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STEADY PROGRESS

Sometimes it is necessary to change depending on situations.

Some may look for an alternate course in the face of difficulties.

However, the tougher situations Shinhan faces, the more thoroughly prepared Shinhan becomes.

Shinhan adheres to the Shinhan Way despite whatever difficulties and crises it may face. Such steadfastness demonstrates our strong commitment to being a companion for our customers, shareholders and employees who believe in Shinhan.

With steady progress and amiable companionship, we are able to achieve steady growth and deliver on our promises.

SHARE INFORMATION

Number of Shares Issued

As of December 31, 2012

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)

	2012	2011
Average Daily Trading Volume	1.2 million shares	1.8 million shares
Share Price high	₩ 47,000	₩ 53,800
Share Price Low	₩ 33,350	₩ 36,150
Share Price (Year End)	₩ 38,850	₩ 39,750
Market Capitalization (Year End)	₩ 18.4 trillion	₩ 18.8 trillion
Weighting in the KOSPI (Year End)	1.6%	1.8%
Dividend Per Share	₩ 700	₩ 750
Total Dividend Paid	₩ 332 billion	₩ 356 billion

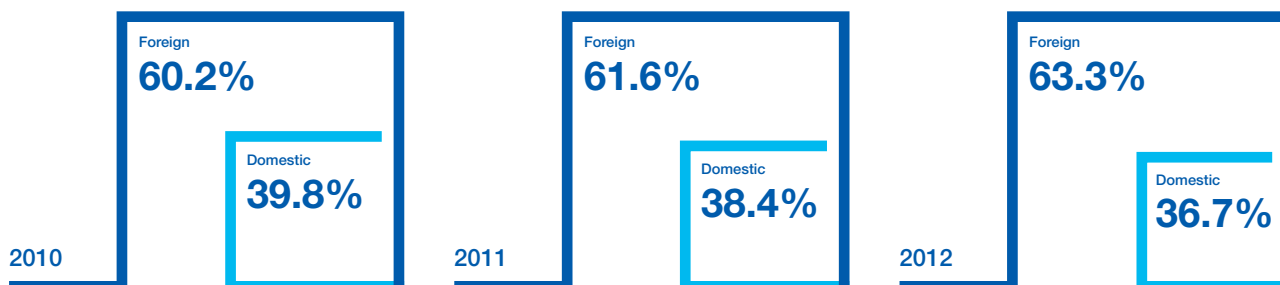
Shareholders holding ownership of more than 1%

As of December 31, 2012

Name of Shareholder	% Owned
National Pension Service	7.28%
BNP Paribas	6.35%
SFG Employee Stock Ownership Association	3.96%
CITIBANK.N.A (ADR DEPT.)	3.74%
Saudi Arabian Monetary Agency	3.31%
The Lazard Fund Inc.	2.22%
The Government of Singapore	1.69%
Mizuho	1.26%

Name of Shareholder	% Owned
ABU DHABI INVESTMENT AUTHORITY LENDI	1.20%
DIMENSIONAL EMERGING MARKETS VALUE FUND	1.14%
Samsung Asset Management	1.12%
Samsung Life Insurance	1.11%
NORGES BANK	1.11%
Others	64.51%
Total	100.00%

Share Ownership (%)



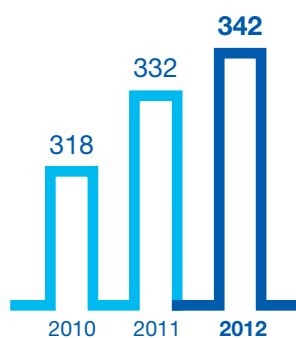
FINANCIAL HIGHLIGHTS

	2012	2011	change amount	% change
For the Year (KRW billions)				
Operating Income Before Provisioning	4,527.4	5,060.5	-533.1	-10.5%
Net Income	2,322.7	3,100.0	-777.3	-25.1%
As of Year End (KRW trillions)				
Total assets	342.3	332.3	10.0	3.0%
Total loans	199.7	192.6	7.1	3.7%
Total deposits	170.1	163.0	7.1	4.3%
Total stakeholders' Equity	26.3	24.4	1.9	7.8%
Key Financial Ratio				
ROA	0.84	1.16	-0.32%p	
ROE	9.32	12.56	-3.24%p	
Group Net Interest Margin	3.36	3.58	-0.22%p	
Cost to Income Ratio	47.28	44.97	2.31%p	
NPL(Substandard and below loans) Ratio	1.28	1.25	0.03%p	
NPL Coverage Ratio	176.22	165.78	10.44%p	
Group BIS Ratio	12.46	11.41	1.05%p	
Shinhan Bank BIS Ratio	15.83	15.26	0.57%p	
(Tier1 Ratio)	12.64	12.44	0.20%p	
BPS(KRW)	52,016	48,610	3,406	7.0%
EPS(KRW)	4,689	5,837	-1,148	-19.7%

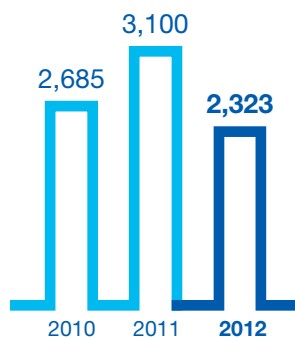
Credit Ratings

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

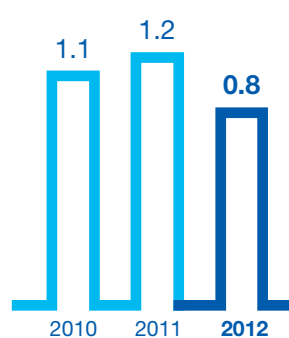
Total Assets KRW in trillion



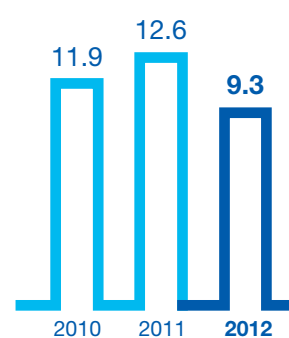
Net Income KRW in billion



ROA %



ROE %



**We will continuously deliver our
services and products**





A total of 1,602 employees are working overseas with a global network of 69 branches and offices in 14 countries around the world (as of the end of Feb. 2013)

1,602[✎]

SFG is laying the foundation for future growth by building differentiated overseas business models. These include developing products and services to increase its capabilities for core global markets, upgrading its human resources, and seeking profit-generation models.

Proportions of Profits of the Banking and
the Non-Banking Sectors

Banking : Non-Banking

62:38^R

SFG is maintaining and developing a stable portfolio compared to other financial groups through a diversified business portfolio and excellent risk management capabilities via the reinforcement of the non-banking sector.





**We will steadily move forward,
overcoming uncertainties**

**We will prudently manage
various risks**





29 million Customers and about
1,450 Channels

29⁺ million

At the moment, SFG has 29 million customers, 20,983 employees, and about 1,450 channels. SFG is moving forward with differentiated customer management through a data sharing base at a Group level, which SFG will improve upon by making good use of its diverse and rich characteristics.



- Net Income in 2012: KRW 2,322.7 billion
- Ranked First in Korea and 51st in the World in Brand Power Standings by The Banker*

2,322.7[₩]
billion

Since 2007, SFG has posted two trillion won or more in net income annually. The financial group ranked first domestically and 51st in the world in the brand power standings by the Banker on the backing of its strong business stability in the non-banking sector and thorough risk management.

(*According to the February 2013 Issue of The Banker)

An underwater photograph showing a clear blue environment. In the upper left, a bright light source creates a shimmering effect on the water's surface. The water is filled with numerous small, white bubbles that rise from the bottom, creating a sense of movement and depth. The overall color palette is various shades of blue, from deep navy to bright cyan.

**We will consistently reach out with
sustainable performance**

MESSAGE FROM THE CHAIRMAN



DEAR VALUED CUSTOMERS AND SHAREHOLDERS:

Last year the world economy encountered a multitude of difficulties as the economic crisis in the Euro zone spread throughout the global economy and the growth of emerging economies slowed down. The Korean economy is faced with unstable conditions where exports have slowed down and household debt risks remain a concern.

Despite such turbulent financial business conditions, Shinhan Financial Group (SFG) was once again able to achieve differentiated results through steady asset growth, thorough risk management, and enhanced cost efficiency.

Consistent Performance in spite of Harsh Internal and External Environment

In 2012, SFG posted KRW 2,322.7 billion in net income. This was achieved through minimizing bad debt via steady risk management and maintaining stable profits in the non-banking sector backed by strong competitiveness of its card and insurance businesses. This figure represents the highest net income recorded in the financial industry for five years running. With the exception of 2009, when the global financial crisis reached its peak, SFG has achieved a net income greater than KRW 2 trillion every year since 2007.

In the case of Shinhan Bank, although its net interest margin (NIM) fell by 23bp as a result of a decrease in benchmark interest rates, its lending assets grew by 3.7%, thereby minimizing the overall decrease in interest income. The company's annual bad debt expense slightly increased as a result of continued restructuring in the corporate community. However, as default rates and bad debt levels stabilized in the fourth quarter, so did the overall asset quality by the end of 2012. Accordingly, the bank fulfilled its duty as key player of the Group by posting KRW 1,656.8 billion in annual net income.

