.4 million customers) generated net income of KRW 658.1 billion for 2013. Shinhan Card (2013 retail credit sales transaction) by leveraging the advantages from its network having a support for cross-selling and creating business opportunities, financial network from the Group. Shinhan Card is actively developing new growth areas such as mobile phones. Furthermore, it has solidified its leadership position in smart finance by continuing to develop new products and services to meet customers' fast changing needs. In 2013, Shinhan Card was recognized as the industry leader. It received first place recognition from the Association: Premium Brand Index, Korea Productivity Center National: Brand Competitiveness Index, Korea's two consecutive years, a feat that has not been achieved by any credit card business in Korea. In order to progress in a stable business environment, we need new perspectives and creative challenges more than ever before. We are building a stable business environment, our industry leadership position and investing strategically for future growth. For 2014, we have established the goal of becoming the biggest player in size to a differentiated industry leader recognized by the market and customers. We will improve product lineup and design, lead active communication to the customers and market, and introduce new growth markets such as debit cards, mobile, and online senior markets. In addition, we will adopt new marketing strategies in the industry. We will reinforce our core competency by implementing a differentiated brand image toward the market by developing new businesses and reassess existing business lines such as installment financing and results from cost reduction initiatives and bolster our collection capability to minimize bad debt expenses from factoring revenue and ancillary revenue; however, product revenue decreased as the market and cash advance volumes shrunk. As a result, operating income only grew by 0.3%

Financial Section

investment sentiments. Eurozone rebounded to positive growth territory, led by the such as the US government shutdown and the US Federal Reserve's tapering. However, Mexico, continued to suffer from an economic downturn. In midst of the downturn, signs of market showed decoupling from the global markets. During the first half, growth slowed as the anticipation of tapering cooled investment sentiments. During the second half, however, a difficult business environment with deteriorating profitability and heightened regulations across heightened regulations continued to drive down interest income from our core businesses. In addition, were lowered and accounting policies changed on new insurance policy subscription costs. However, in interest margin contraction and a gradual recovery of the real estate market led to heightened forward with additional restructurings on construction companies with real estate project financing as heightened monitoring on housing developer delinquencies, restructuring on court receivership, and were able to reduce bad debt expense from last year. In addition, we put our best efforts to meet as a reduction in credit card fees. We also faced new changes in competitive dynamics arising from dynamics such as leadership changes, minor accidents, and shoring up of risk compliance the highest operating results among all Korean financial groups for six consecutive years. growth through measured loan growth, and practiced precision management stable earnings capability. On a consolidated basis, SFG's net income for 2013 was KRW interest and non-interest income, as well as an increase in SG&A. However, excluding of 17.4% from last year. Shinhan Bank's KRW loan book grew by an interest income each decreased by 23bps and 8.8%, due to base rate cuts and from securities holdings. On the other hand, credit costs improved by defaults and work-out events have continued since 2009. The non-lowered credit card merchant fees, changes in accounting policies remained steady at 38%. Furthermore, higher profitability of alone basis, Shinhan Card and Shinhan Life Insurance posted the Group. Shinhan Investment Corp., Shinhan Capital respectively. Shinhan Bank's KRW loan assets grew at consolidated basis, Group's total assets expanded grew its deposits by 2.1% and its loan-to-quality asset base and strengthening our the Group's NPL ratio stood at 1.26%, remained stable at 1.16% and 1.53%. average level indicates our greater 18.0% (KRW 419.1 billion) lower in base rate and adverse conditions, thereby through rigorous risk In addition, SFG sources in this strengthened our subsidiaries businesses. By our banking the Group businesses such Non-interest income also decreased by 10.2% from the last year. Lowered bancassurance holdings. On the cost side, despite the growth in personnel cost and severance payments restructuring companies and expected decrease in recovery from credit card writer's risk management activities, and reduced bad debt expenses from shipping finance income from banking sector decreased by 17.4% from last year, while net income from banking subsidiaries had an adverse effect on the non-banking sector. Shipping affected net income. However, it was offset by increased competition, net commissions from commodity products. Shinhan Life Insurance posted KRW 45.7 billion from last year as bad debt expenses from shipping than last year due to a 23 bps decline in net interest margin. Non-was made on available-for-sale securities. Helped by cost cutting other conglomerates, bad debt expenses were contained at 0.24% and 0.55%, as KRW 1,568 billion of loans were secured. business environment is expected to persist. We will stay competitive and differentiated, we have set "creative goal, we will focus on innovative asset management in future growth areas such as the retirement our organization. Despite a 2.0% growth in depressed loan yield, followed by lower interest lower. Lastly, the current low growth NIM for 4Q, however, improved by 10% over due interest recovery. In order deposit products and increased asset management. Shinhan strengthening of tax deduction the other hand, securities retirement program, expenses, cost-to-crisis continued. Furthermore, credit card build its scale including further scale being a leveraged oppo gain Las on Ma int bu str I n i n n met market and exp e g o v e r n despite

growth in key economies including Germany, it continued its path to recovery of strain arose in their worrie

any. During the second half of the year, the world
 as China began to emerge from its slump. On the other
 financial markets as capital outflow created a ripple effect in currency
 es mounted on Korean exporters losing their competitive edge to their Japanese
 improvement showed as market rates stabilized and positive signs
 all financial sectors including bank, credit card, securities and life
 the challenge continued to sustain non-banking income in
 positive signs on interest income began to appear
 expectations that interest income will rebound. In
 delinquencies. In addition, conservative risk
 proactive management on potential defaults by
 growing demand on social responsibility and
 bank privatization, spin-offs and M&A activities.
 processes and monitoring activities. In this time
 SFG's profitability and asset quality were better
 'Compassionate Finance.' It was the
 1,902.8 billion, 18% below last year's KRW 2,321.9 billion. Decrease in
 one-off items, the Group continued to generate stable income. The banking sector generated
 appropriate growth rate of 2.0%, reflecting our focus on extending credits to high
 greater competition. Non-interest income also declined 7.2% from 2012 due
 11.3% from the previous year. This demonstrates the healthy state of our loan
 banking sector generated net income of KRW 861.9 billion,
 insurance and reduced interest income from low base
 non-banking subsidiaries allowed them to make
 billion and KRW 79.7 billion each, accounting
 Management generated net income of KRW
 due to the KRW 2.7 trillion securitization of
 brokerage and life insurance subsidiaries
 below the 100% mark at 98.5%. Since the
 Such includes greater credit monitoring
 compared to its peers. As at the end of
 ratio for the Group (163%), Shinhan Bank
 potential bad debt in the future. In 2013, the
 decline in interest income from slowed loan
 non-interest income such as fees & commissions
 net income for the year. However, SG&A remained
 outperformed other domestic financial groups in an
 its peers for sixth consecutive years. Since 2010, SFG has
 highlighted by low growth, low interest rates, and tightened regulation. Based on a
 would enable us to increase our profit base by generating returns to our customers. In addition,
 by reorganizing our WM (Wealth Management) and CIB (Corporate and Investment Banking)
 expand our profit sources and increase returns for our customers. Furthermore, with the
 d. In addition, rather than making ad-hoc group-wide cost cutting measures, we are
 core profitability through stabilizing interest income and bad debt expenses. In the non-
 2.0% rise in the KRW outstanding bank loan amount, the Group's interest income was
 bancassurance income, credit card merchant fees and brokerage fee income all contributed
 ments, we were able to curtail the Group's SG&A expense growth at 3.5% with Group-wide
 -off assets, the Group's credit costs improved by KRW 138.2 billion (-10.5%) from 2012.
 -performed by Shinhan Capital. As a result, Group credit cost ratio improved by 8 bps year-
 -ine from non-banking sector decreased by 16.0%. The banking sector was negatively affected
 -han Card posted a net income of KRW 658.1 billion, an 11.3% decrease year-on-year. Prudent
 -merchant fee regulations and an increase in bad debt expenses. Shinhan Investment Corp posted
 -I KRW 135.6 billion lower net income than last year as it was negatively affected by the change in
 -finance stabilized. During 2013, Shinhan Bank generated net income of KRW 1,373.0 billion, KRW
 -interest income also declined by KRW 62.4 billion to KRW 800.5 billion on a year on year basis. This
 -ng initiatives, SG&A expenses decreased by KRW 25.9 billion (-1.0%), despite an increase in wage and
 -KRW 738.2 billion, KRW 93.6 billion lower than last year. It was largely driven by a decrease in new bad
 -ould or written off. NPL ratio was 1.16%, a sound level compared to peers. We do expect better results for
 -till face an extended low growth, low interest rate environment, greater consumer protection and security
 -ve challenge, differentiated growth" as our strategic objective. With it, we seek to improve our business
 -ent and discovering new markets and business opportunities. We will improve our business productivity in
 -t markets and enhance competitiveness in our core markets. Lastly, we will build deep, trusted
 -KRW loan assets, Shinhan Bank's interest income contracted by KRW 418.2 billion
 -d funding cost that was slow to catch up from their longer duration. In addition,
 -environment reduced loan demand, which in turn created price competition on
 -6 bps to 1.79% from the corresponding last quarter. It was driven by lowered
 -er to defend its NIM, Shinhan Bank has endeavored to reduce its funding costs by
 -sing low cost deposit products. In addition, we endeavored to minimize
 -n Bank generated non-interest income of KRW 800.5 billion, KRW 62.4
 -uctibility criteria for pension products depressed bancassurance sales. Due
 -ies related income increased by KRW 35.8 billion as we realized gain from
 -SG&A expenses fell by KRW 25.9 billion (-1.0%) from 2012. It was led by
 -operating income ratio rose to 52.3%, a 4.0%p increase from last year,
 -in developed countries and low growth persisted in the domestic
 -the industry faced implementations of new regulation such as
 -business structure." Despite these difficulties, Shinhan Card was
 -scale and improve its growth quality. Backed by the economies of
 -debit cards) and 2.4 million member merchants, Shinhan Card
 -olidified its market leadership position (22.3% market share based on
 -a member of the largest financial group. As a result, it benefited from
 -ging SFG's efficient risk management system, and receiving stable
 -rtunities such as social commerce and factoring installment receivables
 -ing a competitive advantage in mobile channel. Shinhan Card also
 -tly, it put forth great efforts and emphasis on increasing customer
 -all three major brand value assessments (Korea Standard
 -management Association Consulting: Brand Power of Korean
 -o a differentiated industry leader
 -usiness platform for the
 -ategic objective
 -order to
 -novative
 -ethods by
 -et and our
 -card-
 -nses.
 -ment
 -1.2%

Despite deterioration in industry-wide profitability in this prolonged low growth environment, which is now considered the “new norm,” SFG has focused on garnering internal stability while preparing for the future. Despite the difficult environment, we successfully improved our asset quality, profit structure and management system. As a result, we posted net income of KRW 1.9 trillion, highlighted with 2.1% growth in loans and 10.5% reduction in bad debt expenses. With this industry leading result for six consecutive years, Shinhan Financial Group has firmly cemented its position as the “Leading Financial Group in Korea.”



Management's Discussion and Analysis

REVIEW OF 2013

In 2013, developed countries led the growth of the global economy. The US and Europe's economies rebounded and Japan also grew due to its monetary easing policy. The US continued its resilient recovery, fueled by slowed deleveraging of households, improved employment conditions and favorable investment sentiments. Eurozone rebounded to positive growth territory, led by the growth in key economies including Germany. During the second half of the year, the world economy was hampered by a stream of destabilizing events, such as the US government shut-down and the US Federal Reserve's tapering. However, it continued its path to recovery as China began to emerge from its slump. On the other hand, developing countries such as Brazil, India and Mexico, continued to suffer from an economic downturn. In midst of the downturn, signs of strain arose in their financial markets as capital outflow created a ripple effect in currency volatilities and inflation concerns.

The Korean financial market showed decoupling from the global markets. During the first half, growth slowed as worries mounted on Korean exporters losing their competitive edge to their Japanese peers armed with a weaker Yen. It also did not help that the anticipation of tapering cooled investment sentiments. During the second half, however, improvement showed as market rates stabilized and positive signs appeared in the real estate markets. Overall it was a year of a difficult business environment with deteriorating profitability and heightened regulations across all financial sectors including bank, credit card, securities and life insurance.

Low growth, low interest rates, and heightened regulations continued to drive down interest income from our core businesses. In addition, the challenge continued to sustain non-banking income in this new regulatory environment where credit card fees were lowered and accounting policies changed on new insurance policy subscription costs. However, positive signs on interest income began to appear toward the second half of the year. A slowdown in interest margin contraction and a gradual recovery of the real estate market led to heightened expectations that interest income will rebound.

In 2013, the financial sector continued to move forward with additional restructurings on construction companies with real estate project financing delinquencies. In addition, conservative risk management measures were implemented; such as heightened monitoring on housing developer delinquencies, restructuring on court receivership, and proactive management on potential defaults by companies at risk. Through these activities, we were able to reduce bad debt expense from last year.

In addition, we put our best efforts to meet growing demand on social responsibility and adapt to changes in societal expectations such as a reduction in credit card fees. We also faced new changes in competitive dynamics arising from bank privatization, spin-offs and M&A activities. Lastly, we had to cope with changes in internal dynamics such as leadership changes, minor accidents, and shoring up of risk compliance processes and monitoring activities.

In this time of growing uncertainty and volatility, SFG achieved the highest operating results among all Korean financial groups for six consecutive years. SFG's profitability and asset quality were better than those of others. It achieved sustainable growth through measured loan growth, and practiced precision management via 'Compassionate Finance.' It was the year that set SFG apart from its peers with its stable earnings capability.

On a consolidated basis, SFG's net income for 2013 was KRW 1,902.8 billion, 18% below last year's KRW 2,321.9 billion. Decrease in net income was mainly driven by a reduction in interest and non-interest income, as well as an increase in SG&A. However, excluding one-off items, the Group continued to generate stable income.

The banking sector generated net income of KRW 1,387.1 billion, a decrease of 17.4% from last year. Shinhan Bank's KRW loan book grew by an appropriate growth rate of 2.0%, reflecting our focus on extending credits to high quality clients. However, net interest margin and interest income each decreased by 23bps and 8.8%, due to base rate cuts and greater competition. Non-interest income also declined 7.2% from 2012 due to lower bancassurance fees and impairment losses from securities holdings. On the other hand, credit costs improved by 11.3% from the previous year. This demonstrates the healthy state of our loan portfolio in an environment where restructuring, defaults and work-out events have continued since 2009.

The non-banking sector generated net income of KRW 861.9 billion, 16.0% below last year. It was negatively impacted by lowered credit card merchant fees, changes in accounting policies for life insurance and reduced interest income from low base rate. However, net income contribution to the Group remained steady at 38%. Furthermore, higher profitability of credit card and other non-banking subsidiaries allowed them to make positive contributions to Group level ROA.

On a stand-alone basis, Shinhan Card and Shinhan Life Insurance posted net income of KRW 658.1 billion and KRW 79.7 billion each, accounting for 29% and 4% of the consolidated net income for the Group. Shinhan Investment Corp., Shinhan Capital and Shinhan BNPP

Asset Management generated net income of KRW 75.4 billion, KRW 50.4 billion, and 20.5 billion, respectively.

Shinhan Bank's KRW loan assets grew at a relatively low rate of 2.0%, due to the KRW 2.7 trillion securitization of Housing-Finance Corporates' mortgage loan assets. On consolidated basis, Group's total assets expanded by 2.1% from 2012 as brokerage and life insurance subsidiaries each grew its assets by 13.5% and 14.4%.

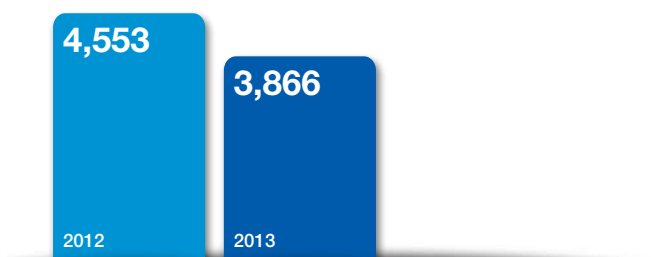
Shinhan Bank grew its deposits by 2.1% and its loan-to-deposit ratio remained steady below the 100% mark at 98.5%.

Since the global financial crisis, we have focused on growing our quality asset base and strengthening our risk management efforts. Such includes greater credit monitoring and preemptive sales or writing off on bad debts. As a result, the Group's NPL ratio stood at 1.26%, indicating its relative strength compared to its peers.

As at the end of 2013, the NPL ratio of Shinhan Bank and Shinhan Card remained stable at 1.16% and 1.53%. The fact that NPL coverage ratio for the Group (163%), Shinhan Bank (149%) and Shinhan Card (323%) are well above their industry average level indicates our greater ability to respond to any potential bad debt in the future.

Group Pre-provision Income

KRW in billions



Group Net Income

KRW in billions



Summary of the Reported Income Statements (Profitability and Market Position)

1. Shinhan Financial Group

In 2013, the Group posted a consolidated net income of KRW 1,902.8 billion, 18.0% (KRW 419.1 billion) lower than 2012. In addition to the decline in interest income from slowed loan growth, net interest margin continued to suffer due to reduction in base rate and adverse market conditions. Further, non-interest income such as fees & commissions was negatively impacted by tightened regulations and market conditions, thereby contributing to Group's reduced net income for the year. However, SG&A remained under control and we were able to reduce bad debt expenses through rigorous risk management. As a result, SFG outperformed other domestic financial groups in an environment where all recorded pronounced reductions in net income. In addition, SFG posted the highest net income among its peers for sixth consecutive years.

Since 2010, SFG has put forth various initiatives to generate stable profits and expand profit sources in this difficult operating environment highlighted by low growth, low interest rates, and tightened regulation. Based on a balance portfolio of banking and non-banking businesses, we have strengthened our core business foundation that would enable us to increase our profit base by generating returns to our customers. In addition, we are not only strengthening the core competencies of each of the subsidiaries but also increasing synergies by reorganizing our WM (Wealth Management) and CIB (Corporate and Investment Banking) business units into a matrix organization centered on the banking and securities businesses. By doing so, we believe we can expand our profit sources and increase returns for our customers. Furthermore, with the goal to increase profits from overseas, the Group is taking on initiatives to localize our banking and securities businesses abroad. In addition, rather than making ad-hoc group-wide cost cutting measures, we are implementing long-term, strategic cost reduction initiatives.

In the banking sector, the Group continued to focus on maintaining its core profitability through stabilizing interest income and bad debt expenses. In the non-banking sector, efforts were continued to defend its profitability on its cash cow businesses such as the credit card business.

Despite the 2.0% rise in the KRW outstanding bank loan amount, the Group's interest income was reduced by 5.4% as the Group's net interest margin declined by 19 bps from last year. Non-interest income

Management's Discussion and Analysis

also decreased by 10.2% from the last year. Lowered bancassurance income, credit card merchant fees and brokerage fee income all contributed to the decrease in non-interest income, as well as impairment losses from securities holdings.

On the cost side, despite the growth in personnel cost and severance payments, we were able to curtail the Group's SG&A expense growth at 3.5% with Group-wide cost reduction initiatives.

Despite additional provisions for bad debt expenses towards restructuring companies and expected decrease in recovery from credit card written-off assets, the Group's credit costs improved by KRW 138.2 billion (-10.5%) from 2012. This can be attributed to the growth of quality assets, lowered provisions from more stringent risk management activities, and reduced bad debt expenses from shipping finance performed by Shinhan Capital. As a result, Group credit cost ratio improved by 8 bps year-on-year, as it declined from 0.67% recorded last year to 0.59%.

SFG Condensed Income Statements

KRW in billions

	2013	2012	Chg Amt	Chg %
Total Operating Income	8,024.3	8,561.9	-537.6	-6.3%
Interest Income	6,602.9	6,979.7	-376.9	-5.4%
Non-interest Income	1,421.4	1,582.2	-160.8	-10.2%
SG&A Expense	4,202.5	4,061.6	141.0	3.5%
Pre-provision Operating Income	3,821.7	4,500.3	-678.6	-15.1%
Gains on investment stock using equity method	44.6	52.7	-8.1	-15.4%
Pre-provision Income	3,866.3	4,553.0	-686.7	-15.1%
Loan Loss Provision	1,184.2	1,322.4	-138.2	-10.5%
Pre-tax Income	2,682.1	3,230.6	-548.5	-17.0%
Income Tax Expense	622.6	738.7	-116.2	-15.7%
Consolidated Net Income	1,902.8	2,321.9	-419.1	-18.0%

On sector-by-sector level, net income from banking sector decreased by 17.4% from last year, while net income from non-banking sector decreased by 16.0%. The banking sector was negatively affected by reduction in NIM and non-interest income, while reduced fees and tightened regulations on non-banking subsidiaries had an adverse effect on the non-banking sector.

Shinhan Card posted a net income of KRW 658.1 billion, an 11.3% decrease year-on-year. Prudent asset management, reduced funding cost, and a gain on selling shares of Visa International positively af-

ected net income. However, it was offset by increased competition, merchant fee regulations and an increase in bad debt expenses. Shinhan Investment Corp posted 17.9% increase in net income from last year, largely due to a rebound in brokerage revenue and sales commissions from commodity products. Shinhan Life Insurance posted KRW 135.6 billion lower net income than last year as it was negatively affected by the change in accounting policies and reduced sales gains from fixed income trading. Shinhan Capital's net income grew by KRW 45.7 billion from last year as bad debt expenses from shipping finance stabilized.

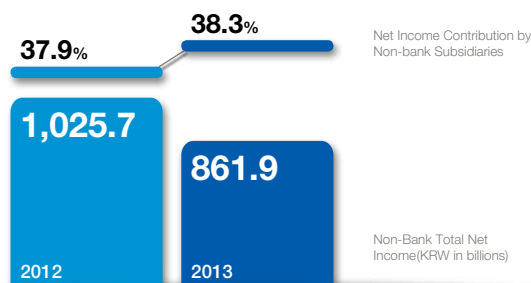
Subsidiaries Income

KRW in billions

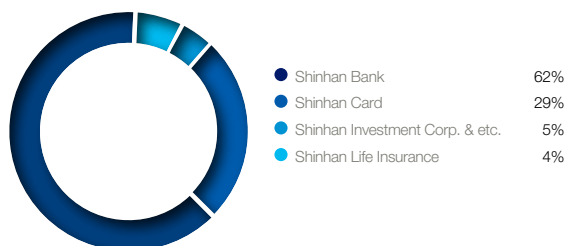
	2013	2012	Chg Amt	Chg %
Bank (a)	1,387.1	1,678.4	-291.3	-17.4%
Shinhan Bank	1,373.0	1,662.5	-289.5	-17.4%
Jeju Bank	14.1	15.9	-1.8	-11.1%
Non-Bank (b)	861.9	1,025.7	-163.8	-16.0%
Shinhan Card	658.1	741.8	-83.7	-11.3%
Shinhan Investment Corp.	75.4	63.9	11.5	17.9%
Shinhan Life Insurance	79.7	215.3	-135.6	-63.0%
Shinhan BNPP AM	20.5	20.3	0.2	0.5%
Shinhan Capital	50.4	4.7	45.7	961.4%
Shinhan Savings Bank	-29.9	-23.4	-6.5	n.a.
Shinhan Data System	1.1	1.6	-0.5	-30.7%
Shinhan AITAS	3.8	-0.5	4.3	n.a.
Shinhan Credit Information	0.2	0.0	0.2	n.a.
Shinhan Private Equity	2.9	2.0	0.9	40.9%
Total Net Income (a+b)	2,249.1	2,704.2	-455.1	-16.8%
Consolidated Net Income	1,902.8	2,321.9	-419.1	-18.0%

Note) After reflecting ownership by SFG

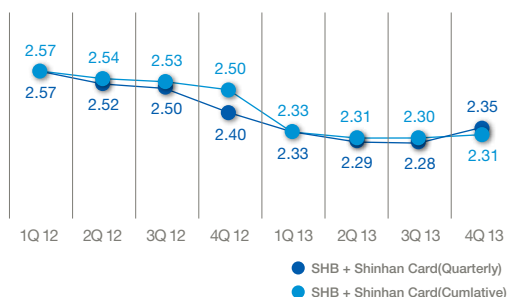
Net Income Contribution by Non-Bank Subsidiaries



Net Income Contribution by Subsidiaries



Group NIM %



2. Shinhan Bank

1) Overview

During 2013, Shinhan Bank generated net income of KRW 1,373.0 billion, KRW 289.5 billion (-17.4%) lower than 2012. Interest income was KRW 4,350.5 billion, KRW 418.2 billion (-8.8%) lower than last year due to a 23 bps decline in net interest margin. Non-interest income also declined by KRW 62.4 billion to KRW 800.5 billion on a year on year basis. This was because commission income from fund and bancassurance sales decreased and a large impairment loss was made on available-for-sale securities.

Helped by cost cutting initiatives, SG&A expenses decreased by KRW 25.9 billion (-1.0%), despite an increase in wage and severance payments. Even with one-off provision events such as restructurings of construction companies and other conglomerates, bad debt expenses were contained at KRW 738.2 billion, KRW 93.6 billion lower than last year. It was largely driven by a decrease in new bad debt expenses from rigorous delinquency management.

Delinquency ratio for household and SME loan were stable at 0.24% and 0.55%, as KRW 1,568 billion of loans were sold or written off. NPL ratio was 1.16%, a sound level compared to peers.

We do expect better results for 2014 through a rebound in margin and stabilized bad debt expenses; however, the current difficult business environment is expected to persist. We will still face an extended low growth, low interest rate environment, greater consumer protection and security related regulations, and higher competition for quality investment opportunities.

In order to stay competitive and differentiated, we have set “creative challenge, differentiated growth” as our strategic objective. With it, we seek to improve our business practices through creative means and proactively respond to the changing environment. With this goal, we will focus on innovative asset management and discovering new markets and business opportunities. We will improve our business productivity in customer relationship management and operating systems. We will bring differentiated solutions in future growth areas such as the retirement markets and enhance competitiveness in our core markets.

Lastly, we will build deep, trusted relationships with our customers and systemize Compassionate Finance practices throughout our organization.

SHB Condensed Income Statements

KRW in billions

	2013	2012	Chg Amt	Chg %
Total Operating Income	5,151.0	5,631.6	-480.6	-8.5%
Interest Income	4,350.5	4,768.7	-418.2	-8.8%
Non-interest Income	800.5	862.9	-62.4	-7.2%
SG&A Expense	2,692.9	2,718.8	-25.9	-1.0%
Operating Income	2,458.1	2,912.8	-454.7	-15.6%
Gains on investment stock using equity method	8.0	8.2	-0.2	-1.8%
Pre-provision Income	2,466.2	2,921.0	-454.8	-15.6%
Loan Loss Provision	738.2	831.8	-93.6	-11.3%
Pre-tax Income	1,728.0	2,089.2	-361.2	-17.3%
Net Income	1,373.0	1,662.5	-289.5	-17.4%

2) Interest income and NIM

Despite a 2.0% growth in KRW loan assets, Shinhan Bank's interest income contracted by KRW 418.2 billion (-8.8%) from 2012. Net interest margin was sharply reduced as lowered market interest rate depressed loan yield, followed by lowered funding cost that was slow to catch up from their longer duration. In addition, our focus on high quality assets had an adverse affect on NIM as it drove lending rates lower. Lastly, the current low growth environment reduced loan demand, which in turn created price competition on lending.

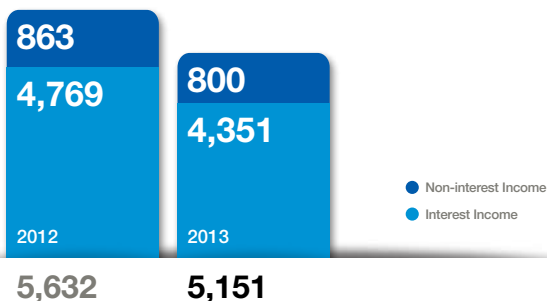
Management's Discussion and Analysis

In 2013, Shinhan Bank posted a NIM of 1.76%, 23 bps lower than last year. NIM for 4Q, however, improved by 6 bps to 1.79% from the corresponding last quarter. It was driven by lowered funding costs from maturing high cost deposits, improvement in delinquency ratio and overdue interest recovery.

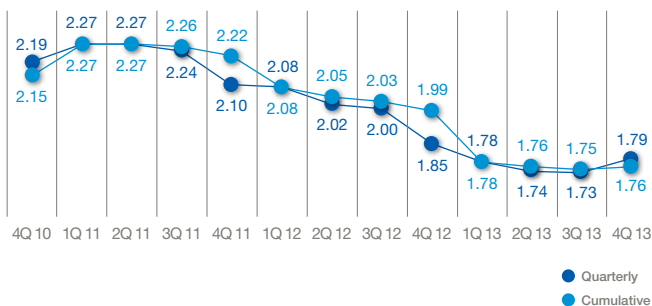
In order to defend its NIM, Shinhan Bank has endeavored to reduce its funding costs by implementing profitability-oriented deposit management, such as reducing high-interest deposit products and increasing low cost deposit products. In addition, we endeavored to minimize reduction in interest income by moving away from being scale-focused to profitability-focused asset management.

Interest Income, Non-Interest Income, and Total Income

KRW in billions



Shinhan Bank NIM %



3) Non-interest income

Shinhan Bank generated non-interest income of KRW 800.5 billion, KRW 62.4 billion (-7.2%) less than last year. Commission income decreased by KRW 56.7 billion as strengthening of tax deductibility

criteria for pension products depressed bancassurance sales. Due to large fluctuation in FX rates, FX trading and derivatives income also declined by KRW 20.5 billion. On the other hand, securities related income increased by KRW 35.8 billion as we realized gain from selling Hynix and other securities.

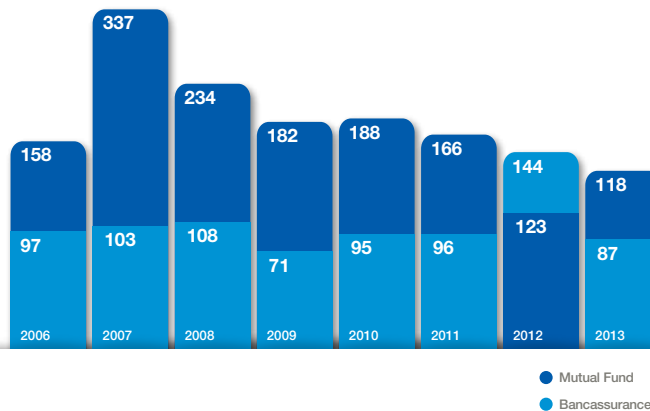
Non-Interest Income

KRW in billions

	2013	2012	Chg Amt	Chg %
Non-Interest Income	800.5	862.9	-62.4	-7.2%
Fees & Commissions	748.9	836.3	-87.4	-10.4%
(Mutual Fund)	118.3	122.6	-4.3	-3.5%
(Bancassurance)	87.3	144.0	-56.7	-39.4%
(Trust Fees)	42.2	40.6	1.6	3.9%
Securities related	421.1	385.3	35.8	9.3%
FX Trading/Derivatives	139.0	159.5	-20.5	-12.9%
Others	-508.5	-518.2	9.7	n.a.

Fees and Commissions from Mutual Fund/ Bancassurance Sale

KRW in billions



4) Sales, General and Administrative Expenses

Despite an increase in wage and severance payments for voluntary retirement program, SG&A expenses fell by KRW 25.9 billion (-1.0%) from 2012. It was led by our strategic cost saving initiatives such as scaling back on advertising. Despite a reduction in SG&A expenses, cost-to-operating income ratio rose to 52.3%, a 4.0%p increase from last year, as operating income reduced by KRW 454.7 billion.

SG&A Expenses

KRW in billions

	2013	2012	Chg Amt	Chg %
SG&A Expenses	2,692.9	2,718.8	-25.9	-1.0%
Salary & Employee Benefits	1,508.9	1,525.2	-16.3	-1.1%
Depreciation & Amortization	203.6	192.6	11.0	5.7%
Other Expenses	980.4	1,000.9	-20.5	-2.1%
Cost-Income Ratio	52.3%	48.3%		4.0%p

3. Shinhan Card

1) Overview

During 2013, the business environment deteriorated as a fiscal crisis continued in developed countries and low growth persisted in the domestic market. As a result, real household income slowed to recover and discretionary spending sentiment contracted. Furthermore, the industry faced implementations of new regulation such as "merchant fee system restructuring" and "comprehensive measures to restructure credit card business structure." Despite these difficulties, Shinhan Card was able to maintain its profitability and stability by continuing to build its scale and improve its growth quality.

Backed by the economies of scale from 13.4 million effective members (21.4 million customers including debit cards) and 2.4 million member merchants, Shinhan Card generated net income of KRW 658.1 billion for 2013.

Shinhan Card further solidified its market leadership position (22.3% market share based on 2013 retail credit sales transaction) by leveraging the advantages from being a member of the largest financial group. As a result, it benefited from having a network for cross-selling and creating business opportunities, leveraging SFG's efficient risk management system, and receiving stable financial support from the Group.

Shinhan Card is actively developing new growth opportunities such as social commerce and factoring installment receivables on mobile phones. Furthermore, it has solidified its leadership position in smart finance by gaining a competitive advantage in mobile channel. Shinhan Card also continues to develop new products and services to meet customers' fast changing needs. Lastly, it put forth great efforts and emphasis on increasing customer satisfaction.

Shinhan Card was recognized as the industry leader. It received first place recognition on all three major brand value assessments (Korea Standard Association: Premium Brand Index, Korea Productivity Center National: Brand Competitiveness Index, Korea Management Associa-

tion Consulting: Brand Power of Korean Business) for two consecutive years, a feat that has not been achieved by any credit card business in Korea.

In order to progress into a differentiated industry leader in this changing business environment, we need new perspectives and creative challenges more than ever before. We are building a stable business platform for the long term by further solidifying our industry leadership position and investing strategically for future growth. For 2014, we have established the strategic objective as "Big to Great." We will evolve from being the biggest player in size to a differentiated industry leader recognized by the market and customers. In order to achieve this objective, we will improve product lineup and design, lead active communication to the customers and market, and introduce innovative marketing approaches in high-growth markets such as debit cards, mobile, and online senior markets.

In addition, we will adopt new marketing methods by leveraging the largest database in the industry. We will reinforce our core competency by implementing a differentiated brand image toward the market and our customers. We will diversify profit sources by developing new businesses and reassess existing business lines such as installment financing and card-ssurance. Lastly, we will drive for tangible results from cost reduction initiatives and bolster our collection capability to minimize bad debt expenses.

2) Income Statement Analysis

Condensed Income Statements of Shinhan Card

KRW in billions

	2013	2012	Chg Amt	Chg %
Operating Revenue	4,609.3	4,594.7	14.6	0.3%
Card Business	3,767.7	3,802.6	-34.9	-0.9%
Installment Finance	92.2	105.4	-13.2	-12.5%
Lease	42.5	47.8	-5.3	-11.1%
Others	706.8	638.9	67.9	10.6%
(Derivatives & FX)	68.3	172.8	-104.5	-60.5%
Interest Expense	550.1	622.0	-71.9	-11.6%
SG&A Expenses	710.9	623.4	87.5	14.0%
Commissions & Other Expenses	2,145.1	2,097.8	47.3	2.3%
(Derivatives & FX)	51.4	159.6	-108.2	-67.8%
Pre-Provision Income	1,203.1	1,251.5	-48.4	-3.9%
Provision for Credit Losses	352.3	295.0	57.3	19.4%
Earnings before Income Tax	850.8	956.5	-105.7	-11.0%
Income Tax	192.7	214.7	-22.0	-10.2%
Net Income	658.1	741.8	-83.7	-11.3%

Management's Discussion and Analysis

During 2013, we witnessed a huge surge in factoring revenue and ancillary revenue; however, product revenue decreased as the government regulation to reduce merchant fees became effective and cash advance volumes shrunk. As a result, operating income only grew by 0.3% despite a 1.2% rise in transaction volume in 2013 (transaction volume grew from KRW 134 trillion to KRW 136 trillion).

For 2013, interest expense was 11.6% (KRW 71.9 billion) lower than last year as both funding amount and funding cost decreased. At the same time, SG&A expenses increased by 14.0% due to an increase in wages and severance payments for voluntary retirements. Despite growth in transaction volume (4.9% growth for retail credit and debit card volume), growth in fee and other operating expenses were contained at 2.3%. Credit costs increased by KRW 57.3 billion from 2012 as provisions increased from selling delinquent loans and managing delinquencies. Recovery from written-off loans was KRW 249.2 billion, KRW 30.0 billion lower than KRW 279.2 billion posted last year. As at the end of 2013, the outstanding balance on written-off loans stood at KRW 5.4 trillion. Recovery from written-off loans is expected to remain as a major profit source despite its gradual decline due to the loans' aging profile. Pretax income and net income decreased by 11.0% and 11.3% from 2012.

4. Shinhan Investment Corp.

In 2013, investors continued to favor safe assets as the market was dogged by a string of negative events including the tapering in the US, devaluation of the Yen, and the slowing growth of China. As a result, the domestic equity market continued to contract. Daily trading volume declined from KRW 10.9 trillion in 2011 to KRW 7.7 trillion in 2012 to KRW 6.7 trillion in 2013, causing industry-wide concerns.

In 2012, we established "Vision 2015" as our strategic objective and set out action plans such as increasing headquarter sales capability on sales & trading and wholesale, expanding asset management business, and increasing synergies between CIB and WM divisions. In 2013, these efforts began to pay off and allowed us to improve our overall profitability despite a reduction in commission income. As a result, Shinhan Investment Corp. posted an operating income of KRW 101.7 billion, an increase of 49.8% from last year. Net income for the year, KRW 75.4 billion, grew by 18.0% during the same period.