In the non-banking sector, our credit card business recorded KRW 749.8 billion in net income. This achievement verified its steady profit-generating capability despite that the effects of loan-loss provisions reversal have diminished, and bad debt expense has returned to an ordinary level. Our life insurance business posted KRW 209.4 billion in net income. This figure is not largely different from that of the previous year due to an increase in premium income and income from bond trading despite overall difficulties such as low interest rates and an increase in policy reserves. The non-banking sector's contribution to the Group's overall net income in 2012 was 38%, same as the year before, once again emphasizing the uniqueness of SFG.

The Re-creation of Shinhan and Preparation for Growth into a Greater Company

The financial environment facing SFG can be broken down into three categories: low growth, low profit, and high risk.

Economic stagnation is weakening growth potential. Further, low interest rates and various stringent regulations are weakening profitability. Customers' redemption capabilities have weakened and value of collateral has decreased. Further, the uncertainties regarding the business environment are placing financial companies at greater risk.

As a result of these changes, major products and core competencies that have previously spearheaded the growth of the financial industry are rapidly losing ground. The sales and management systems that were prominent during the past period of growth do not mesh well with the current financial environment.



Shinhan's core competence lies in its steadfast consistency when dealing with any crises. On the other hand, another great strength of Shinhan is its ability to actively re-create itself in face of changing environments. Shinhan will continue to push forward with its re-creation by harnessing these strengths and creating the foundation for a greater company.

To better respond to such challenges, we have set our 2013 strategic goal as the 'Re-creation of Shinhan.' By doing so, we will lay the groundwork into becoming a greater company through thorough preparation.

To this end, we will seek and develop new growth systems and differentiating elements that are adaptable to new environments.

We will continually brainstorm to establish new methods designed to enhance customer value, when developing new products and services, executing synergistic sales amongst the group's affiliated companies, and creating a foray into new markets and etc.

In terms of our corporate management system, we will review our current systems in terms of efficiency and devise fundamental improvement measures accordingly.

We recognize that we are not able to cope with recent structural changes by simply reducing our budget in a superficial cost reduction manner. We will study and review how to maximize productivity in channel strategies and organizational management systems. We will also work to determine more effective tools that can replace the existing marketing systems and further elevate efficiency in developing and managing human resources.

We will seek a new equilibrium point between profitability and risk by analyzing and readjusting the current asset portfolio.

We will readjust our asset portfolio by limiting growth in riskier areas and replacing such with a more profitable new asset class. In regards to areas that can cause shock to resonate when an emergency occurs such as substantial corporate loans, we will strengthen monitoring and review. Further, we will secure sufficient financial safety devices that we will enable us to safely navigate our way out of emergencies.

Last but not least, we will reflect our idea of “Compassionate Finance,” an initiative to benefit the world through finance, on our management system.

Compassionate Finance represents the mindset of people living in today's world, serves as a source of pride to our employees, and is our differentiated competency in winning our customers' hearts. As of result of nurturing Compassionate Finance, The Banker magazine ranked Shinhan as the world's 51st best banking brand. Further, SFG was the only Korean firm ranked among this year's top 100 global sustainable firms at the World Economic Forum in Davos, Switzerland. SFG will continually strive to better portray Compassionate Finance in everyday business activities.

DEAR RESPECTED CUSTOMERS AND SHAREHOLDERS!

Last year, the employees of SFG managed to overcome the obstacles associated with unfavorable business conditions and attain differentiated results by devoting themselves to their work while maintaining high ethical standards.

Shinhan's core competence lies in its steadfast consistency when dealing with any crises. On the other hand, another great strength of Shinhan is its ability to actively re-create itself in face of changing environments. Shinhan will continue to push forward with its re-creation by harnessing these strengths and creating the foundation for a greater company.

I would like to ask for your continued support and encouragement. I 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 28, 2013.

Management of the Company includes current Chairman & CEO of the Group, Mr. Dong Woo Han and 6 deputy presidents.

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, JEJU International Convention Center

1998. Advisor, The National Unification Advisory Council

1998. Vice Chairman, Korea Chamber of Commerce and Industry in Tokyo

TAEUN 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 : President, Kwangwoon University

Education : Ph.D. in Business Administration, Washington University

Main Work Experience :

2009-Current. 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 : Outside Director, Samsung Electro-Magnetics Co., Ltd.

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-Current. 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

Outside Directors (Continued)

KE SOP YUN

Date of Birth : May 20, 1945

Current Position : Emeritus Professor, Seoul National University

Education : Ph.D. in Business Administration, Seoul National University

Main Work Experience :

2001-Current. Chairman, Seoul Economist Club

2010-Current. Emeritus Professor, Seoul National University

1999-2001. Dean, College of Business Administration, Seoul National University

1997-1998. Member, Financial Renovation Committee

JUNG IL LEE

Date of Birth : August 28, 1952

Current Position : CEO, Hirakawa Shoji Co., Ltd.

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

Main Work Experience :

2006. Board member, Korean Residents' Union in Japan

1995. Vice Chairman, Korea Chamber of Commerce and Industry in Japan

1985. CEO, Hirakawa Shoji 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

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

Deputy Presidents

BUHMSOO CHOI

Date of Birth : August 8, 1956

Current Position : Deputy President, Shinhan Financial Group

Education : Advanced Management Program, Harvard Business School

Ph.D. in Economics, Yale University, USA

Main Work Experience :

2005. Chief Operating Officer, Korea Credit Bureau

2004. Head of Acquisition Steering Committee, Kookmin Bank

2004. Chairman & Secretary General, CB Launching Office

SUNG HO WI

Date of Birth : June 12, 1958

Current Position : Deputy President, Wealth Management Planning Office

Education : B.A. in Economics, Korea University, Seoul, Korea

Main Work Experience :

2007. Managing Director, Shinhan Financial Group

2004. General Manager of Private Banking Division, Shinhan Bank

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

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

VISION & STRATEGY

SFG set “Re-Creation of Shinhan: Preparations for Great Shinhan” as its 2013 strategic goal in order to respond to a new business environment called “New Normal” and achieve its vision of becoming a “World Class Financial Group”.

Since the establishment of the holding company in 2001, Shinhan Financial Group has successfully grown into a world-class financial group by pursuing balanced growth between banking and non-banking sectors, creating value from new growth engines and differentiated business models, and creating globally competitive capabilities and systems. Shinhan Financial Group enters 2013 with a strategic goal of “Recreation of Shinhan in 2013” and will realize its goal of “cementing its position as the first-ranked brand by 2015.”

Mid-to Long-term Strategy of the Group

The key words setting the tone for a new environment after the global financial crisis in 2008 is the “New Normal,” implying a new trend of tightened regulations, an emphasis on the financial stability, debt reduction, and low-growth, low-profitability. In particular, the protracted low-growth and low-profitability environment has created a fundamentally different financial environment to be dealt with.

VISION 2015 >>

PHASE 01.

PHASE 02.



Develop Foundation: ~2002

- Transform into SFG
- 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
- Strengthen Non-banking Business
 - Acquired LG Card
 - Launched Shinhan BNPP Asset Management
 - Fully owned Shinhan Life Insurance

In responding to these changes and achieving the vision of becoming a “World Class Financial Group,” Shinhan Financial Group has reestablished its strategic objective for 2015 as “being firmly established as Korea’s No. 1 financial brand.” In terms of our business performance, we will achieve above market growth rate (“good growth”), maintain industry-leading profitability based on business soundness, and realize a balanced business portfolio that generates steady revenue. As for competencies, our goal is to become a frontrunner in setting the rules of the game ahead of the market and competition, secure the most respected brand among customers, and also develop into an institution that attracts the most talented people. To achieve these strategic objectives, we have set four core strategies.

First, We Will Be the “Local Best” in Core Business Areas

We will be the market leader with top-tier growth and leading brand by providing unmatched customer experience. In practice, our banking operation will solidly retain its #1 market leadership status, our credit card company will retain its dominance and its competitive advantages in the market, and our leasing business will deliver sustainable growth.

Second, We Will Strengthen the Non-Interest Income Portfolio

We will strategically enhance vital non-interest income portfolio including securities brokerage, asset management, and insurance business. Improved asset management in the securities investment business will allow us to establish a virtuous circle between distribution and manufacturing. We are striving to create a leading brand based on a platform that generates sustained customer value. Our insurance operation will pursue steady growth and look for opportunities to grow into one of the industry leaders.

PHASE 03.



ACHIEVE VISION 2015



Develop Leadership: 2010~2015

- Secure “Local Best” Position under “New Normal” Environment



**NO. 1
WORLD-CLASS
FINANCIAL GROUP**

Third, We Will Generate Next-Generation Synergy Geared towards Customers

We will lead the market by offering total solutions that cater to individual lifestyles and providing competitive customer services. To this end, we will go beyond synergy from face-to-face channels and maximize synergy in the non-face-to-face channels. Leveraging the Group-wide CRM system to offer financial services that fit our customers' individual life style will enhance the Group's wealth management capabilities. In addition, we will build a shared service platform at a Group level to maximize synergies with lower costs.

Fourth, We Will Secure Competitiveness in Strategic Areas Targeted for Cultivation

The Korean financial industry is maturing and facing a phase of low growth. We will overcome these limitations by identifying strategically important areas with high growth potential while maintaining our competitiveness. We will secure competitiveness in the IB sector by reestablishing our investment banking business model while pursuing global strategies around the Asian region. We will also develop new business opportunities such as the integration and convergence of the retail and telecommunications sectors.

Group Business Plan for 2013**Strategic Target: "Re-Creation of Shinhan: Preparations for Great Shinhan"**

It is forecasted that the domestic and global economies will continue to suffer from low growth and strong uncertainties. Increased competition and lowered corporate profitability from protracted turbulent times are undermining people's trust in the established social system. On the other hand, mega hit products and services are steadily born despite these obstacles. In the financial industry, we are seeing weak profitability from the traditional financial market and continued concerns about financial soundness. In addition, we expect to see stronger demand for security, consumer protection, and social responsibilities. In these circumstances, Shinhan will review its growth systems of the past and will prepare for the future in a differentiated manner. Thus, we designated "The Re-creation of Shinhan" as our goal for 2013 and to achieve this, we have formulated four core strategies.

Strategy #1: Building a New Growth System

In response to the potential weakness in profitability from traditional financial markets, we are actively seeking new business opportunities from new innovative products and services by building proper infrastructure. We will build a differentiated collaboration system within the Group that extends beyond simple cross selling, including resource sharing and promotion of joint marketing. In addition, we will actively implement the CIB/WM business model which we launched last year, strengthen our capabilities in the key global markets, and secure our competitive advantage in smart finance and retirement markets.

Strategy #2: Efficient Utilization of Resources

Efficient use of limited resources is highly crucial in the current low growth environment. As for channel strategies, we will optimize our network based on productivity, make our organization more efficient and differentiate our sales channels. As for marketing systems, we will establish a low-cost, high-efficiency marketing system through cost rationalization and broaden our marketing channel. As far as human resources management, we will fill the positions with the most talented individuals by nurturing key talents in each sector and developing employees' expertise.

Strategy #3: Stronger Risk Management

We must reinforce risk management in preparation for the continued economic difficulties and growing anxiety over soundness in the financial market. We need to actively manage risk by easing reliance on certain asset classes as well as limiting business growth in the risky areas. In addition, we will rebalance our asset portfolio to generate stable but robust growth, strengthen the pre-emptive management of household loans, and actively screen potential delinquencies and large corporate loans. Finally, we will actively deal with regulations and demands for social responsibilities via consumer protection and managing customer information.

Strategy #4: Implementation of Compassionate Finance

We will communicate with stakeholders in our unique manner by actively putting “Compassionate Finance” into practice. To this end, we will improve systems and infrastructure by re-designing the business system around customers and providing more financial support to middle class citizens as well as small to mid-sized enterprises. In terms of corporate culture, we will steadily propagate successful cases of “Compassionate Finance” and make improvements through internal and external diagnoses. In addition, we will actively participate in the government initiatives to increase financial stability. Lastly, we will seek to meet investor expectations in this changed market by providing active communication and work towards building a single team between management and employees.

SFG's 2013 Strategic Goals and Key Strategies

RE-CREATION OF SHINHAN IN 2013

Preparations for Great Shinhan



01. Building New Growth System

- Developing creative products and services
- Building a differentiated collaboration system within the Group
- Implementing the CIB/WM business model
- Strengthening business capabilities in the core global markets
- Strengthening competitiveness in smart finance
- Strengthening responses to the retirement market

02. Stronger Risk Management

- Rebalancing the asset portfolio
- Strengthening active risk management
- Actively coping with regulations and demand for social responsibilities

03. Efficient Utilization of Resources

- Reviewing channel strategies
- Innovating marketing systems
- Enhancing human resources management

04. Implementation of Compassionate Finance

- Improving systems and infrastructure
- Promoting communication with stakeholders

CORPORATE GOVERNANCE

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

Shinhan Financial Group pursues transparent and responsible corporate governance to offer more 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 Representative Director (CEO) and appointing the chairperson among outside

Committees of the Board of Directors



directors since 2010. Moreover, to increase the professionalism of the BOD, 10 outside directors were appointed in 2011 GMS Meeting compared to 2010 meeting when 8 was 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.

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 keeping the business operations of executive management in check and providing 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 risk-based 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.

RISK MANAGEMENT

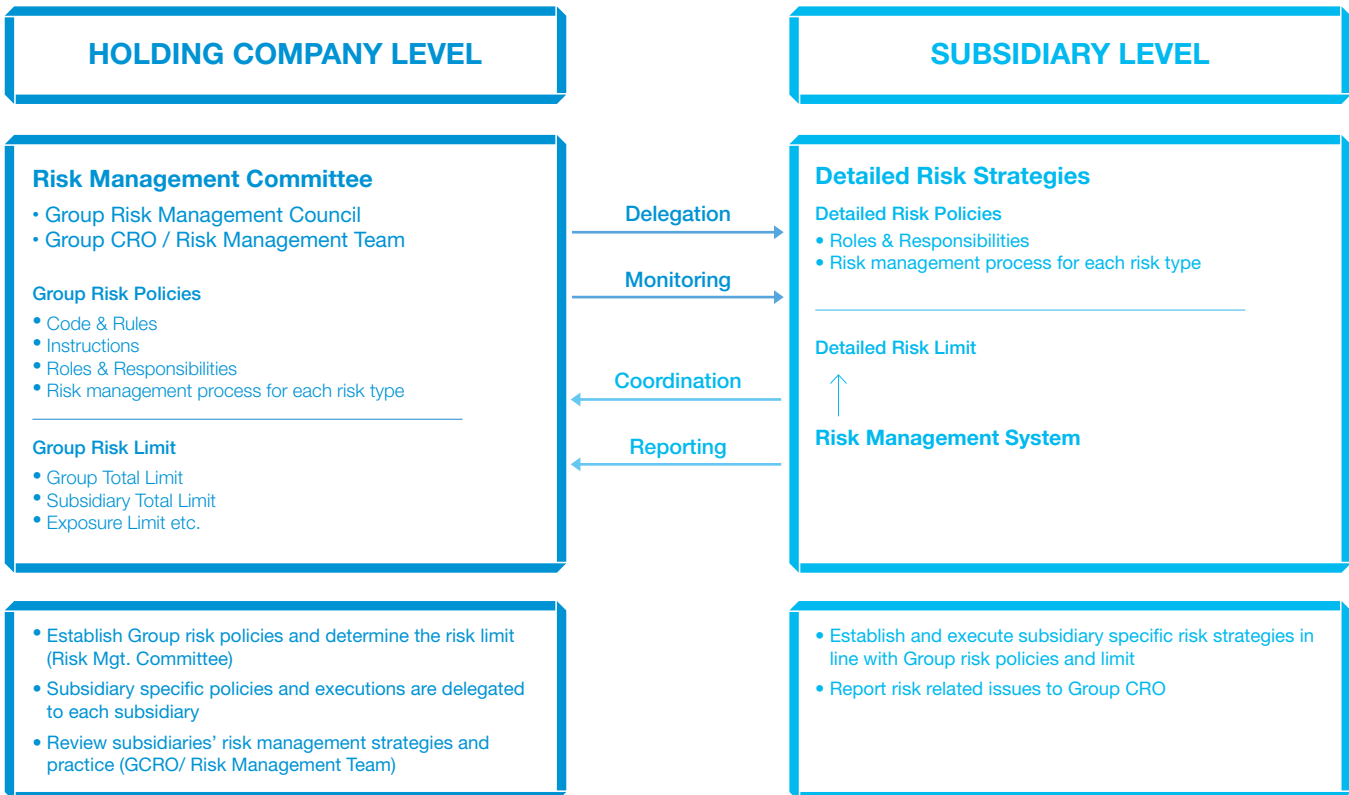
SFG maintained excellent asset soundness through preemptive and active risk management in 2012. This was accomplished despite high anxiety over corporate restructuring and the financial soundness of households throughout the year. With more evolved and sophisticated risk management, we will solidify our crisis response system in 2013.

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 with all employees within the Group to ensure this philosophy becomes the foundation of daily work. Under this basic philosophy, we manage diverse risks 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 of each subsidiary but also plays a key role in risk management and an efficient mediator role at a Group level.

In particular, in 2012, we saw continued restructuring in the corporate sectors from delayed recovery in issued industries such as shipping, construction and real estate project financing(PF). Also the anxiety over financial soundness grew in the household loan sector. In this difficult environment, SFG was able to curb a significant increase in bad debt expenses and maintain healthier balance sheets against our peers by carrying out preemptive and active credit risk management.

Summary of Group-Level Risk Management



In 2013, we will manage credit risk concentration more elaborately, prepare for an increase in household delinquencies by managing the soundness of the household loan sector and maintain readiness in our risk response system including interest rate and liquidity monitoring for a possibility of a financial crisis in 2013.

Differentiated Group Risk Management Tools

Adhering to the Group Risk Philosophy and Principles

At SFG, it is obligatory for employees to consider risk at all times during all business activities in accordance to the Group's risk philosophy and seven risk management principles.

Setting Risk Tolerance Limits & Managing Risk

Risk tolerance limits are the extent to which annual loss is permitted for Group subsidiaries and business segments. All business operations are managed so that these limits are not exceeded. These risk tolerance limits are reflected in various loss management systems that are implemented at each subsidiary level. This system enables us to avoid risk concentration so that no major loss occurs from one specific event.

Comprehensive Group-level Risk Monitoring System

We identify and assess potential risk factors and important issues at the Group at appropriate times by operating a comprehensive monitoring system including macroeconomic indicators, the Group's key risk indicators and the risk management system. We analyze impacts by identified risks factors and key issues and implement preemptive countermeasures at the Group level.

Group-Level Risk Expert Network (REN)

To upgrade our overall risk management competencies, we have identified and assembled a team of risk experts based on work experience and working knowledge within each business area and risk type. Through risk training and workshops these talents are striving to spread the Group-wide risk philosophy and further develop risk management specialists.