Compared to 2012, commission revenue contracted by 6.6% as trading volume fell and average commission rate decreased from

greater competition from low-cost platforms. Financial product revenue increased by KRW 16.1 billion as volume surged from retail bond sales such as Brazilian bonds. On the other hand, IB related commissions contracted by KRW 7.9 billion (-21.8%) as a difficult IPO market reduced underwriting commission and advisory fees.

Driven by market timing in equity and increased income from alternative products, asset management income grew to KRW 137.2 billion, an 11.6% increase from last year's result of KRW 123.0 billion. Interest and other gains, including return of KRW 35.2 billion on Lehman CLN bonds, were KRW 93.2 billion, 103.1% higher than last year's result of KRW 43.7 billion. SG&A expenses increased by 6.3% from last year's figure of KRW 350.2 billion. The increase was largely attributed to severance payment (KRW 11.8 billion) on voluntary retirement and increased wages from new hires.

Condensed Income Statements of Shinhan Investment Corp.

KRW in billions

	CY 2013	CY 2012	Chg Amt	Chg %
Operating Revenue	532.3	461.4	70.9	15.4%
Commissions received	273.2	292.6	-19.4	-6.6%
Net trading gain	137.2	123.0	14.2	11.5%
Other operating income	121.9	45.9	76.0	165.8%
Operating Expense	430.6	393.5	37.1	9.4%
SG&A Expense	372.1	350.2	21.9	6.2%
Commission Expense	49.3	44.6	4.7	10.6%
Loan Loss Provision	9.2	-1.3	10.5	n.a.
Operating Income	101.7	67.9	33.8	49.7%
Net Income	75.4	63.9	11.5	17.9%

Commissions Received

KRW in billions

	CY 2013	CY 2012	Chg Amt	Chg %
Commissions Received	273.2	292.6	-19.4	-6.6%
Brokerage Commissions	190.5	223.3	-32.8	-14.7%
Commission on BC/MF Sales	11.5	10.6	0.9	8.5%
Wrap Account fees	5.6	3.7	1.9	51.4%
Commission on trust mgt. and RP sales	12.4	10.3	2.1	20.4%
IB related Commission ¹⁾	28.4	36.3	-7.9	-21.8%
Other commissions	24.8	8.4	16.4	195.2%

¹⁾ Including fees and commissions from underwriting, IPO, M&A consulting, and Project Financing advisory

SG&A expenses

KRW in billions

	CY 2013	CY 2012	Chg Amt	Chg %
SG&A Expense	372.1	350.2	21.9	6.3%
Salary & Employee Benefits	247.2	224.0	23.2	10.4%
Other general expenses	114.4	114.3	0.1	0.1%
Depreciation & Amortization	10.5	11.9	-1.4	-11.8%

Commission and Market Share

In 2013, the equities business realized good outcomes in increasing volume and market share. Trading volume was KRW 201 trillion, representing 6.0% market share. Trading volume and market share each increased by 6.3% and 1.1%p from last year. On the other hand, futures trading volume fell to KRW 836 trillion, 11.5% lower than the previous year. However, market share went up by 0.4%p to 7.1%.

Market Share

	CY 2013	CY 2012	Chg %p
Stocks	6.0%	4.9%	1.1%p
Futures	7.1%	6.7%	0.4%p
Options	3.5%	4.9%	-1.4%p

Trading Volume

KRW in trillions

	CY 2013	CY 2012	Chg Amt	Chg %
Stocks	201	189	12	6.3%
Futures	836	945	-109	-11.5%
Options	18	29	-11	-38.6%

5. Shinhan Life Insurance

The operating climate for the life insurance business worsened in 2013. The "3 lows" (low growth, low interest rate, low return) deepened while regulations and market competition accelerated. Despite these challenges, Shinhan Life Insurance generated an insurance premium of KRW 4.7 trillion, net income of KRW 79.7 billion, and new subscriptions of KRW 78.2 billion. Net income for 2013 was KRW 79.7 billion, 63% lower than last year's net income of KRW 215.3 billion. This result was largely attributed to externalities such as reduced interest margin and changes in regulatory framework.

Insurance operating net result fell by KRW 494.6 billion (-23.5%) from last year. This result was largely attributable to the reduced premiums written by KRW 242.0 billion (-4.9%) and increased insurance payment of KRW 169.9 billion (11.3%). As for the reduced premiums written, they were impacted by the change in the tax allowance rule in February and rules on deferred acquisition cost in April.

Net investment gains showed a net increase of KRW 19.1 billion as the growth in interest/dividend income (KRW 42.2 billion) and reduced provision for bad debt (KRW 4.0 billion) outpaced reduction in security trading income (KRW 36.9 billion).

As a result, despite a reduction in provision of policy reserve of KRW 311.6 billion (-12.2%) compared to last year, pre-tax income fell by KRW 170.3 billion (-62.5%) from 2012.

In 2014, we will improve insurance income by expanding our product portfolio and pursue strategic cost reduction initiatives. In addition, we will focus our competencies in improving operating results through achieving higher asset management income by enhancing our capabilities to respond to changes in financial markets.

Condensed Income Statements of Shinhan Life Insurance

KRW in billions

	CY 2013	CY 2012	Chg Amt	Chg %
Insurance Operating Net Results	1,611.9	2,106.5	-494.6	-23.5%
Premiums Written	4,670.6	4,912.6	-242.0	-4.9%
Claims Paid (Δ)	1,678.7	1,508.8	169.9	11.3%
Reinsurance Operating Results	0.2	0.3	-0.1	-44.8%
Operating Expenses (Δ)	920.3	799.0	121.3	15.2%
Net Investment Gains Net Results	695.9	676.8	19.1	2.8%
Others Net Results	37.0	43.5	-6.5	-14.9%
Total Operating Net Results	2,344.8	2,826.8	-481.9	-17.0%
Provision of Policy Reserve (Δ)	2,242.6	2,554.3	-311.6	-12.2%
Net Income Before Taxes	102.2	272.5	-170.3	-62.5%
Net Income	79.7	215.3	-135.6	-63.0%

Management's Discussion and Analysis

Balance Sheet Review & Asset Quality

1. Shinhan Financial Group

1) Total Assets

On a consolidated basis, SFG posted total assets of KRW 311.3 trillion for the year-end 2013, representing a KRW 6.4 trillion (2.1%) increase from last year. At the subsidiary level, Shinhan Bank's asset decreased by KRW 2.4 trillion, while those of Shinhan Investment Corp. and Shinhan Life Insurance each increased by KRW 3.6 trillion and KRW 2.4 trillion. Shinhan Card lost KRW 0.6 trillion of assets from last year, impacted by the government's policy to reduce credit card spending and increase usage of debit cards.

Driven by Shinhan Bank's KRW 5.0 trillion loan growth, Group's total loan assets increased by KRW 5.4 trillion. Cash and bank dues, trading securities and financial assets at FVTPL each grew by KRW 3.0 trillion, 1.4 trillion, and 0.8 trillion. On the other hand, available-for-sales securities, hold-to-maturity securities and other assets decreased by KRW 2.7 trillion, 0.6 trillion, and 0.6 trillion, respectively.

SFG Condensed Balance Sheets

KRW in billions

	2013	2012	Chg Amt	Chg %
Currency & Due from Banks	16,472.5	13,507.2	2,965.3	22.0%
Trading Assets	18,031.8	16,654.3	1,377.5	8.3%
Financial Assets at FVTPL	3,360.8	2,542.3	818.4	32.2%
Derivative Instruments Assets	1,717.5	2,170.8	-453.3	-20.9%
Loans	205,722.7	200,288.6	5,434.1	2.7%
Available for Sales Securities	33,605.8	36,283.9	-2,678.1	-7.4%
Hold to Maturity Securities	11,031.3	11,659.7	-628.4	-5.4%
Tangible Fixed Assets	3,214.3	3,108.5	105.8	3.4%
Intangible Fixed Assets	4,226.4	4,195.5	30.9	0.7%
Investment Using Equity Method	328.6	298.5	30.0	10.1%
Other Assets	13,585.2	14,229.9	-644.7	-4.5%
Total Assets	311,296.8	304,939.2	6,357.6	2.1%
Deposits	178,809.9	173,295.7	5,514.2	3.2%
Trading Liabilities	1,258.3	1,370.7	-112.4	-8.2%
Financial Liability at FVTPL	5,909.1	4,822.2	1,086.9	22.5%
Derivative Instruments Liability	2,026.5	1,904.0	122.5	6.4%
Borrowings	20,142.9	19,536.6	606.3	3.1%
Trading Corporate Bonds in Won	37,491.4	38,838.5	-1,347.0	-3.5%
Allowance for Severance and Retirement Benefits	117.7	222.3	-104.7	-47.1%
Other Liabilities	35,681.4	36,036.0	-354.6	-1.0%
Total Liabilities	281,437.2	276,026.1	5,411.1	2.0%
Total Stockholder's Equity	29,859.7	28,913.1	946.5	3.3%
Total liabilities & shareholders' equity	311,296.8	304,939.2	6,357.6	2.1%

Asset Breakdown by Subsidiaries

KRW in billions

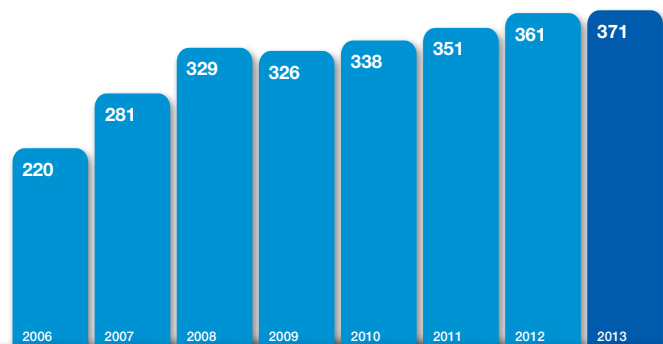
	2013	2012	Chg Amt	Chg %
Banks	257,033.8	259,453.6	-2,419.8	-0.9%
Shinhan Bank	253,837.7	256,199.2	-2,361.5	-0.9%
Jeju Bank	3,196.0	3,254.3	-58.3	-1.8%
Non-Banks	111,009.4	104,614.4	6,395.0	6.1%
Shinhan Card	21,649.2	22,279.9	-630.7	-2.8%
Shinhan Investment Corp.	30,039.9	26,458.0	3,581.9	13.5%
Shinhan Life Insurance	19,385.2	16,942.2	2,443.0	14.4%
Shinhan BNPP AM	33,675.1	33,246.4	428.7	1.3%
Shinhan Capital	3,772.4	3,526.2	246.2	7.0%
Shinhan Savings Bank	777.1	636.1	141.0	22.2%
Shinhan Data System	20.5	16.3	4.2	26.0%
Shinhan AITAS	34.6	31.0	3.6	11.6%
Shinhan Credit Information	21.0	19.2	1.8	9.6%
Shinhan Private Equity	572.9	604.9	-32.1	-5.3%
Others	1,061.5	854.2	207.3	24.3%
Total Assets (note)	371,462.8	366,812.8	4,650.0	1.3%

Note) Trust A/C of Shinhan Investment Corp. and discretionary asset of Shinhan BNPP AM is included

Including trust assets and assets under management, total assets increased by KRW 4.7 trillion (1.3%) from last year, led by significant asset growth at Shinhan Investment Corp. and Shinhan Life Insurance. Trust assets from the bank sector, on the other hand, decreased from the previous year.

SFG Total Assets

KRW in trillions



2) Deposits

For 2013, the Group posted total deposits of KRW 178.8 trillion, up by KRW 5.5 trillion (3.2%) from 2012. The increase was led by Shinhan Bank's deposit growth of KRW 5.0 trillion. For Shinhan Bank, time deposits decreased by KRW 2.3 trillion, as low interest rate reduced appetite for term deposit products. However, low cost deposits increased by KRW 5.6 trillion as market liquidity increased corporate and government deposits. Such was also boosted by the increased activities from linking more accounts to salary and settlement accounts for merchants. They made notable contributions in lowering overall funding cost and defending NIM.

Total Deposits

KRW in billions

	2013	2012	Chg Amt	Chg %
Shinhan Bank	175,020.4	170,009.0	5,011.4	2.9%
Deposits in Won	150,479.4	147,317.7	3,161.7	2.1%
Low Cost Deposits	52,697.0	47,105.0	5,592.0	11.9%
Time Deposits	89,641.7	91,922.4	-2,280.7	-2.5%
Installment Deposits	8,140.7	8,290.3	-149.6	-1.8%
CDs	1,475.6	943.1	532.5	56.5%
RPs & Bills Sold	373.3	361.9	11.4	3.1%
Deposits in FC	6,774.9	6,519.6	255.3	3.9%
Trust Account	16,830.0	15,452.8	1,377.2	8.9%
Merchant A/C and other consolidating entities	-912.8	-586.2	-326.6	n.a.
Shinhan Investment	789.8	909.8	-120.0	-13.2%
Jeju Bank	2,628.5	2,499.7	128.8	5.2%
Shinhan Savings Bank	660.1	525.2	134.9	25.7%
(-) Intra Transaction	-289.0	-648.0	359.0	n.a.
Total	178,809.9	173,295.7	5,514.2	3.2%

3) Total Loan

The Group's total loan for 2013 was KRW 205.7 trillion, up by KRW 5.4 trillion (2.7%) from 2012. Shinhan Bank, Shinhan Life Insurance, Shinhan Capital and Shinhan Savings Bank each grew their loan balance by KRW 5.0 trillion, 0.6 trillion, 0.3 trillion, and 0.2 trillion, respectively. On the other hand, Shinhan Card's loan balance decreased by KRW 0.4 trillion. Shinhan Bank's total household loan grew by KRW 2.0 trillion as a KRW 1.4 trillion reduction in mortgage loans from KRW 2.7 trillion of securitization was offset by KRW 3.5 trillion growth in unsecured personal loans and Jeonse loans. Corporate loans grew by KRW 0.8 trillion as loan growth to SMEs (KRW 3.7 trillion) outweighed loan reduction to large conglomerates (KRW 3.0 trillion). Call loans, a short-term loan product, continued its significant growth (KRW 2.4 trillion YoY) from increase in market liquidity. Shinhan Card's card loan assets grew by KRW 0.8 trillion; however its overall loan balance declined by

KRW 0.4 trillion as cash advances declined and debit card transaction volume increased.

Total Loans

KRW in billions

	2013	2012	Chg Amt	Chg %
Total	205,722.7	200,288.6	5,434.1	2.7%
Shinhan Bank	174,689.3	169,699.2	4,990.1	2.9%
Bank Account	166,710.9	162,617.8	4,093.1	2.5%
Trust Account	466.2	559.7	-93.5	-16.7%
Others	7,512.2	6,521.7	990.5	15.2%
Shinhan Card	19,625.9	20,026.7	-400.8	-2.0%
Shinhan Investment	1,375.0	1,217.7	157.3	12.9%
Shinhan Life Insurance	4,160.1	3,581.0	579.1	16.2%
Shinhan Capital	3,356.4	3,065.8	290.6	9.5%
Jeju Bank	2,306.8	2,320.8	-14.0	-0.6%
Shinhan Savings Bank	530.6	315.0	215.6	68.5%
Others	-321.5	62.6	-384.1	n.a.

4) Asset Quality

For 2013, the Group's overall NPL ratio was 1.26%, 8 bps down from last year. Shinhan Bank's NPL (classified as sub-standard and below) increased by KRW 170.8 billion as a string of large conglomerates applied for workouts and restructurings. However, the Group's NPL balance declined by KRW 102.1 billion as both Shinhan Card and Shinhan Investment Corp. reduced their respective NPLs by KRW 129.6 billion and KRW 104.2 billion. Shinhan Card was able to lower its NPL from taking proactive write-offs, while Shinhan Investment Corp made significant recovery on a large real estate project finance loan that was previously classified as a NPL.

Despite a 6.8%p drop in NPL coverage ratio, SFG still retained best-in-class NPL coverage ratio of 163.5%.

SFG Asset Quality

KRW in billions

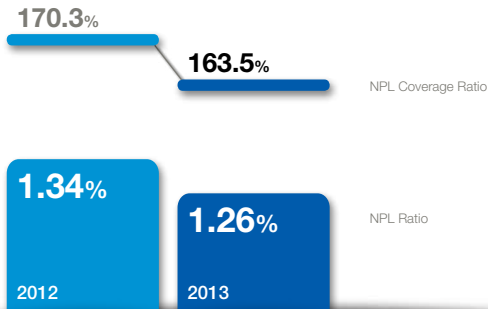
	2013	2012	Chg Amt	Chg %
Total ¹⁾	202,222.7	198,507.8	3,714.9	1.9%
Normal	197,302.5	192,767.2	4,535.3	2.4%
Precautionary	2,367.1	3,085.4	-718.3	-23.3%
Substandard	1,079.8	1,312.6	-232.8	-17.7%
Doubtful	370.3	541.9	-171.6	-31.7%
Estimated Loss	1,102.9	800.6	302.3	37.8%
Substandard & below	2,553.0	2,655.1	-102.1	-3.8%
NPL Ratio	1.26%	1.34%	-	-0.08%p
Allowance + Reserve ²⁾	4,173.1	4,522.5	-349.4	-7.7%
Coverage Ratio	163.5%	170.3%	-	-6.8%p

Note 1) Sum of Shinhan Bank, Jeju Bank, Shinhan Card, Shinhan Investment Corp., Shinhan Life Insurance, Shinhan Capital and Shinhan Savings Bank

Note 2) Sum of IFRS standard LLA and reserves for credit losses, excluding those for contingent acceptances & guarantees and unused credit lines

Management's Discussion and Analysis

Group NPL Ratio & Coverage Ratio



1. Shinhan Bank

1) KRW Loan

On the retail lending side, a KRW 2.7 trillion securitization reduced the mortgage loan balance by KRW 1.4 trillion. However, it was offset by the growth in Jeonse loans, high-grade unsecured personal loans and other secured loans of KRW 1.7 trillion, 1.6 trillion and 0.4 trillion, respectively. As a result, overall retail loans increased by KRW 2.0 trillion. On the other hand, corporate lending to SMEs grew by KRW 3.7 trillion, backed by continued strength in SOHO lending growth. However, loans to large corporates declined by KRW 3.0 trillion as we experienced large scale of early repayment in real estate project finance loans and year-end repayments of corporate overdraft loans. Overall, corporate loan volumes only increased by KRW 0.8 trillion from 2012.

Loans in KRW

KRW in billions

	2013	2012	Chg Amt	Chg %
Loans in Won	147,048.1	144,228.0	2,820.0	2.0%
Retail	71,846.4	69,803.6	2,042.8	2.9%
Mortgage	44,257.5	45,668.0	-1,410.5	-3.1%
Others	27,588.9	24,135.6	3,453.3	14.3%
Corporate	75,201.7	74,424.5	777.2	1.0%
SME	55,062.1	51,323.7	3,738.4	7.3%
(SOHO)	27,731.9	24,984.4	2,747.5	11.0%
Large Corp. & Public	20,139.6	23,100.8	-2,961.2	-12.8%

2) Asset Quality

Shinhan Bank's NPL ratio stood at 1.16%, up by 8 bps from last year. However, Shinhan Bank still maintains the highest level of asset quality among Korean banks and NPL coverage ratio is maintained at a relatively high level of 149.2%.

Asset quality deteriorated slightly as NPL increased by KRW 170.8 billion from 2012. Despite taking measures to manage asset quality such as sale of loans in dispute, Shinhan Bank experienced difficulties in maintaining its asset quality as restructuring and workouts continued.

Delinquency ratio, however, declined 23 bps to 0.39%, the lowest level in history. It was realized by the reduction in new defaults and appropriate write-offs and asset sales. Delinquency ratio on retail loans was 0.24%, showing a 29 bps decline from 2012. Major factors for improvement are attributed to preemptive write-offs and sales of long-overdue collective loans and tightened asset quality control. Delinquency on corporate loans also decreased by 18 bps, highlighting our management efforts in this difficult business climate.

SHB Asset Quality

KRW in billions

	2013	2012	Chg Amt	Chg %
Total	170,766.7	167,777.1	2,989.6	1.8%
Normal	167,398.2	163,852.1	3,546.1	2.2%
Precautionary	1,383.6	2,111.0	-727.4	-34.5%
Substandard	912.9	1,078.7	-165.9	-15.4%
Doubtful	257.2	333.1	-75.9	-22.8%
Estimated Loss	814.9	402.2	412.6	102.6%
Substandard & below	1,984.9	1,814.1	170.8	9.4%
NPL Ratio	1.16%	1.08%	-	0.08%p
Allowance + Reserve	2,962.0	3,107.8	-145.8	-4.7%
Coverage Ratio	149.2%	171.3%	-	-22.1%p

3. Shinhan Card

1) Card Member

As a new regulation to automatically delist dormant customers became effective in 2013, the number of effective cardholders declined by 1.68 million to 13.39 million (21.38 million including debit card customers). Nonetheless, Shinhan Card still has the largest customer base among domestic credit card companies. In addition, the average card utilization rate has increased by 0.3%p to 72.2% as the launch of new products and services (such as Cube Card and Combo Service), and customer-oriented marketing activities made positive impacts.

2) Earning Assets

In 2013, transaction volume slightly grew despite the slowdown in the domestic economy as well as heightened regulation. Credit sales volume contracted by 5.2% as interest-free installment volume declined. Cash advance volume declined by 14.4% due to market contraction. On the other hand, Card loan volume grew by 22.8% and partially offset the decline in cash advances.

In terms of the earning asset portfolio, growth in card loan increased the proportion of more profitable financial assets from 30.2% in 2012 to 32.7% in 2013.

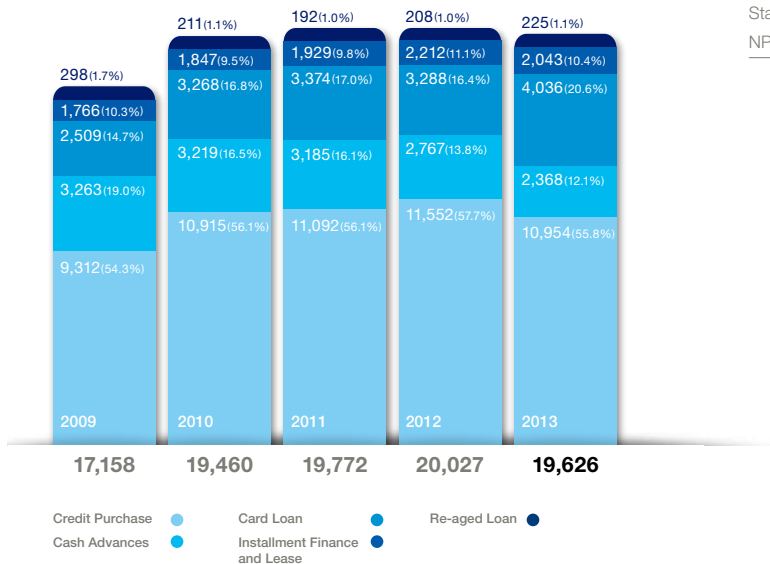
Earning Asset Breakdown by Product

KRW in billions

	2013	2012	Chg Amt	Chg %
Earning Assets (Managed)	19,625.9	20,026.7	-400.8	-2.0%
Credit Purchase	10,953.6	11,551.4	-597.8	-5.2%
Cash Advances	2,368.1	2,766.9	-398.9	-14.4%
Card Loan	4,036.4	3,288.1	748.3	22.8%
Restructured Loan	224.8	208.0	16.7	8.1%
Installment Finance	1,212.6	1,242.4	-29.7	-2.4%
Lease	830.4	969.8	-139.4	-14.4%

Earning Asset Breakdown by Product

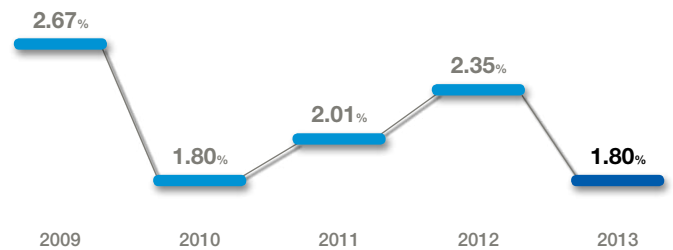
KRW in billions



3) Asset Quality

Compared to 2012, Shinhan Card's delinquency ratio (with 1 month overdue or more) declined to 1.80%. NPL ratio decreased by 0.7% and stood at 1.5%. NPL coverage ratio increased from 253.6% at the end of 2012 to 322.6% in 2013 as we took conservative provisions for bad debt.

Delinquency Ratio



* 1 month overdue delinquency

NPL Ratio & NPL Coverage Ratio

KRW in billions, %

	2013	2012	2011	2010	2009
NPL Coverage Ratio	322.6%	253.6%	234.5%	234.2%	187.6%
Loan loss allowance	971.0	1,093.1	795.4	740.1	829.2
Standard & below	301.0	430.6	339.3	316.0	442.3
NPL Ratio	1.5%	2.2%	1.7%	1.6%	2.6%

Management's Discussion and Analysis

4. Shinhan Investment Corp.

Condensed Balance Sheets of Shinhan Investment Corp.

KRW in billions

	CY 2013	CY 2012	Chg Amt	Chg %
Assets				
Cash and Deposit	3,197.8	3,065.2	132.6	4.3%
Securities	13,012.8	10,434.8	2,578.0	24.7%
(Trading securities)	10,544.1	8,482.5	2,061.6	24.3%
Derivatives	226.0	302.7	-76.7	-25.4%
Loans	1,375.0	1,217.7	157.3	12.9%
(Broker's loans)	751.1	716.4	34.7	4.9%
Tangible fixed assets	118.5	113.9	4.6	3.5%
Other assets	1,243.2	1,331.1	-87.9	-6.5%
Total Assets	19,173.3	16,465.3	2,708.0	16.4%
Liabilities				
Deposits	789.8	909.8	-120.0	-13.2%
(Customers' deposits)	780.7	903.0	-122.3	-13.5%
Borrowings	14,662.6	12,032.1	2,630.5	21.9%
(Call money)	1,034.9	814.7	220.2	27.1%
(Borrowings)	782.6	310.4	472.2	152.6%
(Bonds sold under repurchase agreements)	6,059.4	4,892.5	1,166.9	23.8%
(Derivatives-combined securities sold)	5,910.2	4,843.8	1,066.4	22.0%
Other liabilities	1,485.3	1,345.3	140.0	10.4%
Total Liabilities	16,937.6	14,287.1	2,650.5	18.6%
Total Stockholder's equity	2,235.7	2,178.2	57.5	2.6%
Total Liabilities & Stockholder's equity	19,173.3	16,465.3	2,708.0	16.4%

At the end of 2013, Shinhan Investment Corp.'s total assets stood at KRW 19.2 trillion, showing a 16.4% increase from 2012. Securities amounted to KRW 13.0 trillion (67.9% of total assets) while cash and deposits totaled KRW 3.2 trillion (16.7% of total assets). Despite a decrease in the reserve for claims of customers' deposits, cash and deposits increased by 4.3% from last year as the deposit on ELS principle grew from 2012. Securities increased by 24.7% from 2012, and 77% of the growth could be attributed to an increase in fixed income assets under management from RP, pension and ELS product sales.

Loan balance was KRW 1.4 trillion at the end of 2013, showing a 12.9% growth from 2012. Growth in customer lending and project finance loans, as well as the reduction in provisions on project-finance loans led the growth during the year. Total liabilities rose by 18.6% and reached KRW 16.9 trillion by year-end. The rise was primarily driven by the growth in financial product sales, which resulted in the growth in RP balance and sales of derivatives-stapled securities. RP balance grew by 23.8% from KRW 4.9 trillion at the end of 2012 to KRW 6.1

trillion at the end of 2013. Similarly, derivatives-stapled securities grew from KRW 4.9 trillion to KRW 5.9 trillion (a 22.0% increase) during the same period.

Total shareholders' equity rose to KRW 2.2 trillion (2.6% increase from 2012) from net income growth.

Funding

1. Shinhan Bank

In terms of KRW funding, time deposits and installment deposits each contracted by KRW 2.3 trillion and KRW 0.1 trillion as the base rate stayed low. However, low-cost deposits increased by KRW 5.6 trillion as market liquidity increased corporate and government deposits. It was also boosted by increased activities from linking more accounts to salary and settlement accounts for merchants. As a result, we were able to reduce new debenture issuance by KRW 1.1 trillion.

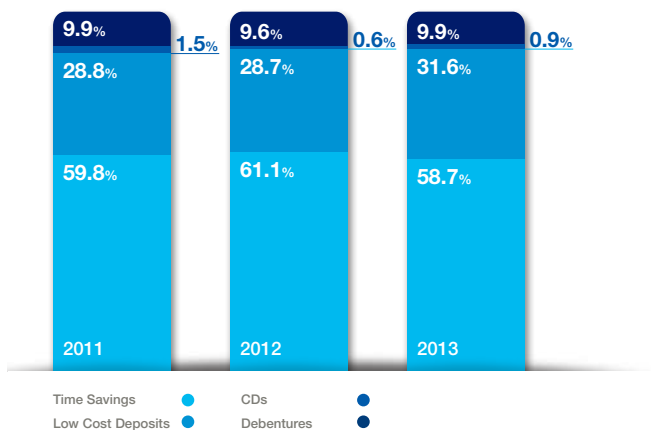
Loan-to-deposit ratio stood at 98.5%, showing a 50 bps increase from the end of 2012. However, as we have a sufficient buffer when comparing to the regulated ratio of 100%, we are actively managing liquidity with an eye on profitability.

Deposits and Debentures

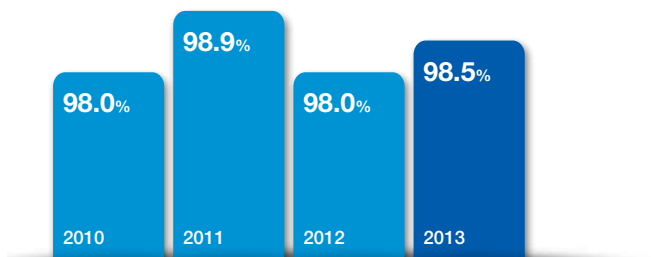
KRW in billions

	2013	2012	Chg Amt	Chg %
Deposits in Won	150,479.4	147,317.7	3,161.7	2.1%
Low Cost Deposits	52,697.0	47,105.0	5,592.0	11.9%
Time Deposits	89,641.7	91,922.4	-2,280.8	-2.5%
Installment Deposits	8,140.7	8,290.3	-149.5	-1.8%
CDs	1,475.6	943.1	532.5	56.5%
Debentures In KRW	14,643.7	15,722.2	-1,078.5	-6.9%

Funding Composition



Loan to Deposit Ratio



2. Shinhan Card

Shinhan Card funds necessary capital through various sources such as issuing bonds, ABS and CP. At the end of 2013, debt balance contracted from KRW 12.9 trillion to KRW 12.1 trillion, showing a -6.3% change.

The table below summarizes components and maturities for Shinhan Card's funding portfolio. As abundant market liquidity and healthy bond market persisted in 2013, debenture continued to account for 72% of total funding. In addition, with favorable market conditions, we were able to issue long-dated debentures. As a result, the proportion of debt with maturity of less than one year fell slightly to 25%.

Funding Composition

	Debentures	ABS	CP	Others
2013	72%	13%	9%	6%
2012	72%	13%	8%	7%

Debt Maturity Profile

	1 year or under	Over 1 year to 2years	More than 2years
2013	25%	29%	46%
2012	28%	23%	49%

Capital Management

1. Shinhan Financial Group

The Group's BIS ratio under Basel III was 13.43% at the end of 2013, up 0.97%p from the end of 2012 under Basel I. Common Equity Tier 1 (CET 1) ratio stood at 10.03%, comfortably exceeding the regulated ratio of 7.0%.

Applying new classification under Basel III rules, risk-weighted assets for operational risk increased by KRW 15 trillion. At the same time, our total risk-weighted assets for financial risk decreased by KRW 10.5 trillion, as we received the approval to apply the Foundation Internal Ratings-Based (F-IRB) approach for Shinhan Bank. On the other hand, capital increased by KRW 530.1 billion. Capital ratio on hybrid capital securities decreased under Basel III; however, it was more than offset by the treatment of unrealized gain on available-for-sale securities as having a full 100% impact on common equity (previously only 45% was recognized). Shinhan Financial Group will continue to focus on maintaining stable BIS ratio by remaining highly profitable while managing risk-weighted assets.

Group BIS Ratio

KRW in billions

	2013	2012	Chg Amt	Chg %
Risk-Weighted Assets	190,716.6	201,184.4	-10,467.8	-5.2%
Capital	25,605.8	25,075.7	530.1	2.1%
CET 1	19,119.6	-	-	-
Tier 1	21,538.4	19,124.7	2,413.7	12.6%
BIS Ratio	13.43%	12.46%	-	0.97%p
CET 1	10.03%	-	-	-
Tier 1	11.29%	9.51%	-	1.78%p

Note) Fig. for 2013 based on Basel III, Fig. for 2012 based on Basel I

Management's Discussion and Analysis

2. Shinhan Bank

For 2013, the BIS ratio under Basel III stood at 16.29%, 0.46%p higher than 2012 under the Basel II regime. Most changes are due to the increase in retained earnings, introduction of Basel III that allowed Shinhan Bank to recognize higher capital, and the approval on using the Advanced IRB for calculating risk-weighted asset for operational risk.

Capital increased by KRW 608.5 billion due to consistent net income and a positive change in the recognition method for unrealized gain on available-for-sale securities. On the other hand, risk-weighted assets only increased by KRW 130.6 billion as the Advanced Internal Ratings-Based approach (Advanced IRB) that we received clearance on 3Q 2013 allowed us to reduce RWA by KRW 1 trillion. As increase in capital outpaced increase in RWA, the result was a significant rise in BIS ratio.

SHB BIS Ratio

KRW in billions

	2013	2012	Chg Amt	Chg %
Risk-Weighted Assets	129,276.7	129,146.1	130.6	0.1%
Capital	21,057.1	20,448.6	608.5	3.0%
CET 1	16,130.4	-	-	-
Tier 1	18,021.4	16,325.4	1,695.9	10.4%
BIS Ratio	16.29%	15.83%	-	0.46%p
CET 1	12.48%	-	-	-
Tier 1	13.94%	12.64%	-	1.30%p

Note) Fig. for 2013 based on Basel III FIRB, Fig. for 2012 based on Basel II FIRB.

3. Shinhan Card

Shinhan Card has KRW 6.1 trillion of capital as at the end of 2013. Year-end CAR (Capital Adequacy Ratio) stood at 30.4%, maintaining a CAR above 20% for seven consecutive years. High net income throughout the past several years allowed the ratio to remain at such high levels.

Shinhan Card Adjusted Equity Capital Ratio

KRW in billions

	2013.12	2012.12	2011.12
Adjusted Equity Capital Ratio	30.4%	27.4%	24.8%
Adjusted Total Asset	20.5	21.2	21.2

Independent Auditors' Report



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The Board of Directors and Stockholders Shinhan Financial Group Co., Ltd. :

We have audited the accompanying consolidated statements of financial position of Shinhan Financial Group Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2013, 2012 and January 1, 2012 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2013, 2012 and January 1, 2012 and the results of their operations and their cash flows for the years ended December 31, 2013 and 2012, in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 2 to the consolidated financial statements, the Group applied the amendments to K-IFRS No. 1019, 'Employee Benefits' and recognized remeasurements in other comprehensive income, and the Group adopted K-IFRS No. 1110, 'Consolidated Financial Statements' to determine the scope of consolidation. The Group applied this change in accounting policies retrospectively, and accordingly restated the comparative information of the consolidated financial statements for the year ended December 31, 2012, and the consolidated statement of financial position as of January 1, 2012.