Organization

The SFG risk management organization consists of the Group Risk Management Committee, the Group Risk Management Council, the Group Chief Risk Officer (Group CRO), the Group Risk Management Team, and the risk committee and risk team at each subsidiary.

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 committee members, the outside directors of the holding company BOD, resolve the following items:

- Establish basic risk management policies in line with management strategies
- Decide acceptable risk levels for the holding company and each subsidiary
- Approve appropriate investment limits and stop loss limits
- Establish and revise regulations governing risk management and the Group Risk Management Council

Group Risk Management Council

The Group Risk Management Council deliberates on risk policies and strategies implemented by the Group and subsidiaries and items required for carrying out policies formulated by the Group Risk Management Committee. The council is made up of the Group CRO and risk officers from the major subsidiaries. The council's agendas include the following issues:

- Establishment of risk appetite at the Group and subsidiaries
- Establishment and adjustment of risk limits at the holding company and subsidiaries level
- Operation of the risk measurement framework for the Group and subsidiaries
- Issues that require deliberation regarding Group-level risk management
- Risk management issues regarding financial support for subsidiaries

Group Chief Risk Officer (Group CRO)

The Group CRO assists the Group Risk Management Committee and implements risk policies and strategies devised by the Committee. The officer is also responsible for ensuring that the policy and strategy implementation is consistent among the subsidiaries. Furthermore, the Group CRO evaluates the risk officer at each subsidiary and monitors the risk management practices of each subsidiary.

The Group Risk Management Team supports the Group CRO. The risk management committees and organizations at the subsidiaries implement their respective risk policies and strategies in line with those established at the Group level. Each submits regular reports to the holding company, controls risks that can occur within subsidiaries and makes constant improvements to its risk management systems.

Group Asset Quality

	2012	2011	2010	%
Precautionary & below loans Ratio	2.79	2.46	2.90	
NPL Ratio	1.28	1.25	1.46	
Delinquency Ratio (Bank)	0.61	0.60	0.48	
(Card)	2.35	2.01	1.80	
NPL Coverage Ratio	176%	166%	142%	

SHINHAN WAY

“Compassionate Finance” is the mission of SFG, and a core value of the Shinhan Way, a component that helps differentiate Shinhan from its peers. We will strengthen our capabilities to smoothly carry out “Compassionate Finance” at our workplaces in order to achieve the steady and strong Shinhan Way.

Components of SHINHAN WAY



Management from the organizational perspective for achieving the SFG vision



Mission

Reason for being and a fundamental purpose of Shinhan Financial Group.

Core Value

Core Values serve as a standard of thinking and action for all Shinhan employees so that they can become 'One Shinhan'.

Customer

Respect

Change

Excellence

Ownership

One Shinhan

The Shinhan Way was introduced as a value system for the Shinhan Financial Group in 2010. It encourages employees to think and act as a member of “One Shinhan” with conviction and enthusiasm. In 2012, SFG stated that its mission is to implement “Compassionate Finance.” In order to help employees understand what the Shinhan Way represents and put it into practice, we have broken down and codified Shinhan Way into Mission and Core Values.

We have accelerated the implementation of the Shinhan Way by moving forward steadily and systematically. We internalized “Compassionate Finance” by developing and spreading Shinhan Way training and providing online contents to make “Compassionate Finance” easier to understand. We also shared actual success cases of “Compassionate Finance” through various channels. Going forward, the Shinhan Way will take the lead in the growth of Shinhan with differentiated elements of success.

Major Results of Shinhan Way Implementation in 2012

Practicing Shinhan Way	<ul style="list-style-type: none"> • Train all employees on the Shinhan Way • Conduct joint training for new recruits • Select winners of the 2012 Shinhan Way Prizes and share success stories with other employees
Propagating “Compassionate Finance”	<ul style="list-style-type: none"> • Allow employees to better understand “Compassionate Finance” • Develop e-learning contents to be used for the education of all employees • Build online channels to propagate “Compassionate Finance” • Introduce good implementation cases via internal channels such as WAF and the company newsletter
Improving Internal Communication among Employees of Subsidiaries	<ul style="list-style-type: none"> • Support Group-level clubs for employees • Carry out the SFG Mentoring Program • Conduct Group CoP activities • Select new members of the Group Press Corps

Shinhan Way Plan for 2013

We are determined to continue and further strengthen Shinhan Way in 2013 as well as expand on its infrastructure. At the same time, we will develop and strengthen our capabilities to have “Compassionate Finance” smoothly carried out at our daily workplaces. Furthermore, we will encourage employees to respect one another through programs to promote harmony, unity, and communication among Group subsidiaries, departments, and employees. We will also share success stories via Shinhan Way contents at a Group level.

Practicing Shinhan Way and Expanding Cultural Infrastructure

- Conduct 2013 joint training on the Shinhan Way
- Select winners of the 2013 Shinhan Way prizes
- Produce and spread Shinhan cultural contents
- Reinforce the capabilities of those in charge of the corporate culture.
- Establish a consultative body to push forward with change

Increasing Capabilities to Carry Out “Compassionate Finance”

- Conduct joint Group training around real-world cases
- Steadily carry out communication activities through various channels
- Form a positive atmosphere to carry out “Compassionate Finance” via the consultative body to move this change forward

Reinforcing Communication and Mutual Respect among Group Subsidiaries

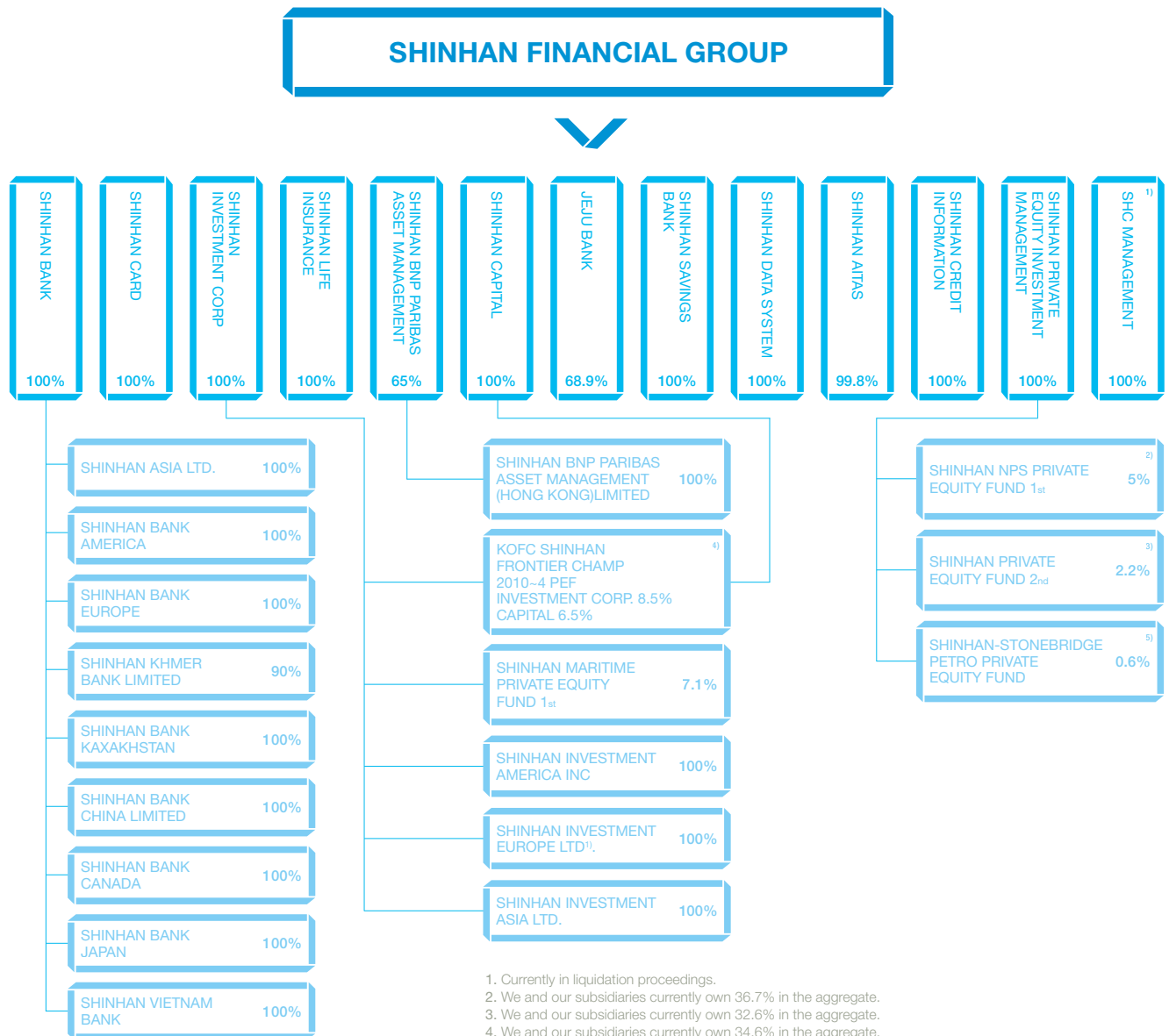
- Conduct mutual respect programs
- Run communication programs among employees of subsidiaries

ORGANIZATION



BUSINESS PORTFOLIO

Through continued organic growth in conjunction with several rounds of noteworthy M&As, SFG has established a well-balanced business platform. Within this platform, an array of integrated financial products is provided to maximize our customers' value. This platform holds the key to the differentiating competitiveness that enables higher profitability and sustainable growth.



Review of Operations

In 2012, SFG yielded meaningful results despite tough business environment. Even though the overall financial industry suffered from weakened profitability due to the economic slump and tightened regulations, the Group firmly maintained its number-one position in the financial industry. In 2013, we will lay the foundation for growing into a great company through preparations for Great Shinhan and the re-creation of Shinhan. This will be accomplished by analyzing uncertainties more rigorously.

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SYNERGY

Synergy-based sales constitute the cross-sales of various financial products of subsidiaries, the development of hybrid products and joint marketing, customer referrals and upselling activities. These activities will allow us to meet the financial needs of various customers through sales channels of Shinhan Bank, Shinhan Card, Shinhan Life Insurance, and Shinhan Investment while subsequently developing stronger synergies.

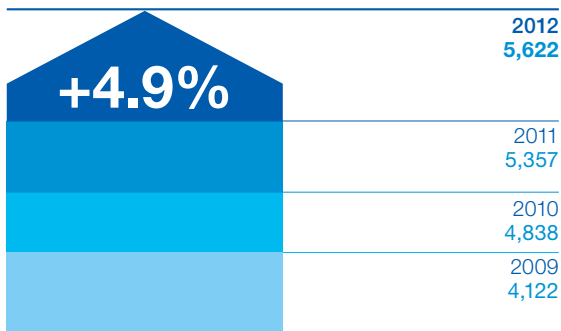
Number of Customers

29 Persons in million

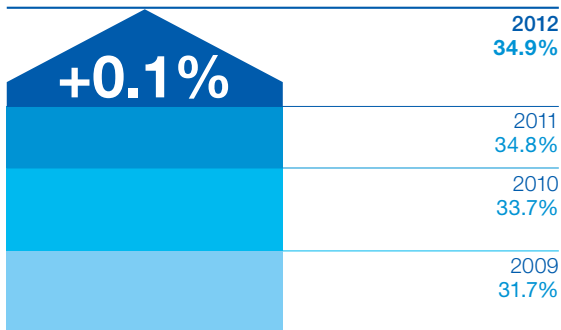
SFG serves 29million, more than half of the population

Active Cross-Selling Customers

Unit: In thousand



Proportion of Cross-selling Customers



Proportion of Cross-selling Customers :
Active Cross-Selling Customers / Effective Cross selling Customers (16 million as of Dec. 2012)

Shinhan Financial Group offers diverse products, services, and integrated financial solutions based on a highly efficient business portfolio that entails its stable banking business as well as highly competitive credit card and insurance business. The Group has created and nurtured greater synergy than its competitors with approximately 1,400 sales channels and 29 million customers.

2012 Performance Results

In 2012, SFG zeroed in on four core tasks under the strategic goal of “establishing synergy marketing based on customer value.”

First, we increased the number of cross-sales customers by turning the customers of individual Group subsidiaries into customers at multiple subsidiaries. Since 2009, SFG has pushed forward with such expansion as a core part of our synergistic marketing. In 2012, this strategy continued while we strived to develop new marketing areas. In terms of bank-card cross-selling, Shinhan Bank and Shinhan Card shared their databases for joint marketing. With the intent of attracting group customers, Shinhan Investment Corp. selected target customers with a strong propensity to invest through the analysis of credit card use patterns and offered cash management accounts to them. Shinhan Life Insurance conducted a marketing campaign to attract young / old customer groups to expand its marketing target areas. These efforts enabled the Group to increase its crossselling customer base by 4.9% to 5.63 million despite an overall drop in its customer growth rate.

Second, we rebuilt the shared Group-wide database and deployed more sophisticated data analysis tools. In order to streamline and coordinate synergy activities from the Group, we rebuilt our Group-wide database by discovering additional areas such as 29 million customers' use of our competitors' EBM (Event Based Marketing) Inventory, channel transaction information, and customer contact information. Based on the information gathered from these activities, we are publishing quarterly synergy reports, allowing us to monitor synergy-related indices and the development of marketing insights at a Group level.

Third, a framework for developing and managing hybrid products was established. We introduced “Employee Panel for Hybrid Products” so that employees can make direct inputs in the product development process to reflect various customer needs in the front office. Through this, we launched the Kids Plus Account, Cham Shinhan Check Card, My Shop Installment Savings, and Company Worker Installment Savings.

Fourth, we overhauled our operation system for joint marketing and promotion among Group subsidiaries. We activated EBM and established marketing information sharing system in order to utilize our resources in the most efficient way possible. We attracted roughly 35,500 new customers, KRW 2.4 trillion in Chamsuri loans, and 32,000 credit cards that are also used as welfare cards for the National Police Agency by conducting joint marketing for police officers. With an eye towards providing support to WM/CIB, a strategic sector of the Group, we conducted promotions under the supervision of the holding company in the first half of 2012.

In the second half, we developed tasks for joint marketing by sharing trading and partners at a Group level. In addition, we built a SOHO synergy business model in an effort to respond to the SOHO market at a Group level. We attracted approximately KRW 58 billion (monthly premium payments: KRW 0.7 billion / lump-sum payments: KRW 57.3 billion) by launching a bancassurance business of Shinhan Investment Corp. with a view towards expanding the synergy area at a Group level.

In order to foster an early integration of savings bank as a new member of the Group, we created a process where Group subsidiaries introduce their customers to the savings bank. As a result of these efforts, loans through introductions and bancassurance reached about KRW 140 billion and KRW 0.5 billion, respectively.

Moreover, the acquisition of Yehanbyol Bank is expected to boost synergies between the savings banks and other Group companies. When our linked loan system commences operations at the end of May, loan introduction processes between banks and savings banks will be accelerated.

Business Plans for 2013

For 2013, SFG has established “responding to paradigm shift and enhancing customer value through cross sales” as its strategic direction for Group synergistic efforts. The Group is planning to upgrade its synergy business models to continue to increase customer value as well as actively cope with the changing paradigm including prolonged economic slumps and stricter regulations. To achieve this goal, we will push forward with four business strategies.

First, we will continue to move ahead with cross-sales through the expansion of resource sharing among the Group companies. Especially, we will create successful cases of Group cross-sales marketing by devising the Group’s joint marketing strategies that covers business and marketing partners of our Group companies. For example, we

will increase cross-sales customers by drawing up the Group’s joint marketing strategies for family Credit cards and gasoline discount cards of large conglomerates and developing products and services that are specifically optimized for each group of customers.

Second, we will promote voluntary synergy sales by upgrading systems and programs within the Group. We will help affiliated companies efficiently collaborate on joint marketing activities by systemizing the calculation of profits and cost. We will position the Tops Club system as the Group’s main customer loyalty program. Under the revised Tops Club system, our customers will be able to understand and use the system with greater ease and more customer needs will be met with an increase in non-financial services.

Third, we will enhance smart channels and marketing databases. Smart channel is the strongest and most important trend in the fast-changing financial environment and will play increasingly important role as a pull marketing channel based on voluntary participation of customers. We will continue to enhance our smart channel-based hybrid products and services while building the smart infrastructure of the group.

We will systemize the maintenance of databases that were designed separately by subsidiaries and integrate the databases of subsidiaries by utilizing them. Thus, we will establish a process that optimizes the use of the databases to improve our marketing.

Fourth, we will strive to establish a positive and voluntary synergy culture. It is known that SFG has the best business portfolio among Korean financial holding companies with the advanced synergy activities among the Group companies. In order to fortify this competitive strength, we will continue to promote education and PR activities to spread a synergistic culture where employees can feel a sense of kinship. We are planning to introduce the online synergy training program that was produced in 2012 to all employees within the Group. We will promote the “Group Synergy Plaza” to reflect live information from our sales force to our strategy real time.

Coupled with these efforts, we established the Group Joint Marketing Board in November 2012 in order to share marketing activities between Group Companies and make the collaboration system permanent.

Last but not least, we will create new synergy areas by developing and implementing the collaborative tasks of Shinhan Credit Information, Shinhan Savings Bank, and Jeju Bank within the Group.

RETAIL BANKING

In 2012, the Retail Banking Group set “achieving solid growth through optimal resources allocation” as its strategic goal to attain stable growth, choice, and focus. This allowed for the optimization of the organization and laid the strategic foundation for “Compassionate Finance.” As a result, we recorded excellent performances in terms of the customer base, profitability, market control, and asset soundness.

Core Deposits

33

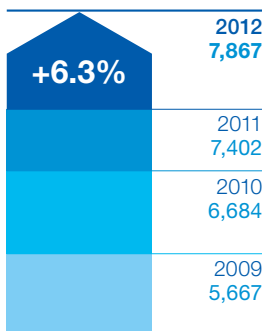
KRW in trillion

Shinhan Bank's total balance of retail core deposit is over 33 trillion. This figure was ranked second in the industry with a market share of 28% among 4 major financial holding companies in 2012

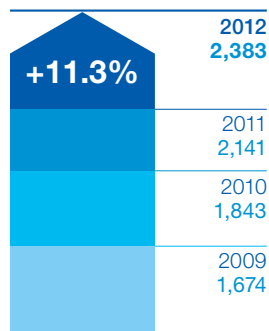
Active Customers & Tops Club Customers

Unit: Persons in thousand

Active Customers



Tops Club Customers



Active Customer: 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

Tops Club Customer: Tops Club customers are the preferred customers, categorized in four types by the amount of transaction that they have with the bank.