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

Seoul, Korea
March 14, 2014

This report is effective as of March 14, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Consolidated Statements of Financial Position

As of December 31, 2013, 2012 and January 1, 2012

In millions of won

	Note	December 31 2013	December 31 2012 (restated)	January 1 2012 (restated)
Assets				
Cash and due from banks	4,8,20	₩ 16,472,509	13,507,249	14,799,035
Trading assets	4,9,20	18,033,298	16,654,255	14,520,784
Financial assets designated at fair value through profit or loss	4,10,20	3,360,765	2,542,333	1,800,846
Derivative assets	4,11	1,717,468	2,170,765	2,321,301
Loans, net	4,12,20	205,722,718	200,288,636	193,229,389
Available-for-sale financial assets	4,13,20	33,604,301	36,283,918	34,015,741
Held-to-maturity financial assets	4,13,20	11,031,307	11,659,682	11,894,664
Property and equipment, net	14,20	3,214,303	3,108,457	2,993,860
Intangible assets, net	15	4,226,378	4,195,496	4,203,460
Investments in associates	16	328,567	298,518	248,848
Current tax receivable		6,184	14,128	9,022
Deferred tax assets	42	196,780	99,964	31,464
Investment properties, net	17	690,257	778,505	515,362
Other assets, net	4,18	12,449,193	13,282,907	10,948,286
Assets held for sale		242,815	54,412	15,792
Total assets		₩ 311,296,843	304,939,225	291,547,854
Liabilities				
Deposits	4,21	₩ 178,809,881	173,295,702	166,243,830
Trading liabilities	4,22	1,258,283	1,370,723	704,418
Financial liabilities designated at fair value through profit or loss	4,23	5,909,130	4,822,197	3,298,409
Derivative liabilities	4,11	2,026,534	1,904,044	1,972,197
Borrowings	4,24	20,142,908	19,518,040	20,255,421
Debt securities issued	4,25	37,491,439	38,838,467	39,735,249
Liability for defined benefit obligations	26	117,655	222,333	275,435
Provisions	27	750,283	747,885	869,632
Current tax payable		239,174	253,524	568,074
Deferred tax liabilities	42	14,625	41,746	21,816
Liabilities under insurance contracts	28	15,656,455	13,418,559	10,867,254
Other liabilities	4,29	19,020,815	21,592,861	19,816,727
Total liabilities		281,437,182	276,026,081	264,628,462
Equity				
	30			
Capital stock		2,645,053	2,645,053	2,645,053
Other equity instrument		537,443	537,443	238,582
Capital surplus		9,887,335	9,887,199	9,886,849
Capital adjustments		(393,128)	(393,097)	(392,654)
Accumulated other comprehensive income		671,807	980,121	1,032,780
Retained earnings		14,194,163	12,715,172	11,046,478
Total equity attributable to equity holders of Shinhan Financial Group		27,542,673	26,371,891	24,457,088
Non-controlling interests	30	2,316,988	2,541,253	2,462,304
Total equity		29,859,661	28,913,144	26,919,392
Total liabilities and equity		₩ 311,296,843	304,939,225	291,547,854

See accompanying notes to the consolidated financial statements

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2013 and 2012

In millions of won, except earning per share

	Note	2013	2012 (restated)
Interest income		₩ 12,588,015	13,998,109
Interest expense		(5,985,159)	(7,018,391)
Net interest income	32	6,602,856	6,979,718
Fees and commission income		3,489,624	3,491,104
Fees and commission expense		(2,103,269)	(1,947,959)
Net fees and commission income	33	1,386,355	1,543,145
Net insurance loss	28	(379,322)	(209,303)
Dividend income	34	158,016	174,325
Net trading income	35	77,034	607,861
Net foreign currency transaction gain		296,187	280,028
Net loss on financial instruments designated at fair value through profit or loss	36	(122,020)	(532,070)
Net gain on sale of available-for-sale financial assets	13	700,609	535,578
Impairment losses on financial assets	37	(1,339,897)	(1,416,220)
General and administrative expenses	38	(4,202,550)	(4,061,576)
Net other operating expenses	40	(539,687)	(723,519)
Operating income		2,637,581	3,177,967
Equity in income of associates	16	7,286	27,538
Other non-operating income(loss), net	41	37,268	25,131
Profit before income taxes		2,682,135	3,230,636
Income tax expense	42	(622,565)	(738,727)
Profit for the year	30,43	2,059,570	2,491,909
Other comprehensive income (loss) for the year, net of income tax			
Items that are or may be reclassified to profit or loss :			
Foreign currency translation adjustments for foreign operations		(57,845)	(84,917)
Net change in unrealized fair value of available-for-sale financial assets		(270,103)	13,441
Equity in other comprehensive income of associates		(4,811)	4,097
Net change in unrealized fair value of cash flow hedges		6,089	15,655
Other comprehensive income (loss) of separate account		(1,829)	570
		(328,499)	(51,154)
Items that will never be reclassified to profit or loss :			
Remeasurements of the defined benefit liability		18,599	179
Total other comprehensive loss, net of income tax	30	(309,900)	(50,975)
Total comprehensive income for the year		₩ 1,749,670	2,440,934
Net income attributable to:			
Equity holders of Shinhan Financial Group Co., Ltd.	30,43	₩ 1,902,808	2,321,890
Non-controlling interest		156,762	170,019
		₩ 2,059,570	2,491,909
Total comprehensive income attributable to:			
Equity holders of Shinhan Financial Group Co., Ltd.		₩ 1,594,494	2,269,231
Non-controlling interest		155,176	171,703
		₩ 1,749,670	2,440,934
Earnings per share:			
	30,43		
Basic and diluted earnings per share in won		₩ 3,819	4,684

See accompanying notes to the consolidated financial statements

Consolidated Statements of Changes in Equity

For the years ended December 31, 2013 and 2012

In millions of won

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd								Total
	Capital stock	Other equity instruments	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub-total	Non-controlling interest	
Balance at January 1, 2011	₩ 2,645,053	238,582	9,886,849	(392,654)	1,188,948	10,829,723	24,396,501	2,462,304	26,858,805
Changes in accounting policy	-	-	-	-	(156,168)	216,755	60,587	-	60,587
Restated Balance at January 1, 2012	2,645,053	238,582	9,886,849	(392,654)	1,032,780	11,046,478	24,457,088	2,462,304	26,919,392
Profit for the period	-	-	-	-	-	2,321,890	2,321,890	170,019	2,491,909
Other comprehensive income, net of income tax									
Foreign currency translation adjustments	-	-	-	-	(84,695)	-	(84,695)	(222)	(84,917)
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	12,852	-	12,852	589	13,441
Equity in other comprehensive income of associates	-	-	-	-	4,097	-	4,097	-	4,097
Net change in unrealized fair value of cash flow hedges	-	-	-	-	15,655	-	15,655	-	15,655
Other comprehensive income of separate account	-	-	-	-	570	-	570	-	570
Remeasurements of the defined benefit liability	-	-	-	-	(1,138)	-	(1,138)	1,317	179
	-	-	-	-	(52,659)	-	(52,659)	1,684	(50,975)
Total comprehensive income for the period	-	-	-	-	(52,659)	2,321,890	2,269,231	171,703	2,440,934
Transactions with owners, etc									
Dividends	-	-	-	-	-	(629,508)	(629,508)	-	(629,508)
Dividends to hybrid bonds	-	-	-	-	-	(23,688)	(23,688)	-	(23,688)
Issuance of hybrid bonds	-	298,861	-	-	-	-	298,861	-	298,861
Change in other capital surplus	-	-	350	-	-	-	350	-	350
Change in other capital adjustments	-	-	-	(443)	-	-	(443)	-	(443)
Change in other non-controlling interests	-	-	-	-	-	-	-	(92,754)	(92,754)
	-	298,861	350	(443)	-	(653,196)	(354,428)	(92,754)	(447,182)
Balance at December 31, 2012	₩ 2,645,053	537,443	9,887,199	(393,097)	980,121	12,715,172	26,371,891	2,541,253	28,913,144

See accompanying notes to the consolidated financial statements

In millions of won

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd								Total
	Capital stock	Other equity instruments	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub-total	Non-controlling interest	
Balance at January 1, 2011	₩ 2,645,053	537,443	9,887,199	(393,097)	1,134,820	12,499,259	26,310,677	2,469,146	28,779,823
Changes in accounting policy	-	-	-	-	(154,699)	215,913	61,214	72,107	133,321
Restated Balance at January 1, 2012	2,645,053	537,443	9,887,199	(393,097)	980,121	12,715,172	26,371,891	2,541,253	28,913,144
Profit for the period	-	-	-	-	-	1,902,808	1,902,808	156,762	2,059,570
Other comprehensive income, net of income tax									
Foreign currency translation adjustments	-	-	-	-	(57,825)	-	(57,825)	(20)	(57,845)
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	(268,854)	-	(268,854)	(1,249)	(270,103)
Equity in other comprehensive income of associates	-	-	-	-	(4,811)	-	(4,811)	-	(4,811)
Net change in unrealized fair value of cash flow hedges	-	-	-	-	6,089	-	6,089	-	6,089
Other comprehensive income of separate account	-	-	-	-	(1,829)	-	(1,829)	-	(1,829)
Remeasurements of the defined benefit liability	-	-	-	-	18,916	-	18,916	(317)	18,599
	-	-	-	-	(308,314)	-	(308,314)	(1,586)	(309,900)
Total comprehensive income for the period	-	-	-	-	(308,314)	1,902,808	1,594,494	155,176	1,749,670
Transactions with owners, etc									
Dividends	-	-	-	-	-	(393,878)	(393,878)	-	(393,878)
Dividends to hybrid bonds	-	-	-	-	-	(29,939)	(29,939)	-	(29,939)
Change in other capital adjustments	-	-	136	-	-	-	136	-	136
Change in other capital adjustments	-	-	-	(31)	-	-	(31)	-	(31)
Change in other non-controlling interests	-	-	-	-	-	-	-	(379,441)	(379,441)
	-	-	136	(31)	-	(423,817)	(423,712)	(379,441)	(803,153)
Balance at December 31, 2013	₩ 2,645,053	537,443	9,887,335	(393,128)	671,807	14,194,163	27,542,673	2,316,988	29,859,661

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012

In millions of won

	Note	2013	2012 (restated)
Cash flows from investing activities			
Profit before income taxes		₩ 2,682,135	3,230,636
Adjustments for:			
Net interest income	32	(6,602,856)	(6,979,718)
Dividend income	34	(158,016)	(174,325)
Net fees and commission expense		82,410	39,142
Insurance expense	28	2,760,884	3,043,780
Net trading loss (income)	35	227,976	(414,253)
Net foreign currency transaction gain		(2,520)	(86,820)
Net loss (gain) on financial assets designated at fair value through profit or loss	36	(177,645)	353,830
Gain on disposal of available-for-sale financial assets	13	(700,609)	(535,578)
Provision for allowance	12	1,124,927	1,315,365
Impairment losses on other financial assets		214,970	100,855
Salaries expense		80,600	146,501
Depreciation and amortization	38	319,730	298,836
Other operating income		61,074	(534,076)
Equity in income of associates	16	(7,286)	(27,538)
Other non-operating loss (income), net		15,510	(25,126)
		(2,760,851)	(3,479,125)
Changes in assets and liabilities:			
Due from banks		(1,954,448)	1,843,530
Trading assets		(1,305,364)	(1,414,528)
Financial instruments designated at fair value through profit or loss		396,252	467,291
Derivative assets		21,049	301,268
Loans		(7,444,790)	(8,940,062)
Other assets		(65,799)	(3,232,456)
Deposits		5,825,422	8,444,336
Liability for defined benefit obligations	26	(140,462)	(206,635)
Provision	27	(105,796)	(154,851)
Other liabilities		(2,315,596)	6,530,566
		(7,089,532)	3,638,459
Income taxes paid		(695,725)	(1,074,846)
Interest received		12,499,754	13,569,246
Interest paid		(5,891,494)	(6,990,531)
Dividends received		156,196	174,475
Net cash provided by (used in) operating activities		₩ (1,099,517)	9,068,314

See accompanying notes to the consolidated financial statements

In millions of won

	Note	2013	2012 (restated)
Cash flows from investing activities			
Proceeds from disposition of financial assets designated at fair value through profit or loss		₩ 57,833	52,909
Acquisition of financial assets designated at fair value through profit or loss		(7,937)	(134,507)
Proceeds from disposition of available-for-sale financial assets		29,917,886	40,687,182
Acquisition of available-for-sale financial assets		(26,999,720)	(42,572,548)
Proceeds from redemption of held-to-maturity financial assets		2,393,951	2,684,122
Acquisition of held-to-maturity financial assets		(1,806,589)	(2,489,373)
Proceeds from disposition of property and equipment	14,41	29,021	8,017
Acquisition of property and equipment	14	(294,003)	(292,898)
Proceeds from disposition of intangible assets	15,41	8,097	6,711
Acquisition of intangible assets	15	(154,407)	(123,736)
Proceeds from disposition of investments in associates		27,466	50,125
Acquisition of investments in associates		(55,389)	(43,353)
Proceeds from disposition of investment property	17,41	38,085	2,880
Acquisition of investment property	17	(234,432)	(296,316)
Proceeds from disposition of assets held for sale		49,185	6,489
Net increase (decrease) in other assets		39,509	(166,593)
Net increase (decrease) in derivatives		2,073	(58)
Business combinations, net of cash acquired	45	385,291	95,270
Net cash provided by (used in) investing activities		3,395,920	(2,525,677)
Cash flows from financing activities			
Issuance of hybrid bond		-	298,860
Proceeds from borrowings		21,665,428	22,256,148
Repayments of borrowings		(21,142,955)	(22,743,958)
Proceeds from debt securities issued		10,338,560	11,696,281
Repayments of debt securities issued		(11,352,135)	(12,506,217)
Repayments of preferred stock		-	(3,765,124)
Net increase in other liabilities		31,893	20,996
Dividends paid		(424,014)	(650,697)
Net cash flows from derivative financial instruments for hedging purposes		(24,292)	36,752
Decrease in non-controlling interest		(379,441)	(164,874)
Net cash used in financing activities		(1,286,956)	(5,521,833)
Effect of exchange rate fluctuations on cash and cash equivalents held		3,964	4,316
Increase in cash and cash equivalents	45	1,013,411	1,025,120
Cash and cash equivalents at beginning of year	45	5,007,765	3,982,645
Cash and cash equivalents at end of year		₩ 6,021,176	5,007,765

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

1. Reporting entity

Shinhan Financial Group Co., Ltd., the controlling company, and its subsidiaries included in consolidation (collectively the "Group") are summarized as follows:

(a) Controlling company

Shinhan Financial Group Co., Ltd. (the "Shinhan Financial Group") was incorporated on September 1, 2001 through a business combination involving the exchange of Shinhan Financial Group's common stock with the former stockholders of Shinhan Bank, Shinhan Investment Corp., Shinhan Capital Co., Ltd. and Shinhan BNP Paribas AMC. Shinhan Financial Group's shares were listed on the Korea Exchange on September 10, 2001 and Shinhan Financial Group's American Depository Shares were listed on the New York Stock Exchange on September 16, 2003.

(b) Ownership of Shinhan Financial Group and its major consolidated subsidiaries as of December 31, 2013 and 2012 are as follows: Ownership (%)

Investor	Investee(*)	Location	Date of financial information	Ownership (%)	
				2013	2012 (restated)
Shinhan Financial Group	Shinhan Bank	Korea	December 31	100.0	100.0
"	Shinhan Card Co., Ltd.	"	"	100.0	100.0
"	Shinhan Investment Corp.	"	"	100.0	100.0
"	Shinhan Life Insurance Co., Ltd	"	"	100.0	100.0
"	Shinhan Capital Co., Ltd.	"	"	100.0	100.0
"	Jeju Bank	"	"	68.9	68.9
"	Shinhan Credit Information Co., Ltd.	"	"	100.0	100.0
"	Shinhan Private Equity	"	"	100.0	100.0
"	Shinhan BNP Paribas AMC	"	"	65.0	65.0
"	SHC Management Co., Ltd.	"	"	100.0	100.0
"	Shinhan Data system	"	"	100.0	100.0
"	Shinhan Savings Bank	"	"	100.0	100.0
"	Shinhan Aitas Co., Ltd.	"	"	99.8	99.8
Shinhan Bank	Shinhan Asia Limited	Hong Kong	"	99.9	99.9
"	Shinhan Bank America	USA	"	100.0	100.0
"	Shinhan Europe GmbH	Germany	"	100.0	100.0
"	Shinhan Khmer Bank	Cambodia	"	90.0	90.0
"	Shinhan Kazakhstan Bank	Kazakhstan	"	100.0	100.0
"	Shinhan Canada Bank	Canada	"	100.0	100.0
"	Shinhan China Limited	China	"	100.0	100.0
"	SBJ Bank	Japan	"	100.0	100.0
"	Shinhan Bank Vietnam	Vietnam	"	100.0	100.0
Shinhan Investment Corp.	Shinhan Investment Corp. America Inc.	USA	December, 31	100.0	100.0
"	Shinhan Investment Corp. Asia Ltd.	Hong Kong	"	100.0	100.0
Shinhan Private Equity	Symphony Energy Co., Ltd.(*2)	Korea	-	-	77.6
"	HKC&T Co., Ltd.	"	September, 30	100.0	100.0
"	Everdigm, Corp.	"	"	45.2	38.7
Shinhan BNP Paribas AMC	Shinhan BNP Asset Mgt HK Ltd.	Hong Kong	December, 31	100.0	100.0

(*1) Subsidiaries such as trust, beneficiary certificates, corporate restructuring fund and private equity fund are excluded.

(*2) The investee was liquidated for the current period

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *The Act on External Audit of Stock Companies in the Republic of Korea*.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value
- liabilities for defined benefit plans are recognized as net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

(c) Functional and presentation currency

These consolidated financial statements are presented in Korean won, which are the controlling company's functional currency and the currency of the primary economic environment in which the Group operates.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are evaluated on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in note 5.

(e) Changes in accounting policies

i) K-IFRS No.1001, *Presentation of Financial Statements*

The Group has applied the amendments to K-IFRS No.1001, *Presentation of Financial Statements* since January 1, 2013. The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

ii) K-IFRS No.1110, *Consolidated Financial Statement*

The Group adopted K-IFRS No.1110, *Consolidated Financial Statements* since January 1, 2013. As a result, the Group has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. K-IFRS No.1110 introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if the Group controls the investee on the basis of de facto circumstances.

iii) K-IFRS No.1111, *Joint Arrangements*

The Group adopted K-IFRS No.1111, *Joint Arrangements* since January 1, 2013. The standard classifies joint arrangements into two types - joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognize an investment and to account for that investment using the equity method.

iv) K-IFRS No.1112, *Disclosure of Interests in Other Entities*

The Group adopted K-IFRS No.1112, *Disclosure of Interests in Other Entities* since January 1, 2013. The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard requires the disclosure of information about the nature, risks and financial effects of these interests. (See Note 49)

v) Amendments to K-IFRS No.1019, *Employee Benefits*

The Group has applied the amendments to K-IFRS No.1019, *Employee Benefits* since January 1, 2013. The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation.

vi) K-IFRS No.1113, *Fair Value Measurement*

The Group adopted K-IFRS No.1113, *Fair Value Measurement* since January 1, 2013. The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. (See Note 4.(f))

vii) Amendments to K-IFRS No. 1107, *Financial Instruments: Disclosures*

The Group has applied the amendments to K-IFRS No.1107, *Financial Instruments: Disclosures* since January 1, 2013. The amendments require to disclose information so that users of its financial statements are able to evaluate the effect or potential effect of netting arrangements and similar agreements on the Group's financial position. (See Note 4.(h))

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

(f) Impact of changes in accounting policy

The following table summarizes the adjustments made to the Group's consolidated statements of financial position as of December 31, 2012 and January 1, 2012.

	December, 31 2013				
	As previously reported	Adjustments			As restated
		K-IFRS No.1110	K-IFRS No.1019	Sub-total	
Assets					
Cash and due from banks	₩ 13,394,331	112,918	-	112,918	13,507,249
Trading assets	14,018,894	2,635,361	-	2,635,361	16,654,255
Financial assets designated at fair value through profit or loss	2,585,111	(42,778)	-	(42,778)	2,542,333
Derivative assets	2,164,852	5,913	-	5,913	2,170,765
Loans, net	199,655,732	632,904	-	632,904	200,288,636
Available-for-sale financial assets	36,328,429	(44,511)	-	(44,511)	36,283,918
Held-to-maturity financial assets	11,659,215	467	-	467	11,659,682
Property and equipment, net	3,046,686	61,771	-	61,771	3,108,457
Intangible assets, net	4,190,776	4,720	-	4,720	4,195,496
Investments in associates	298,518	-	-	-	298,518
Current tax receivable	14,128	-	-	-	14,128
Deferred tax assets	95,970	3,994	-	3,994	99,964
Investment properties, net	246,970	531,535	-	531,535	778,505
Other assets, net	13,094,465	188,442	-	188,442	13,282,907
Assets held for sale	54,412	-	-	-	54,412
Total assets	300,848,489	4,090,736	-	4,090,736	304,939,225
Liabilities					
Deposits	170,096,454	3,199,248	-	3,199,248	173,295,702
Trading liabilities	1,370,723	-	-	-	1,370,723
Financial liabilities designated at fair value through profit or loss	4,822,197	-	-	-	4,822,197
Derivative liabilities	1,904,044	-	-	-	1,904,044
Borrowings	18,891,378	626,662	-	626,662	19,518,040
Debt securities issued	38,840,175	(1,708)	-	(1,708)	38,838,467
Liability for defined benefit obligations	214,068	8,265	-	8,265	222,333
Provisions	746,846	1,039	-	1,039	747,885
Current tax payable	252,283	1,241	-	1,241	253,524
Deferred tax liabilities	19,890	21,856	-	21,856	41,746
Liabilities under insurance contracts	13,418,559	-	-	-	13,418,559
Other liabilities	21,492,049	100,812	-	100,812	21,592,861
Total liabilities	272,068,666	3,957,415	-	3,957,415	276,026,081
Equity					
Capital stock	2,645,053	-	-	-	2,645,053
Other equity instrument	537,443	-	-	-	537,443
Capital surplus	9,887,199	-	-	-	9,887,199
Capital adjustments	(393,097)	-	-	-	(393,097)
Accumulated other comprehensive income	1,134,820	5,059	(159,758)	(154,699)	980,121
Retained earnings	12,499,259	56,155	159,758	215,913	12,715,172
Total equity attributable to equity holders of Shinhan Financial Group Co.,Ltd.	26,310,677	61,214	-	61,214	26,371,891
Non-controlling interests	2,469,146	72,107	-	72,107	2,541,253
Total equity	28,779,823	133,321	-	133,321	28,913,144
Total liabilities and equity	₩ 300,848,489	4,090,736	-	4,090,736	304,939,225

January 1, 2012

	As previously reported	Adjustments			As restated
		K-IFRS No.1110	K-IFRS No.1019	Sub-total	
Assets					
Cash and due from banks	₩ 14,730,932	68,103	-	68,103	14,799,035
Trading assets	11,954,266	2,566,518	-	2,566,518	14,520,784
Financial assets designated at fair value through profit or loss	1,800,846	-	-	-	1,800,846
Derivative assets	2,319,585	1,716	-	1,716	2,321,301
Loans, net	192,572,571	656,818	-	656,818	193,229,389
Available-for-sale financial assets	34,105,747	(90,006)	-	(90,006)	34,015,741
Held-to-maturity financial assets	11,894,664	-	-	-	11,894,664
Property and equipment, net	2,993,860	-	-	-	2,993,860
Intangible assets, net	4,203,460	-	-	-	4,203,460
Investments in associates	248,848	-	-	-	248,848
Current tax receivable	9,022	-	-	-	9,022
Deferred tax assets	29,202	2,262	-	2,262	31,464
Investment properties, net	275,123	240,239	-	240,239	515,362
Other assets, net	10,887,878	60,408	-	60,408	10,948,286
Assets held for sale	15,792	-	-	-	15,792
Total assets	288,041,796	3,506,058	-	3,506,058	291,547,854
Liabilities					
Deposits	163,015,732	3,228,098	-	3,228,098	166,243,830
Trading liabilities	704,418	-	-	-	704,418
Financial liabilities designated at fair value through profit or loss	3,298,409	-	-	-	3,298,409
Derivative liabilities	1,972,197	-	-	-	1,972,197
Borrowings	20,033,246	222,175	-	222,175	20,255,421
Debt securities issued	39,736,958	(1,709)	-	(1,709)	39,735,249
Liability for defined benefit obligations	274,661	774	-	774	275,435
Provisions	869,592	40	-	40	869,632
Current tax payable	568,074	-	-	-	568,074
Deferred tax liabilities	282	21,534	-	21,534	21,816
Liabilities under insurance contracts	10,867,254	-	-	-	10,867,254
Other liabilities	19,842,168	(25,441)	-	(25,441)	19,816,727
Total liabilities	261,182,991	3,445,471	-	3,445,471	264,628,462
Equity					
Capital stock	2,645,053	-	-	-	2,645,053
Other equity instrument	238,582	-	-	-	238,582
Capital surplus	9,886,849	-	-	-	9,886,849
Capital adjustments	(392,654)	-	-	-	(392,654)
Accumulated other comprehensive income	1,188,948	2,452	(158,620)	(156,168)	1,032,780
Retained earnings	10,829,723	58,135	158,620	216,755	11,046,478
Total equity attributable to equity holders of Shinhan Financial Group Co.,Ltd.	24,396,501	60,587	-	60,587	24,457,088
Non-controlling interests	2,462,304	-	-	-	2,462,304
Total equity	26,858,805	60,587	-	60,587	26,919,392
Total liabilities and equity	₩ 288,041,796	3,506,058	-	3,506,058	291,547,854

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

The following table summarizes the adjustments made to the Group's consolidated statements of comprehensive income for the year ended December 31, 2012.

	As previously reported	Adjustments			As restated
		K-IFRS No.1110	K-IFRS No.1019	Sub-total	
Interest income	₩ 13,857,112	140,997	-	140,997	13,998,109
Interest expense	(6,882,901)	(135,490)	-	(135,490)	(7,018,391)
Net interest income	6,974,211	5,507	-	5,507	6,979,718
Fees and commission income	3,513,839	(22,735)	-	(22,735)	3,491,104
Fees and commission expense	(1,941,748)	(6,211)	-	(6,211)	(1,947,959)
Net fees and commission income	1,572,091	(28,946)	-	(28,946)	1,543,145
Net insurance loss	(209,303)	-	-	-	(209,303)
Dividend income	175,783	(1,458)	-	(1,458)	174,325
Net trading income (loss)	595,866	11,995	-	11,995	607,861
Net foreign currency transaction gain	280,028	-	-	-	280,028
Net gain (loss) on financial instruments designated at fair value through profit or loss	(532,070)	-	-	-	(532,070)
Net gain on sale of available-for-sale financial assets	536,581	(1,003)	-	(1,003)	535,578
Impairment losses on financial assets	(1,415,794)	(426)	-	(426)	(1,416,220)
General and administrative expenses	(4,059,560)	(1,780)	(236)	(2,016)	(4,061,576)
Net other operating expenses	(723,881)	362	-	362	(723,519)
Operating income	3,193,952	(15,749)	(236)	(15,985)	3,177,967
Equity in income of associates	27,538	-	-	-	27,538
Other non-operating income(loss), net	11,522	13,609	-	13,609	25,131
Income before income taxes	3,233,012	(2,140)	(236)	(2,376)	3,230,636
Income tax expense	(738,944)	160	57	217	(738,727)
Net income for the year	2,494,068	(1,980)	(179)	(2,159)	2,491,909
Other comprehensive income (loss) for the year, net of income tax					
Items that are or may be reclassified to profit or loss :					
Foreign currency translation adjustments for foreign operations	(85,343)	426	-	426	(84,917)
Net change in unrealized fair value of available-for-sale financial assets	11,260	2,181	-	2,181	13,441
Equity in other comprehensive income of associates	4,097	-	-	-	4,097
Net change in unrealized fair value of cash flow hedges	15,655	-	-	-	15,655
Other comprehensive income (loss) of separate account	570	-	-	-	570
Items that will never be reclassified to profit or loss :	(53,761)	2,607	-	2,607	(51,154)
Remeasurements of the defined benefit liability	-	-	179	179	179
Total other comprehensive loss, net of income tax	-	-	179	179	179
Total comprehensive income for the year	(53,761)	2,607	179	2,786	(50,975)
Net income attributable to:	2,440,307	627	-	627	2,440,934
Equity holders of Shinhan Financial Group Co., Ltd.					
Non-controlling interest	2,322,732	(1,980)	1,138	(842)	2,321,890
	171,336	-	(1,317)	(1,317)	170,019
Total comprehensive income attributable to:	2,494,068	(1,980)	(179)	(2,159)	2,491,909
Equity holders of Shinhan Financial Group Co., Ltd.					
Non-controlling interest	2,268,604	627	-	627	2,269,231
	171,703	-	-	-	171,703
Earnings per share:	2,440,307	627	-	627	2,440,934
Basic and diluted earnings per share in won					
	₩ 4,686	(2)	-	(2)	4,684

Cash and cash equivalents as of January 1, 2012 were increased by ₩ 13,303million. And cash flows from financing activities for the year ended December 31, 2012 were increased by ₩ 355,138million, and cash flows from operating activities and investing activities were decreased by ₩ 9,584million and ₩ 316,818million respectively.

As a result, cash and cash equivalents as of December 31, 2012 were increased by ₩ 42,039million.

(i) K-IFRS No.1110, *Consolidated Financial Statements*

The Group re-assessed the control conclusion for its investees as of January 1, 2013. As a consequence, the Group changed its control relationship with its investees as below.

Newly included subsidiaries	Reason
Everdigm Corp.	The practical ability to direct the relevant activities
Guaranteed principal money trusts	The Group is exposed, or has rights, to variable returns from its involvement with the guaranteed principal money trusts and has the ability to affect those returns through its power over these investees. Accordingly, they are newly consolidated. Prior to the adoption of K-IFRS No. 1110, they had not been consolidated since the Group had not held the majority of the benefits or the residual risk.

(ii) Amendments to K-IFRS No.1111, *Joint Arrangements*

As a result of the adoption of K-IFRS No.1111, the Group has changed its accounting policy with respect to its interests in joint arrangements.

Under K-IFRS No.1111, the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

Previously, the structure of the arrangement was the sole focus of classification.

The Group has re-evaluated its involvement in its only joint arrangement and has reclassified the investment from jointly controlled entity to joint venture. Notwithstanding the reclassification, the investment continues to be recognized by applying the equity method and there has been no impact on the recognized assets, liabilities and comprehensive income of the Group.

(iii) Amendments to K-IFRS No.1019, *Employee Benefits*

As a result of the application the amendments to K-IFRS No.1019, the Group has restated the comparative financial information for the prior periods, retrospectively.

(g) **Approval of the consolidated financial statements**

The consolidated financial statements were approved by the Board of Director in February 11, 2014, which will be submitted for approval to the shareholders' meeting to be held on March 26, 2014.

3. Significant accounting policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

(a) **Operating segments**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Group has reportable segments which consist of banking, credit card, securities, life insurance, others, as described in note 7.

(b) **Basis of consolidation**

i) **Subsidiaries**

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for the same transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

ii) **Structured entity**

The Group establishes or invests in various structured entities. A structured entity is an entity designed so that its activities are not governed by way of voting

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

rights. When assessing control of a structured entity, the Group considers factors such as the purpose and the design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee. The Group does not recognize any non-controlling interests in the consolidated statements of financial position since the Group's interests in these entities are recognized as liabilities of the Group.

iii) Intra-group transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

iv) Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interest holders, even when the allocation reduces the non-controlling interest balance below zero.

(c) Business combinations

i) Business combinations

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

- Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No. 1012 *Income Taxes*
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No. 1019 *Employee Benefits*
- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset
- Reacquired rights are measured on the basis of the remaining contractual terms of the related contract
- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in K-IFRS No. 1102 *Share-based Payment*
- Assets held for sale are measured at fair value less costs to sell in accordance with K-IFRS No. 1105 *Noncurrent Assets Held for Sale*

As of the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that are included in consideration transferred in the business combination shall be measured in accordance with the method described above rather than at fair value.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No. 1032 *Financial Instruments: Presentation* and K-IFRS No. 1039 *Financial Instruments: Recognition and Measurement*.

ii) Goodwill

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, bargain purchase gain is recognized immediately in profit or loss.

When the Group additionally acquires non-controlling interest, the group does not recognize goodwill since the transaction is regarded as equity transaction.

(d) Investments in associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity or when another entity is classified as a subsidiary by the Banking act since the Group holds more than 15% of the voting power of another entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The investment in an associate and a joint venture is initially recognized at cost, and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate and the joint venture after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate or a joint venture uses accounting policies different from those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(f) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

i) Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a recognition or measurement inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives that would be required to be separated from the host contract.

ii) Held-to-maturity financial assets

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

v) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

vi) Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(g) Derivative financial instruments including hedge accounting

Derivative financial instruments are classified as either trading or hedging if they qualify for hedge accounting. Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument.

i) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

Hedge of net investment

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the accumulated other comprehensive income is transferred to profit or loss as part of the profit or loss on disposal in accordance with K-IFRS No. 1021, 'The Effects of Changes in Foreign Exchange Rates'.

ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria has been met: (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

iv) Unobservable valuation differences at initial recognition

Any difference between the fair value of over the counter derivatives at initial recognition and the amount that would be determined at that date using a valuation

technique in a situation in which the valuation is dependent on unobservable parameters is not recognized in profit or loss but is recognized on a straight-line basis over the life of the instrument or immediately when the fair value becomes observable.

(h) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- significant financial difficulty of the issuer or obligor
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for that financial asset because of financial difficulties
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

i) Loans and receivables

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

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

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

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

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

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss of the year.

ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

iii) Held-to-maturity financial assets

An impairment loss in respect of held-to-maturity financial assets measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate and is recognized in profit or loss. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(i) Property and equipment

Property and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced cost is derecognized. The cost of the day to day servicing of property and equipment are recognized in profit or loss as incurred.

Property and equipment are depreciated on a straight-line basis over the estimated useful lives, which most closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset.

Leased assets under finance lease are depreciated over the shorter of the lease term and their useful lives.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in profit or loss.

The estimated useful lives for the current and comparative years are as follows:

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40 years
Other properties	Straight-line	4~5 years

Depreciation methods, useful lives and residual value are reassessed at each fiscal year-end and any adjustment is accounted for as a change in accounting estimate.

(j) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

Descriptions	Useful lives
Software, capitalized development cost	5 years
Other intangible assets	5 years or contract periods

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

i) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

ii) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(k) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

The estimated useful lives for the current and comparative years are as follows:

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40 years

(l) Leased assets

i) Classification of a lease

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms.

Leases where the lessee assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

ii) Lessee

Under a finance lease, the lessee recognizes the leased asset and a liability for future lease payments. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Under an operating lease, the lessee recognizes the lease payments as expense over the lease term and does not recognize the leased asset in its statement of financial position.

iii) Lessor

Under a finance lease, the lessor recognizes a finance lease receivable. Over the lease term the lessor accrues interest income on the net investment. The receipts under the lease are allocated between reducing the net investment and recognizing finance income, so as to produce a constant rate of return on the net investment.

Under an operating lease, the lessor recognizes the lease payments as income over the lease term and the leased asset in its statement of financial position.

(m) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as noncurrent assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 *Impairment of Assets*.

An asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(n) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, deferred tax assets and assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cashgenerating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

(o) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

The criteria for designation of financial liabilities at FVTPL upon initial recognition are the same as those of financial assets at FVTPL.

ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(p) Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined.

Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation (see iii) below), or in a qualifying cash flow hedge, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date.

The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

iii) Hedge of net investment in foreign operations

The Group applies hedge accounting to foreign currency differences arising between the functional currency of the foreign operations and the parent entity's functional currency (Korean won), regardless of whether the net investment is held directly or through an intermediate parent.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

(q) Equity

i) Capital stock

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Group's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Group's shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

ii) Hybrid bonds

The Group classifies issued financial instruments, or their component parts, as a financial liability or an equity instrument depending on the substance of the contractual arrangement of such financial instruments.

Hybrid bonds where the Group has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation are classified as equity instruments and presented in equity.

iii) Capital adjustments

Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions in capital adjustments.

(r) Employee benefits

i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

iv) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in personnel expenses in profit or loss.

The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes service cost and net interest on the net defined benefit liability (asset) in profit or loss and remeasurements of the net defined benefit liability (asset) in other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

v) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(s) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

(t) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provision shall be used only for expenditures for which the provision was originally recognized.

(u) Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer (the Group) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- The amount determined in accordance with K-IFRS No. 1037 Provisions, Contingent Liabilities and Contingent Assets and
- The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with K-IFRS No. 1018. Revenue

(v) Insurance contracts

Insurance contracts are defined as "a contract under which one party (the insurer) accepts significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder". A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Such a contract that does not contain significant insurance risk is classified as an investment contract and is within the scope of K-IFRS 1039, Financial Instruments, Recognition and measurement to the extent that it gives rise to a financial asset or financial liability, except if the investment contract contains a Discretionary Participation Features ("DPF"). If the contract has a DPF, the contract is subject to K-IFRS 1104, Insurance Contracts.

i) Reserves for insurance contracts

The Group accounts for insurance contracts based on the Insurance Business Law and other related Insurance Supervisory Regulation. These insurance contracts are calculated based on insurance terms, premium and policy reserves approved by the Financial Supervisory Commission, as follows:

Premium reserve

Provision is made for premium payable based on assumptions that all policies are surrendered immediately after fiscal year.

Guarantee reserve

At the end of reporting period, the Group is required to make reserve on the outstanding insurance contracts to guarantee a certain level of claims for the amount equals to the average amount of net losses of the worst 30% cases forecasted by scenarios or the standard reserve amount by insurance type and the lowest insured amount, whichever is greater.

Unearned premium reserve

Unearned premium reserve refers to premium for subsequent years but collected before the reporting date.

Reserve for outstanding claims

Reserve for outstanding claims is an estimate of losses for insured events that have occurred prior to the reporting date but the corresponding actual claims have not yet been settled or determined.

Reserve for participating policyholders' dividends

Reserve for participating policyholder's dividends are recorded to account for the difference in actual investment yields, mortality rates or morbidity rates and operating expense rates from the initial rates in each policy payable to participating policyholders. In addition, it includes a reserve for long-term maintenance dividends to discourage cancellations.

Reserve for losses on dividend insurance contract

In accordance with the Regulation on Supervision of Insurance Business, the Group accumulates reserve for losses of participating insurance contract within 30/100 of policyholders' share in dividend-paying insurance income. A reserve for compensation for losses on dividend-paying insurance contracts accumulated shall be used for replenishing the losses of the participating insurance contract, and the balance after the replenishment shall be used as for the source of policyholders' dividend for individual policyholders, for five fiscal years from the end of the fiscal year when the accumulation is made.

ii) **Policyholders' equity adjustment**

At year end, unrealized holding gains and losses on available-for-sale securities are allocated to policyholders' equity adjustment by the ratio of the average policy reserve of the participating and non-participating contracts or the ratio of the investment source at the new acquisition year based on the date of acquisition.

iii) **Liability adequacy test (the "LAT")**

Liability adequacy tests are performed by the Group in order to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs and deferred policyholders' participation liability or asset.

iv) **Reinsurance contracts**

Transactions relating to reinsurance assumed and ceded are accounted for in the consolidated statements of financial position and comprehensive income in a similar way to direct business transactions provided that these contracts meet the insurance contracts classification requirements and in agreement with contractual clauses.

v) **Deferred acquisition costs (the "DAC")**

Policy acquisition costs, which include commissions, certain underwriting and agency expenses associated with acquiring insurance policies, are deferred and amortized using the straight-line method over the contract year, up to seven years. Actual acquisition costs incurred in excess of estimated acquisition costs are expensed.

(w) Financial income and expense

i) **Interest**

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter year) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Once an impairment loss has been recognized on a loan, although the accrual of interest in accordance with the contractual terms of the instrument is discontinued, interest income is recognized at the rate of interest that was used to discount estimated future cash flows for the purpose of measuring the impairment loss.

ii) **Fees and commission**

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed.

When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

iii) **Dividends**

Dividend income is recognized when the right to receive income is established.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

(x) Customer loyalty program

For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between award credits ("points") and other components of the fee and commission income. The Group provides awards, in the form of price discounts and by offering a variety of gifts. The fair value allocated to the points is estimated by reference to the fair value of the monetary and/or non-monetary benefits for which they could be redeemed. The fair value of the benefits is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and recognized as unearned revenue. Unearned revenue is recognized only when the points are redeemed and the Group has fulfilled its obligations to provide the benefits. The amount of revenue recognized in those circumstances is based on the number of points that have been redeemed in exchange for benefits, relative to the total number of points that are expected to be redeemed.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from customer loyalty programmes are lower than the unavoidable cost of meeting its obligations under the programmes.

(y) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Group files its national income tax return with the Korean tax authorities under the consolidated corporate tax system, which allows it to make national income tax payments based on the combined profits or losses of the Controlling Company and its wholly owned domestic subsidiaries. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected combined profits or losses of eligible companies in accordance with the consolidated corporate tax system.

Consolidated corporate tax amounts, once determined, are allocated to each of the subsidiaries and are used as a basis for the income taxes to be recorded in their separate financial statements.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

(z) Accounting for trust accounts

The Group accounts for trust accounts separately from its group accounts under the Financial Investment Services and Capital Markets Act and thus the trust accounts are not included in the consolidated financial statements except Guaranteed Fixed Rate Money Trusts controlled by the Group, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards. Funds transferred between Group account and trust accounts are recognized as borrowings from trust accounts in other liabilities with fees for managing the accounts recognized as non-interest income by the Group.

(aa) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to

ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(ab) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2014, and the Group has not early adopted them.

i) Amendments to K-IFRS No. 1032, 'Financial Instruments: Presentation'

The amendments clarified the application guidance related to 'offsetting a financial asset and a financial liability'. The amendment is mandatorily effective for periods beginning on or after January 1, 2014 with earlier application permitted. The amendments are not expected to have a material effect on the Group's financial statements.

4. Financial risk management

(a) Overview

As a financial services provider, the Group is exposed to various risks relating to lending, credit card, insurance, securities investment, trading and leasing businesses, its deposit taking and borrowing activities in addition to the operating environment.

The principal risks to which the Group is exposed are credit risk, market risk, interest rate risk, liquidity risk and operational risk. These risks are recognized, measured and reported in accordance with risk management guidelines established at the controlling company level and implemented at the subsidiary level through a carefully stratified checks-and-balances system.

i) Risk management principles

The Group risk management is guided by the following core principles:

- identifying and managing all inherent risks;
- standardizing risk management process and methodology;
- ensuring supervision and control of risk management independent of business activities;
- continuously assessing risk preference;
- preventing risk concentration;
- operating a precise and comprehensive risk management system including statistical models; and
- balancing profitability and risk management through risk-adjusted profit management.

ii) Risk management organization

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

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

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

The Group Risk Management Council is comprised of the controlling company's chief risk officer, head of risk management team, and risk officers from each subsidiary. The Group Risk Management Council holds meetings for risk management executives from each subsidiary to discuss the Group's group wide risk management guidelines and strategy in order to maintain consistency in the group wide risk policies and strategies.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

iii) Risk management framework

The Group takes the following steps to implement the foregoing risk management principles:

- *Risk capital management* – Risk capital refers to capital necessary to compensate for losses in case of a potential risk being realized, and risk capital management refers to the process of asset management based on considerations of risk exposure and risk appetite among total assets so that the Group can maintain an appropriate level of risk capital. As part of the Group's risk capital management, the Group has adopted and maintains various risk planning processes and reflect such risk planning in the Group's business and financial planning. The Group also has adopted and maintains a risk limit management system to ensure that risks in the Group's business do not exceed prescribed limits.
- *Risk monitoring* – The Group are currently installing a multidimensional risk monitoring system under which the Group will, on a periodic basis, proactively and preemptively review risks that may impact the Group's overall operations. Currently, each of subsidiaries is required to report to the controlling company any factors that could have a material impact on the groupwide risk management, and the controlling company reports to the Group's chief risk officer and other members of the Group's senior management the results of risk monitoring on a weekly, monthly and continual basis. In addition, the Group perform preemptive risk management through a "risk dashboard system" under which the Group closely monitor any increase in asset size, risk levels and sensitivity to external factors with respect to the major asset portfolios of each of subsidiaries, and to the extent such monitoring yields any warning signals, the Group promptly analyze the causes and, if necessary, formulate and implement actions in response to these warning signals.
- *Risk review* – Prior to entering any new business, offering any new products or changing any major policies, the Group review any relevant risk factors based on a prescribed risk management checklist and, in the case of changes for which assessment of risk factors is difficult, promote reasonable decisionmaking in order to avoid taking any unduly risky action. The risk management departments of all subsidiaries are required to review all new businesses, products and services prior to their launch and closely monitor the development of any related risks following their launch, and in the case of any action that involves more than one subsidiary, the relevant risk management departments are required to consult with the risk management team at the controlling company level prior to making any independent risk reviews.
- *Risk management* – The Group maintain a group wide risk management system to detect the early warnings signals of any crisis and, in the event of a crisis actually happening, to respond on a timely, efficient and flexible basis so as to ensure the Group's survival as a going concern. Each subsidiary maintains crisis planning for three levels of contingencies, namely, "alert", "imminent crisis" and "crisis", determination of which is made based on quantitative and qualitative monitoring and consequence analysis, and upon the happening of any such contingency, is required to respond according to a prescribed contingency plan. At the controlling company level, the Group maintains and installs crisis detection and response system which is applied consistently group wide, and upon the happening of any contingency at two or more subsidiary level, the Group directly takes charge of the situation so that the Group manages it on a concerted group wide basis.

(b) Credit risk

i) Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. The Group's credit risk management encompasses all areas of credit that may result in potential economic loss, including not just transactions that are recorded on balance sheets, but also off-balance-sheet transactions such as guarantees, loan commitments and derivatives transactions.

Credit Risk Management of Shinhan Bank

Major policies for Shinhan Bank's credit risk management, including Shinhan Bank's overall credit risk management plan and credit policy guidelines, are determined by the Risk Policy Committee of Shinhan Bank, the executive decision-making body for management of credit risk. The Risk Policy Committee is headed by the Chief Risk Officer, and also comprises of the Chief Credit Officer, the heads of each business unit and the head of the Risk Management Department. In order to separate the loan approval functions from credit policy decision-making, Shinhan Bank has a Credit Review Committee that performs credit review evaluations, which focus on improving the asset quality and profitability from the loans being made, and operates separately from the Risk Policy Committee.

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

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

Each of Shinhan Bank's borrowers is assigned a credit rating, which is based on a comprehensive internal credit evaluation system that considers a variety of criteria. For retail borrowers, the credit rating takes into account the borrower's past dealings with Shinhan Bank and external credit rating information, among others.

For corporate borrowers, the credit rating takes into account financial indicators as well as non-financial indicators such as industry risk, operational risk and management risk, among others. The credit rating, once assigned, serves as the fundamental instrument in Shinhan Bank's credit risk management, and is applied in a wide range of credit risk management processes, including credit approval, credit limit management, loan pricing and computation of allowance for loan losses. Shinhan Bank has separate credit evaluation systems for retail customers, SOHO customers and corporate customers, which are further segmented and refined to meet Basel III requirements.

Loans are generally approved after evaluations and approvals by the manager at the branch level as well as the committee of the applicable business unit at Shinhan Bank. The approval limit for retail loans is made based on Shinhan Bank's automated credit scoring system. In the case of large corporate loans, approval limits are also reviewed and approved by a Credit Officer at the headquarter level. Depending on the size and the importance of the loan, the approval

process is further reviewed by the Credit Officer Committee or the Master Credit Officer Committee. If the loan is considered, further evaluation is made by the Credit Review Committee, which is Shinhan Bank's highest decision-making body in relation to credit approval.

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

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

Credit Risk Management of Shinhan Card

Major policies for Shinhan Card's credit risk management are determined by Shinhan Card's Risk Management Council and Shinhan Card's Risk Management Committee is responsible for approving them. Shinhan Card's Risk Management Council is headed by the Chief Risk Officer, and also comprises of the heads of each business unit, supporting unit and relevant department at Shinhan Card. In order to separate credit policy decision-making from credit evaluation functions, Shinhan Card also has a Risk Management Committee, which evaluates applications for corporate loans exceeding a certain amount and other loans deemed important. Shinhan Card uses an automated credit scoring system to approve credit card applications or credit card authorizations. The credit scoring system is divided into two sub-systems: the application scoring system and the behavior scoring system. The behavior scoring system is based largely on the credit history, and the application scoring system is based largely on personal information of the applicant. For credit card applicants with whom the Group has an existing relationship, Shinhan Card's credit scoring system considers internally gathered information such as repayment ability, total assets, the length of the existing relationship and the applicant's contribution to profitability. The credit scoring system also automatically conducts credit checks on all credit card applicants.

If a credit score awarded to an applicant is above a minimum threshold, the application is approved unless overridden based on other considerations such as delinquencies with other credit card companies.

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

ii) Maximum exposure to credit risk

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Due from banks and loans (*1), (*6)	₩ 219,551,119	210,798,802
Banks	14,392,195	11,126,070
Retail	85,959,631	82,924,709
Government	9,296,770	7,597,140
Corporate	92,920,898	92,082,186
Card receivable	16,981,625	17,068,697
Trading assets	15,339,949	14,277,000
Financial assets designated at FVTPL(*3)	1,890,919	1,325,646
AFS financial assets(*4)	28,581,427	31,371,415
HTM financial assets(*5)	11,031,307	11,659,682
Derivative assets	1,717,468	2,170,765
Other financial assets (*1),(*2)	8,603,430	9,563,182
Financial guarantee contracts	2,457,712	2,895,878
Loan commitments and other liabilities for credit	74,824,310	72,383,708
	₩ 363,997,641	356,446,078

(*1) The maximum exposure amounts for due from banks, loans and other financial assets are recorded as net of allowances.

(*2) Comprise of account receivables, accrued income, guarantee deposits, domestic exchange settlement debit and suspense payments, etc.

(*3) FVTPL : fair value through profit or loss

(*4) AFS : available-for-sale

(*5) HTM : held-to-maturity

(*6) Due from banks and loans were classified as similar credit risk group in calculating equity capital ratio under New Basel Capital Accord (Basel II).

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

iii) Due from banks and loans by past due or impairment

Due from banks and loans as of December 31, 2013 and 2012 are as follows:

						2013
	Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	₩ 14,406,019	85,460,776	9,301,890	92,298,605	16,634,186	218,101,476
Past due but not impaired	-	505,408	197	492,877	552,954	1,551,436
Impaired	-	273,316	-	1,670,702	442,301	2,386,319
	14,406,019	86,239,500	9,302,087	94,462,184	17,629,441	222,039,231
Less : allowance	(13,824)	(279,869)	(5,317)	(1,541,286)	(647,816)	(2,488,112)
	₩ 14,392,195	85,959,631	9,296,770	92,920,898	16,981,625	219,551,119

						2012 (restated)
	Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	₩ 11,133,952	82,394,657	7,600,456	91,602,154	16,539,121	209,270,340
Past due but not impaired	116	438,505	378	496,409	739,736	1,675,144
Impaired	-	478,247	-	1,646,130	533,902	2,658,279
	11,134,068	83,311,409	7,600,834	93,744,693	17,812,759	213,603,763
Less : allowance	(7,998)	(386,700)	(3,694)	(1,662,507)	(744,062)	(2,804,961)
	₩ 11,126,070	82,924,709	7,597,140	92,082,186	17,068,697	210,798,802

Credit quality of due from banks and loans, net of allowance, that are neither past due nor impaired as of December 31, 2013 and 2012 are as follows:

						2013
	Banks	Retail	Government	Corporate	Card	Total
Grade 1 (*1)	₩ 14,406,019	79,598,552	9,300,931	55,623,367	14,186,554	173,115,423
Grade 2 (*1)	-	5,862,224	959	36,675,238	2,447,632	44,986,053
	14,406,019	85,460,776	9,301,890	92,298,605	16,634,186	218,101,476
Less : allowance	(13,823)	(141,374)	(5,315)	(722,229)	(322,158)	(1,204,899)
	14,392,196	85,319,402	9,296,575	91,576,376	16,312,028	216,896,577
Mitigation of credit risk due to collateral (*2)	₩ 124,204	58,302,024	408	47,932,602	5,058	106,364,296

						2012 (restated)
	Banks	Retail	Government	Corporate	Card	Total
Grade 1 (*1)	₩ 11,133,866	79,418,399	7,597,923	54,675,569	15,186,242	168,011,999
Grade 2 (*1)	86	2,976,258	2,533	36,926,585	1,352,879	41,258,341
	11,133,952	82,394,657	7,600,456	91,602,154	16,539,121	209,270,340
Less : allowance	(7,998)	(141,664)	(3,690)	(1,070,722)	(321,865)	(1,545,939)
	11,125,954	82,252,993	7,596,766	90,531,432	16,217,256	207,724,401
Mitigation of credit risk due to collateral (*2)	₩ 124,104	55,043,349	388	41,733,524	5,529	96,906,894

(*1) Credit quality of due from banks and loans was classified based on the internal credit rating. Banks and government were classified as Grade 1 regardless of credit rating.

(*2) The Group holds collateral against due from banks and loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of quantification of the extent to which collateral mitigate credit risk are based on the fair value of collateral.

Aging analyses of due from banks and loans, net of allowance, that are past due but not impaired as of December 31, 2013 and 2012 are as follows:

	2013					
	Banks	Retail	Government	Corporate	Card	Total
Less than 30 days	₩ -	424,331	197	414,958	471,146	1,310,632
31~60 days	-	49,189	-	37,930	56,589	143,708
61~90 days	-	29,396	-	24,079	25,204	78,679
More than 90 days	-	2,492	-	15,910	15	18,417
	-	505,408	197	492,877	552,954	1,551,436
Less : allowance	-	(24,199)	(2)	(25,682)	(78,484)	(128,367)
	₩ -	481,209	195	467,195	474,470	1,423,069
Mitigation of credit risk due to collateral (*)	₩ -	341,937	44	275,010	59	617,050
	2012 (restated)					
	Banks	Retail	Government	Corporate	Card	Total
Less than 30 days	₩ 116	351,351	378	360,946	636,595	1,349,386
31~60 days	-	53,263	-	59,230	65,267	177,760
61~90 days	-	32,021	-	58,400	37,874	128,295
More than 90 days	-	1,415	-	17,833	-	19,248
	116	438,050	378	496,409	739,736	1,674,689
Less : allowance	-	(20,005)	(3)	(25,601)	(93,680)	(139,289)
	₩ 116	418,045	375	470,808	646,056	1,535,400
Mitigation of credit risk due to collateral (*)	₩ -	266,454	44	271,123	22	537,643

(*) The Group holds collateral against due from banks and loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of quantification of the extent to which collateral mitigate credit risk are based on the fair value of collateral.

Mitigation of credit risk due to the collateral of impaired due from banks and loans, net of allowance, as of December 31, 2013 and 2012 are as follows:

	2013					
	Banks	Retail	Government	Corporate	Card	Total
Impaired loans	₩ -	273,316	-	1,670,702	442,301	2,386,319
Less : allowance	-	(114,296)	-	(793,377)	(247,174)	(1,154,847)
	₩ -	159,020	-	877,325	195,127	1,231,472
Mitigation of credit risk due to collateral (*)	₩ -	104,993	-	583,160	25	688,178
	2012 (restated)					
	Banks	Retail	Government	Corporate	Card	Total
Impaired loans	₩ -	478,247	-	1,646,130	533,902	2,658,279
Less : allowance	-	(224,957)	-	(566,184)	(328,519)	(1,119,660)
	₩ -	253,290	-	1,079,946	205,383	1,538,619
Mitigation of credit risk due to collateral (*)	₩ -	124,546	-	606,059	6	730,611

(*) The Group holds collateral against due from banks and loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of quantification of the extent to which collateral mitigate credit risk are based on the fair value of collateral.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

iv) Credit rating

Credit rating of debt securities as of December 31, 2013 and 2012 are as follows:

					2013
	Trading assets	Financial assets designated at fair value through profit or loss	Available-for- sale financial assets	Held-to- maturity financial assets	Total
AAA	₩ 4,264,959	181,842	16,055,970	7,954,950	28,457,721
AA- to AA+	5,807,978	253,736	6,566,924	2,577,316	15,205,954
A- to A+	4,051,365	866,705	3,548,370	341,974	8,808,414
BBB- to BBB+	553,614	460,788	1,303,271	19	2,317,692
Lower than BBB-	271,603	-	419,464	23,305	714,372
Unrated	314,093	127,848	687,428	133,743	1,263,112
	₩ 15,263,612	1,890,919	28,581,427	11,031,307	56,767,265

					2012 (restated)
	Trading assets	Financial assets designated at fair value through profit or loss	Available-for- sale financial assets	Held-to- maturity financial assets	Total
AAA	₩ 4,376,337	177,567	19,868,860	9,594,512	34,017,276
AA- to AA+	4,601,391	131,845	5,923,292	1,411,353	12,067,881
A- to A+	3,376,639	527,359	3,175,284	293,422	7,372,704
BBB- to BBB+	1,243,112	350,891	1,419,647	19	3,013,669
Lower than BBB-	62,542	-	246,909	26,337	335,788
Unrated	179,051	137,984	737,423	334,039	1,388,497
	₩ 13,839,072	1,325,646	31,371,415	11,659,682	58,195,815

The credit qualities of securities (debt securities) according to the credit ratings by external rating agencies are as follows:

	KIS (*1)	KR (*2)	S&P	Fitch	Moody's
AAA	-	-	AAA	AAA	Aaa
AA- to AA+	AAA	AAA	AA- to AA+	AA- to AA+	Aa3 to Aa1
A- to A+	AA- to AA+	AA- to AA+	A- to A+	A- to A+	A3 to A1
BBB- to BBB+	BBB- to A	BBB- to A	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than Baa3
Unrated	Unrated	Unrated	Unrated	Unrated	Unrated

(*1) KIS : Korea Investors Service

(*2) KR : Korea Ratings

Credit status of debt securities as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Neither past due nor impaired	₩ 56,759,666	58,164,862
Impaired	7,599	30,952
	56,767,265	58,195,814

Assets acquired through foreclosures amounting to ₩6,074 million and ₩9,977 million were classified as assets held for sale (non-business purpose property) as of December 31, 2013 and 2012, respectively.

v) Concentration by geographic location

An analysis of concentration by geographic location for due from financial instrument, net of allowance, as of December 31, 2013 and 2012 are as follows:

								2013
		Korea	USA	Japan	Vietnam	China	Other	Total
Due from banks and loans	Banks	₩ 7,437,875	1,302,191	203,670	99,266	2,975,472	2,373,721	14,392,195
	Retail	85,220,722	230,881	226,899	30,824	23,792	226,513	85,959,631
	Government	8,824,682	222,567	141,928	39,176	936	67,481	9,296,770
	Corporate	84,444,327	1,271,063	1,640,463	935,723	1,892,867	2,736,455	92,920,898
	Card	16,961,645	6,302	2,008	2,320	3,413	5,937	16,981,625
		202,889,251	3,033,004	2,214,968	1,107,309	4,896,480	5,410,107	219,551,119
Trading assets		15,249,072	1,477	-	-	-	89,400	15,339,949
Financial assets designated at								
FVTPL (*1)		1,887,358	-	-	-	-	3,561	1,890,919
AFS financial assets (*2)		27,482,775	582,395	-	373,060	5,106	138,091	28,581,427
HTM financial assets (*3)		10,829,152	64,451	50,408	10,450	63,991	12,855	11,031,307
		₩ 258,337,608	3,681,327	2,265,376	1,490,819	4,965,577	5,654,014	276,394,721
2012 (restated)								
		Korea	USA	Japan	Vietnam	China	Other	Total
Due from banks and loans	Banks	₩ 7,631,544	538,588	142,839	104,819	1,112,010	1,596,270	11,126,070
	Retail	82,409,529	246,815	43,919	9,062	13,693	201,691	82,924,709
	Government	7,042,917	221,413	226,426	50,827	617	54,940	7,597,140
	Corporate	85,746,150	1,043,872	1,252,544	681,755	1,275,962	2,081,903	92,082,186
	Card	17,051,936	5,812	1,793	1,145	2,266	5,745	17,068,697
		199,882,076	2,056,500	1,667,521	847,608	2,404,548	3,940,549	210,798,802
Trading assets		13,830,184	-	1,127	-	-	445,689	14,277,000
Financial assets designated at								
FVTPL (*1)		1,322,056	-	-	-	-	3,590	1,325,646
AFS financial assets (*2)		30,771,099	264,487	-	218,275	-	117,554	31,371,415
HTM financial assets (*3)		11,525,398	1,210	62,629	19,609	-	50,836	11,659,682
		₩ 257,330,813	2,322,197	1,731,277	1,085,492	2,404,548	4,558,218	269,432,545

(*1) FVTPL : fair value through profit or loss

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

vi) Concentration by industry sector

An analysis of concentration by industry sector of due from banks and loans, net of allowance, as of December 31, 2013 and 2012 are as follows:

								2013
		Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans	Banks	₩ 12,280,508	-	-	114,037	1,997,650	-	14,392,195
	Retail	-	-	-	-	-	85,959,631	85,959,631
	Government	8,979,578	-	125	51	317,016	-	9,296,770
	Corporate	3,120,088	32,099,156	12,912,762	16,244,112	28,544,780	-	92,920,898
	Card	49,173	149,566	129,553	27,929	489,201	16,136,203	16,981,625
		24,429,347	32,248,722	13,042,440	16,386,129	31,348,647	102,095,834	219,551,119
Trading assets		10,563,868	1,009,708	329,326	795,317	2,641,730	-	15,339,949
Financial assets designated at								
FVTPL (*1)		1,253,602	110,074	20,243	60,810	446,190	-	1,890,919
AFS financial assets (*2)		19,328,390	1,288,842	215,759	892,194	6,856,242	-	28,581,427
HTM financial assets (*3)		3,144,309	36,961	-	589,116	7,260,921	-	11,031,307
		₩ 58,719,516	34,694,307	13,607,768	18,723,566	48,553,730	102,095,834	276,394,721
								2012 (restated)
		Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans	Banks	₩ 10,090,348	-	-	120,696	915,026	-	11,126,070
	Retail	-	-	-	-	-	82,924,709	82,924,709
	Government	7,304,220	6	132	39	292,743	-	7,597,140
	Corporate	3,078,782	32,595,013	11,630,765	16,625,570	28,152,056	-	92,082,186
	Card	46,493	127,504	140,127	25,846	610,321	16,118,406	17,068,697
		20,519,843	32,722,523	11,771,024	16,772,151	29,970,146	99,043,115	210,798,802
Trading assets		9,204,943	1,185,807	532,840	1,189,942	2,163,468	-	14,277,000
Financial assets designated at								
FVTPL (*1)		817,997	112,852	10,371	123,632	260,794	-	1,325,646
AFS financial assets (*2)		20,369,556	1,193,095	229,618	1,040,793	8,538,353	-	31,371,415
HTM financial assets (*3)		3,803,177	10,005	-	694,149	7,152,351	-	11,659,682
		₩ 54,715,516	35,224,282	12,543,853	19,820,667	48,085,112	99,043,115	269,432,545

(*1) FVTPL : fair value through profit or loss

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

(c) Market risk

Market risk from trading positions is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Interest rate risk from non- trading positions is the risk of loss resulting from interest rate fluctuations that adversely affect the financial condition and results of operations of the Group and affects the earnings and the economic value of net assets of the Group.

Foreign exchange risk arises because of the Group's assets and liabilities which are denominated in currencies other than the Won.

The Group's market risks arise primarily from Shinhan Bank, and to a lesser extent, Shinhan Investment, which incurs market risk relating to its trading activities.

Shinhan Bank's Risk Policy Committee, acts as the executive decision making body in relation to market risks in terms of setting the risk management policies and risk limits in relation to market risks and assets and controlling market risks arising from trading and non-trading activities. In addition, Shinhan Bank's Risk Management Department comprehensively manages market risks on an independent basis from Shinhan Bank's operating departments, and functions as the middle office of Shinhan Bank.

Shinhan Investment's Risk Management Working Committee is the executive decision-making body for managing market risks related to Shinhan Investment, and determines, among other things, Shinhan Investment's overall market risk management policies and strategies, and assesses and approves trading activities and limits. In addition, Shinhan Investment's Risk Management Department manages various market risk limits and monitors operating conditions on an independent basis from Shinhan Investment's operating departments.

i) Market risk management from trading positions

Trading activities are to realize short-term trading profits in debt and stock markets and foreign exchange markets based on short-term forecast of changes in market situation and profits from arbitrage transactions in derivatives such as swap, forward, futures and option transactions. The Group manages market risk related to its trading positions using VaR, market value-based tool.

Shinhan Bank currently uses the ten-day 99% confidence level-based VaR for purposes of calculating the regulatory capital used in reporting to the Financial Supervisory Service and uses the more conservative ten-day 99.9% confidence level-based VaR for purposes of calculating its "economic" capital used for internal management purposes, which is a concept used in determining the amount of Shinhan Bank's requisite capital in light of the market risk. In addition, Shinhan Bank also uses the one-day 99% confidence level-based VaR on a supplemental basis for purposes of setting and managing risk limits specific to each desk or team in its operating units as well as for back-testing purposes. Shinhan Bank manages VaR measurements and limits on a daily basis based on an automatic interfacing of its trading positions into its market risk measurement system. In addition, Shinhan Bank establishes pre-set loss, sensitivity, investment and stress limits for its trading departments and desks and monitors such limits daily.

Shinhan Investment currently uses the ten-day 99.9% confidence level-based historical VaR for purposes of calculating its "economic" capital used for internal management purposes.

When computing the VaR, Shinhan Investment does not assume any particular probability distribution and calculates it through a simulation of the "full valuation" method based on changes of market variables such as stock prices, interest rates, and foreign exchange rates in the past one year.

In addition, Shinhan Investment applies this VaR as a risk limit for the entire company as well as individual departments and products, and the adequacy of such VaR is reviewed by way of daily back-testing.

In order to streamline such differences and use a consistent VaR among operating subsidiaries, the Group has adopted starting in 2013 a unified group-wide market risk measurement methodology, which uses the ten-day 99.9% confidence level for calculating the VaR.

An analysis of the Group's requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2013 and 2012 based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, was as follows:

	2013			
	Average	Maximum	Minimum	At December 31
Interest rate	₩ 195,496	210,229	185,555	200,557
Equities	75,107	85,345	66,493	85,345
Foreign exchange	128,086	137,491	121,200	122,205
Option volatility	6,631	7,506	4,941	7,324
	₩ 405,320	440,571	378,189	415,431
	2012			
	Average	Maximum	Minimum	At December 31
Interest rate	₩ 189,958	203,740	176,840	182,318
Equities	63,419	74,694	55,241	74,694
Foreign exchange	114,537	117,037	112,022	113,434
Option volatility	4,602	5,801	3,828	4,594
	₩ 372,516	401,272	347,931	375,040

Insurance company, Shinhan life insurance, was excluded when the Group estimated the market risk, because insurance company was not included in the Group's subsidiaries for the consolidated BIS capital ratio.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

An analysis of market risk for trading positions of the major subsidiaries as of and for the years ended December 31, 2013 and 2012 are as follows:

i-1) Shinhan Bank

An analysis of the ten-day 99% confidence level-based VaR for managing market risk for trading positions of Shinhan Bank as of and for the years ended December 31, 2013 and 2012 are as follows:

	Average	Maximum	Minimum	2013 At December 31
Interest rate	₩ 21,604	28,670	14,413	25,136
Equities	5,677	13,250	2,737	7,341
Foreign exchange	45,176	50,933	41,554	43,993
Option volatility	278	350	198	208
Portfolio diversification	(25,837)	(40,931)	(18,457)	(27,001)
	₩ 46,898	52,272	40,445	49,677

	Average	Maximum	Minimum	2012 At December 31
Interest rate	₩ 24,085	32,036	19,817	19,817
Equities	26,476	41,920	11,085	12,247
Foreign exchange	79,449	95,661	49,583	55,243
Option volatility	257	897	95	251
Portfolio diversification	(60,274)	(80,989)	(37,435)	(38,967)
	₩ 69,993	89,525	43,145	48,591

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

i-2) Shinhan Card

An analysis of Shinhan Card's requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2013 and 2012, based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, is as follows:

	Average	Maximum	Minimum	2013 At December 31
Interest rate	₩ 233	750	150	150
Foreign exchange	42,640	46,678	39,401	46,678
	₩ 42,873	47,428	39,551	46,828

	Average	Maximum	Minimum	2012 At December 31
Interest rate	₩ 358	900	250	500
Foreign exchange	35,291	40,972	32,313	36,905
	₩ 35,649	41,872	32,563	37,405

(*)The Group has been exposed to only foreign exchange rate risk of foreign currency equity securities for the purpose of non-trading because the Shinhan Card hedges all cash flow of foreign currency liabilities by currency rate swap.

i-3) Shinhan Investment

An analysis of the ten-day 99% confidence level-based VaR for managing market risk for trading positions of Shinhan Investment as of and for the years ended December 31, 2013 and 2012 are as follows:

	Average	Maximum	Minimum	2013 At December 31
Interest rate	₩ 12,583	33,534	2,930	6,404
Equities	8,287	17,163	3,418	3,471
Foreign exchange	2,160	7,524	116	1,194
Option volatility	1,681	3,400	323	1,409
Portfolio diversification	(9,889)	(22,237)	(3,662)	(7,416)
	₩ 14,822	39,384	3,125	5,062

	Average	Maximum	Minimum	2012 At December 31
Interest rate	₩ 9,102	15,797	2,532	3,467
Equities	2,790	8,816	882	8,620
Foreign exchange	2,779	10,825	90	1,292
Option volatility	4,465	11,866	237	736
Portfolio diversification	(10,253)	(20,771)	(3,036)	(6,875)
	₩ 8,883	26,533	705	7,240

i-4) Shinhan Life Insurance

An analysis of the ten-day 99% confidence level-based VaR for managing market risk for trading positions of Shinhan Life Insurance as of and for the years ended December 31, 2013 and 2012 are as follows:

	Average	Maximum	Minimum	2013 At December 31
Interest rate	₩ 975	1,599	455	455
Equities	346	988	20	89
Foreign exchange	254	546	32	113
	1,575	3,133	507	657

	Average	Maximum	Minimum	2012 At December 31
Interest rate	₩ 826	1,333	197	958
Equities	750	947	499	947
Foreign exchange	216	253	136	135
	₩ 1,792	2,533	832	2,040

ii) Interest rate risk management from non-trading positions

Principal market risk from non-trading activities of the Group is interest rate risk, which affects the Group's earnings and the economic value of the Group's net assets:

- Earnings: interest rate fluctuations have an effect on the Group's net interest income by affecting its interest-sensitive operating income and expenses and EaR (Earnings at Risk) is a commonly used risk management technique.
- Economic value of net assets: interest rate fluctuations influence the Group's net worth by affecting the present value of cash flows from the assets, liabilities and other transactions of the Group and VaR is a commonly used risk management technique.

Interest rate VaR represents the maximum anticipated loss in a net present value calculation, whereas interest rate EaR represents the maximum anticipated loss in a net earnings calculation for the immediately following one-year period, in each case, as a result of negative movements in interest rates.

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

The principal objectives of Shinhan Bank's interest rate risk management are to generate stable net interest income and to protect Shinhan Bank's net asset value against interest rate fluctuations. Through its asset and liability management system, Shinhan Bank measures and manages its interest rate risk based on various analytical measures such as interest rate gap, duration gap and net present value and net interest income simulations, and monitors on a monthly basis its interest rate VaR limits, interest rate earnings at risk ("EaR") limits and interest rate gap ratio limits. Shinhan Bank measures its interest rate VaR and interest rate EaR based on a simulated estimation of the maximum decrease in net asset value and net interest income in a one-year period based on various scenario analyses of historical interest rates.

Shinhan Card Co., Ltd and Shinhan Life Insurance also monitors and manages its interest rate risk limits for all its interest-bearing assets and liabilities (including off-balance sheet items) in terms of impact on its earnings and net asset value from changes in interest rates. The interest rate VaR analysis used by Shinhan Card Co., Ltd and Shinhan Life Insurance principally focuses on the maximum impact on its net asset value from adverse movement in interest rates.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

Non-trading positions for interest rate VaR and EaR as of December 31, 2013 and 2012 are as follows:

ii-1) Shinhan Bank

	2013	2012
VaR	₩ 415,700	841,157
EaR	356,453	249,567

ii-2) Shinhan Card

	2013	2012
VaR	₩ 285,352	338,930
EaR	17,040	29,318

ii-3) Shinhan Investmaent

	2013	2012
VaR	₩ 11,725	26,289
EaR	126,321	107,733

ii-4) Shinhan Life Lnsurance

	2013	2012
VaR	₩ 62,298	126,359
EaR	2,428	28,705

(*1) The Interest VaR was calculated by The Financial Supervisory Service regulations based on the duration proxies and interest shocks by 200 basis points for each time bucket as recommended under the Basel Accord.

(*2) The Interest EaR was calculated by The Financial Supervisory Service regulations based on an interest rate gap analysis using the time buckets and the "middle of time band" as recommended under the Basel Accord.

iii) Foreign exchange risk

Foreign exchange risk arises because of the Group's net foreign currency open position, which is the difference between its foreign currency assets and liabilities, including derivatives.

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

The Risk Policy Committee oversees Shinhan Bank's foreign exchange exposure for both trading and nontrading activities by establishing limits for the net foreign currency open position, loss limits and VaR limits.

The management of Shinhan Bank's foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage Shinhan Bank's overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps.

Foreign currency denominated assets and liabilities as of December 31, 2013 and 2012 are as follows:

						2013
	USD	JPY	EUR	CNY	Other	Total
Assets						
Cash and due from banks	₩ 2,454,298	1,236,206	94,546	1,464,235	454,990	5,704,275
Loans	12,066,235	4,074,563	1,088,485	1,777,469	2,045,999	21,052,751
Trading assets	237,996	5,020	-	-	110,694	353,710
Derivative assets	188,332	34	7,864	397	1,910	198,537
Available-for-sale financial assets	1,740,787	9,125	13,508	5,106	523,371	2,291,897
Held-to-maturity financial assets	64,451	294,027	-	63,991	28,251	450,720
Other financial assets	1,329,737	348,676	105,395	43,322	116,523	1,943,653
	18,081,836	5,967,651	1,309,798	3,354,520	3,281,738	31,995,543
Liabilities						
Deposits	₩ 6,526,255	5,280,535	319,828	2,492,930	1,818,909	16,438,457
Trading liabilities	-	-	-	-	398,596	398,596
Financial liabilities designated at fair value through profit or loss	46,806	-	-	-	-	46,806
Derivative liabilities	130,607	46,114	-	2,901	1,919	181,541
Borrowings	4,320,200	420,004	505,242	228,988	221,460	5,695,894
Debt securities issued	4,618,872	653,029	-	104,292	507,813	5,884,006
Other financial liabilities	1,134,441	309,432	374,739	170,065	320,016	2,308,693
	₩ 16,777,181	6,709,114	1,199,809	2,999,176	3,268,713	30,953,993
Net assets (liabilities)	₩ 1,304,655	(741,463)	109,989	355,344	13,025	1,041,550
Off-balance derivative exposure	147,613	753,581	(114,039)	49,107	296,693	1,132,955
Net position	₩ 1,452,268	12,118	(4,050)	404,451	309,718	2,174,505
2012 (restated)						
	USD	JPY	EUR	CNY	Other	Total
Assets						
Cash and due from banks	₩ 1,198,615	1,119,555	74,962	870,378	340,001	3,603,511
Loans	11,790,540	4,932,804	1,323,022	1,351,857	1,964,774	21,362,997
Trading assets	153,521	-	-	14,715	451,165	619,401
Derivative assets	276,729	-	9,939	-	127	286,795
Available-for-sale financial assets	1,357,859	44,099	9,005	-	335,003	1,745,966
Held-to-maturity financial assets	1,210	392,628	-	-	40,648	434,486
Other financial assets	2,094,597	215,778	15,696	145,082	95,961	2,567,114
	16,873,071	6,704,864	1,432,624	2,382,032	3,227,679	30,620,270
Liabilities						
Deposits	₩ 5,328,631	5,651,318	247,045	1,634,518	1,523,852	14,385,364
Trading liabilities	-	-	-	-	484,061	484,061
Derivative liabilities	123,007	47,718	-	-	60	170,785
Borrowings	4,968,386	669,168	688,261	85,055	250,880	6,661,750
Debt securities issued	4,863,268	436,625	106,220	210,002	701,964	6,318,079
Other financial liabilities	1,334,236	227,995	253,896	245,871	227,323	2,289,321
	₩ 16,617,528	7,032,824	1,295,422	2,175,446	3,188,140	30,309,360
Net assets (liabilities)	₩ 255,543	(327,960)	137,202	206,586	39,539	310,910
Off-balance derivative exposure	794,675	328,526	(123,325)	203,512	614,279	1,817,667
Net position	₩ 1,050,218	566	13,877	410,098	653,818	2,128,577

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Each subsidiary seeks to minimize liquidity risk through early detection of risk factors related to the sourcing and managing of funding that may cause volatility

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

in liquidity and by ensuring that it maintains an appropriate level of liquidity through systematic management. At the groupwide level, the Group manages liquidity risk by conducting monthly stress tests that compare liquidity requirements under normal situations against those under three types of stress situations, namely, the group-specific internal crisis, crisis in the external market and a combination of internal and external crisis. In addition, in order to preemptively and comprehensively manage liquidity risk, the Group measure and monitor liquidity risk management using various indices, including the "limit management index", "early warning index" and "monitoring index".