The Retail Banking Group consists of the Retail Business Development Group, which operates sales channels, the Wealth Management Group, which serves our high net worth clients, and the Institutional Banking Group, which manages governmental and institutional customers.

2012 Performance Results

In 2012, the Retail Banking Group set “achieving solid growth through optimal resources allocation” as its strategic goal. This goal was designed to execute the Group's strategies for Compassionate Finance, namely increasing assets in a balanced way (Smart Asset), selecting specific customer segments and concentrating resources accordingly (Smart Business), as well as optimizing the overall system (Smart Channel). We formulated strategies to achieve these goals and successfully completed our tasks.

Growing Assets in a Balanced Way (Smart Asset)

We focused our energy on achieving an appropriate rate of growth in high-quality household loans and sole proprietorship loans while simultaneously propping up profitability such as margins. On the funding side, we expanded the proportion of household deposits in the portfolio to cope with regulations while simultaneously increasing core deposits such as low-cost deposits. Our activation of synergy based sales such as funds and bancassurance resulted in the maximization of noninterest income. We worked diligently towards establishing our position in the retirement pension market and preoccupying new IRP accounts. These efforts paid off, as we have been ranked first in the retirement pension market three years running. In addition, we cemented our leading position in asset soundness through preemptive risk management and the upgraded management of the soundness of large loans prior to their issuance.

Selecting Specific Customer Segments and Concentrating Resources Accordingly (Smart Business)

In order to optimize limited resources, the Retail Banking Group targeted three customer bases, those with high net worth, those who are salaried, and those who own their own businesses. After selecting these targets, We developed various marketing strategies to increase the number of customers within these parameters. Joint marketing by the Retail and Corporate Banking Groups was reinforced to attract new salaried customers. We provided business loan offerings and merchant accounts tailored to customer needs with the aim of expanding our customer base for high-revenue sole proprietorship. We concentrated customer service capabilities on attracting new customers with high net worth, helping their business grow with SFG, and maintaining their

loyalty in an effort to establish a new WM model at an earlier stage.

Optimizing the Overall System (Smart Channel)

We rebuilt our performance assessment system and cemented intra-organizational cooperation in accordance with organizational restructuring. This included the establishment of the PWM Center and the optimization of our sales force through an improvement in customer management systems at our branches. Joint marketing between face-to-face and non-face-to-face services was enhanced in order to support the implementation of a new non-face-to-face business model, successfully establishing the Smart Financial Center (non-face-to-face channel). We boosted channel competitiveness and built networks in regions where Shinhan Bank needs to expand its market share by rebuilding channels based on the restructuring of branches. Channel competitiveness continues to be provided with a boost and become increasingly optimized. The customer management system is being improved, and systems are being refurbished to accommodate the new reality in front office operations.

Our training program was upgraded in order to encourage employees to work more efficiently. We also stepped up our efforts for financial consumer protection activities.

As a result of such business strategies, the Retail Banking Group performed excellently in all sectors including customer base, core business, profitability, market control, and asset soundness. Moreover, based on these encouraging results, the full banking service of the Smart Finance Center was successfully launched via the Smart Fund, Loan, and Foreign Currency Savings. At the same time, we boosted the competitiveness of non-face-to-face products such as smart finance-specialized products. In terms of customer bases, we secured 11.3 million Internet banking users and 4.5 million smartphone banking users, both representing remarkable growth.

Business Plans for 2013

Our retail banking business is expected to encounter tougher business conditions than we have seen to date. External environments such as low growth, low interest rates, high risk, and stricter regulations weaken our profitability while internally we will have trouble defending NIM and successfully attaining the proper growth of assets.

By preemptively dealing with such change in the paradigm of the business environment, we will pursue balanced growth between profitability and soundness, steadily expand the base of core and future customers, and establish our sales system around customers

and the front office. We established key tasks including balanced growth, profitability, basic of banking, choice and focus, future growth, efficiency in marketing, and trust of customers to achieve the strategic goal of “winning sales and securing differentiated competitive edges” for 2013.

Efficiency in Marketing

We will steadily increase the three core customers from our 2012 figure, and strengthen marketing to encourage these customers to utilize our bank as their primary banking center. Joint retail, corporate, and CIB marketing will be implemented in order to encourage salaried workers to receive their salaries through our bank account and to purchase our retirement pensions. For self-employed customers, we will carry out proper marketing that befits their business cycles and strive to attract customers with large assets via stronger asset management capabilities. In addition to these three core customer groups, we are planning on actively discovering and managing high performance non-regular employees, customers who are planning marriage, and foreign customers. Our steady expansion of smart banking, a future growth channel, will optimize limited resources through a diversification of channels to secure new customers and provide simple and easy frames. Finally, we will provide timely products and overhaul existing products by establishing a system to supply specialized products that are requested by the front office for the purpose of enhancing the competitiveness of our products and services.

Trust of Customers

We will enhance the competitiveness of channels by improving them based upon customer needs and the front office. An integrated mobile terminal named “S-KIT” will be launched to enhance sales power around customers and the front office through the differentiation of customer contacts. As for the window operation system, we will execute customized services by dividing the windows into deposit consulting windows and general consulting windows. This will allow us to increase our employees’ systematic work capability in addition to the existing one-stop service. Our Tops System and its related systems will be upgraded and joint marketing between face-to-face and non—face-to-face channels will be reinforced.

Moreover, we will upgrade the JUMP Program, a marketing program for employees at our branches, by providing customization and reinforcing their marketing ability by making improvements to systems that support their sales. We are planning to post more talented mid-level managers as retail RMs to improve customer relation management at retail branches. Finally, in order to put “Compassionate Finance” into practice we will reinforce activities by our regional headquarters and steadily expand activities to support ordinary people and small business owners.

CORPORATE BANKING

Despite tough business conditions at home and abroad, the Corporate Banking Group upgraded its corporate banking capabilities by launching new products designed for companies showcasing high performance, active marketing activities for retirement pensions, and the marketing campaign for “Inside Banking,” a CMS (Cash Management Service) service.

The Corporate Banking Group is in charge of finances for large companies and SMEs and is comprised of four departments¹ and 156 sales branches². The financial services it offers includes electronic settlements, cash management, and corporate Internet banking in addition to traditional corporate deposits, corporate loans, and foreign exchange transactions. Furthermore, our 415 RMs, top-level specialists in corporate finance, are working diligently to offer optimized financial solutions to meet the changing needs of corporate customers.

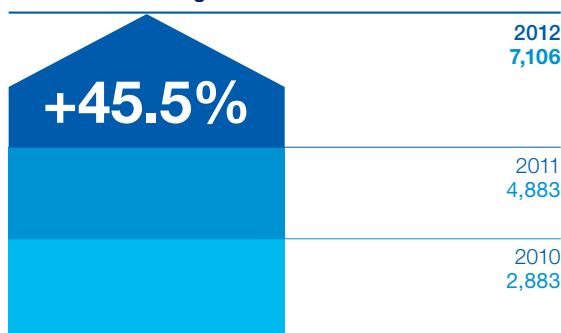
Retirement Pension Accounts of Shinhan Bank

1st

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

Asset under Management

Unit: KRW in billions



2012 Performance Results

With the goal of establishing Shinhan Bank as the nation's top provider of corporate banking services, the Corporate Banking Group set 3 three strategic objectives for 2012 to achieve balanced growth and greater competitiveness. The objectives are to expand the basis of smart growth, raise fundamental profitability, and strengthen the Shinhan brand as a corporate banking services provider. As a result, we were able to yield the following results in a difficult business climate with slow global economy, the sluggish real estate market, and continued burdens from household debt.

Expanding the Basis of Smart Growth

We reinforced target marketing for core target customers. As a result, by increasing target customers our strong customer base grew by 975 companies (12.84%), totaling 8,566 companies as of the end of 2012. In addition, despite the difficult business climate we successfully launched new products with favorable interest rates and actively expanded our loan portfolio to sound businesses. As of year end, the average outstanding KRW loan amount to well-performing companies (credit ratings of BB or above) stood at KRW 27.8 trillion, an increase of KRW 1,335 billion year on year. This accounts for 80% of our total corporate loan portfolio in KRW, contributing to the stability of our asset book. Furthermore, we actively marketed our retirement pension products that will provide basis for long-term growth. Consequently, the AUM of our total retirement pension accounts in Corporate Banking Group rose by KRW 731 billion from last year to 2,621 billion. This has brought Shinhan Bank's total pension AUM to KRW 7,106 billion, allowing Shinhan Bank to be the #1 pension provider among Korean banks for three consecutive years.

Raising Our Fundamental Profitability

We recorded robust earnings before taxes amid continued decrease in the market rates mixed with highly competitive environment to

attract well-performing corporate customers. We also continued to manage soundness despite tough economic conditions. As a result of promoting the marketing campaign for “Inside Banking,” a consolidated CMS (Cash Management Service) service launched in 2010 that focuses on building long-term relationship with our customers, has netted 53,180 corporate customers at the end of 2012, an increase of 11,417 from 41,763 in 2011.

Strengthening Our Brand as a Corporate Banking Services Provider

In 2012, the Corporate Banking Group provided favorable services to 242 selected companies from the Premier Club. We were able to secure 32 corporate customers to use Shinhan Bank as their primary bank by offering them KRW 427.8 billion won in new loans with more favorable interest rates. In addition, we further strengthened our corporate sales capabilities by educating 49 new RM College graduates. Simultaneously, we polished our corporate banking capabilities at retail branches by conducting “Corporate Jump,” a consulting service, 74 times.