Shinhan Bank applies the following basic principles for liquidity risk management:

- raise funding in sufficient amounts, at the optimal time at reasonable costs;
- maintain risk at appropriate levels and preemptively manage them through a prescribed risk limit system and an early warning signal detection system;
- secure stable sources of revenue and minimize actual losses by implementing an effective asset-liability management system based on diversified sources of funding with varying maturities;
- monitor and manage daily and intra-daily liquidity positions and risk exposures for timely payment and settlement of financial obligations due under both normal and crisis situations;
- conduct periodic contingency analysis in anticipation of any potential liquidity crisis and establish and implement emergency plans in case of a crisis actually happening; and
- consider liquidity-related costs, benefits of and risks in determining the pricing of the Group's products and services, employee performance evaluations and approval of launching of new products and services.

As for any potential liquidity shortage at or near the end of each month, Shinhan Card maintains liquidity at a level sufficient to withstand credit shortage for three months. In addition, Shinhan Card manages liquidity risk by defining and managing various indicators of liquidity risk, such as the actual liquidity gap ratio (in relation to the different maturities for assets as compared to liabilities), the liquidity buffer ratio, the maturity repayment ratio, the ratio of actual funding compared to budgeted funding and the ratio of asset-backed securities to total borrowings, at different risk levels of "caution", "unstable" and "at risk", and the Group also has contingency plans in place in case of any emergency or crisis.

Contractual maturities for financial instruments including cash flows of principal and interest and off balance as of December 31, 2013 and 2012 are as follows:

							2013
	Less than 1 month	1~3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	Total
Non-derivatives:							
Assets							
Cash and due from banks	₩ 13,158,921	1,132,108	1,158,640	842,635	71,427	236,053	16,599,784
Loans	29,266,553	28,405,856	32,069,312	46,773,416	51,992,423	45,558,541	234,066,101
Trading assets (*3)	18,021,851	-	-	-	-	-	18,021,851
Financial assets designated at fair value through profit or loss	2,387,535	146,011	99,491	88,401	639,495	-	3,360,933
Available-for-sale financial assets (*3)	28,471,792	1,424,789	43,166	569,533	177,199	2,936,276	33,622,755
Held-to-maturity financial assets	163,006	860,399	216,955	1,708,192	6,138,602	5,884,452	14,971,606
Other financial assets	4,234,883	115,317	257,777	335,576	3,732,060	83,282	8,758,895
	₩ 95,704,541	32,084,480	33,845,341	50,317,753	62,751,206	54,698,604	329,401,925
Liabilities							
Deposits (*2)	₩ 81,531,603	20,667,444	25,856,289	43,637,751	10,648,429	2,907,671	185,249,187
Trading liabilities (*3)	1,258,283	-	-	-	-	-	1,258,283
Borrowings	10,104,078	1,791,667	2,152,228	1,795,100	3,816,464	790,890	20,450,427
Debt securities issued	1,111,445	2,864,917	3,065,423	4,710,799	24,847,517	5,708,971	42,309,072
Financial liabilities designated at fair value through profit or loss	56,175	206,479	442,352	677,631	4,205,094	321,399	5,909,130
Other financial liabilities	14,587,022	148,854	52,803	173,826	433,346	65,753	15,461,604
	₩ 108,648,606	25,679,361	31,569,095	50,995,107	43,950,850	9,794,684	270,637,703
Off balance							
Financial guarantee contracts	₩ 2,457,712	-	-	-	-	-	2,457,712
Loan commitments and others	74,824,310	-	-	-	-	-	74,824,310
	₩ 77,282,022	-	-	-	-	-	77,282,022
Derivatives:							
Cash inflow	₩ 1,827,969	671,262	234,757	327,195	1,886,110	736,877	5,684,170
Cash outflow	1,894,089	425,602	221,876	263,615	1,678,499	416,179	4,899,860
	₩ (66,120)	245,660	12,881	63,580	207,611	320,698	784,310

	2012 (restated)						
	Less than 1 month	1~3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	Total
Non-derivatives:							
Assets							
Cash and due from banks	₩ 9,787,042	1,200,221	1,015,252	1,251,796	281,700	51,490	13,587,501
Loans	29,530,726	28,531,335	32,647,384	45,347,878	47,575,372	47,325,670	230,958,365
Trading assets (*3)	14,079,144	171,414	254,080	776,572	1,373,046	-	16,654,256
Financial assets designated at fair value through profit or loss	1,793,657	73,857	5,169	41,007	609,711	21,728	2,545,129
Available-for-sale financial assets (*3)	33,002,881	1,243,237	-	60,648	35,377	1,945,647	36,287,790
Held-to-maturity financial assets	270,168	424,714	437,935	1,527,358	7,663,374	4,192,561	14,516,110
Other financial assets	5,743,829	184,686	40,126	282,030	3,393,670	106,117	9,750,458
	₩ 94,207,447	31,829,464	34,399,946	49,287,289	60,932,250	53,643,213	324,299,609
Liabilities							
Deposits (*2)	₩ 70,081,054	19,834,349	17,568,677	58,212,569	11,138,795	2,655,637	179,491,081
Trading liabilities (*3)	1,370,723	-	-	-	-	-	1,370,723
Borrowings	9,314,059	2,085,094	1,390,841	1,416,346	4,719,507	892,355	19,818,202
Debt securities issued	1,068,555	1,949,034	2,922,035	6,558,938	27,084,263	4,321,377	43,904,202
Financial liabilities designated at fair value through profit or loss	85,260	173,289	296,974	495,799	3,617,151	153,724	4,822,197
Other financial liabilities	17,963,473	50,675	38,652	160,998	434,581	66,282	18,714,661
	₩ 99,883,124	24,092,441	22,217,179	66,844,650	46,994,297	8,089,375	268,121,066
Off balance							
Financial guarantee contracts	₩ 2,895,878	-	-	-	-	-	2,895,878
Loan commitments and others	72,200,742	-	-	-	-	-	72,200,742
	₩ 75,096,620	-	-	-	-	-	75,096,620
Derivatives:							
Cash inflow	₩ 2,024,108	373,602	161,696	571,717	2,137,068	631,768	5,899,959
Cash outflow	1,761,438	100,083	167,306	569,682	1,939,458	375,361	4,913,328
	₩ 262,670	273,519	(5,610)	2,035	197,610	256,407	986,631

(*1) These amounts include cash flows of principal and interest on financial assets and financial liabilities.

(*2) Demand deposits amounting to ₩ 52,171,149 million and ₩ 49,861,856 million as of December 31, 2012 and 2011 are included in the 'Less than 1 month' category, respectively.

(*3) Trading assets and available-for-sale financial assets, except for assets restricted for sale for certain periods, were included in the 'Less than 1 month' category.

(*4) Financial guarantees such as financial guarantee contracts and loan commitments and others provided by the Group are classified based on the earliest date at which the Group should fulfill the obligation under the guarantee when the counter party requests payment.

(e) Measurement of fair value

Fair values, which the Group primarily uses for the measurement of financial instruments, are the published price quotations based on market prices or dealer price quotations of financial instruments traded in an active market where available.

If the market for a financial instrument is not active, fair value is determined either by using a valuation technique or independent third-party valuation service. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, referencing to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

For example, fair value of interest rate swaps and currency forwards were calculated discounted cash flow analysis method and exchange forward rate method.

i) Financial instruments measured at the fair value

The Group classifies and discloses fair value of the financial instruments into the following three-level hierarchy:

- Level 1: Financial instruments measured at quoted prices from active markets are classified as fair value level 1.
- Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.
- Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

i-1) The table below analyzes financial instruments measured at the fair value as of December 31, 2013 and 2012 by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Level 1	Level 2	Level 3	2013 Total
Assets				
Trading assets				
Debt securities	₩ 2,904,587	12,329,028	29,997	15,263,612
Equity securities	627,131	2,060,870	5,348	2,693,349
Gold deposits	76,337	-	-	76,337
Financial assets designated at fair value through profit or loss				
Debt securities and others	171,881	1,037,630	681,408	1,890,919
Equity securities	46,573	1,209,975	213,298	1,469,846
Derivative assets				
Trading	7,010	1,345,476	197,230	1,549,716
Hedging	-	115,195	52,557	167,752
Available-for-sale financial assets				
Debt securities	7,614,090	20,950,068	17,269	28,581,427
Equity securities	2,285,388	485,498	2,251,988	5,022,874
	₩ 13,732,997	39,533,740	3,449,095	56,715,832
Liabilities				
Trading liabilities				
Debt securities	₩ 859,687	-	-	859,687
Gold deposits	398,596	-	-	398,596
Financial liabilities designated at fair value through profit or loss				
Borrowings	672	1,379,367	4,529,091	5,909,130
Derivative liabilities				
Trading	6,216	1,310,870	370,687	1,687,773
Hedging	-	147,416	191,345	338,761
	₩ 1,265,171	2,837,653	5,091,123	9,193,947

	2012 (restated)			
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
Debt securities	₩ 3,170,587	10,495,814	172,671	13,839,072
Equity securities	437,925	1,934,550	4,780	2,377,255
Gold deposits	437,928	-	-	437,928
Financial assets designated at fair value through profit or loss				
Debt securities and others	161,056	614,664	549,926	1,325,646
Equity securities	58,772	1,014,981	142,934	1,216,687
Derivative assets				
Trading	25,315	1,607,049	275,277	1,907,641
Hedging	-	193,207	69,917	263,124
Available-for-sale financial assets				
Debt securities	7,987,288	23,342,149	41,978	31,371,415
Equity securities	2,159,574	235,445	2,517,484	4,912,503
	₩ 14,438,445	39,437,859	3,774,967	57,651,271
Liabilities				
Trading liabilities				
Debt securities	₩ 886,662	-	-	886,662
Gold deposits	484,061	-	-	484,061
Financial liabilities designated at fair value through profit or loss				
Borrowings	-	563,998	4,258,199	4,822,197
Derivative liabilities				
Trading	21,286	1,481,257	210,866	1,713,409
Hedging	-	139,997	50,638	190,635
	₩ 1,392,009	2,185,252	4,519,703	8,096,964

i-2) There was no transfer between level 1 and level 2 for the year ended December 31, 2013.

i-3) Changes in level 3 of the fair value hierarchy for the years ended December 31, 2013 and 2012 are as follows:

	2013				
	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Net derivatives	Financial liabilities designated at fair value through profit or loss
Beginning balance	₩ 177,451	692,860	2,559,462	83,690	4,258,199
Comprehensive income					
Profit or loss	(3,603)	5,856	(61,469)	(157,720)	59,683
Other comprehensive income	-	-	75,371	(1,148)	-
	(3,603)	5,856	13,902	(158,868)	59,683
Purchases	486,200	680,253	673,700	48,469	-
Issuances	-	-	-	(82,857)	4,996,245
Settlements	(626,200)	(473,800)	(404,688)	(202,679)	(4,785,036)
Transfers into (out of) level 3	1,497	(10,463)	(573,119)	-	-
Ending balance	₩ 35,345	894,706	2,269,257	(312,245)	4,529,091

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

2012 (restated)

	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Net derivatives	Financial liabilities designated at fair value through profit or loss
Beginning balance	₩ 9,991	308,029	2,191,946	22,940	3,298,409
Comprehensive income					
Profit or loss	2,680	42,955	94,029	418,900	649,683
Other comprehensive income	-	-	46,157	19	-
	2,680	42,955	140,186	418,919	649,683
Purchases	640,000	981,102	525,561	69,590	-
Issuances	-	-	-	(170,367)	9,080,911
Settlements	(480,000)	(737,868)	(594,107)	(221,565)	(8,770,804)
Transfers into (out of) level 3	4,780	98,642	295,876	(35,827)	-
Ending balance	₩ 177,451	692,860	2,559,462	83,690	4,258,199

i-4) Valuation technique and inputs used in measuring fair value

i-4-1) Information about valuation technique and inputs used at December 31, 2013 in the fair value measurement of financial instruments classified as level 2 was as follows:

Type of financial instrument	Valuation technique	Book value	Inputs
Assets			
Trading assets			
Debt securities	DCF(*1)	₩ 12,329,028	Discount rate
Equity securities	NAV(*2)	2,060,870	Price of underlying assets
		14,389,898	
Financial assets designated at fair value through profit or loss			
Debt securities	DCF(*1)	1,037,630	Discount rate
Equity securities	NAV(*2)	1,209,975	Price of underlying assets
		2,247,605	
Derivative assets			
Trading	Option model	1,345,476	Discount rate, Foreign exchange rate,
Hedging	DCF(*1)	115,195	volatility, stock price, commodity index, etc.
		1,460,671	
Available-for-sale financial assets			
Debt securities	DCF(*1)	20,950,068	Discount rate
Equity securities	NAV(*2)	485,498	Price of underlying assets
		21,435,566	
		39,533,740	
Liabilities			
Financial liabilities designated at fair value through profit or loss			
Borrowings	DCF(*1)	1,379,367	Discount rate
Derivative liabilities			
Trading	Option model	1,310,870	Discount rate, Foreign exchange rate,
Hedging	DCF(*1)	147,416	volatility, stock price, commodity index, etc.
		1,458,286	
		₩ 2,837,653	

(*1) DCF : Discounted cash flow

(*2) NAV : Net asset value

i-4-2) Information about valuation technique and significant unobservable inputs used at December 31, 2013 in the fair value measurement of financial instruments classified as level 3 was as follows:

Type of financial instrument	Valuation technique	Book value (*4)	significant unobservable inputs	Range
Assets				
Trading assets				
Debt securities	DCF(*1)	₩ 29,997	The volatility of the underlying asset	0.88%
Equity securities	DCF(*1)	5,348	Discount rate	10.48%
			Growth rate	0.00%~1.00%
		35,345		
Financial assets designated at fair value through profit or loss				
Debt securities and others	DCF(*1)	681,408	The volatility of the underlying asset	14.41%~48.86%
			Correlations	4.40%~81.68%
Equity securities	DCF(*1)	213,298	Discount rate	10.48%
			Growth rate	0.00%~1.00%
		894,706		
Derivative assets				
Equity and foreign exchange related	Option model(*2)	174,178	The volatility of the underlying asset	5.00%~48.09%
			Correlations	(34.85%)~94.71%
Interest rates related	Option model(*2)	69,036	The volatility of the underlying asset	0.44%~60.10%
			Regression coefficient	0.02%~2.05%
			Correlations	(17.75%)~61.19%
Credit related	Option model(*2)	277	The volatility of the underlying asset	4.76%
Commodity related	Option model(*2)	6,296	The volatility of the underlying asset	1.60%~41.33%
			Correlations	(3.31%)~(85.97%)
		249,787		
Available-for-sale financial assets				
Debt securities	NAV(*3)	17,269	Discount rate	0.00%
			Growth rate	
Equity securities	DCF(*1)	2,158,571	Discount rate,	2.01%~26.61%
			Growth rate	0.00%~2.00%
		2,175,840		
		3,355,678		
Liabilities				
Financial liabilities designated at fair value through profit or loss				
Other securities	Option model(*2)	4,529,091	The volatility of the underlying asset	1.60%~105.96%
			Correlations	(4.91%)~74.16%
Derivative liabilities				
Equity and foreign exchange related	Option model(*2)	280,811	The volatility of the underlying asset	5.63%~90.49%
			Correlations	(34.85%)~68.88%
Interest rates related	Option model(*2)	213,124	The volatility of the underlying asset	0.22%~0.51%
			Regression coefficient	0.00%~5.12%
			Correlations	27.02%~94.60%
Credit related	Option model(*2)	(363)	Correlations	50.00%~80.00%
Commodity related	Option model(*2)	68,460	The volatility of the underlying asset	8.69%~41.33%
			Correlations	(1.59%)~85.97%
		562,032		
		₩ 5,091,123		

(*1) DCF : Discounted cash flow

(*2) Option model that the Group uses in derivative valuation includes Black-Scholes model, Hull-White model, Monte Carlo simulation, etc.

(*3) NAV : Net asset value

(*4) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

i -5) Sensitivity analysis for fair value measurements in Level 3 Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

For level 3 fair value measurement, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effect on profit or loss, or other comprehensive income:

Descriptions	2013	
	Favorable changes	Unfavorable changes
Profit or loss(*1)	₩ 375	(1,249)
Trading assets	5,170	(4,385)
Financial assets designated at fair value through profit or loss	16,053	(24,130)
Derivative assets	165,734	(73,273)
Available-for-sale financial assets(*2)	187,332	(103,037)
Profit or loss(*1)		
Financial liabilities designated at fair value through profit or loss	45,080	(48,732)
Derivative liabilities	56,084	(58,729)
	₩ 101,164	(107,461)

(*1) Fair value changes are calculated by increasing or decreasing the volatility of the underlying asset (-10~10%) or correlations (-10~10%).

(*2) Fair value changes are calculated by increasing or decreasing discount rate (-1~1%) or growth rate (0~1%).

ii) Financial instruments measured at amortized cost

ii - 1) The method of measuring the fair value of financial instruments measured at amortized cost is as follows:

Type	Measurement methods of fair value
Cash and due from banks	The book amount and the fair value for cash are identical and the most of deposits are floating interest rate deposit or the next day deposit of a short-term instrument. For this reason, the book value approximates fair value.
Loans	The fair value of the loans is measured by discounting the expected cash flow at the market interest rate and credit risk, etc.
Held-to-maturity financial assets	The fair value of held-to-maturity financial assets is determined by applying the lesser of two quoted bond prices provided by two bond pricing agencies as of the latest trading date.
Deposits and borrowings	The book amount and the fair value for demand deposits, cash management account deposits, call money as short-term instrument are identical. The fair value of others is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.
Debt securities issued	The fair value of deposits and borrowings is based on the published price quotations in an active market. In case there is no data for an active market price, it is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.

ii - 2) The book value and the fair value of financial instruments measured at amortized cost as of December 31, 2013 and 2012 are as follows:

	2013		2012 (restated)	
	Book value	Fair value	Book value	Fair value
Assets				
Loans	₩ 205,722,718	207,047,757	200,288,636	202,224,920
Held-to-maturity financial assets	11,031,307	11,380,798	11,659,682	12,284,153
Other financial assets	8,603,430	8,650,316	9,563,182	9,627,212
	225,357,455	227,078,871	221,511,500	224,136,285
Liabilities				
Deposits	178,809,881	178,792,752	173,295,702	173,592,345
Borrowings	20,142,908	20,186,806	19,518,040	19,581,684
Debt securities issued	37,491,439	37,905,035	38,838,467	39,874,554
Other financial liabilities	15,500,424	15,470,331	18,741,468	18,743,359
	₩ 251,944,652	252,354,924	250,393,677	251,791,942

ii - 3) The fair values of financial instruments not measured at fair value and analyzes them by the level in the fair value hierarchy into which each fair value measurement as of December 31, 2013 is categorized.

	Level 1	Level 2	Level 3	Total
Assets				
Loans	₩ 4,875,218	-	202,172,539	207,047,757
Held-to-maturity financial assets	3,800,855	7,579,943	-	11,380,798
Other financial assets	4,678,461	-	3,971,855	8,650,316
	13,354,534	7,579,943	206,144,394	227,078,871
Liabilities				
Deposits	61,210,971	-	117,581,781	178,792,752
Borrowings	7,288,983	-	12,897,823	20,186,806
Debt securities issued	-	23,276,229	14,628,806	37,905,035
Other financial liabilities	3,226,901	-	12,243,430	15,470,331
	₩ 71,726,855	23,276,229	157,351,840	252,354,924

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

ii - 4) Information about valuation technique and inputs used at December 31, 2013 in measuring financial instruments not measured at fair value classified as level 2 or 3 was as follows:

	Fair value (*2)	Valuation technique	Inputs
Financial instruments classified as level 2 :			
Assets			
Held-to-maturity financial assets	₩ 7,579,943	DCF(*1)	Discount rate
Liabilities			
Debt securities issued	₩ 23,276,229	DCF(*1)	Discount rate
Financial instruments classified as level 3 :			
Assets			
Loans	₩ 202,172,539	DCF(*1)	Discount rate, Credit spread,
Other financial assets	3,971,855	DCF(*1)	Prepayment rate
			Discount rate
	206,144,394		
Liabilities			
Deposits	117,057,230	DCF(*1)	Discount rate
Borrowings	8,777,156	DCF(*1)	Discount rate
Debt securities issued	14,628,806	DCF(*1)	Discount rate, Regression coefficient, Correlation coefficient
Other financial liabilities	12,243,430	DCF(*1)	coefficient
	₩ 152,706,622		Discount rate

(*1) DCF : Discounted cash flow

(*2) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value

iv) Unamortized balance of financial instruments valued using models with significant unobservable inputs.

Changes in the difference between the fair value at initial recognition (the transaction price) and the value using models with unobservable inputs for the years ended December 31, 2013 and 2012, are as follows:

	2013	2012
Beginning balance	₩ (2,574)	(3,097)
Deferral on new transactions	(36,241)	88
Recognized in the income statement during the period	9,367	435
Ending balance	₩ (29,448)	(2,574)

v) Classification by categories of financial instruments

Financial assets and liabilities are measured at fair value or amortized cost. The financial instruments measured at fair value or amortized costs are measured in accordance with the Group's valuation methodologies, which are described in Note 4.(f) Measurement of fair value.

The carrying amounts of each category of financial assets and financial liabilities as of December 31, 2013 and 2012 are as follows:

							2013
	Trading	Trading	FVTPL assets(*1)	AFS(*2)	HTM(*3)	Loans and receivable	Total
Assets							
Cash and due from banks	₩ -	-	-	-	16,472,509	-	16,472,509
Trading assets	18,033,298	-	-	-	-	-	18,033,298
Financial assets designated at FVTPL (*1)	-	3,360,765	-	-	-	-	3,360,765
Derivatives	1,549,716	-	-	-	-	167,752	1,717,468
Loans	-	-	-	-	205,722,718	-	205,722,718
AFS financial assets(*2)	-	-	33,604,301	-	-	-	33,604,301
HTM financial assets(*3)	-	-	-	11,031,307	-	-	11,031,307
Other	-	-	-	-	8,603,430	-	8,603,430
	₩ 19,583,014	3,360,765	33,604,301	11,031,307	230,798,657	167,752	298,545,796

					2013
	Trading	FVTPL liabilities(*1)	Amortized cost	Derivatives held for hedging	Total
Liabilities					
Deposits	₩ -	-	178,809,881	-	178,809,881
Trading liabilities	1,258,283	-	-	-	1,258,283
Financial liabilities designated at FVTPL (*1)	-	5,909,130	-	-	5,909,130
Derivatives	1,687,773	-	-	338,761	2,026,534
Borrowings	-	-	20,142,908	-	20,142,908
Debt securities issued	-	-	37,491,439	-	37,491,439
Other	-	-	15,500,424	-	15,500,424
	₩ 2,946,056	5,909,130	251,944,652	338,761	261,138,599

(*1) FVTPL : Fair value through profit of loss

(*2) AFS : Available-for-sale

(*3) HTM : Held-to-maturity

						2012 (restated)	
	Trading	FVTPL assets(*1)	AFS(*2)	HTM(*3)	Loans and receivable	Derivatives held for hedging	Total
Assets							
Cash and due from banks	₩ -	-	-	-	13,507,249	-	13,507,249
Trading assets	16,654,255	-	-	-	-	-	16,654,255
Financial assets designated at FVTPL (*1)	-	2,542,333	-	-	-	-	2,542,333
Derivatives	1,907,641	-	-	-	-	263,124	2,170,765
Loans	-	-	-	-	200,288,636	-	200,288,636
AFS financial assets(*2)	-	-	36,283,918	-	-	-	36,283,918
HTM financial assets(*3)	-	-	-	11,659,682	-	-	11,659,682
Other	-	-	-	-	9,563,182	-	9,563,182
	₩ 18,561,896	2,542,333	36,283,918	11,659,682	223,359,067	263,124	292,670,020

						2012 (restated)
	Trading	FVTPL liabilities(*1)	Amortized cost	Derivatives held for hedging	Total	
Liabilities						
Deposits	₩ -	-	173,295,702	-	-	173,295,702
Trading liabilities	1,370,723	-	-	-	-	1,370,723
Financial liabilities designated at FVTPL (*1)	-	4,822,197	-	-	-	4,822,197
Derivatives	1,713,409	-	-	190,635	-	1,904,044
Borrowings	-	-	19,518,040	-	-	19,518,040
Debt securities issued	-	-	38,838,467	-	-	38,838,467
Other	-	-	18,741,468	-	-	18,741,468
	₩ 3,084,132	4,822,197	250,393,677	190,635	-	258,490,641

(*1) FVTPL : Fair value through profit of loss

(*2) AFS : Available-for-sale

(*3) HTM : Held-to-maturity

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

(f) The transaction as a transfer of financial instruments

i) Transfers that do not qualify for derecognition

① Bonds sold under repurchase agreements as of December 31, 2013 and 2012 are as follows:

	2013	2012
Transferred asset		
Financial assets at fair value through profit or loss	₩ 5,904,275	4,721,888
Available-for-sale financial assets	573,096	448,224
Held-to-maturity financial assets	262,225	241,592
Loans	121,350	-
Associated liabilities		
Bonds sold under repurchase agreements	₩ 6,390,886	5,174,780

② Securities loaned as of December 31, 2013 and 2012 are as follows:

	2013	2012	Lender
Government bonds	₩ 185,161	433,850	Korea Securities Finance Corp., Mitsui Sumitomo and others
Financial institutions bonds	17,043	370,143	Korea Securities Finance Corp.,
Corporate bonds	3,368	12,634	Mirae Asset Securities Co. Ltd.,
	₩ 205,572	816,627	

ii) Qualify for derecognition and continued involvement financial instrument.

There are no financial instrument which qualifies for derecognition and continued involvement as of December 31, 2013 and 2012.

(g) Offsetting financial assets and financial liabilities

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2013 and 2012 are as follows:

	Gross amounts of recognized financial assets/ liabilities	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		2013
				Financial instruments	Cash collateral received	Net amount
Assets						
Derivatives(*1)	₩ 1,688,219	-	1,688,219	3,080,591	22,499	1,055,926
Other financial instruments(*1)	2,470,797	-	2,470,797			
Bonds purchased under repurchase agreements(*2)	10,064,835	-	10,064,835	9,594,775	-	470,060
Securities loaned(*2)	205,572	-	205,572	205,572	-	-
Domestic exchange settlement debit(*3)	23,413,253	21,045,416	2,367,837	4,145	-	2,363,692
Receivables from disposal of securities(*4)	616,732	616,732	-	-	-	-
Insurance receivables	2,107	-	2,107	2,052	-	55
	38,461,515	21,662,148	16,799,367	12,887,135	22,499	3,889,733
Liabilities						
Derivatives(*1)	1,947,627	-	1,947,627	3,128,198	-	949,872
Other financial instruments(*1)	2,130,443	-	2,130,443			
Bonds purchased under repurchase agreements(*2)	6,390,886	-	6,390,886	6,390,886	-	-
Securities borrowed(*2)	858,039	-	858,039	858,039	-	-
Domestic exchange settlement pending(*3)	21,966,798	21,045,416	921,382	889,904	-	31,478
Payable from purchase of securities(*4)	716,475	616,732	99,743	-	-	99,743
Insurance payables	2,193	-	2,193	2,052	-	141
	₩ 34,012,461	21,662,148	12,350,313	11,269,079	-	1,081,234

	Gross amounts of recognized financial assets/ liabilities	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Assets						
Derivatives(*1)	₩ 2,138,741	-	2,138,741	4,474,050	104,789	847,834
Other financial instruments(*1)	3,286,214	(1,718)	3,287,932			
Bonds purchased under repurchase agreements(*2)	9,102,007	-	9,102,007	8,786,669	-	315,338
Securities loaned(*2)	816,627	-	816,627	816,627	-	-
Domestic exchange settlement debit(*3)	23,605,892	21,490,097	2,115,795	146	-	2,115,649
Receivables from disposal of securities(*4)	987,603	879,580	108,023	-	-	108,023
Insurance receivables	2,657	-	2,657	1,728	-	929
	39,939,741	22,367,959	17,571,782	14,079,220	104,789	3,387,773
Liabilities						
Derivatives(*1)	1,834,127	-	1,834,127	4,320,184	-	588,541
Other financial instruments(*1)	3,072,880	(1,718)	3,074,598			
Bonds purchased under repurchase agreements(*2)	5,174,780	-	5,174,780	5,174,780	-	-
Securities borrowed(*2)	883,750	-	883,750	883,750	-	-
Domestic exchange settlement pending(*3)	24,486,098	21,490,097	2,996,001	2,613,130	-	382,871
Payable from purchase of securities(*4)	1,007,732	879,580	128,152	-	-	128,152
Insurance payables	1,906	-	1,906	1,728	-	178
	₩ 36,461,273	22,367,959	14,093,314	12,993,572	-	1,099,742

(*1) The Group has certain derivative transactions subject to the ISDA (International Derivatives Swaps and Dealers Association) agreement. According to the ISDA agreement, when credit events (e.g. default) of counterparties occur, all derivative agreements are terminated and set off.

(*2) Resale and repurchase agreement, securities borrowing and lending agreement are also similar to ISDA agreement with respect to enforceable netting agreements.

(*3) The Group has legally enforceable right to set off and settles financial assets and liabilities on a net basis. Therefore, domestic exchanges settlement receivables (payables) are recorded on a net basis in the consolidated statements of financial position.

(*4) Receivables and payables related to settlement of purchase and disposition of enlisted securities are offset and the net amount is presented in the consolidated statement of financial position because the Group currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis

(h) Capital risk management

The controlling company, controlling banks or other financial institutions conducting banking business as prescribed in the Financial Holding Company Act, is required to maintain a minimum consolidated equity capital ratio of 8.0%.

"Consolidated equity capital ratio" is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with the Financial Services Commission requirements that have been formulated based on Bank of International Settlement standards. "Equity capital", as applicable to bank holding companies, is defined as the sum of Common Equity Tier 1 capital (including common stock, share premium resulting from the issue of instruments included common equity Tier 1, retained earnings, etc.), Additional Tier 1 capital (with the minimum set of criteria for an instrument issued by the Group to meet, ie 'perpetual') and Tier 2 capital (to provide loss absorption on a gone-concern basis) less any deductible items (including goodwill, income tax assets, etc.), each as defined under the Regulation on the Supervision of Financial Holding Companies. "Risk-weighted assets" is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

The capital adequacy ratio of the Group as of December 31, 2013 and 2012 are as follows:

	2013	2012(*)
Capital (A)	₩ 25,605,827	25,075,736
Risk-weighted assets (B)	190,716,648	201,184,402
BIS ratio (A/B)	13.43%	12.46%

(*) The BIS ratio was calculated under the first accord, Basel I.

As of December 31, 2013 and 2012, the Group met the regulatory capital ratio above 8%.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

5. Significant estimate and judgment

The preparation of consolidated financial statements requires the application of certain critical accounting and assumptions relative to the future. The management's estimate of outcome may differ from an actual outcome if the managements' estimate and assumption based on its best judgment at the reporting date are different from an actual environment. The change in an accounting estimate is recognized prospectively by including in profit or loss in the year of the change, if the change affects that year only, or the year of the change and future years, if the change affects both.

(a) Goodwill

The Group assesses annually whether any objective evidence of impairment on goodwill exists in accordance with the accounting policy as described in note 3. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is measured based on estimates.

(b) Income taxes

The Group is subject to tax law from various countries. Within the normal business process, there are various types of transaction and different accounting method that may add uncertainties to the decision of the final income taxes. The Group has recognized current and deferred tax that reflect tax consequences that would follow from the manner in which the entity expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities. However, actual income tax in the future may not be identical to the recognized deferred tax assets and liabilities, and this difference can affect current and deferred tax at the year when the final tax effect is conformed.

(c) Fair value of financial instruments

The fair values of financial instruments which are not actively traded in the market are determined by using valuation techniques. The Group determines valuation method and assumptions based on significant market conditions at the end of each reporting year. Diverse valuation techniques are used to determine the fair value of financial instruments, from general market accepted valuation model internally developed valuation model that incorporates various types of assumptions and variables.

(d) Allowances for loan losses, guarantees and unused loan commitments

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes provision for guarantees and unused loan commitments. The accuracy of provisions of credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for allowances on individual loans and collectively assessing allowances for groups of loans, guarantees and unused loan commitments.

(e) Defined benefit obligation

The present value of defined benefit obligation that is measured by actuarial valuation method uses various assumptions which can change according to various elements. The rate used to discount postemployment benefit obligations is determined by reference to market yields at the end of the reporting year on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in profit or loss. Other significant assumptions related to defined benefit obligation are based on current market situation

(f) Impairment of available-for-sale equity investments

When there is a significant or prolonged decline in the fair value of an investment in an equity instrument below its original cost, there is objective evidence that available-for-sale equity investments are impaired.

Accordingly, the Group considers the decline in the fair value of more than 30% against the original cost as "significant decline" and the status when the market price for marketable equity less than the carrying amounts of instruments for a six consecutive months as a "prolonged decline".

(g) Hedging relationship

The hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

6. Business combinations

The acquisition of savings banks is expected to boost synergies between the savings banks and other Group companies. When the Group's linked loan system commences operations, loan introduction processes between banks and savings banks will be accelerated. The Group expects synergies from diversification of customers through the business combination and has recognized the goodwill attributable to the synergies.

(a) Incorporation of Shinhan Savings Bank and acquisition of Tomato Savings Bank.

The Group established Shinhan Hope Co. Ltd., on December 12, 2011, in order to acquire and assume certain assets and liabilities of Tomato Savings Bank. Shinhan Hope Co. Ltd. obtained a savings bank license on December 28, 2011 and changed its name to "Shinhan Savings Bank" on December 29, 2011.

On January 2, 2012, Shinhan Savings Bank acquired certain assets and liabilities of Tomato Savings Bank.

Recognized amounts of assets acquired and liabilities assumed from the business combination are as follows;

	Amount
Assets	
Cash and due from banks	₩ 237,443
Trading assets	83,860
Loans (*)	361,728
Available-for-sale financial assets	125,446
Property and equipment	180
Intangible assets	24,023
Other assets	798,676
	₩ 1,631,356
Liabilities	
Deposits	1,563,377
Other liabilities	95,533
	₩ 1,658,910
Net assets acquired	27,554
Consideration	-
Goodwill	₩ 27,554

(*) The aggregate principal amount of loans was ₩ 533,165 million.

Comprehensive loss of the business acquired from the date of acquisition to December 31, 2012 was as follows:

	Amount
Operating loss	₩ (23,186)
Net interest income	63,523
Interest income	99,139
Interest expense	(35,616)
Net fees and commission expense	(2,114)
Fees and commission income	121
Fees and commission expense	(2,235)
Net trading income	8,286
Net gain on sale of available-for-sale financial assets	647
Impairment losses on financial assets	(60,093)
General and administrative expenses	(27,428)
Net other operating expenses	(6,007)
Other non-operating income, net	3,891
Loss before income taxes	(19,295)
Income tax expense	(4,094)
Loss for the period	(23,389)
Other comprehensive loss for the period, net of income tax	(3,078)
Net change in unrealized fair value of available-for-sale financial assets	(3,078)
Total comprehensive loss for the period	₩ (26,467)

(b) Acquisition of Yehanbyoul Saving Bank

On January 11, 2013, Shinhan Financial Group signed a share purchase agreement with Korea Deposit Insurance Corporation (KDIC) for the acquisition of Yehanbyoul Savings Bank (payment for acquisition is ₩ 45,296 million).

On April 1, 2013, Shinhan Savings Bank and Yehanbyoul Savings Bank merged into a single entity, with Yehanbyoul Savings Bank being the surviving entity and the newly merged bank named Shinhan Savings Bank.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

Recognized amounts of assets acquired and liabilities assumed from the business combination were as follows:

	Amount
Assets	
Cash and due from banks	₩ 907,174
Trading assets	14,813
Available-for-sale financial assets	25,945
Loans	133,663
Property and equipment, net	685
Other assets	5,614
	1,087,894
Liabilities	
Deposits	1,023,195
Other liabilities	31,392
	1,054,587
Net assets acquired	33,307
Consideration (cash and cash equivalent)	45,296
Goodwill	₩ 11,989

Comprehensive loss of the business acquired from the date of acquisition to December 31, 2013 was as follows:

	Amount
Operating loss	₩ (19,127)
Net interest income	26,433
Interest income	54,638
Interest expense	(28,205)
Net fees and commission expense	(866)
Fees and commission income	1,027
Fees and commission expense	(1,893)
Dividend income	631
Net trading income	829
Net gain on sale of available-for-sale financial assets	286
Impairment losses on financial assets	(15,466)
General and administrative expenses	(24,876)
Net other operating expenses	(6,098)
Other non-operating income, net	(389)
Loss before income taxes	(19,516)
Income tax expense	(2,361)
Loss for the period	(21,877)
Other comprehensive loss for the period, net of income tax	(115)
Net change in unrealized fair value of available-for-sale financial assets	(115)
Total comprehensive loss for the period	₩ (21,992)

7. Operating segments

(a) Segment information

The general descriptions by operating segments as of December 31, 2013 and 2012 are as follows:

		Description
Banking	Retail banking	Loans to or deposits from individual customers, wealth management customers, and institutions such as hospitals, airports and schools
	Corporate and investment banking	Loans to or deposits from corporations including small or medium sized companies and business related to investment banking
	International group	Internal asset and liability management, trading of securities and derivatives, investment portfolio management and other related business supervision on overseas subsidiaries and branch operations and other international business
	Others	Administration of bank operations
Credit card		Credit card business
Securities		Securities trading, underwriting and brokerage services
Life insurance		Life insurance and related business
Others		Leasing, assets management and other businesses

(b) The following table provides information of income for each operating segment for the years ended December 31, 2012 and 2011.

						2013
						Banking
	Retail	Corporate	International	Other	Adjustments	
Net interest income (loss)	₩ 2,340,500	936,884	272,513	865,486	12,530	
Net fees and commission Income (loss)	558,894	232,673	49,547	(83,585)	1,987	
Net other operating income (expense)	(2,439,364)	(181,966)	(199,254)	(553,045)	(68,702)	
Operating income (loss)	460,030	987,591	122,806	228,856	(54,185)	
Equity method income (loss)	-	-	-	-	22,448	
Income tax expense (benefit)	103,326	198,408	23,893	42,163	(7,367)	
Profit (loss) for the year	₩ 364,484	794,236	95,647	168,780	(29,488)	
Controlling interest	₩ 364,484	794,236	95,647	168,780	(29,647)	
Non-controlling interest	-	-	-	-	159	
	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income (loss)	₩ 1,395,425	281,858	601,201	(108,286)	4,746	6,602,857
Net fees and commission Income (loss)	166,129	212,276	32,270	221,627	(5,463)	1,386,355
Net other expense	(728,559)	(392,488)	(520,554)	(230,343)	(37,356)	(5,351,631)
Operating income	832,995	101,646	112,917	(117,002)	(38,073)	2,637,581
Equity method income	-	(19,401)	-	7,029	(2,790)	7,286
Income tax expense	192,728	21,896	22,539	29,974	(4,995)	622,565
Income for the year	₩ 658,074	75,366	79,691	(99,437)	(47,783)	2,059,570
Controlling interest	₩ 658,074	75,366	79,691	(105,420)	(198,403)	1,902,808
Non-controlling interest	-	-	-	5,983	150,620	156,762

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

2012 (restated)

	Banking					
	Retail	Corporate	International	Other	Adjustments	
Net interest income (loss)	₩ 2,513,032	1,049,015	288,671	987,871	14,771	
Net fees and commission Income (loss)	599,891	275,065	47,578	(62,880)	(12,517)	
Net other operating income (expense)	(2,414,333)	(435,250)	(125,543)	(521,978)	(91,565)	
Operating income (loss)	698,590	888,830	210,706	403,013	(89,311)	
Equity method income (loss)	-	-	-	-	21,897	
Income tax expense (benefit)	146,395	179,849	42,033	91,207	(25,458)	
Profit (loss) for the year	₩ 538,554	714,482	166,981	366,881	(101,137)	
Controlling interest	₩ 538,554	714,482	166,981	366,881	(101,311)	
Non-controlling interest	-	-	-	-	174	

	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income (loss)	₩ 1,410,193	248,254	566,499	(107,569)	8,981	6,979,718
Net fees and commission Income (loss)	246,000	236,573	34,945	195,717	(17,227)	1,543,145
Net other expense	(714,539)	(416,948)	(322,230)	(348,816)	46,306	(5,344,896)
Operating income	941,654	67,879	279,214	(260,668)	38,060	3,177,967
Equity method income	-	2,221	-	1,518	1,902	27,538
Income tax expense	214,699	15,177	57,198	11,868	5,759	738,727
Income for the year	₩ 741,772	63,912	215,303	(234,374)	19,535	2,491,909
Controlling interest	₩ 741,772	63,912	215,303	(232,105)	(152,579)	2,321,890
Non-controlling interest	-	-	-	(2,269)	172,114	170,019

(c) The following table provides information of assets for each operating segment as of December 31, 2013 and 2012.

	Banking					
	Retail	Corporate	International	Other	Adjustments	
Trading assets	₩ -	5,525,821	-	2,918,422	(924,478)	
Loans	107,691,917	58,927,881	9,667,785	1,888,357	(1,222,272)	
Available-for-sale financial assets	599,738	21,365,262	1,106,929	1,953,003	(332,109)	
Held-to-maturity financial assets	-	7,046,218	387,402	-	-	
	₩ 108,291,655	92,865,182	11,162,116	6,759,782	(2,478,859)	

	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Trading assets	₩ 30,009	9,399,511	464,422	619,591	-	18,033,298
Loans	19,303,111	1,375,047	4,160,146	5,294,693	(1,363,947)	205,722,718
Available-for-sale financial assets	608,840	1,658,456	6,484,313	445,013	(285,144)	33,604,301
Held-to-maturity financial assets	-	-	3,592,151	5,536	-	11,031,307
	₩ 19,941,960	12,433,014	14,701,032	6,364,833	(1,649,091)	268,391,624

	2012 (restated)				
	Banking				
	Retail	Corporate	International	Other	Adjustments
Trading assets	₩ -	5,606,443	-	2,964,627	(576,199)
Loans	104,011,790	58,446,375	8,975,232	2,159,083	(1,591,205)
Available-for-sale financial assets	607,848	25,030,962	871,999	2,664,565	(250,778)
Held-to-maturity financial assets	-	8,789,842	434,486	-	-
	₩ 104,619,638	97,873,622	10,281,717	7,788,275	(2,418,182)

	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Trading assets	₩ 100,023	7,776,746	473,707	308,908	-	16,654,255
Loans	20,156,564	1,217,660	3,581,004	4,723,211	(1,394,815)	200,288,636
Available-for-sale financial assets	486,540	1,455,369	5,339,775	408,823	(331,185)	36,283,918
Held-to-maturity financial assets	-	-	2,429,848	5,506	-	11,659,682
	₩ 20,743,127	10,449,775	11,824,334	5,446,448	(1,726,000)	264,886,491

(d) Financial information of geographical area

The following table provides information of income from external consumers by geographical area for the years ended December 31, 2013 and 2012.

	2013	2012 (restated)
Domestic	₩ 2,520,008	2,990,495
Overseas	117,573	187,472
	₩ 2,637,581	3,177,967

The following table provides information of non-current assets by geographical area as of December 31, 2013 and 2012.

	2013	2012 (restated)
Domestic	₩ 8,071,974	8,030,779
Overseas	58,963	51,678
	₩ 8,130,937	8,082,457

(*) Non-current assets as of December 31, 2013 and 2012 include property and equipment, intangible assets, investment properties.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

8. Cash and due from banks

(a) Cash and due from banks as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Cash and cash equivalents	₩ 2,644,109	2,997,084
Deposits in won:		
Reserve deposits	3,230,045	2,804,583
Time deposits	2,396,369	2,850,405
Certificate of deposits	79,515	-
Other	2,833,687	1,635,249
	8,539,616	7,290,237
Deposits in foreign currency:		
Deposits	2,715,882	1,561,565
Time deposits	2,037,426	1,232,353
Other	547,135	430,466
	5,300,443	3,224,384
Provisions	(11,659)	(4,456)
	₩ 16,472,509	13,507,249

(b) Restricted due from banks as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Deposits in won		
Reserve deposits	₩ 3,230,045	2,804,583
Other (*)	2,034,098	996,503
	5,264,143	3,801,086
Deposits in foreign currency	878,274	728,619
	₩ 6,142,417	4,529,705

(*) Pursuant to the Regulation on Financial Investment Business, the Group is required to deposit certain portions of customers' deposits with the Korean Securities Finance Corporation ("KSFC") or banks to ensure repayment of customer deposits and the deposits may not be pledged as collateral.

9. Trading assets

Trading assets as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Debt securities:		
Governments	₩ 873,387	993,863
Financial institutions	6,034,954	5,770,083
Corporations	4,450,556	3,089,952
Bills bought	2,828,339	2,787,392
CMA (*)	1,043,266	1,018,520
Others	33,110	179,262
	15,263,612	13,839,072
Equity securities:		
Stocks	521,406	327,853
Beneficiary certificates	1,836,729	1,672,624
Others	335,214	376,778
	2,693,349	2,377,255
Other		
Gold deposits	76,337	437,928
	₩ 18,033,298	16,654,255

(*) CMA: Cash management account deposits

10. Financial asset designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)	Condition
Debt securities	₩ 1,187,310	853,433	Evaluation and management on a fair value basis, accounting mismatch
Equity securities	1,469,846	1,216,687	Evaluation and management on a fair value basis, accounting mismatch
Others	703,609	472,213	Combined instrument
	₩ 3,360,765	2,542,333	

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

11. Derivatives

(a) The notional amounts of derivatives as of December 31, 2012 and 2011 are as follows:

	2013	2012 (restated)
Foreign currency related		
Over the counter		
Currency forwards	₩ 28,090,919	32,456,980
Currency swaps	14,327,504	11,789,631
Currency options	314,069	387,852
	42,732,492	44,634,463
Exchange traded		
Currency futures	56,979	123,215
	42,789,471	44,757,678
Interest rates related		
Over the counter		
Interest rate swaps	85,987,990	91,314,373
Interest rate options	3,161,155	5,776,662
	89,149,145	97,091,035
Exchange traded		
Interest rate futures	962,539	631,050
	90,111,684	97,722,085
Credit related		
Over the counter		
Credit swaps	229,742	165,789
Equity related		
Over the counter		
Equity swap and forwards	3,042,964	3,091,829
Equity options	2,717,467	1,671,376
	5,760,431	4,763,205
Exchange traded		
Equity futures	223,417	161,051
Equity options	1,034,366	4,811,288
	1,257,783	4,972,339
	7,018,214	9,735,544
Commodity related		
Over the counter		
Swaps and forwards	1,183,862	467,334
Equity options	107,644	77,011
	1,291,506	544,345
Exchange traded		
Equity options	185,346	282,185
	1,476,852	826,530
Hedge		
Currency forwards	151,768	2,807
Currency swaps	1,880,545	1,848,578
Interest rate swaps	8,691,250	8,484,998
	10,723,563	10,336,383
	₩ 152,349,526	163,544,009

(b) Fair values of derivative instruments as of December 31, 2013 and 2012 are as follows:

	2013		2012 (restated)	
	Assets	Liabilities	Assets	Liabilities
Foreign currency related				
Over the counter				
Currency forwards	₩ 421,167	494,163	511,226	611,165
Currency swaps	428,409	348,368	361,588	257,034
Currency options	9,123	1,504	25,167	11
	858,699	844,035	897,981	868,210
Interest rates related				
Over the counter				
Interest rate swaps	486,583	443,022	694,505	593,361
Interest rate options	12,982	16,932	23,921	33,297
Interest rate forwards	214	-	11	-
	499,779	459,954	718,437	626,658
Credit related				
Over the counter				
Credit swaps	1,480	5,324	1,147	842
Equity related				
Over the counter				
Equity swap and forwards	90,610	63,833	182,282	46,436
Equity options	86,113	221,341	75,760	144,417
	176,723	285,174	258,042	190,853
Exchange traded				
Equity forwards	85	4	3	-
Equity options	1,341	928	20,740	18,995
	1,426	932	20,743	18,995
	178,149	286,106	278,785	209,848
Commodity related				
Over the counter				
Swaps and forwards	7,609	81,893	5,679	5,189
Equity options	1,852	7,268	1,052	371
	9,461	89,161	6,731	5,560
Exchange traded				
Commodity futures	2,148	3,193	4,560	2,291
	11,609	92,354	11,291	7,851
Hedge				
Currency forwards	2,112	141	447	-
Currency swaps	12,413	102,228	1,157	100,156
Interest rate swaps	153,227	236,392	261,520	90,479
	167,752	338,761	263,124	190,635
	₩ 1,717,468	2,026,534	2,170,765	1,904,044

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

(c) Gain or loss on valuation of derivatives for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Foreign currency related		
Over the counter		
Currency forwards	₩ (120,476)	(160,903)
Currency swaps	(11,165)	189,056
Currency options	4,673	(9,160)
	(126,968)	18,993
Exchange traded		
Currency futures	(27)	63
	(126,995)	19,056
Interest rates related		
Over the counter		
Interest rate swaps	(74,566)	(17,681)
Interest rate options	3,328	985
	(71,238)	(16,696)
Exchange traded		
Interest rate futures	(1,823)	(777)
	(73,061)	(17,473)
Credit related		
Over the counter		
Credit swaps	(4,391)	1,547
Equity related		
Over the counter		
Equity swap and forwards	(34,698)	352,700
Equity options	(10,993)	23,012
	(45,691)	375,712
Exchange traded		
Equity futures	(1,214)	(1,446)
Equity options	(1,587)	1,347
	(2,801)	(99)
	(48,492)	375,613
Commodity related		
Over the counter		
Swaps and forwards	(66,468)	1,286
Commodity options	2,704	(1,393)
	(63,764)	(107)
Exchange traded		
Commodity futures	(4,065)	2,404
	(67,829)	2,297
Hedge		
Currency forwards	1,665	1,252
Currency swaps	(15,849)	(128,935)
Interest rate swaps	(253,433)	15,429
	(267,617)	(112,254)
	₩ (588,385)	268,786

(d) Gain or loss on fair value hedges for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Hedged item	₩ 279,618	(18,970)
Hedging instruments	(240,814)	20,209
	₩ 38,804	1,239

(e) Hedge of net investment in foreign operations

Hedge accounting is applied for a portion of Net investments in foreign operations, Foreign currency translation adjustments for foreign operation by each hedging instrument for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Borrowings in foreign currency	₩ 65,567	56,314
Debt securities issued in foreign currency	5,366	25,782
Currency forwards	98	-
	₩ 71,031	82,096

12. Loans

(a) Loans as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Household loans	₩ 77,150,180	74,537,214
Corporate loans	104,544,194	102,861,009
Public and other	2,525,043	3,106,885
Loans to banks	6,102,748	4,557,172
Card receivables	17,664,882	17,853,528
	207,987,047	202,915,808
Present value discount	(39,127)	(39,144)
Deferred loan origination costs and fees	251,249	212,477
	208,199,169	203,089,141
Allowance for impairment	(2,476,451)	(2,800,505)
	₩ 205,722,718	200,288,636

(b) Changes in the allowance for impairment for the years ended December 31, 2013 and 2012 are as follows:

						2013	Total
	Household	Corporate	Credit Card	Other	Loans Subtotal	Other (*2)	
Beginning balance	₩ 297,257	1,733,948	744,063	25,237	2,800,505	102,946	2,903,451
Provision for (reversal of) allowance	139,989	613,257	339,242	(10,122)	1,082,366	42,561	1,124,927
Write-offs	(191,261)	(656,801)	(610,036)	-	(1,458,098)	(29,998)	(1,488,096)
Effect of discounting	(406)	(51,244)	(1,234)	-	(52,884)	-	(52,884)
Allowance related to loans transferred	(53,864)	(124,051)	(45,987)	-	(223,902)	(4,398)	(228,300)
Recoveries	27,751	150,954	216,888	-	395,593	2,470	398,063
Others (*1)	(3,148)	(68,863)	4,882	-	(67,129)	(14,964)	(82,093)
Ending balance	₩ 216,318	1,597,200	647,818	15,115	2,476,451	98,617	2,575,068

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

2012 (restated)

	Loans					Other (*2)	Total
	Household	Corporate	Credit Card	Other	Subtotal		
Beginning balance	₩ 221,722	1,655,535	675,520	32,145	2,584,922	152,008	2,736,930
Provision for (reversal of) allowance	177,919	859,159	294,616	(6,908)	1,324,786	(9,421)	1,315,365
Write-offs	(116,871)	(713,805)	(490,108)	-	(1,320,784)	(21,484)	1,342,268
Effect of discounting	(321)	(66,155)	(1,526)	-	(68,002)	-	(68,002)
Allowance related to loans transferred	(17,222)	(84,463)	6,125	-	(95,560)	(9,623)	(105,183)
Recoveries	32,030	84,516	256,651	-	373,197	637	373,834
Others (*1)	-	(839)	2,785	-	1,946	(9,171)	(7,225)
Ending balance	₩ 297,257	1,733,948	744,063	25,237	2,800,505	102,946	2,903,451

(*1) Other changes were due to debt restructuring, debt-equity swap, and foreign exchange rate, etc

(*2) Included allowance for due from banks and other assets

(c) Changes in deferred loan origination costs and fees for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Beginning balance	₩ 212,477	138,933
Loan originations	150,137	122,985
Amortization	(111,365)	(49,441)
Ending balance	₩ 251,249	212,477

13. Available-for-sale financial assets and held-to-maturity financial assets

(a) Available-for-sale financial assets and held-to-maturity financial assets as of December 31, 2013 and are as follows:

	2013	2012 (restated)
Available-for-sale financial assets		
Debt securities (*1)		
Government bonds	₩ 4,396,211	5,446,367
Financial institutions bonds	12,842,491	13,750,391
Corporate bonds and others	11,342,725	12,174,657
	28,581,427	31,371,415
Equity securities (*2)		
Stock	3,193,031	3,819,723
Equity investments	517,846	506,012
Beneficiary certificates	1,047,228	537,766
Others	264,769	49,002
	5,022,874	4,912,503
	₩ 33,604,301	36,283,918
Held-to-maturity financial assets		
Debt securities		
Government bonds	5,720,223	5,717,180
Financial institutions bonds	1,406,063	1,700,583
Corporate bonds and others	3,905,021	4,241,919
	11,031,307	11,659,682
	₩ 44,635,608	47,943,600

(*1) Debt securities are measured at fair value by applying the lesser of two quoted bond prices provided by two bond pricing agencies as of the latest trading date from the end of reporting year.

(*2) Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at cost were ₩93,417million and ₩173,342million as of December 31, 2013 and 2012, respectively.

(b) Gain or loss on sale of available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Gain on sale of available-for-sale financial assets	₩ 773,032	566,157
Loss on sale of available-for-sale financial assets	(72,423)	(30,579)
	₩ 700,609	535,578

14. Property and equipment, net

(a) Property and equipment as of December 31, 2013 and 2012 are as follows:

	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	2013 Book value
Land	₩ 1,798,444	-	-	1,798,444
Buildings	1,106,021	(130,467)	-	975,554
Other	2,049,971	(1,609,581)	(85)	440,305
	₩ 4,954,436	(1,740,048)	(85)	3,214,303

	Acquisition cost	Accumulated depreciation	2012 (restated) Book value
Land	₩ 1,742,337	-	1,742,337
Buildings	962,217	(95,786)	866,431
Other	2,113,681	(1,613,992)	499,689
	₩ 4,818,235	(1,709,778)	3,108,457

(*1) Land and buildings were revalued on January 1, 2010 by an independent valuation service provider. Valuation was based on the recent arm's length market transactions between knowledgeable and willing parties.

(b) Changes in property and equipment for the years ended December 31, 2013 and 2012 are as follows:

	Land	Buildings	Other	2013 Total
Beginning balance	₩ 1,742,337	866,431	499,689	3,108,457
Acquisitions (*1)	10,283	165,824	255,603	431,710
Disposals (*1)	(5,863)	(5,259)	(154,585)	(165,707)
Depreciation	-	(34,338)	(168,830)	(203,168)
Impairment	-	-	(85)	(85)
Amounts transferred from (to) investment property	56,210	(12,442)	-	43,768
Amounts transferred to assets held for sale (*2)	(3,752)	(2,526)	-	(6,278)
Effects of foreign currency movements	(771)	(2,136)	8,513	5,606
Ending balance	₩ 1,798,444	975,554	440,305	3,214,303

(*1) ₩ 134,790 million of buildings increased by transfers from construction-in-progress.

(*2) Comprised of land and buildings, etc.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

2012 (restated)

	Land	Buildings	Other	Total
Beginning balance	₩ 1,751,634	862,009	380,216	2,993,859
Acquisitions (*1)	1,699	41,386	266,848	309,933
Disposals (*1)	(180)	(7,191)	(14,674)	(22,045)
Depreciation	-	(31,982)	(169,789)	(201,771)
Amounts transferred from (to) investment property	(4,659)	(2,042)	-	(6,701)
Amounts transferred to assets held for sale(*2)	(16,243)	(5,264)	-	(21,507)
Effects of foreign currency movements	(179)	(1,563)	(3,341)	(5,083)
Change in subsidiaries	10,265	11,078	40,429	61,772
Ending balance	₩ 1,742,337	866,431	499,689	3,108,457

(*1) ₩ 13,651 million of buildings increased by transfers from construction-in-progress.

(*2) Comprised of land and buildings, etc.

(c) Insured assets as of December 31, 2013 are as follows:

Type of insurance	Assets insured	Amount covered	Insurance company
Comprehensive insurance for financial institution	Cash and cash equivalent	22,600	Samsung Fire & Marine Insurance Co.,Ltd. and 7 other entities
Package insurance	Land and buildings	1,303,784	Samsung Fire & Marine Insurance Co.,Ltd. and 5 other entities
Fire insurance	Equipment	13,605	Samsung Fire & Marine Insurance Co.,Ltd and AIG Insurance
Theft insurance	Cash and securities	57,030	Dongbu Insurance Co., Ltd., and 8 other entities
Directors' and Officers' Liability and Company Reimbursement Insurance	-	50,000	Samsung Fire & Marine Insurance Co.,Ltd
Other	-	26,760	MERITZ Fire & Marine Insurance Co.,Ltd and 2 other entities
		1,473,779	

(*) In addition, the Group maintains vehicle insurance, medical insurance, fire insurance for its assets, and employee compensation insurance covering loss and liability arising from accidents.

15. Intangible assets, net

(a) Intangible assets as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Goodwill	₩ 3,835,141	3,830,363
Software	74,622	72,362
Development cost	87,168	115,506
Other	229,447	177,265
	₩ 4,226,378	4,195,496

(b) Changes in intangible assets for the years ended December 31, 2013 and 2012 are as follows:

					2013
	Goodwill	Development cost	Software	Other	Total
Beginning balance	₩ 3,830,363	115,506	72,362	177,265	4,195,496
Acquisitions	-	12,754	34,114	107,537	154,405
Business combination	11,989	-	-	-	11,989
Disposals	(7,211)	(61)	(635)	(8,122)	(16,029)
Impairment (*1)	-	-	-	(2,576)	(2,576)
Amortization (*2)	-	(41,031)	(30,913)	(44,618)	(116,562)
Effects of foreign currency movements	-	-	(306)	(39)	(345)
Ending balance	₩ 3,835,141	87,168	74,622	229,447	4,226,378

					2012 (restated)
	Goodwill	Development cost	Software	Other	Total
Beginning balance	₩ 3,854,524	99,529	75,164	174,243	4,203,460
Acquisitions	27,554	50,339	28,794	44,603	151,290
Disposals	-	-	(578)	(6,718)	(7,296)
Impairment (*1)	(54,124)	-	(185)	(4,208)	(58,517)
Amortization (*2)	-	(34,430)	31,483	(31,152)	(97,065)
Effects of foreign currency movements	-	-	(816)	(280)	(1,096)
Change in subsidiaries	2,409	68	1,466	777	4,720
Ending balance	₩ 3,830,363	115,506	72,362	177,265	4,195,496

(*1) The Group recognized impairment losses from golf and condo memberships with indefinite useful life by comparing its recoverable amount with its carrying amount.

(*2) The Group recognized amortization of intangible asset in general and administrative expenses.

(c) Goodwill

i) Goodwill as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Banking		
Retail	₩ 652,344	652,344
Corporate and investment	107,856	107,856
Other	82,060	82,060
Credit card	2,685,389	2,685,389
Life insurance	275,370	275,370
Others	32,122	27,344
	₩ 3,835,141	3,830,363

ii) The changes in goodwill for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Beginning balance	₩ 3,830,363	3,854,523
Acquisition of subsidiaries	11,989	27,555
Disposition from business combinations	(7,211)	-
Impairment (*1)	-	(54,124)
Change in subsidiaries	-	2,409
Ending balance	₩ 3,835,141	3,830,363

(*1) The impairment losses was recognized in 'Others CGU' of ₩ 10,284 million and 'international CGU of Shinhan Bank' of ₩ 43,840 million for the year ended December 31, 2013, respectively.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

iii) Goodwill impairment test

The recoverable amounts of all CGUs to which goodwill has been allocated was based on their respective value in use and was determined by discounting the estimated future cash flows to be generated from the continuing use of the respective CGUs.

The recoverable amounts of CGUs have been determined using cash flow estimates which cover a 5.5 year period (July 31, 2013 through December 31, 2018) from the date of valuation, which is June 30, 2013, with a valuation of terminal value applied thereafter. In case of Shinhan Life Insurance, only the 30 years of future cash flows are applied since the present value of the future cash flows thereafter is not significant.

Discount and terminal growth rates

The discount rates applied have been determined based on the cost of equity which is comprised of a riskfree interest rate, a market risk premium and systemic risk (beta factor).

Expected terminal growth rate of cash flow estimation is on the basis of inflation rates.

Discount and terminal growth rates applied to each CGU are as follows:

	Discount rates	Terminal growth rate
Banking		
Retail	11.45%	2.98%
Corporate and investment	10.40%, 11.45%	2.98%, 3.10%
Other	11.45%	2.98%
Credit card	11.00%	2.98%
Life insurance	10.50%	-
Other	11.40%, 11.80%	2.98%

Key assumptions used in the discounted cash flow calculations of CGUs (other than Shinhan Life Insurance) are as follows:

	2013	2014	2015	2016	2017 and thereafter
CPI growth	1.70%	2.80%	3.50%	3.50%	3.20%
Real retail sales growth	0.00%	3.30%	4.00%	3.70%	3.40%
Real GDP growth	1.60%	3.40%	4.10%	3.80%	3.60%

Key assumptions used in the discounted cash flow calculations of Shinhan Life Insurance are as follows:

	Key assumptions
Return on investment	4.85%
Risk-based solvency margin ratio	311.90%

Total recoverable amount and book value of CGUs, to which goodwill has been allocated, are as follows:

	Amount
Total recoverable amount	₩ 31,853,511
Total book value	29,351,776
	₩ 2,501,735

16. Investments in associates

(a) Investments in associates as of December 31, 2013 and 2012 are as follows:

Investees	Country	Reporting date	Ownership (%) (*1)	
			2013	2012
Cardif Life Insurance (*1,3)	Korea	September 30	14.99	14.99
Aju Capital Co., Ltd. (*1,2)	"	"	12.85	12.85
Pohang TechnoPark 2PFV (*2)	"	December 31	14.90	14.90
Daewontos Co., Ltd. (*1,6)	"	September 30	36.33	36.33
Shinhan Corporate Restructuring Fund 5th (*5)	"	December 31	52.58	45.00
DCC Corporate Restructuring Fund 1st	"	"	-	24.14
PT Clemont Finance Indonesia (*1)	Indonesia	September 30	30.00	30.00
Haejin Shipping Co. Ltd.	Hong Kong	December 31	24.00	24.00
APC Fund (*1)	"	September 30	25.20	25.20
SHC-IMM New Growth Fund (*5)	Korea	December 31	64.52	64.52
QCP New Technology Fund 20 th	"	"	47.17	47.17
UAMCO., Ltd. (*2)	"	"	17.50	17.50
Miraeasset 3rd Investment Fund	"	"	50.00	50.00
Aju-Shinhan 1st Investment Fund	"	"	-	60.00
Aju-Shinhan 2nd Investment Fund	"	"	-	33.33
Aju 3rd Investment Fund	"	"	-	60.00
Medici 2nd Investment Fund (*5)	"	"	54.67	54.67
STI New growth engine Investment Fund	"	"	50.00	50.00
AJU-SHC WIN-WIN Company Fund 3 (*5)	"	"	70.16	70.16
Shinhan K2 Secondary Fund (*4)	"	"	10.75	10.75
Aju 4th Investment Fund	"	"	30.00	30.00
KDB Daewoo Securities Platinum PEF	"	"	20.00	20.00
Shinhan-stonebridge Petro PEF (*4)	"	"	1.82	1.82
FAMILY FOOD CO., LTD. (*1)	"	September 30	24.63	-
TS2013-6 M&A Investment Fund	"	December 31	25.00	-
Inhee Co., Ltd (*1,2,6)	"	September 30	15.36	-
Truston Falcon Asia US Feeder Fund	Singapore	December 31	31.58	-
Innopolis-CJ Bio Healthcare Fund	Korea	"	25.00	-

(*1) Financial statements as of September 30, 2013 were used for the equity method.

(*2) The Group used the equity method of accounting as the Group has significant influence in electing on the board of directors.

(*3) The Group has significant influence due to material transaction with investee.

(*4) As a managing partner, the Group has significant management control over the investee.

(*5) As a limited partner, the Group is not able to participate in policy-making processes to obtain economic benefit from the investee.

(*6) The Group reclassifies available-for-sale financial assets that were acquired by debt-equity swap to investments in associates since reorganization procedures were completed and voting rights were restored.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

(b) Changes in investments in associates for the years ended December 31, 2013 and 2012 are as follows:

Investees	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	2013
						Ending balance
Cardif Life Insurance	₩ 42,647	8,923	3,964	(4,284)	-	51,250
Aju Capital Co., Ltd. (*1)	29,653	(1,849)	568	(149)	-	28,223
Pohang TechnoPark 2PFV	2,895	-	(48)	-	-	2,847
Daewontos Co., Ltd.	122	-	(122)	-	-	-
Shinhan Corporate Restructuring Fund 5th	675	-	(675)	239	(239)	-
DCC Corporate Restructuring Fund 1st	296	(273)	(23)	-	-	-
PT Clemont Finance Indonesia	6,892	-	81	(1,393)	-	5,580
Haejin Shipping Co. Ltd.	-	-	1,051	(36)	-	1,015
APC Fund	38,101	8,640	(23,533)	(474)	-	22,734
SHC-IMM New Growth Fund	8,884	440	(175)	-	-	9,149
QCP New Technology Fund 20 th	259	-	(10)	-	-	249
UAMCO., Ltd.	120,917	-	18,373	(19)	-	139,271
Miraeasset 3rd Investment Fund	4,705	-	232	799	-	5,736
Aju-Shinhan 1st Investment Fund	3,748	(3,635)	(113)	-	-	-
Aju-Shinhan 2nd Investment Fund	675	(693)	18	-	-	-
Aju 3rd Investment Fund	3,040	(3,698)	658	-	-	-
Medici 2nd Investment Fund]	3,208	-	(36)	-	-	3,172
STI New growth engine Investment Fund	2,824	(273)	(42)	-	-	2,509
AJU-SHC WIN-WIN Company Fund 3	2,954	2,139	163	-	-	5,256
Shinhan K2 Secondary Fund	1,692	1,698	(28)	-	-	3,362
Aju 4th Investment Fund	2,977	(3,957)	2,560	-	-	1,580
KDB Daewoo Securities Platinum PEF	6,517	(1,079)	1,125	-	-	6,563
Shinhan-stonebridge Petro PEF	14,837	(417)	1,898	-	-	16,318
SHINHAN 2013-1 New Technology Business Investment Fund	-	(172)	172	-	-	-
FAMILY FOOD CO., LTD.	-	4,158	53	460	-	4,671
TS2013-6 M&A Investment Fund	-	4,000	(89)	-	-	3,911
Inhee Co., Ltd	-	-	382	(21)	-	361
Truston Falcon Asia US Feeder Fund	-	10,030	913	(102)	-	10,841
Innapolis-CJ Bio Healthcare Fund	-	4,000	(31)	-	-	3,969
	₩ 298,518	27,982	7,286	(4,980)	(239)	328,567

(*1) The market values of investments are ₩ 37,049 million as of December 31, 2013 based on the quoted market price at that date.