Business Plans for 2013

Our strategic objective for Corporate Banking Group in 2013 is to establish solid corporate banking standards through win-win partnership and innovation. With the aim to be the #1 Corporate Bank in Korea, Corporate Banking Group will continue to execute core tasks in three strategic directions.

Steadily Expand Growth Base

The Corporate Banking Group will continue to focus on targeted marketing around the existing healthy corporations to expand our growth base in the corporate banking sector. In particular, we plan to reorganize our loan maturity portfolio by increasing the number of long-term loans. We will secure a strong sales base through expanding our corporate clients coverage, maximizing win-win marketing activities among large companies and SMEs, and increasing customers' CMS transactions. On marketing front, we will target export companies, companies with overseas investment projects, MNCs, and industrial complexes. Lastly, we will continue to lead the retirement market in both size and profitability by upgrading our pension customer management system and enhancing sales capabilities at retail branches.

Build a Profit Generation System around Customer Value

The Corporate Banking Group will transform itself into a financial center

that provides comprehensive network financial services and maximize synergies with the Retail Banking Business Division by pushing for IB deal sourcing and retail customer introductions. In addition, we seek to increase the use of Shinhan Bank products from the employees of our corporate customers and increase support for export-import businesses. Furthermore, we will provide business solutions and products that are catered to the lifecycle of our corporate clients. To actively safeguard our sound balance sheets, we will conduct periodic loan review and visit customers with potential delinquencies. These activities will allow us to identify signs of delinquency early on and respond proactively.

Strong Support for Front Office

In order to upgrade the RM-oriented sales support system, we will establish and manage a consultative body for quick support within the front office. Systemization of the corporate customer management processes will maximize efficiency in the front office. Moreover, we will expand customer contacts by establishing a non-face-to-face RM sales channel. With the aim to enhance the front-office capabilities within our Corporate Banking business, we will develop and provide more practical education programs. At the same time, we will continue to support IB capabilities by promoting successful business cases and collaboration with the CIB Group. For the purpose of putting “Compassionate Finance” into practice, we will offer customers free consulting and financial education opportunities to SME customers. This, along with promotion of the “Compassionate Finance” cases, will allow us to secure a competitive edge in our corporate image and brand.

Retirement Pension Accounts

	Assets	Unit: KRW in billions	
		Year-on-Year Change	Year-on-Year Growth Rate
Shinhan Bank	7,106	2,223	45.50%
Bank A	6,853	2,132	45.10%
Bank B	6,034	1,701	39.30%
Bank C	4,370	1,311	43.80%

- Ranked first in the retirement pension market for three years running (in terms of asset management)

Note.

1. Corporate Banking Department, Corporate Banking Service Department, Foreign Customer Department, Pension Business Division
2. 2 Corporate sales branches and 154 Financial Centers

CREDIT CARD

Shinhan Card strived to steadily stabilize its asset quality through the elaboration of its risk management system. It also strove to strengthen the competitiveness of its business base through synergy marketing that integrates customers' lifestyles, consumption trends, as well as products and channels of the subsidiaries of the Group. These efforts paid off handsomely as Shinhan Card was rewarded with the top business results in the credit card industry in 2012.

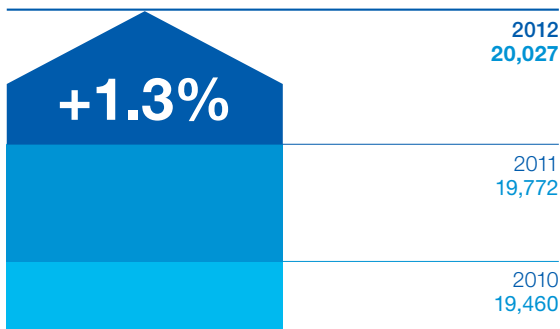
Market Share

22.4%

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)

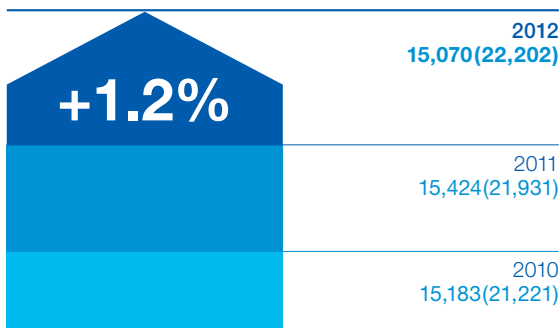
Operating assets

Unit: KRW in billions



Effective Retail Cardholders (Including debit cards)

Unit: In thousand



Since the integration, Shinhan Card has worked diligently to establish economies of scale and a solid customer base. In addition, the company has established a stable business platform that can absorb both internal and external shocks by increasing efficiency in product and process management and innovating operational structure.

Moreover, as part of a non-banking group, Shinhan Card has solidified its leading status in the credit card industry by gaining greater synergies from cross-channel sales and bank branch networks, and utilizing efficient risk management system and stable financial backings from the Group.

2012 Performance Results

In 2012, Shinhan Card sought to restructure its business model with the focus on high-value customers and increasing profitability from its large customer base. As such, we set the strategic goal of "cementing a clear market leadership by accelerating quality growth."

In addition to developing products/services based on a precise analysis of customers' lifestyles and spending trends in conjunction with our marketing partnerships, we have efficiently allocated marketing resources and established optimal marketing models to drastically increase high-value customers.

Moreover, we have increased the number of active, cross-channel customers by developing synergistic marketing with our Group affiliates' products that corresponds to our customers' spending patterns.

As a result, we have reinforced our customer-oriented competitive edge by securing 15.1 million retail credit card users (22.2 million including debit cards), and 2.7 million locations that accept Shinhan cards, maintaining market leadership with a market share of 22.4% based on retail credit sales.

Additionally, we have demonstrated the best performance in the industry (operating assets of KRW 20.03 trillion and net profit of KRW 749.8 billion). We have accomplished this by improving operational efficiency through company-wide process & cost management and continuing to bolster financial soundness by fine-tuning risk management systems.

On the other hand, we have identified new growth areas such as social commerce, loyalty points, customer information protection services and mobile phone-backed factoring services, while strengthening our leadership position in “smart” finance by gaining competitive edge in mobile channels.

We are striving to increase customer satisfaction by developing new products and services that meet fast-changing customer needs, as well as naming customer satisfaction as our highest business value.

As a result, Shinhan Card has received the largest amount of outside recognition with 35 certifications and awards, including the grand prize for customer satisfaction from Korea Management Association for five consecutive years. Furthermore, Shinhan Card was recognized for its superb customer service and strong brand power from all three major brand research companies, the first among the domestic credit card companies as well as the 4 major financial groups.

Business Plans for 2013

In 2013, downside risks such as slow economic growth and weak customer sentiment are expected to persist. In addition, the Korean government has launched new regulatory reform initiatives on the credit card industry aimed at establishing a sound payment system.

Considering the regulatory environment as well as market conditions locally and abroad, the industry is expected to focus on efficient expansion and profitability. As such, it is extremely crucial that we respond flexibly to changes in the operational environment.

With this in mind, Shinhan Card has set a strategic goal of “preemptively responding to new environments & re-establishing a solid growth foundation.” To meet the goal, we will actively carry out tasks in four strategic directions: 1) across the board innovation in business methods, 2) bolstering efficiency in operational systems, 3) pursuing differentiated growth, and 4) enhancing risk management capabilities. Through these processes, we will solidify a secure business portfolio that can weather changes in the external environments in the mid- to long-term.

First, we will innovate our business methods by deploying active customer management to secure high-value customers, while expanding marketing efforts to meet customer needs, and

strengthening our brand to increase customer loyalty.

Second, we will continue to deliver strategic cost-cutting efforts by rationalizing costs across the company’s operational structure.

Third, we plan to strengthen our competitive edge in mobile finance by providing a variety of products and services that will propel our future growth above those of our competitors, while actively seeking new business opportunities such as strengthening new payment options and value-added services.

Finally, we will refine our monitoring and crisis management programs in dealing with potential risks, such as household debt, in order to boost our risk management capabilities.

Alongside with these efforts, we will actively reinforce our engagement in the group-wide “Compassionate Finance” project in order to grow with our customers.

2012 Key Figures

	Unit: thousands, KRW in billions, %		
	2012	2011	2010
Operating assets	20,027	19,772	19,460
No. of Retail customers (Including debt cards)	15,070(22,202)	15,424(21,931)	15,183(21,221)
Active customers (% of retail customers)	9,941(69.2)	9,948(68.8)	9,440(67.0)

INVESTMENT BANKING

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, with the goal of overcoming the limits of their business models and to provide integrated financial solutions for corporate customers. Over the course of the year, the CIB Group posted operating income higher than that of its competitors thanks to its sales capabilities based on its competitive edge in contents provided to its clients.

In January 2012, CIB Group of Shinhan Bank and the IB Group of Shinhan Investment Corp. merged their respective offices and successfully launched the CIB Group at the head office of Shinhan Investment in Yeoido. This move was designed to overcome limits from their business models and provide integrated financial solutions for corporate customers. During 2012, Shinhan CIB concentrated on creating synergies through the establishment of new business models such as Duo-RM. As a result, strong growth was recorded from collaboration between the two companies. Before the launch, existing collaboration mainly consisted of simple introductions of traditional products of each company. After the launch, the two companies steadily researched and proposed packaged products that meets complex customer needs. Thus the qualitative change is noteworthy.