Investees						2012
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
Cardif Life Insurance	₩ 25,028	9,775	1,138	6,706	-	42,647
Aju Capital Co., Ltd. (*1)	33,944	(1,849)	5,505	494	(8,441)	29,653
Macquarie Shinhan Infrastructure Management	4,576	(4,000)	-	(576)	-	-
Pohang TechnoPark 2PFV	3,697	-	(802)	-	-	2,895
Daewontos Co., Ltd.	-	-	122	-	-	122
Shinhan Corporate Restructuring Fund 5th	669	-	6	-	-	675
DCC Corporate Restructuring Fund 1st	845	(290)	(259)	-	-	296
KTB Corporate Restructuring Fund 18th	10	(88)	78	-	-	-
PT Clemont Finance Indonesia	7,346	-	517	(971)	-	6,892
Haejin Shipping Co. Ltd.	1,164	-	(644)	16	(536)	-
APC Fund	38,400	279	2,391	(2,969)	-	38,101
TSYoon 2nd Corporate Restructuring Fund	2,472	(3,475)	570	433	-	-
SHC-IMM New Growth Fund	6,816	2,260	(192)	-	-	8,884
Now IB Fund 6 th	1,474	(1,529)	55	-	-	-
QCP New Technology Fund 20 th	121	-	138	-	-	259
UAMCO., Ltd.	104,240	-	16,652	25	-	120,917
Miraeasset 3rd Investment Fund	4,688	-	17	-	-	4,705
Now IB Fund 8th	1,334	(1,566)	170	62	-	-
Aju-Shinhan 1st Investment Fund	3,370	-	378	-	-	3,748
Aju-Shinhan 2nd Investment Fund	2,036	(1,645)	284	-	-	675
Aju 3rd Investment Fund	2,789	-	251	-	-	3,040
Stonebridge New Growth Investment Fund	564	(564)	-	-	-	-
Medici 2 nd Investment Fund	3,265	-	(57)	-	-	3,208
STI New growth engine Investment Fund	-	2,000	824	-	-	2,824
AJU-SHC WIN-WIN Company Fund 3	-	2,375	579	-	-	2,954
Shinhan K2 Secondary Fund	-	1,750	(58)	-	-	1,692
Aju 4th Investment Fund	-	3,000	(23)	-	-	2,977
KDB Daewoo Securities Platinum PEF	-	6,580	(63)	-	-	6,517
Shinhan-stonebridge Petro PEF	-	14,910	(73)	-	-	14,837
NSC New Technology Fund 1st	-	(34)	34	-	-	-
	₩ 248,848	27,889	27,538	3,220	(8,977)	298,518

(*1) The market values of investments are ₩ 29,654 million as of December 31, 2012 based on the quoted market price at that date.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

(c) Condensed financial statements of associates as of and for the years ended December 31, 2013 and 2012 are as follows:

Investees	2013		2012	
	Asset	Liability	Asset	Liability
Cardif Life Insurance	₩ 3,466,657	3,184,257	2,993,361	2,765,496
Aju Capital Co., Ltd.	6,044,214	5,349,045	5,857,903	5,153,149
Pohang TechnoPark 2PFV	20,783	1,676	20,993	1,564
Daewontos Co., Ltd.	6,536	7,740	5,314	4,979
Shinhan Corporate Restructuring Fund 5th	12	1	2,749	1,250
DCC Corporate Restructuring Fund 1st	-	-	1,237	11
PT Clemont Finance Indonesia	56,333	37,734	77,548	54,573
Haejin Shipping Co. Ltd.	10,118	5,892	19,681	22,942
APC Fund	90,300	86	162,712	11,360
SHC-IMM New Growth Fund	14,180	-	13,772	2
QCP New Technology Fund 20 th	527	-	548	-
UAMCO., Ltd.	4,363,884	3,568,061	4,906,006	4,215,061
Miraeasset 3rd Investment Fund	11,579	106	9,474	63
Aju-Shinhan 1st Investment Fund	-	-	6,353	106
Aju-Shinhan 2nd Investment Fund	-	-	2,031	7
Aju 3rd Investment Fund	-	-	5,070	3
Medici 2nd Investment Fund	5,803	-	5,869	-
STI New growth engine Investment Fund	5,019	-	5,649	-
AJU-SHC WIN-WIN Company Fund 3	7,554	62	4,229	19
Shinhan K2 Secondary Fund	31,266	5	15,732	-
Aju 4th Investment Fund	5,277	13	9,945	23
KDB Daewoo Securities Platinum PEF	33,005	188	32,676	90
Shinhan-stonebridge Petro PEF	895,695	211	814,189	-
FAMILY FOOD CO., LTD.	67,882	45,103	-	-
TS2013-6 M&A Investment Fund	15,728	82	-	-
Inhee Co., Ltd	16,481	14,127	-	-
Truston Falcon Asia US Feeder Fund	35,209	880	-	-
Innopolis-CJ Bio Healthcare Fund	15,879	2	-	-
	₩ 15,219,921	12,215,271	14,973,041	12,230,698

Condensed income statement information the years ended December 31, 2013 and 2012 are as follows:

				2013
Investees	Operating revenue	Net profit	Other comprehensive income	Total comprehensive income
Cardif Life Insurance	₩ 682,100	18,295	(28,557)	(10,262)
Aju Capital Co., Ltd.	790,073	2,232	1,324	3,556
Pohang TechnoPark 2PFV	-	(322)	-	(322)
Daewontos Co., Ltd.	17,313	(873)	-	(873)
Shinhan Corporate Restructuring Fund 5th	2,213	473	532	1,005
DCC Corporate Restructuring Fund 1st	42	(104)	-	(104)
PT Clemont Finance Indonesia	3,562	268	-	268
Haejin Shipping Co. Ltd.	194	7,572	-	7,572
APC Fund	-	(93,567)	-	(93,567)
SHC-IMM New Growth Fund	85	(271)	-	(271)
QCP New Technology Fund 20th	1	(21)	-	(21)
UAMCO., Ltd.	708,035	105,013	(107)	104,906
Miraeasset 3rd Investment Fund	695	462	1,599	2,061
Aju-Shinhan 1st Investment Fund	274	(189)	-	(189)
Aju-Shinhan 2nd Investment Fund	131	55	-	55
Aju-Shinhan 3rd Investment Fund	1,234	1,097	-	1,097
Medici 2nd Investment Fund	-	(66)	-	(66)
STI New growth engine Investment Fund	-	(84)	-	(84)
AJU-SHC WIN-WIN Company Fund 3	869	233	-	233
Shinhan K2 Secondary Fund	680	(258)	-	(258)
Aju 4th Investment Fund	9,265	8,532	-	8,532
KDB Daewoo Securities Platinum PEF	6,000	5,626	-	5,626
Shinhan-stonebridge Petro PEF	107,695	104,163	-	104,163
SHINHAN 2013-1 New Technology Business Investment Fund'	872	729	-	729
FAMILY FOOD CO., LTD.	32,205	217	1,869	2,086
TS2013-6 M&A Investment Fund	355	(354)	-	(354)
Inhee Co., Ltd	5,866	662	(18,156)	(17,494)
Truston Falcon Asia US Feeder Fund	3,977	2,887	-	2,887
Innopolis-CJ Bio Healthcare Fund	15	(123)	-	(123)
	₩ 2,373,751	162,284	(41,496)	120,788

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

Investees	2012			
	Operating revenue	Net profit	Other comprehensive income	Total comprehensive income
Cardif Life Insurance	₩ 798,918	2,497	44,709	47,206
Aju Capital Co., Ltd.	775,227	40,353	(96)	40,257
Pohang TechnoPark 2PFV	-	(5,440)	-	(5,440)
Daewontos Co., Ltd.	24,397	243	-	243
Shinhan Corporate Restructuring Fund 5th	19	15	(532)	(517)
DCC Corporate Restructuring Fund 1st	16	(1,064)	-	(1,064)
PT Clemont Finance Indonesia	6,558	1,343	-	1,343
Haejin Shipping Co. Ltd.	2,482	(3,287)	-	(3,287)
APC Fund	3,564	2,076	-	2,076
SHC-IMM New Growth Fund	102	(300)	-	(300)
QCP New Technology Fund 20th	1	(21)	-	(21)
UAMCO., Ltd.	599,570	95,828	(422)	95,406
Miraeasset 3rd Investment Fund	195	36	-	36
Aju-Shinhan 1st Investment Fund	677	630	-	630
Aju-Shinhan 2nd Investment Fund	882	852	-	852
Aju-Shinhan 3rd Investment Fund	433	419	-	419
Medici 2nd Investment Fund	5	(104)	-	(104)
STI New growth engine Investment Fund	-	1,648	-	1,648
AJU-SHC WIN-WIN Company Fund 3	844	825	-	825
Shinhan K2 Secondary Fund	-	(543)	-	(543)
Aju 4th Investment Fund	374	(77)	-	(77)
KDB Daewoo Securities Platinum PEF	-	(314)	-	(314)
Shinhan-stonebridge Petro PEF	26	(3,991)	-	(3,991)
	₩ 2,214,290	131,624	43,659	175,283

(d) Reconciliation of the financial information presented to the carrying amount of its interest in the associate as of December 31, 2013 and 2012 are as follow:

Investees	Net assets (a)	Ownership (%) (b)	the share of net assets (a)*(b)	December 31, 2013		
				Intra-group transactions	Other	Book value
Cardif Life Insurance(*1)	₩ 282,400	14.99	42,332	(171)	9,089	51,250
Aju Capital Co., Ltd. (*2)	651,747	12.85	83,751	-	(55,528)	28,223
Pohang TechnoPark 2PFV	19,107	14.90	2,847	-	-	2,847
Daewontos Co., Ltd.(*3)	(1,204)	36.33	(437)	-	437	-
Shinhan Corporate Restructuring Fund 5 th (*4)	11	52.58	6	-	(6)	-
PT Clemont Finance Indonesia	18,599	30.00	5,580	-	-	5,580
Haejin Shipping Co. Ltd.	4,226	24.00	1,015	-	-	1,015
APC Fund	90,214	25.20	22,734	-	-	22,734
SHC-IMM New Growth Fund	14,180	64.52	9,149	-	-	9,149
QCP New Technology Fund 20 th	527	47.17	249	-	-	249
UAMCO., Ltd.	795,823	17.50	139,271	-	-	139,271
Miraeasset 3rd Investment Fund	11,473	50.00	5,736	-	-	5,736
Medici 2 nd Investment Fund	5,803	54.67	3,172	-	-	3,172
STI New growth engine Investment Fund	5,019	50.00	2,509	-	-	2,509
AJU-SHC WIN-WIN Company Fund 3	7,492	70.16	5,256	-	-	5,256
Shinhan K2 Secondary Fund	31,261	10.75	3,362	-	-	3,362
Aju 4th Investment Fund	5,264	30.00	1,580	-	-	1,580
KDB Daewoo Securities Platinum PEF	32,817	20.00	6,563	-	-	6,563
Shinhan-stonebridge Petro PEF	895,484	1.82	16,318	-	-	16,318
FAMILY FOOD CO., LTD.(*5)	22,779	24.63	5,610	-	(939)	4,671
TS2013-6 M&A Investment Fund	15,646	25.00	3,911	-	-	3,911
Inhee Co., Ltd	2,354	15.36	361	-	-	361
Truston Falcon Asia US Feeder Fund	34,329	31.58	10,841	-	-	10,841
Innopolis-CJ Bio Healthcare Fund	15,877	25.00	3,969	-	-	3,969
	₩ 2,961,228		375,685	(171)	(46,947)	328,567

(*1) Other adjustments represent the increase in net assets due to paid-in capital increase occurred between the end of reporting period of the associate and the Group.

(*2) Net assets do not include non-controlling interest. Other adjustments represent the cumulative impairment loss.

(*3) Other adjustments represent the unrecognized share of losses of an associate because the Group has stopped recognizing its share losses of the associate due to cumulative loss.

(*4) Other adjustments represent the cumulative impairment loss.

(*5) Other adjustments represent the difference between the cost of the investment and the Group's share of the net fair value of the investee's identifiable assets and liabilities on acquisition of the investment.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

December 31, 2012

Investees	Net assets (a)	Ownership (%) (b)	the share of net assets (a)*(b)	Intra-group transactions	Other	Book value
Cardif Life Insurance (*1)	₩ 227,865	14.99	34,157	(304)	8,794	42,647
Aju Capital Co., Ltd. (*2)	662,870	12.85	85,176	-	(55,523)	29,653
Pohang TechnoPark 2PFV	19,429	14.90	2,895	-	-	2,895
Daewontos Co., Ltd.	335	36.33	122	-	-	122
Shinhan Corporate Restructuring Fund 5th	1,499	45.00	675	-	-	675
DCC Corporate Restructuring Fund 1st	1,226	24.14	296	-	-	296
PT Clemont Finance Indonesia	22,975	30.00	6,892	-	-	6,892
Haejin Shipping Co. Ltd. (*3)	(3,261)	24.00	(783)	-	783	-
APC Fund	151,352	25.20	38,101	-	-	38,101
SHC-IMM New Growth Fund	13,770	64.52	8,884	-	-	8,884
QCP New Technology Fund 20 th	548	47.17	259	-	-	259
UAMCO., Ltd.	690,945	17.50	120,917	-	-	120,917
Miraeasset 3rd Investment Fund	9,411	50.00	4,705	-	-	4,705
Aju-Shinhan 1st Investment Fund	6,247	60.00	3,748	-	-	3,748
Aju-Shinhan 2nd Investment Fund	2,024	33.33	675	-	-	675
Aju 3rd Investment Fund	5,067	60.00	3,040	-	-	3,040
Medici 2nd Investment Fund	5,869	54.67	3,208	-	-	3,208
STI New growth engine Investment Fund	5,649	50.00	2,824	-	-	2,824
AJU-SHC WIN-WIN Company Fund 3	4,210	70.16	2,954	-	-	2,954
Shinhan K2 Secondary Fund	15,732	10.75	1,692	-	-	1,692
Aju 4th Investment Fund	9,922	30.00	2,977	-	-	2,977
KDB Daewoo Securities Platinum PEF	32,586	20.00	6,517	-	-	6,517
Shinhan-stonebridge Petro PEF	814,189	1.82	14,837	-	-	14,837
	₩ 2,700,459		344,768	(304)	(45,946)	298,518

(*1) Other adjustments represent the increase in net assets due to paid-in capital increase occurred between the end of reporting period of the associate and the Group.

(*2) Net assets do not include non-controlling interest. Other adjustments represent the cumulative impairment loss.

(*3) Other adjustments represent the unrecognized share of losses of an associate because the Group has stopped recognizing its share losses of the associate due to cumulative loss.

(e) The unrecognized share of losses of associate for the year ended December 31, 2013 and cumulatively were as follow :

Investees	The unrecognized share of losses of associate for	
	the reporting period	the cumulative period
Daewontos Co., Ltd.	₩ (437)	(437)

17. Investment properties, net

(a) Investment properties as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Acquisition cost	₩ 737,426	811,977
Accumulated depreciation	(47,169)	(33,472)
Book value	₩ 690,257	778,505

(*) Land and buildings were revalued on January 1, 2010 by an independent valuation service provider. Valuation was based on the recent arm's length market transactions between knowledgeable and willing parties.

(b) Changes in investment properties for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Beginning balance	₩ 778,505	512,034
Acquisitions	234,432	296,315
Disposals	(32,915)	(2,991)
Depreciation	(17,238)	(14,045)
Amounts transferred from property and equipment	(43,768)	6,701
Amounts transferred to assets held for sale(*1)	(228,762)	(22,825)
Foreign currency adjustment	3	(13)
Change in subsidiaries	-	3,329
Ending balance	₩ 690,257	778,505

(*1) Comprise of land and buildings, etc.

(c) Income and expenses on investment property for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Rental Income	₩ 53,024	44,885
Direct operating expenses for investment properties that generated rental income	19,284	14,415

(d) The fair value of investment property as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Land and buildings	₩ 709,511	801,221

(*) Valuation was based on the recent arm's length market transactions between knowledgeable and willing parties.

18. Other assets, net

Other assets as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Accounts receivable	₩ 3,530,688	4,579,155
Domestic exchange settlement debit	2,424,781	2,134,806
Guarantee deposits	1,353,898	1,358,007
Present value discount	(75,218)	(87,620)
Accrued income	1,329,910	1,524,432
Prepaid expense	133,086	187,568
Suspense payments	74,565	91,426
Sundry assets	157,572	204,479
Separate account assets	2,108,617	1,896,072
Advance payments	180,561	185,356
Unamortized deferred acquisition cost	1,152,549	1,239,756
Other	165,140	67,961
Allowances for impairment	(86,956)	(98,491)
	₩ 12,449,193	13,282,907

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

19. Leases

(a) Finance lease receivables of the Group as lessor as of December 31, 2013 and 2012 are as follows:

	2013			
	Gross investment	Unearned finance income	Present value of minimum lease payment	Unguaranteed residual value
Not later than 1 year	₩ 689,515	99,379	590,136	-
1 ~ 5 years	1,206,565	110,560	1,096,005	-
Later than 5 years	35,823	1,061	34,762	-
	₩ 1,931,903	211,000	1,720,903	-

	2012			
	Gross investment	Unearned finance income	Present value of minimum lease payment	Unguaranteed residual value
Not later than 1 year	₩ 767,000	91,345	675,655	-
1 ~ 5 years	1,131,866	146,687	985,179	-
Later than 5 years	42,489	3,171	39,318	-
	₩ 1,941,355	241,203	1,700,152	-

(b) The scheduled maturities of minimum lease payments of the Group as lessor as of December 31, 2013 and 2012 are as follows:

i) Finance leases

	2013		
	Minimum lease payment	Unearned finance income	Present value of minimum lease payment
Not later than 1 year	₩ 689,515	99,379	590,136
1 ~ 5 years	1,206,565	110,560	1,096,005
Later than 5 years	35,823	1,061	34,762
	₩ 1,931,903	211,000	1,720,903

	2012		
	Minimum lease payment	Unearned finance income	Present value of minimum lease payment
Not later than 1 year	₩ 754,107	91,964	662,143
1 ~ 5 years	1,087,534	141,667	945,867
Later than 5 years	42,489	3,171	39,318
	₩ 1,884,130	236,802	1,647,328

ii) Operating leases

	Minimum lease payment	
	2013	2012
Not later than 1 year	₩ 9,950	7,491
1 ~ 5 years	10,120	11,135
	₩ 20,070	18,626

(c) Future minimum lease payments under non-cancellable operating lease of the Group as lessee as of December 31, 2013 and 2012 are as follows:

	Minimum lease payment	
	2013	2012
Not later than 1 year	₩ 94,296	104,108
1 ~ 5 years	115,946	122,332
Later than 5 years	12,238	9,606
	₩ 222,480	236,046

20. Pledged assets

(a) Assets pledged as collateral as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Loans	₩ 237,277	127,588
Securities		
Trading assets	6,701,687	5,645,860
Available-for-sale financial assets	2,421,472	1,531,366
Held-to-maturity financial assets	4,922,650	5,551,874
Financial assets designated at fair value through profit or loss	485,202	400,837
	14,531,011	13,129,937
Deposits	124,716	100,498
Real estate	445,206	452,907
Other assets	93,480	56,056
	₩ 15,431,690	13,866,986

(*) The carrying amounts of asset pledged that the pledgees have the right to sell or repledge regardless of the Group's default as of December 31, 2013 and 2012 were ₩ 6,949,973 million and ₩ 5,530,540 million, respectively.

(b) The fair value of collateral held that the Group has the right to sell or repledge regardless of pledger's default as of December 31, 2013 and 2012 are as follows:

	2013	
	Collateral held	Collateral sold or repledged
Securities	₩ 3,233,542	-
	2012 (restated)	
	Collateral held	Collateral sold or repledged
Securities	₩ 3,731,968	-

21. Deposits

Deposits as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Demand deposits	₩ 59,143,510	52,171,149
Time deposits	112,583,986	114,220,905
Negotiable certificates of deposits	1,827,088	1,303,683
Note discount deposits	3,132,185	3,013,376
CMA (*)	1,291,588	1,626,061
Others	831,524	960,528
	₩ 178,809,881	173,295,702

(*) CMA: Cash management account deposits

22. Trading liabilities

Trading liabilities as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Securities sold		
Equity	₩ 285,616	126,160
Debt	565,422	760,502
Others	8,649	-
Gold deposits	398,596	484,061
	1,258,283	1,370,723

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

23. Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)	Condition
Equity-linked securities sold	₩ 4,545,850	4,017,337	Combined instrument
Derivatives-combined securities sold	1,362,608	804,860	
Securities sold	672	-	Evaluation and management on a fair value basis
	₩ 5,909,130	4,822,197	

24. Borrowings

(a) Borrowings as of December 31, 2013 and 2012 are as follows:

	Interest rate (%)	2013 Amount
Borrowings in won		
Borrowings from Bank of Korea	0.50~1.00	₩ 1,291,005
Others	0.00~5.05	6,085,756
		7,376,761
Borrowings in foreign currency		
Overdraft due to banks	0.00~0.78	225,689
Borrowings from banks	0.05~1.83	2,640,072
Others	0.55~1.85	1,980,853
		4,846,614
Call money	0.10~5.08	1,403,260
Bill sold	1.50~2.93	28,631
Bonds sold under repurchase agreements	0.30~3.34	6,395,322
Due to Bank of Korea in foreign currency	0.10	94,315
Bond Issuance costs		(1,995)
		₩ 20,142,908

	Interest rate (%)	2012 (restated) Amount
Borrowings in won		
Borrowings from Bank of Korea	1.25~1.50	₩ 1,354,261
Others	0.00~6.60	5,773,894
		7,128,155
Borrowings in foreign currency		
Overdraft due to banks	0.00~0.63	155,269
Borrowings from banks	0.08~3.88	3,071,900
Others	0.30~1.86	2,675,937
		5,903,106
Call money	0.07~9.00	1,088,535
Bill sold	1.70~3.80	55,397
Bonds sold under repurchase agreements	0.30~3.65	5,189,539
Due to Bank of Korea in foreign currency	0.10	156,150
Bond Issuance costs		(2,842)
		₩ 19,518,040

25. Debt securities issued

Debt securities issued as of December 31, 2013 and 2012 are as follows:

	Interest rate (%)	2013 Amount
Debt securities issued in won		
Debt securities issued	0.00~8.36	₩ 26,219,135
Subordinated debt securities issued	3.41~8.00	5,510,630
Loss on fair value hedges		(24,853)
Bond Issuance Cost		(73,895)
		31,631,017
Debt securities issued in foreign currency		
Debt securities issued	0.74~8.13	5,813,843
Loss on fair value hedges		70,163
Bond Issuance Cost		(23,584)
		5,860,422
		₩ 37,491,439

	Interest rate (%)	2012 (restated) Amount
Debt securities issued in won		
Debt securities issued	0.00~9.00	₩ 27,355,181
Subordinated debt securities issued	3.41~8.00	5,150,290
Loss on fair value hedges		107,559
Bond Issuance Cost		(64,123)
		32,548,907
Debt securities issued in foreign currency		
Debt securities issued	0.72~8.13	6,199,275
Loss on fair value hedges		117,096
Bond Issuance Cost		(26,811)
		6,289,560
		₩ 38,838,467

26. Employee benefits

(a) Defined benefit plan assets and liabilities

Defined benefit plan assets and liabilities as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Present value of defined benefit obligation	₩ 1,037,143	1,016,018
Fair value of plan assets	(919,488)	(793,685)
Recognized liabilities for defined benefit obligation	₩ 117,655	222,333

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

(b) Changes in the present value of defined benefit obligation and plan assets for the years ended December 31, 2013 and 2012 were as follows:

	Defined benefit obligation	Plan assets	2013 Net defined benefit liability
Beginning balance	₩ 1,016,018	(793,685)	222,333
Included in profit or loss			
Current service cost	142,830	-	142,830
Past service cost	(89,510)	-	(89,510)
Interest expense (income)	42,754	(34,922)	7,832
	96,074	(34,922)	61,152
Included in other comprehensive income:			
Remeasurements loss (gain) :			
- Actuarial gains(losses) arising from :			
Demographic assumptions	(1,109)	-	(1,109)
Financial assumptions	30,798	-	30,798
Experience adjustment	(64,136)	-	(64,136)
- Return on plan assets excluding interest income	-	9,495	9,495
	(34,447)	9,495	(24,952)
Other :			
Benefits paid by the plan	(40,451)	31,778	(8,673)
Contributions paid into the plan	-	(131,789)	(131,789)
Change in subsidiaries	42	(365)	(323)
Effect of movements in exchange rates	(93)	-	(93)
	(40,502)	(100,376)	(140,878)
Ending balance	₩ 1,037,143	(919,488)	117,655

Profit or loss arising from defined benefit plans is included in general and administrative expenses.

	Defined benefit obligation	Plan assets	2012 (restated) Net defined benefit liability
Beginning balance	₩ 877,037	(601,602)	275,435
Included in profit or loss			
Current service cost	134,068	-	134,068
Interest expense (income)	44,732	(32,549)	12,183
	178,800	(32,549)	146,251
Included in other comprehensive income:			
Remeasurements loss (gain) :			
- Actuarial gains(losses) arising from :			
Demographic assumptions	(87,623)	-	(87,623)
Financial assumptions	46,523	-	46,523
Experience adjustment	33,786	-	33,786
- Return on plan assets excluding interest income	-	7,079	7,079
	(7,314)	7,079	(235)
Other :			
Benefits paid by the plan	(40,430)	11,158	(29,272)
Contributions paid into the plan	-	(177,362)	(177,362)
Change in subsidiaries	7,899	(409)	7,490
Effect of movements in exchange rates	26	-	26
	(32,505)	(166,613)	(199,118)
Ending balance	1,016,018	(793,685)	222,333

Profit or loss arising from defined benefit plans is included in general and administrative expenses.

(c) Plan assets as of December 31, 2013 and 2012 were as follows:

	2013	2012 (restated)
Plan assets		
Equity securities	₩ 35,691	28,680
Debt securities	741	892
Due from banks	868,455	725,584
Other	14,601	38,529
	₩ 919,488	793,685

(d) Actuarial assumptions as of December 31, 2013 and 2012 were as follows;

	2013	2012	Description
Discount rate	4.12%~4.98%	3.06%~4.44%	AA corporate bond yields
Future salary increasing rate	2.28%~3.66% +	1.88%~4.22% +	Average for 5 years
	Upgrade rate	Upgrade rate	
The weighted-average duration	7.71 year~	7.48 year ~	
	16.11 year	14.12 year	

(e) Sensitivity analysis

Reasonably possible changes as of December 31, 2013 to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	Defined benefit obligation	
	Increase	Decrease
Discount rate (1% movement)	₩ 135,953	(116,991)
Future salary increasing rate (1% movement)	(113,506)	133,939

27. Provisions

(a) Provisions as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Asset retirement obligations	₩ 41,730	39,348
Expected loss related to litigation	106,202	135,748
Unused credit commitments	411,171	415,420
Bonus card points program	29,104	24,873
Financial guarantee contracts issued	92,980	77,840
Others	69,096	54,656
	₩ 750,283	747,885

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

(b) Changes in provisions for the years ended December 31, 2013 and 2012 are as follows:

							2013
	Asset retirement	Litigation	Unused credit	Card point (*1)	Guarantee	Other	Total
Beginning balance	₩ 39,348	135,748	415,420	24,873	77,840	54,656	747,885
Provision (reversal)	301	3,456	(5,390)	60,847	21,906	61,961	143,081
Provision used	(993)	(32,844)	-	(56,616)	-	(44,515)	(134,968)
Foreign exchange translation	-	(158)	1,141	-	2,240	(41)	3,182
Others	3,074	-	-	-	(9,006)	(2,965)	(8,897)
Ending balance	₩ 41,730	106,202	411,171	29,104	92,980	69,096	750,283

							2012 (restated)
	Asset retirement	Litigation	Unused credit	Card point (*1)	Guarantee	Other	Total
Beginning balance	₩ 35,727	215,808	444,810	24,439	85,778	63,070	869,632
Provision (reversal)	676	13,986	(26,764)	39,142	7,949	13,356	48,345
Provision used	(439)	(93,586)	-	(38,708)	-	(22,118)	(154,851)
Foreign exchange translation	-	(460)	(2,651)	-	(2,428)	(643)	(6,182)
Others	3,384	-	25	-	(13,459)	-	(10,050)
Change in subsidiaries	-	-	-	-	-	991	991
Ending balance	₩ 39,348	135,748	415,420	24,873	77,840	54,656	747,885

(*1) Provisions for card point were classified as fees and commission expense

(c) Asset retirement obligation liabilities represent the estimated cost to restore the existing leased properties which is discounted to the present value using the appropriate discount rate at the end of the reporting period. Disbursements of such costs are expected to incur at the end of lease contract. Such costs are reasonably estimated using the average lease year and the average restoration expenses. The average lease year is calculated based on the past ten-year historical data of the expired leases. The average restoration expense is calculated based on the actual costs incurred for the past three years using the three-year average inflation rate.

(d) Allowance for guarantees and acceptances as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Guarantees and acceptances outstanding	₩ 10,564,718	9,627,145
Contingent guarantees and acceptances	5,053,750	5,203,826
ABS and ABCP purchase commitments	1,599,331	2,019,404
Endorsed bill	54,460	3,946
	₩ 17,272,259	16,535,149
Allowance for loss on guarantees and acceptances	92,980	77,840
Ratio	0.54%	0.47%

28. Liability under insurance contracts

(a) Insurance liabilities as of December 31, 2013 and 2012 are as follows:

	2013	2012
Policy reserve	₩ 15,657,500	13,415,015
Policyholder's equity adjustment	(1,045)	3,544
	₩ 15,656,455	13,418,559

(b) Policy reserve of December 31, 2013 and 2012 are as follows:

	2013	2012
Interest rate linked	₩ 10,261,450	8,092,651
Fixed interest rate	5,396,050	5,322,364
	₩ 15,657,500	13,415,015

(c) The details of policy reserves as of December 31, 2013 and 2012 are as follows:

	2013			
	Individual insurance			
	Pure endowment	Death	Endow-ment	Subtotal
Premium reserve	₩ 3,302,309	6,484,119	5,023,729	14,810,157
Guarantee reserve	10,140	13,495	187	23,822
Unearned premium reserve	3	621	-	624
Reserve for outstanding claims	55,723	563,061	104,958	723,742
Interest rate difference guarantee reserve	2,422	194	18	2,634
Mortality gains reserve	7,579	6,246	354	14,179
Interest gains reserve	12,462	296	27	12,785
Long term duration dividend reserve	70	12	2	84
Reserve for policyholder's profit dividend	1,057	-	-	1,057
Reserve for losses on dividend insurance contract	439	-	-	439
	₩ 3,392,204	7,068,044	5,129,275	15,589,523

	Group insurance			
	Pure protection	Savings	Subtotal	Total
Premium reserve	₩ 38,092	278	38,370	14,848,527
Guarantee reserve	-	-	-	23,822
Unearned premium reserve	556	-	556	1,180
Reserve for outstanding claims	29,046	-	29,046	752,788
Interest rate difference guarantee reserve	-	-	-	2,634
Mortality gains reserve	5	-	5	14,184
Interest gains reserve	-	-	-	12,785
Long term duration dividend reserve	-	-	-	84
Reserve for policyholder's profit dividend	-	-	-	1,057
Reserve for losses on dividend insurance contract	-	-	-	439
	₩ 67,699	278	67,977	15,657,500

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

2012				
Individual insurance				
	Pure endowment	Death	Endow-ment	Subtotal
Premium reserve	₩ 2,983,148	5,745,842	3,932,195	12,661,185
Guarantee reserve	9,315	4,252	190	13,757
Unearned premium reserve	4	698	-	702
Reserve for outstanding claims	49,891	494,767	83,964	628,622
Interest rate difference guarantee reserve	2,534	229	20	2,783
Mortality gains reserve	7,910	7,292	397	15,599
Interest gains reserve	9,202	334	29	9,565
Long term duration dividend reserve	73	14	2	89
Reserve for policyholder's profit dividend	5,388	-	-	5,388
Reserve for losses on dividend insurance contract	1,289	-	-	1,289
	₩ 3,068,754	6,253,428	4,016,797	13,338,979

Group insurance				
	Pure protection	Savings	Subtotal	Total
Premium reserve	₩ 42,471	281	42,752	12,703,937
Guarantee reserve	-	-	-	13,757
Unearned premium reserve	548	-	548	1,250
Reserve for outstanding claims	32,731	-	32,731	661,353
Interest rate difference guarantee reserve	-	-	-	2,783
Mortality gains reserve	5	-	5	15,604
Interest gains reserve	-	-	-	9,565
Long term duration dividend reserve	-	-	-	89
Reserve for policyholder's profit dividend	-	-	-	5,388
Reserve for losses on dividend insurance contract	-	-	-	1,289
	₩ 75,755	281	76,036	13,415,015

(d) Reinsurance credit risk as of December 31, 2012 and 2011 are as follows:

2013			
	Reinsurance assets	Reinsurance account receivable	
AA- to AA+	₩ 129	434	
A- to A+	647	1,673	
	₩ 776	2,107	

2012			
	Reinsurance assets	Reinsurance account receivable	
AA- to AA+	₩ 133	139	
A- to A+	777	2,518	
	₩ 910	2,657	

(e) Income or expenses on insurance for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Insurance income		
Premium income	₩ 4,209,673	4,412,777
Reinsurance income	4,301	5,348
Separate account income	14,894	15,665
	4,228,868	4,433,790
Insurance expenses		
Claims paid	(1,678,721)	(1,508,778)
Reinsurance premium expenses	(4,115)	(5,011)
Provision for policy reserves	(2,242,619)	(2,554,251)
Separate account expenses	(14,894)	(15,665)
Discount charge	(1,640)	(406)
Acquisition costs	(566,456)	(686,716)
Collection expenses	(12,538)	(13,793)
Deferred acquisition costs	431,058	631,056
Amortization of deferred acquisition costs	(518,265)	(489,529)
	(4,608,190)	(4,643,093)
Net loss on insurance	₩ (379,322)	(209,303)

(f) Maturity of premium reserve as of December 31, 2013 and 2012 are as follows:

	2013						Total
	Less than 1 year	1~3 years	3~7 years	7~10 years	10~20 years	More than 20 years	
Interest rate linked	₩ 127,120	132,806	646,877	983,459	846,873	7,234,458	9,971,593
Fixed interest rate	41,429	37,924	349,342	377,535	1,221,327	2,849,376	4,876,933
Ending balance	₩ 168,549	170,730	996,219	1,360,994	2,068,200	10,083,834	14,848,526

	2012						Total
	Less than 1 year	1~3 years	3~7 years	7~10 years	10~20 years	More than 20 years	
Interest rate linked	₩ 9,302	210,736	213,402	1,191,678	661,460	5,967,470	8,254,048
Fixed interest rate	56,883	65,960	219,535	342,018	1,273,608	2,491,885	4,449,889
Ending balance	₩ 66,185	276,696	432,937	1,533,696	1,935,068	8,459,355	12,703,937

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

(g) Liability adequacy test, LAT

Liability adequacy tests were performed on the premium reserve, unearned premium reserve and guarantee reserve as of December 31, 2013 of contract held at December 31, 2013 and 2012. The premium reserve considered the amount net level premium reserve less, where appropriate, deferred acquisition cost in accordance with the article 6-3 of Regulation on Supervision of Insurance Business Act.

The assumptions of the current estimation used to assessment and their basis for calculation was as follows:

	Assumption		Measurement basis
	2013	2012	
Discount rate	3.74% ~ 10.61%	4.50% ~ 5.03%	Future rate of return on invested asset based on the rate scenario suggested by FSS.
Mortality rate	9% ~ 256%	10% ~ 320%	Rate of premium paid on risk premium based on experiencebased rate by classes of sales channel, product and transition period of last 5 years.
Operating expense rate	Acquisition cost - The first time: 90.0% ~ 586.9% - From the second time: 0% ~ 274.0% Maintenance expense (each case): 1,232won ~ 9,429won Collection expenses (on gross premium): 0won ~ 438won	Acquisition cost - The first time: 90.0% ~ 674.0% - From the second time: 0% ~ 90.0% Maintenance expense (each case): 1,532won ~ 6,768won Collection expenses (on gross premium): 132.26won ~ 440.53won	Operating expense rate on gross premium or expense per contract based on experience-based rate of last 1 year.
Surrender ratio	0% ~ 60.9%	0.42% ~ 62.57%	Surrender ratio by classes of sales channel, product and transition period of last 5 years.

The result of liability adequacy test as of December 31, 2013 and 2012 are as follows:

	2013		
	Provisions for test	LAT base	Premium loss (surplus)
Participating			
Fixed interest	₩ 586,624	1,080,943	494,319
Variable interest	626,862	621,944	(4,918)
	1,213,486	1,702,887	489,401
Non- Participating			
Fixed interest	3,920,626	3,546,318	(374,308)
Variable interest	10,706,716	8,446,667	(2,260,049)
	14,627,342	11,992,985	(2,634,357)
Option and Guarantee	23,822	204,963	181,141
	₩ 15,864,650	13,900,835	(1,963,815)
			2012
Participating			
Fixed interest	₩ 584,566	740,489	155,923
Variable interest	483,985	464,575	(19,410)
	1,068,551	1,205,064	136,513
Non- Participating			
Fixed interest	3,097,139	2,474,500	(622,639)
Variable interest	6,579,371	5,478,979	(1,100,392)
	9,676,510	7,953,479	(1,723,031)
Option and Guarantee	12,126	67,255	55,129
	₩ 10,757,187	9,225,798	(1,531,389)

Sensitivity analysis as of December 31, 2013 and 2012 are as follows:

	LAT fluctuation	
	2013	2012
Discount rate increased by 0.5%	₩ (876,040)	(979,703)
Discount rate decreased by 0.5%	993,435	1,089,958
Operating expense increased by 10%	224,335	229,698
Mortality rate increased by 10%	513,309	545,774
Mortality rate increased by 5%	256,274	272,887
Surrender ratio increased by 10%	₩ 165,307	104,501

(*) As a result of sensitivity analysis above, there are no effects on income and capital, because the increase of LAT exceeds LAT surplus.

29. Other liabilities

Other liabilities as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Accounts payable	₩ 4,854,478	6,123,428
Accrued expenses	3,302,409	3,579,461
Dividend payable	27,837	27,599
Advance receipts	243,412	148,027
Unearned income (*)	318,572	318,604
Withholding value-added tax and other taxes	492,469	344,884
Securities deposit received	654,826	692,303
Present value discount account	(24,397)	(25,716)
Foreign exchange remittances pending	206,405	207,461
Domestic exchange remittances pending	1,022,871	3,032,615
Borrowing from trust account	2,299,929	2,110,786
Due to agencies	588,020	657,855
Deposits for subscription	72,270	101,798
Separate account liabilities	2,203,997	1,922,465
Sundry liabilities	2,538,431	2,042,118
Other	219,286	309,173
	₩ 19,020,815	21,592,861

(*) Changes in deferred (unearned) point income for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Beginning balance	₩ 158,895	150,177
Deferred income	208,618	184,248
Recognized income	(227,077)	(175,530)
Ending balance	₩ 140,436	158,895

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

30. Equity

(a) Equity as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Capital stock:		
Common stock	₩ 2,370,998	2,370,998
Preferred stock	274,055	274,055
	2,645,053	2,645,053
Hybrid bond	537,443	537,443
Capital surplus:		
Share premium	9,494,769	9,494,769
Others	392,566	392,430
	9,887,335	9,887,199
Capital adjustments	(393,128)	(393,097)
Accumulated other comprehensive income, net of tax:		
Valuation gain(loss) on available-for-sale financial assets	956,955	1,225,809
Equity in other comprehensive income of associates	690	5,501
Foreign currency translation adjustments for foreign operations	(146,122)	(88,297)
Net loss from cash flow hedges	1,243	(4,846)
Other comprehensive income of separate account	(117)	1,712
Actuarial gains(losses)	(140,842)	(159,758)
	671,807	980,121
Retained earnings (*1)	14,194,163	12,715,172
Non-controlling interest (*2)	2,316,988	2,541,253
	₩ 29,859,661	28,913,144

(*1) Restriction on appropriation of retained earnings is as follows:

- 1) Legal reserve of ₩1,616,961 million and ₩1,557,916 million for the years ended December 31, 2013 and 2012, respectively
- 2) Regulatory reserve for loan loss of ₩7,621 million and ₩8,786 million for the years ended December 31, 2013 and 2012, respectively
- 3) Retained earnings restricted for dividend at subsidiaries level pursuant to law and regulations amounts to ₩3,792,011 million for the years ended December 31, 2013

(*2) The hybrid bonds of ₩2,099,350 million and ₩2,329,760 million issued by Shinhan bank were attributed to non-controlling interests as of December 31, 2013 and 2012, respectively. Dividends to those hybrid bonds of ₩133,268 million and ₩153,989 million were attributed to non-controlling interests for years ended December 31, 2013 and 2012, respectively.

(b) Capital stock

i) Capital stock of the Group as of December 31, 2013 and 2012 are as follows:

Number of authorized shares	1,000,000,000
Par value per share in won	₩ 5,000
Number of issued common stocks outstanding	474,199,587
Number of issued preferred stocks outstanding	11,100,000

The capital stock does not match the total amount of the par value for preferred stock issued ₩55,500 million as of December 31, 2013 because redeemable preferred stock (43,711,000 shares) has been repaid by retirement of stock method.

ii) Preferred stocks issued by the Group as of December 31, 2013 are as follows:

	Number of shares	Predetermined dividend rate (%) (*1)	Redeemable period
Redeemable preferred stock:			
Series 12 (*2)	11,100,000	5.58%	April 21, 2016 - April 21, 2031

(*1) Based on initial issuance price

(*2) The Group maintains the right to redeem Series 12 redeemable preferred stock in part or in its entirety during the redeemable period at par value (reflecting contract dividend rate). If the preferred shares are not redeemed by the end of the redeemable period, those rights will lapse.

(c) Hybrid bond

Hybrid bond classified as other equity as of December 31, 2013 and 2012 are as follows:

	Issue date	Maturity date	Amount		Interest rate (%)
			2013	2012 (restated)	
Hybrid bond	October 24, 2011	October 24, 2041	₩ 238,582	238,582	5.80%
	May 22, 2012	May 22, 2042	298,861	298,861	5.34%
			₩ 537,443	537,443	

The above hybrid bonds can be repaid at par value early after 5 years from date of issuance, and the Group has an unconditional right to extend the maturity under the same condition. In addition, if no dividend was to be paid for common shares, the agreed interest was also not paid.

(d) Capital adjustments

Changes in capital adjustments for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Beginning balance	₩ (393,097)	(392,654)
Other transactions with owners	(31)	(443)
Ending balance	₩ (393,128)	(393,097)

(e) Accumulated other comprehensive income

i) Changes in accumulated other comprehensive income for the years ended December 31, 2013 and 2012 are as follows:

	2013						Total
	Items that are or may be reclassified to profit or loss						
	Valuation gain (loss) on available-for-sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other Comprehensive income of separate account	Items that will never be reclassified to profit or loss	
Beginning balance	₩ 1,225,809	5,501	(88,298)	(4,846)	1,713	(159,758)	980,121
Change due to fair value	232,496	(4,979)	-	-	(2,414)	-	225,103
Reclassification							
Change due to							
impairment or disposal	(583,253)	-	-	-	-	-	(583,253)
Effect of hedge accounting	-	-	-	37,580	-	-	37,580
Hedging	4,170	-	71,031	(29,546)	-	-	45,655
Effects from exchange rate fluctuations	(9,374)	-	(116,552)	-	-	-	(125,926)
Remeasurements of the defined benefit liability	-	-	-	-	-	24,635	24,635
Deferred income taxes	85,858	168	(12,324)	(1,944)	584	(6,036)	66,306
Non-controlling interest	1,249	-	20	-	-	317	1,586
Ending balance	₩ 956,955	690	(146,123)	1,244	(117)	(140,842)	671,807

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

2012 (restated)

	Items that are or may be reclassified to profit or loss					Items that will never be reclassified to profit or loss	Total
	Valuation gain (loss) on available-for-sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other Comprehensive income of separate account	Remeasurements of the defined benefit liability	
Beginning balance	₩ 1,211,196	1,404	(1,841)	(20,501)	1,142	(158,620)	1,032,780
Change due to fair value	449,494	3,220	-	-	841	-	453,555
Reclassification							
Change due to impairment or disposal	(438,178)	-	-	-	-	-	(438,178)
Effect of hedge accounting	-	-	-	154,820	-	-	154,820
Hedging	(3,861)	-	82,095	(134,167)	-	-	(55,933)
Effects from exchange rate fluctuations	12,785	-	(151,555)	-	-	-	(138,770)
Remeasurements of the defined benefit liability	-	-	-	-	-	(184)	(184)
Deferred income taxes	(5,038)	877	(17,219)	(4,998)	(270)	363	(26,285)
Non-controlling interest	(589)	-	222	-	-	(1,317)	(1,684)
Ending balance	₩ 1,225,809	5,501	(88,298)	(4,846)	1,713	(159,758)	980,121

(f) Appropriation of retained earnings

Statements of appropriation of retained earnings for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Unappropriated retained earnings:		
Balance at beginning of year	₩ 4,969,958	4,846,219
Changes in accounting policy	2,650	1,605
Interest on hybrid bond	(29,940)	(23,688)
Net income	731,638	591,494
	5,674,306	5,415,630
Reversal of regulatory reserve for loan loss:	1,165	9,901
	5,675,471	5,425,531
Appropriation of retained earnings:		
Legal reserve	73,164	59,045
Dividends		
Dividends on common stock	308,230	331,940
Dividends on preferred stock paid	61,938	61,938
	370,168	393,878
	443,332	452,923
Unappropriated retained earnings to be carried over to subsequent year	₩ 5,232,139	4,972,608

(*) These statements of appropriation of retained earnings were based on the separate financial statements of the parent company.

(g) **Regulatory reserve for loan loss**

In accordance with Regulations for the Supervision of Financial Institutions, the Group reserves the difference between allowance for credit losses by K-IFRS and Regulations for the Supervision of Financial Institutions at the account of reserve for regulatory reserve for loan loss.

i) Changes in regulatory reserve for loan loss including non-controlling interest for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Beginning balance	₩ 2,268,459	1,976,425
Provision for (reversal of) regulatory reserve for loan loss	(32,328)	292,034
Ending balance	₩ 2,236,131	2,268,459

ii) Income for the year and earnings per share after adjusted for regulatory reserve for loan loss excluding noncontrolling interest for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Income for the year	₩ 1,902,808	2,321,890
Reversal of regulatory reserve for loan loss	33,112	(284,937)
Income adjusted for regulatory reserve	1,935,920	2,036,953
Basic and diluted earnings per share adjusted for regulatory reserve in won	₩ 4,083	4,296

31. Dividends

(a) Details of dividends recognized as distributions to common stockholders for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Total number of shares issued and outstanding	₩ 474,199,587	474,199,587
Par value per share in won	5,000	5,000
Dividend per share in won	650	700
Dividends	₩ 308,230	331,940
Dividend rate per share (%)	13%	14%

(b) Details of dividends recognized as distributions to preferred stockholders for the years ended December 31, 2013 and 2012 are as follows:

					2013
	Total shares outstanding	Dividend per share in won	Total dividend	Issue price per share in won	Dividend rate per issue price
Convertible redeemable preferred stock series 12	11,100,000	5,580	₩ 61,938	100,000	5.58%
	11,100,000		₩ 61,938		
					2012
	Total shares outstanding	Dividend per share in won	Total dividend	Issue price per share in won	Dividend rate per issue price
Convertible redeemable preferred stock series 12	11,100,000	5,580	₩ 61,938	100,000	5.58%
	11,100,000		₩ 61,938		

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

(c) The calculation of dividend for hybrid bond is as follows:

	2013	2012
Amount of hybrid bond	₩ 540,000	540,000
Interest rate	5.34%~5.80%	5.34%~5.80%
Dividend	₩ 29,939	23,688

(d) There is no unrecognized dividend on cumulative preferred stocks as of December 31, 2013 and 2012.

32. Net interest income

Net interest income for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Interest income		
Cash and due from banks	₩ 200,853	246,711
Trading assets	492,766	488,954
Financial assets designated at fair value through profit or loss	37,989	25,854
Available-for-sale financial assets	983,076	1,154,229
Held-to-maturity financial assets	527,853	594,684
Loans	10,168,445	11,309,119
Others	177,033	178,558
	12,588,015	13,998,109
Interest expense		
Deposits	(3,914,160)	(4,636,873)
Borrowings	(468,395)	(565,090)
Debt securities issued	(1,521,461)	(1,740,174)
Others	(81,143)	(76,254)
	(5,985,159)	(7,018,391)
Net interest income	₩ 6,602,856	6,979,718

33. Net fees and commission income

Net fees and commission income for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Fees and commission income		
Credit placement fees	₩ 66,891	57,900
Commission received as electronic charge receipt	132,146	133,842
Brokerage fees	328,781	353,694
Commission received as agency	212,982	211,001
Investment banking fees	44,530	70,142
Commission received in foreign exchange activities	143,177	148,271
Asset management fees	50,592	46,936
Credit card fees	2,105,870	2,070,625
Others	404,655	398,693
	3,489,624	3,491,104
Fees and commission expense		
Credit-related fee	(38,486)	(38,363)
Credit card fees	(1,726,023)	(1,678,342)
Others	(338,760)	(231,254)
	(2,103,269)	(1,947,959)
Net fees and commission income	₩ 1,386,355	1,543,145

34. Dividend income

Dividend income for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Trading assets	₩ 6,243	3,102
Available-for-sale financial assets	151,773	171,223
	₩ 158,016	174,325

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

35. Net trading income (loss)

Net trading income (loss) for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Trading assets		
Gain (loss) on valuation of debt securities	₩ (9,790)	5,989
Gain (loss) on sale of equity securities	(42,150)	40,249
Gain on valuation of equity securities	33,862	34,324
Gain on sale of equity securities	50,660	44,959
Loss on valuation of other trading assets	(91,522)	(6,228)
	(58,940)	119,293
Trading liabilities		
Gain(loss) on valuation of securities sold	2,695	(5,850)
Gain(loss) on disposition of securities sold	11,695	(20,614)
Gain on valuation of other trading liabilities	157,547	4,978
Gain on disposition of other trading liabilities	2,355	2,944
	174,292	(18,542)
Derivatives		
Gain (loss) on valuation of derivatives	(320,768)	381,040
Gain on transaction of derivatives	282,450	126,070
	(38,318)	507,110
	₩ 77,034	607,861

36. Net gain (loss) on financial instruments designated at fair value through profit or loss

Net gain (loss) on financial instruments designated at fair value through profit or loss for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Financial assets designated at fair value through profit or loss		
Cash and due from banks		
Gain on valuation	₩ 30,346	38,982
Debt securities		
Gain on valuation	7,180	46,370
Gain on sale and redemption	21,858	15,359
	29,038	61,729
Equity securities		
Dividend income	688	1,025
Gain (loss) on valuation	(3,210)	6,273
Gain on sale	26,786	16,443
	24,264	23,741
Financial liabilities designated at fair value through profit or loss		
Borrowings		
Gain (loss) on valuation	143,329	(445,455)
Loss on disposal and redemption	(348,997)	(211,067)
	(205,668)	(656,522)
	₩ (122,020)	(532,070)

37. Net impairment loss on financial assets

Net impairment loss on financial assets for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Impairment loss		
Loans	₩ 1,082,366	1,324,786
Available-for-sale financial assets	229,614	121,004
Other	42,561	-
	1,354,541	1,445,790
Reversal of impairment loss		
Available-for-sale financial assets	14,644	20,149
Others	-	9,421
	14,644	29,570
	₩ 1,339,897	1,416,220

38. General and administrative expenses

General and administrative expenses for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Employee benefits	₩ 2,497,504	2,433,958
Salaries	2,330,885	2,228,600
Severance benefits	76,523	160,894
Defined contribution	15,371	14,643
Defined benefit	61,152	146,251
Termination benefits	90,096	44,464
Rent	348,239	338,536
Entertainment	34,224	34,987
Depreciation	203,168	201,771
Amortization	116,562	97,066
Taxes and dues	164,906	161,975
Advertising	211,304	188,358
Research	12,733	12,447
Others	613,910	592,478
	₩ 4,202,550	4,061,576

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

39. Share-based payments

(a) Stock options granted as of December 31, 2013 are as follows:

	4th grant	5th grant	6th grant	7th grant
Grant date	March 30, 2005	March 21, 2006	March 20, 2007	March 19, 2008
Exercise price in won	₩ 28,006	₩ 38,829	₩ 54,560	₩ 49,053
Number of shares granted	2,695,200	3,296,200	1,301,050	808,700
Contractual exercise year	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date
Changes in number of shares granted:				
Balance at January 1, 2013	102,389	2,012,706	1,025,856	619,778
Exercised	-	1,904,350	-	-
Balance at December 31, 2013	102,389	108,356	1,025,856	619,778

Assumptions used to determine the fair value of options:

Risk-free interest rate	-	-	2.64%	2.64%
Expected exercise year	-	-	2 months	8 months
Expected stock price volatility	-	-	16.91%	19.76%
Expected dividend yield	-	-	1.82%	1.61%
Weighted average fair value per share	₩ 19,294	₩ 8,471	₩ 5	₩ 2,228

The weighted average exercise price for 1,856,379 options outstanding as of December 31, 2013 is ₩ 50,339. As of December 31, 2013, the exercise of the remaining stock options was temporarily prohibited and after the suspension, the exercise period will be extended.

(b) Performance shares granted as of December 31, 2013 are as follows:

	Content	
	Expired	Non-expired
Type	Cash-settled share-based payment Increase rate of stock price and achievement of target ROE	
Performance conditions		
Number of shares estimated at December 31, 2013	381,134	492,462
Fair value per share in won	₩ 45,926	₩ 47,300

The amount of cash payment for the Company's cash-settled share-based payment arrangements with performance conditions is determined at the fourth anniversary date from the grant date based on the share price which is an arithmetic mean of weighted average share prices of the past two-months, past one-month and past one-week. So the fair value of number of shares expired is estimated using the arithmetic mean of weighted average share prices at the day after expiration date and the fair value of number of shares non-expired is estimated using the closing share price at the end of reporting year.

(c) Share-based compensation costs for the years ended December 31, 2013 and 2012 are as follows:

		Employee of		2013
		Shinhan Financial Group	Subsidiaries	Total
Stock options granted :				
4th	₩ 76		789	865
5th	494		3,190	3,684
6th	(9)		(62)	(71)
7th	81		427	508
Performance share	2,189		12,272	14,461
	₩ 2,831		16,616	19,447
		Employee of		2012
		Shinhan Financial Group	Subsidiaries	Total
Stock options granted :				
4th	₩ 430		1,814	2,244
5th	(1,235)		(6,938)	(8,173)
6th	(200)		(1,411)	(1,611)
7th	(188)		(992)	(1,180)
Performance share	1,163		7,807	8,970
	₩ (30)		280	250

(d) Accrued expenses and the intrinsic value as of December 31, 2013 and 2012 are as follows:

		Employee of		2013
		Shinhan Financial Group	Subsidiaries	Total
Stock options granted :				
4th	₩ 173		1,802	1,975
5th	54		864	918
6th	1		4	5
7th	220		1,161	1,381
Performance share	5,267		35,531	40,798
	₩ 5,715		39,362	45,077

The intrinsic value of share-based payments is ₩ 43,691 million based on the quoted market price ₩ 47,300 per share for stock options and performance share.

		Employee of		2012
		Shinhan Financial Group	Subsidiaries	Total
Stock options granted :				
4th	₩ 97		1,013	1,110
5th	322		1,809	2,131
6th	9		67	76
7th	139		734	873
Performance share	3,077		23,259	26,336
	₩ 3,644		26,882	30,526

The intrinsic value of share-based payments is ₩ 27,489 million based on the quoted market price ₩ 38,850 per share for stock options and performance share.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

40. Net other operating income (expense)

Other operating income and other operating expense for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Other operating income		
Gain on sale of assets:		
Loans	₩ 219,423	69,977
Others:		
Gain on hedge activity	336,650	190,680
Reversal of allowance for acceptances and guarantee	5,317	10
Gain on trust account	3,960	3,255
Gain on other allowance	19,582	37,832
Others	259,070	91,679
	624,579	323,456
	844,002	393,433
Other operating expense		
Loss on sale of assets:		
Loans	(36,580)	(40,397)
Others:		
Loss on hedge activity	(363,531)	(342,004)
Contribution	(249,730)	(252,231)
Loss on allowance for acceptances and guarantee	(27,223)	(7,960)
Loss on other allowance	(56,903)	(36,896)
Depreciation of operating lease assets	(7,734)	(7,761)
Others	(641,988)	(429,703)
	1,347,109	(1,076,555)
	1,383,689	(1,116,952)
Net other operating expenses	₩ (539,687)	(723,519)

41. Net other non-operating expenses

Other non-operating income and other non-operating expense for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Other non-operating income		
Gain on sale of assets:		
Property and equipment	₩ 1,405	688
Investment property	5,170	315
Non-current assets held-for-sale	3,012	14,572
Lease assets	898	3,568
Others	193	222
	10,678	19,365
Gain on sale of Investments in associates	59	36,084
Others:		
Rental income on investment property	52,733	44,885
Reversal of impairment loss on Intangible asset	170	32
Gain from assets contributed	561	5,039
Gain on bond retirement	-	24
Gains on conversion of convertible bond	-	7,217
Others	92,099	110,148
	145,563	167,345
	156,300	222,794
Other non-operating expense		
Loss on sale of assets:		
Property and equipment	(3,301)	(1,065)
Investment property	-	(426)
Lease assets	(1,094)	(1,368)
Others	-	(65)
	(4,395)	(2,924)
Loss on sale of Investments in associates	-	(1,423)
Impaired loss on Investments in associates	(239)	(8,977)
	(239)	(10,400)
Others:		
Donations	(48,619)	(74,073)
Depreciation of investment properties	(17,238)	(14,045)
Impaired loss on intangible assets	(85)	-
Impaired loss on intangible assets	(2,746)	(58,549)
Write-off of intangible assets	(552)	(585)
Loss on bond retirement	(1,780)	(10,256)
Collecting of written-off expenses	(5,740)	(6,414)
Others	(37,638)	(20,417)
	(114,398)	(184,339)
	(119,032)	(197,663)
Net other non-operating income	₩ 37,268	25,131

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

42. Income tax expense

(a) Income tax expense for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Current income tax expense	₩ 682,629	819,320
Adjustment for prior periods	(1,785)	(7,838)
Origination and reversal of temporary differences	(124,002)	(46,740)
Income tax recognized in other comprehensive income	65,723	(26,015)
Income tax expenses	₩ 622,565	738,727

(b) Income tax expense (benefit) is calculated by multiplying net income before tax with the tax rate for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Income before income taxes	₩ 2,682,135	3,230,636
Income taxes at statutory tax rates	647,942	781,826
Adjustments:		
Non-taxable income	(37,017)	(42,217)
Non-deductible expense	14,304	10,837
Tax credit	(1,982)	(1,819)
Other	1,103	(2,062)
Refund due to adjustments of prior year tax returns	(1,785)	(7,838)
Income tax expense	₩ 622,565	738,727
Effective tax rate (%)	23.21%	22.87%

(c) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2013 and 2012 are as follows:

	Beginning balance	Profit or loss	Other comprehensive income	2013 Ending balance
Unearned income	₩ (149,438)	(700)	-	(150,138)
Account receivable	(12,970)	11,072	-	(1,898)
Trading assets	(10,435)	(8,335)	-	(18,770)
Available-for-sale	57,009	86,095	86,845	229,949
Investment in subsidiaries	(10,545)	3,820	168	(6,557)
Valuation and depreciation of property and equipment	(145,683)	(4)	-	(145,687)
Derivative asset (liability)	50,666	(29,433)	(1,944)	19,289
Deposits	32,000	(6,310)	-	25,690
Accrued expenses	64,051	8,270	-	72,321
Defined benefit obligation	221,239	(13,179)	(6,345)	201,715
Plan assets	(154,768)	(40,016)	318	(194,466)
Other provisions	234,739	(2,348)	-	232,391
Allowance for acceptances and guarantees	18,659	3,838	-	22,497
Allowance related to asset revaluation	(44,873)	84	-	(44,789)
Allowance for expensing depreciation	(746)	56	-	(690)
Deemed dividend	1,334	-	-	1,334
Accrued contributions	14,841	(2,605)	-	12,236
Financial assets designated at fair value through profit of loss	(65,209)	36,330	-	(28,879)
Allowances	44,579	(8,274)	-	36,305
Fictitious dividend	1,069	5,442	-	6,511
Liability under insurance contracts	3,329	2,436	-	5,765
Other	(90,630)	11,975	(13,319)	(91,974)
	₩ 58,218	58,214	65,723	182,155

(*) Deferred tax assets from overseas subsidiaries were decreased by ₩ 65 million due to foreign exchange rate movements.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

	Beginning balance	Profit or loss	Other comprehensive income	Change in subsidiaries	2012 (restated) Ending balance
Unearned income	₩ (134,399)	(15,039)	-	-	(149,438)
Account receivable	(18,044)	5,074	-	-	(12,970)
Trading assets	(5,665)	(4,770)	-	-	(10,435)
Available-for-sale	3,646	58,401	(5,038)	-	57,009
Investment in subsidiaries	6,006	(17,428)	877	-	(10,545)
Valuation and depreciation of property and equipment	(162,899)	17,565	-	(349)	(145,683)
Derivative asset (liability)	33,762	21,902	(4,998)	-	50,666
Deposits	37,508	(5,508)	-	-	32,000
Accrued expenses	69,707	(5,656)	-	-	64,051
Defined benefit obligation	132,058	87,570	68	1,543	221,239
Plan assets	(127,344)	(27,719)	295	-	(154,768)
Other provisions	260,397	(25,658)	-	-	234,739
Allowance for acceptances and guarantees	26,540	(7,881)	-	-	18,659
Allowance related to asset revaluation	(44,873)	-	-	-	(44,873)
Allowance for expensing depreciation	(802)	56	-	-	(746)
Deemed dividend	1,334	-	-	-	1,334
Accrued contributions	20,282	(5,441)	-	-	14,841
Financial assets designated at fair value through profit of loss	(52,642)	(12,567)	-	-	(65,209)
Allowances	9,581	34,998	-	-	44,579
Fictitious dividend	1,077	(8)	-	-	1,069
Liability under insurance contracts	2,591	738	-	-	3,329
Other	(48,173)	(25,630)	(17,219)	392	(90,630)
	₩ 9,648	72,999	(26,015)	1,586	58,218

(*) Deferred tax assets from overseas subsidiaries were decreased by ₩ 244 million due to foreign exchange rate movements.

(d) Deferred tax assets and liabilities that were directly charged or credited to equity for the years ended December 31, 2013 and 2012 are as follows:

	December 31, 2012(restated)		Changes		December 31, 2013	
	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect
Valuation gain(loss) on available-for-sale financial assets	₩ 1,617,225	(391,415)	(354,713)	85,858	1,262,512	(305,557)
Foreign currency translation adjustments for foreign operations	(75,619)	(12,679)	(45,501)	(12,324)	(121,120)	(25,003)
Gain(loss) on cash flow hedge	(6,393)	1,547	8,034	(1,944)	1,641	(397)
Equity in other comprehensive income of associates	4,741	761	(4,980)	168	(239)	929
The accumulated other comprehensive income in separate account(*)	2,259	(548)	(2,413)	584	(154)	36
Remeasurements of the defined benefit liability	(210,762)	51,004	24,952	(6,036)	(185,810)	44,968
Income tax charged or credited directly to equity	₩ 1,331,451	(351,330)	(374,621)	66,306	956,830	(285,024)

	January 1, 2012(restated)		Changes		December 31, 2012(restated)	
	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect
Valuation gain(loss) on availablefor-sale financial assets	₩ 1,599,335	(386,377)	17,890	(5,038)	1,617,225	(391,415)
Foreign currency translation adjustments for foreign operations	(8,143)	4,540	(67,476)	(17,219)	(75,619)	(12,679)
Gain(loss) on cash flow hedge	(27,047)	6,545	20,654	(4,998)	(6,393)	1,547
Equity in other comprehensive income of associates	1,520	(116)	3,221	877	4,741	761
The accumulated other comprehensive income in separate account(*)	1,419	(277)	840	(271)	2,259	(548)
Remeasurements of the defined benefit liability	(209,261)	50,641	(1,501)	363	(210,762)	51,004
Income tax charged or credited directly to equity	₩ 1,357,823	(325,044)	(26,372)	(26,286)	1,331,451	(351,330)

(*) Deferred tax effects, which are originated from the accumulated other comprehensive income in separate account, were included in the other assets of separate account's financial statement.

(e) The amount of deductible temporary differences, unused tax losses, and unused tax credits that are not recognized as deferred tax assets as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Tax loss carry forward (*)	₩ 99,449	99,449

(*) At the end of reporting date, the expected extinctive date of tax loss carry forward and tax credits carry forward that are not recognized as deferred tax assets are as follows:

	1 year or less	1~2 years	2~3 years	More than 3 years
Tax loss carry forward	₩ -	-	-	99,449

(f) The amount of deferred tax liabilities regarding investment in subsidiaries which are not recognized as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Investment in associates	₩ (10,357)	(11,346)

(g) The Group set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets and liabilities presented on a gross basis prior to any offsetting as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Deferred tax assets	₩ 216,483	213,115
Deferred tax liabilities	(34,328)	(154,897)

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

43. Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Net income for the year	₩ 1,902,808	2,321,890
Less:		
dividends on preferred stock	61,938	77,100
hybrid bond	29,940	23,688
	91,878	100,788
Net income available for common stock	1,810,930	2,221,102
Weighted average number of common shares outstanding	474,199,587	474,199,587
Earnings and diluted per share in won	₩ 3,819	4,684

44. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Guarantees		
Guarantee outstanding	₩ 10,564,718	9,627,145
Contingent guarantees	5,053,750	5,203,826
	15,618,468	14,830,971
Commitments to extend credit		
Loan commitments in won	53,343,728	51,984,314
Loan commitments in foreign currency	20,120,391	19,271,257
ABS and ABCP Commitments(*)	1,599,331	2,019,404
Others	1,185,788	1,183,413
	76,249,238	74,458,388
Endorsed bills		
Secured endorsed bills	54,460	3,946
Unsecured endorsed bills	11,327,272	11,519,392
	11,381,732	11,523,338
Loans sold with recourse	2,099	2,099
	₩ 103,251,537	100,814,796

(*) The Group consolidates a structured entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to most significantly affect those returns through its power over the structured entity based on the terms in the agreement relating to the establishment of the structured entity. As the Group's interests in the structured entities are presented as liabilities in the consolidated statement of financial position of the Group, the Group does not recognize non-controlling interests for the consolidated structured entities. The Group provides ABCP purchase agreement amounting to ₩ 362,277 million to the structured entities described above.

(b) Legal contingencies

The Group's pending lawsuits as a defendant for the years ended December 31, 2013 were as follows.

Case	Number of claim	Descriptions	Claim amount
Contract void check and the return of unfair profits	35	As of December 31, 2013, the Group provided provision for the lawsuits that had been filed to nullify investor's obligations under the KIKO contracts. The cases are currently pending at the second appeal or the final appeal. As of December 31, 2013, the Group believes that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The Group has recorded a provision or a liability related to this claim.	₩ 164,865
Claimed for principal and interest of the ABCP	1	A holder of an Asset Backed Commercial Paper ("ABCP") has claimed for principal and interest of the ABCP against the Group, the broker of the ABCP deal, as the Group had refused to pay insisting the line of credit was provided illegally by their employee. As of December 31, 2013, the Group believes that there are remote possibilities of resource outflows in respect of the lawsuit, considering other similar litigations. The Group has not recorded a provision or a liability related to this claim.	65,000
Compensation for a loss	1	The plaintiff has filed a lawsuit against the Group claiming that the Group should compensate for a loss of the damaged right of management insisting the Group had purchased the shares of Shinho Paper Co., Ltd. (currently known as Artone Paper Co., Ltd.) while being aware that the sale had been executed against the will of the members of Aram Corporate Restructuring Association. The first appeal has been ruled in favor of the plaintiff. The Group has appealed and such appeal is currently pending at the second appeal. As of December 31, 2013, the Group believes that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The Group has recorded a provision or a liability related to this claim.	53,069
Claimed uncollected receivables of goods	1	A plaintiff claimed uncollected receivables of goods against the Group since the plaintiff had delivered goods based on a bank guarantee forged by the Group issued. The case is currently pending at the first appeal and the Group recorded a provision based on similar litigations.	43,362
Refund a cost of the fixed collateral establishment	86	The plaintiffs have filed the lawsuits against the Group claiming that the Group should refund a cost of the fixed collateral establishment insisting a loan agreement was unfair and invalid since it prescribed that the cost should be paid by the borrower. As of December 31, 2013, the Group believes that there are remote possibilities of resource outflows due to the lawsuits. The Group has not recorded a provision or a liability related to this claim.	11,436
Claimed for price collusion	19	The plaintiffs have filed the lawsuits against the Group claiming the price collusion for value added network fee.	33,724
Others	224	Various cases such as a compensation for a loss claim.	259,150
	367		₩ 630,606

As of December 31, 2013, the Group recorded ₩ 106,202 million as Provisions and ₩ 673 million as Liabilities under insurance contracts with respect to these lawsuits.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

45. Statement of cash flows

(a) Cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Cash and due from banks	₩ 16,484,168	13,511,704
Due from financial institutions with a maturity over three months from date of acquisition	(4,320,575)	(3,974,234)
Restricted due from banks	(6,142,417)	(4,529,705)
	₩ 6,021,176	5,007,765

(b) Significant non-cash activities for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Increase in available-for-sale financial assets from debt-equity swap	₩ 159,966	61,893
Transfers from construction-in-progress to property and equipment	134,790	13,651
Transfers between property and equipment and investment property	43,768	6,701
Transfers from property and equipment to assets held for sale	6,278	21,507
Transfers from investment property to assets held for sale	228,762	22,825

(c) On January 11, 2013, the Group obtained a controlling ownership over Yehanbyoul Savings Bank by acquiring an 100 % of the outstanding and voting interests for ₩ 45,813 million won in consideration.

Net cash inflow was ₩ 385,291 million from business combination as the investee had cash and cash equivalents of ₩ 431,104 million.

As of the acquisition date, the Group acquired cash and cash equivalents amounting to ₩ 90,010 million and ₩ 5,260 million through business combination with Tomato Savings Bank Co., Ltd and Everdigm, Corp., respectively.

46. Related parties

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(a) Significant balances with the related parties as of December 31, 2013 and 2012 are as follows:

Related party	Account	2013	2012
Investments in associates			
Aju Capital co., Ltd	Loans and receivables	₩ 50,000	50,000
"	Allowances	(275)	(254)
"	Deposits	467	20,297
UAMCO., Ltd	Deposits	1,719	517
Pohang TechnoPark2PFV	Deposits	14,689	14,794
Shinhan Corporate Restructuring Fund 5th	Account Receivable	27	27
"	Allowances	(27)	(27)
Cardif Life Insurance	Credit card assets	103	94
"	Deposits	231	2,353
Key management personnel and their immediate relatives			
	Loans and receivables	4,560	3,221
	Assets	54,388	53,061
	Liabilities	₩ 17,106	37,961

(b) Significant transactions with the related parties for the years ended December 31, 2013 and 2012 are as follows:

Related party	Account	2013	2012
Investments in associates			
Aju Capital co., Ltd	Interest income	₩ 1,059	2,042
"	Net other operating income	-	11
"	Interest expense	(24)	-
"	Allowance for impairment	(21)	-
UAMCO., Ltd	Interest income	115	311
"	Interest expense	(1)	-
"	Allowance for impairment	-	52
Pohang TechnoPark2PFV	Net other operating income	-	286
"	Interest expense	(15)	(17)
"	Allowance for impairment	-	3
Cardif Life Insurance	Fees and commission income	168	271
Shinhan K2 Secondary Fund	"	464	281
NSC New Technology Fund 1st	"	88	-
Key management personnel and their immediate relatives			
Interest income		168	135
		₩ 2,001	3,375

(c) Key management personnel compensation

Key management personnel compensation for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Short-term employee benefits	₩ 18,980	23,679
Severance benefits	322	503
Share-based payment transactions	6,475	3,904
	₩ 25,777	28,086

(d) There are no guarantees provided between the related parties as of December 31, 2013 and 2012.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

47. Investment in subsidiaries

(a) Condensed financial information for the Group's subsidiaries.

i) Condensed financial position for the Group's subsidiaries as of December 31, 2013 and 2012 are as follows:

	2013			2012 (restated)		
	Total assets	Total liabilities	Total equities	Total assets	Total liabilities	Total equities
Shinhan financial group (Separate)	₩ 27,424,645	7,450,173	19,974,472	27,212,924	7,546,003	19,666,921
Shinhan Bank	238,045,694	217,509,614	20,536,080	237,395,784	217,058,924	20,336,860
Shinhan Card Co., Ltd.	21,649,234	15,540,451	6,108,783	22,279,918	16,546,741	5,733,177
Shinhan Investment Corp.	19,097,725	16,862,018	2,235,707	16,465,338	14,287,115	2,178,223
Shinhan Life Insurance Co., Ltd	19,385,187	18,085,212	1,299,975	16,942,184	15,617,037	1,325,147
Shinhan Capital Co., Ltd.	3,772,378	3,252,627	519,751	3,526,185	3,053,871	472,314
Jeju Bank	3,196,049	2,903,954	292,095	3,146,674	2,868,780	277,894
Shinhan Credit Information Co., Ltd.	21,026	7,303	13,723	19,176	5,659	13,517
Shinhan Private Equity	572,884	488,850	84,034	604,946	524,358	80,588
Shinhan BNP Paribas AMC	169,611	20,982	148,629	168,911	23,218	145,693
SHC Management Co., Ltd.	8,804	1,705	7,099	8,747	331	8,416
Shinhan Data system	20,542	12,360	8,182	16,298	8,594	7,704
Shinhan Savings Bank	777,096	681,113	95,983	636,115	542,861	93,254
Shinhan Aitas Co., Ltd.	34,584	4,146	30,438	30,976	4,309	26,667
	₩ 334,175,459	282,820,508	51,354,951	328,454,176	278,087,801	50,366,375

(*1) Summarized financial information of the subsidiaries is based of consolidated financial information, if applicable.

(*2) Subsidiaries such as trust, beneficiary certificates, corporate restructuring fund and private equity fund are excluded.

ii) Condensed comprehensive income statement for the Group's subsidiaries for the years ended December 31, 2013 and 2012 are as follows:

	2013			2012 (restated)		
	Operating revenue	Net Income (loss)	Total comprehensive income	Operating revenue	Net Income (loss)	Total comprehensive income (loss)
Shinhan financial group (Separate)	₩ 1,107,013	731,638	731,369	992,793	591,494	590,449
Shinhan Bank	15,470,116	1,373,177	1,014,975	17,382,529	1,662,718	1,526,684
Shinhan Card Co., Ltd.	4,591,704	658,074	776,419	4,585,830	741,772	802,663
Shinhan Investment Corp.	2,692,355	75,366	67,911	1,981,935	63,912	78,307
Shinhan Life Insurance Co., Ltd	5,057,368	79,690	15,423	5,240,366	215,303	201,838
Shinhan Capital Co., Ltd.	313,499	50,372	48,074	370,696	4,746	(3,108)
Jeju Bank	176,138	20,483	15,452	193,712	23,041	29,977
Shinhan Credit Information Co., Ltd.	29,399	155	259	29,924	(48)	1
Shinhan Private Equity	254,458	8,836	8,852	40,882	1,185	1,185
Shinhan BNP Paribas AMC	97,981	31,468	31,455	102,473	31,302	30,497
SHC Management Co., Ltd.	237	31,468	31,468	293	150	150
Shinhan Data system	62,858	(1,317)	(1,923)	58,170	1,623	946
Shinhan Savings Bank	75,929	(29,919)	(30,622)	124,244	(23,427)	(26,467)
Shinhan Aitas Co., Ltd.	27,608	3,770	3,770	4,385	(513)	(513)
	₩ 29,956,663	3,033,261	2,712,882	31,108,232	3,313,258	3,232,609

(*1) Summarized financial informations about the subsidiary are the amount after consolidation, if applicable.

(*2) Subsidiaries such as trust, beneficiary certificates, corporate restructuring fund and private equity fund are excluded.

(b) Change in subsidiaries

i) Subsidiaries newly excluded in the Group for the year ended December 31, 2013 are as follows :

Subsidiary	Reason
Symphony Energy Co., Ltd.	The investee is in liquidated for the current period.

ii) Subsidiaries newly consolidated in the Group for the year ended December 31, 2012 were as follows:

Subsidiary	Reason
Everdigm Corp.	The practical ability to direct the relevant activities.

(*) Subsidiaries such as trust, beneficiary certificates, corporate restructuring fund and private equity fund are excluded.

48. Information of trust business

(a) Significant balances with trust business as of December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Borrowings from trust account	₩ 2,299,929	2,110,786

(b) Transactions with trust business for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (restated)
Trust management fees	₩ 42,347	40,716
Commission income	-	24
Interest on borrowings from trust account	50,050	44,224

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

49. Interests in Unconsolidated Structured Entities

(a) The nature and extent of interests in unconsolidated structured entities

The Group involved in assets-backed securitization, structured financing, investment fund and other structured entities and characteristics of these structured entities are as follows :

	Descriptions
Assets-backed securitization	Securitization vehicles are established to buy the assets from the originators and issue the asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The group is involved in the securitization vehicles by purchasing the asset-backed securities issued, or providing credit enhancement.
Structured financing	Structured entities for project financing are established to raise funds and invest in a specific project such as M&A (Mergers and Acquisitions), BTL (Build-Transfer- Lease), shipping finance, etc. The Group is involved in the structured entities by originating loans, investing in equity, or providing credit enhancement
Investment fund	Investment funds include trusts, private equity fund and corporate restructuring fund which are financed through the issue of units to invest in a group of assets such as stocks or bonds and distribute their income and capital gains to their investors. The Group invests in units issued by the fund and manages assets on behalf of third-party investors as fund manager (including General Partner).

i) The size of unconsolidated structured entities as of December 31, 2013 are as follows:

	Assets-backed securitization	Investment fund	Investment fund	Total
Total assets	₩ 45,419,633	86,940,716	97,206,654	229,567,003

(b) Nature of risks

i) The carrying amounts of the assets and liabilities recognized relating to its interests in unconsolidated structured entities as of December 31, 2013 are as follows :

	Assets-backed securitization	Structured financing	Investment fund	Total
Assets				
Loans	₩ 165,698	5,156,721	12,361	5,334,780
Trading assets	230,729	-	41,008	271,737
Derivative assets	884	1,075	-	1,959
Available for sale financial assets	1,074,673	237,146	1,991,374	3,303,193
Held-to-maturity financial assets	119,945	-	-	119,945
Other assets	580	-	-	580
	1,592,509	5,394,942	2,044,743	9,032,194

ii) Exposure to risk relating to interests in unconsolidated structured entities as of December 31, 2013 are as follows :

	Assets-backed securitization	Structured financing	Investment fund	Total
Assets held	₩ 1,592,509	5,394,942	2,044,743	9,032,194
ABS and ABCP commitments	157,000	183,800	18,913	359,713
Loan commitments	1,258,531	783,639	18,449	2,060,619
Guarantees	-	5,410	-	5,410
	₩ 3,008,040	6,367,791	2,082,105	11,457,936

iii) Losses incurred by the Group relating to its interests in unconsolidated structured entities for the year ended December 31, 2013 was as follows:

	Assets-backed securitization	Investment fund	Investment fund	Total
Losses	₩ 1,801	-	18,866	20,667



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Investor Information

Forward-Looking Statements

Shinhan Financial Group's 2013 Annual Report may contain forward-looking statements to provide value-added account of Shinhan Financial Group's businesses and results of operations. These forward-looking statements reflect our current views with respect to future events and performance, and are generally identified by the use of forward-looking terminology, such as "expect", "plan", "intend", and similar expressions. You are cautioned not to place undue reliance in these forward-looking statements, which reflect management's current analysis of future events. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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