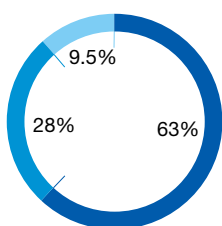
Results of Collaborative Business Trades in 2011 and 2012



2012 Business Results of CIB Group of Shinhan Bank

In 2012, the CIB Group of Shinhan Bank posted EBIT(Earnings before Income Tax) of KRW 316.5 billion on the basis of a competitive sales force in this difficult business climate locally and abroad. However, a prolonged period of low growth and low interest rates and increasing competition has decreased interest-generating assets and lowered margin rates, playing a key role in decreasing income compared to the previous year. Reduced IB commission fees from weak deal volume and the rise in bad debt expenses from construction companies also contributed to the diminished income. With no promise of an end to the tough market environment in the near future, Shinhan CIB will do everything that it can do to yield differentiated results by securing long-term growth engines on the basis of preemptive risk management.

(Bank) CIB Group Performance



Earnings before SG&A expenses

Unit: KRW in billions

• Large Corporate Banking	304.6
• Investment Banking	135.7
• Merchant Banking	45.6
Total	485.9

2012 Business Results of IB Group of Shinhan Investment

The IB Group of Shinhan Investment Corp. posted a total of KRW 11.3 billion in pretax income, a year-on-year decrease of KRW 13 billion amid an unprecedented slump which caused many securities firms to suffer great losses. Due to the prolonged slump of the world economy, postponements and cancellation of IPOs caused by companies' poor performances and the exchange's toughening of screening regulations,

the Korean IPO market in 2012 decreased to KRW 1,009 billion (28 IPOs), roughly 25% of KRW 4,256 billion and 73 IPOs in 2011. The ECM Group of Shinhan Investment recorded poor performances as well. In the corporate bonds underwriting sector, we performed relatively well with a market share of 7.63% (fifth), a slight increase compared to the previous year. In the real estate finance sector, we yielded better-than-expected results by moving ahead of our competitors. It is suggested that the PE business will need to boost its performance by sourcing profitable investment opportunities.

Assets Under Management of CIB Group

As of the end of 2012, the CIB Group of Shinhan Bank was managing a total of KRW 31.2 trillion (large company segment: KRW 18.8 trillion / IB segment: KRW 6.1 trillion / merchant banking segment: KRW 6.3 trillion¹) in credit assets, a drop of KRW 6 trillion year to date. Repayments of financial market stabilization loans by the Korea Deposit Insurance Corp. (KDIC) and a decrease in R/G issuances due to a slump in the shipbuilding industry significantly contributed to a drop of KRW3,726.2 billion in assets within the large company sector. In the IB sector, assets decreased by KRW 1,112 billion from a year earlier since fewer deals were made due to the deteriorating construction and shipbuilding markets. We understand the low interest environment and large liquidity in the market has contributed to the lowered appetite for indirect financing. Shinhan CIB will maintain strong relationships with well-performing customers and pull out all the stops to meet the various needs of corporate customers by offering convergence and hybrid financial services that cover banking and financial investments.

Business Plans for 2013

2012 marked the beginning of the CIB Group that set the physical and systematic foundation. From 2013, we will begin to implement plans to secure CIB's differentiated leadership. We will make steady efforts to develop integrated financial services that meet customers' and market needs by making good use of the functional merits of the proven CIB business model. Furthermore, we will expand our service to retail and SME customers in addition to large companies through the expansion of collaboration among business units within SFG. Through these

measures, Shinhan CIB will diversify its profit sources and profit model as well.

Although CIB Group is facing a tough business environment in 2013, its strong passion will remain the same. We will aim to be a market leader that spearheads the market through preemptive risk management and creative innovation.

Results of Collaborative Business Trades in 2011 and 2012

	Unit: KRW in billions	
	2012	2011
Trades	151	96
Volume	5,323.8	2,551.0
Estimated Profit ²	37.6	151



- 2012 Korea Capital Markets thebell League Table Awards (Best M&A Financing Arranger)

Note.

1. Including KRW 1,764 billion in bank account debt debentures.
2. These figures come from the estimation of future profits or losses of the deals. Thus figures may differ from actual figures.

WEALTH MANAGEMENT

In 2012, SFG's Wealth Management Business Unit built Private Wealth Management Centers in areas with a large number of High-Net-Worth individuals and established Korea's first comprehensive customer product and services support organization. This organization combines wealth management expertise from both our bank and brokerage units, called Investment Products & Services (IPS). These specialized services successfully resulted in differentiated customer satisfaction.

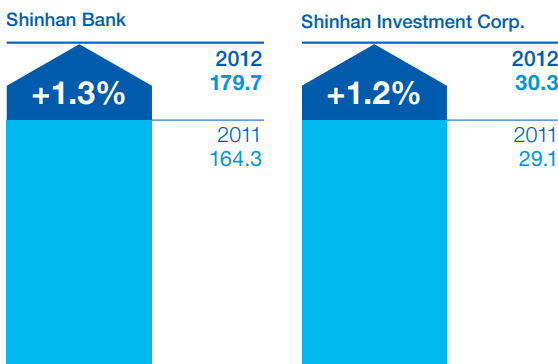
Private Banking brand

No. 1

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

Customers with more than KRW 100 million in assets

Unit: Person in thousand



Shinhan Financial Group's Wealth Management Business Unit seeks to raise customer value and secure future growth engines by following a new, group-wide, synergistic model built on cooperation between the wealth management departments of Shinhan Bank and Shinhan Investment Corp.

2012 Performance Results

In 2012, Shinhan Financial Group's Wealth Management Business Unit has not only brought innovation to its internal systems and organization, but also successfully launched a new wealth management business model based on market-leading best practices within the Korean asset management market.

First, we opened 13 Private Wealth Management Centers in areas with high concentration of high-net-worth individuals. In these centers, we have forged a cross-channel infrastructure that showcases products and services from both bank and brokerage units, thereby attracting KRW 1.3 trillion AUM.

Moreover, we have established Investment Products & Services (IPS) unit, for the first time in Korea, which focuses on delivering comprehensive wealth management product and services support from both our bank and brokerage businesses.

Through IPS operations, we provide timely investment insight and optimal financial solutions so that our customers can effectively respond to various market issues.

Moreover, we expanded our products base by establishing both full lineup and order-made product platforms that meet the highest standards of the local market. This has bolstered our product competitiveness. We launched unique products that deliver both stability and excess market returns. In additions, top experts in various asset classes such as equity, debt, real estate, tax and inheritance form a single team, providing one-stop services that cater to different customers' needs. This helped to raise overall customer satisfaction.

We have also grouped wealthy customers into three categories: Ultra High-Net- Worth (UHNW), High-Net-Worth (HNW) and Affluent customers. We have revamped sales channels and support organizations in order to provide differentiated products and services for each category. Moreover, we expanded our pool of high-net-worth customers by systematic marketing efforts.

A keener competitive edge in products and services as well as innovative cross-channel sales has led to a notable increase in high-net-worth customers for Shinhan Bank and Shinhan Investment Corp. Compared to its competitors, Shinhan Financial Group has achieved the highest results in increasing the number of its high-net-worth customers with more than KRW 100 million or 1 billion in assets.

Business Plans for 2013

2012 was the year that we focused on creating and establishing a new business model. 2013 will be the year when Shinhan's wealth management business will be able to showcase its accelerating performance based on the competitive advantage from its new business model.

First, we will open additional Private Wealth Management centers in greater Seoul and Busan areas and expand nationwide coverage.

Second, we will bolster employees' wealth management sales capabilities by establishing a systematic Career Development Program(CDP) for those specializing in wealth management as well as conducting tailor-made learning sessions based on the capabilities of each employee.

Third, we will continue to upgrade our Investment Products & Services (IPS) capabilities. In particular, we will actively introduce new investment vehicles that can lead market trends, such as hybrid products that combine low and high risk assets and CIB-derived products.

Fourth, Shinhan will cement its brand as the No. 1 wealth management provider in Korea by winning recognition from institutions both locally and abroad.

Finally, we will make notable advances in the Korean wealth management market by using marketing tools targeting existing Shinhan group customers, corporate CEOs as well as foundations and other funds.

MAJOR ACCOLADES AND RECOGNITION IN 2012

- Best Private Bank in Korea 2012 (Euromoney)
- No. 1 Private Banking Brand (Korea Standards Association, Chosun Ilbo, Seoul National University; fifth year winning)
- "The Proud" Korea's Highest Rated Institution (Korea Management Association Consulting; third year winning)
- 2012 Best Private Banking Center (Korea Economic Daily; voting by industry professionals)



- The Best Private Bank in Korea (Euromoney, 2012)

BROKERAGE

Shinhan Investment Corp. sincerely carried out its strategic tasks in 2012; increasing the business capabilities of its head office including “S&T and wholesale”, expanding its asset business through the reinforcement of employees’ specialties, and successfully establishing CIB/WM under the mid-term goal of VISION 2015.

As of the end of 2012, Shinhan Investment Corp. has 78 branches, 13 Private Wealth Management centers, 9 branch-in-branch locations, 3 private banking centers, 2 overseas units and 2 foreign offices. Shinhan Investment Corp. has industry leading capabilities in research, international and derivative sales, product management, risk management system and high performing staffs. Based on these capabilities, we provide comprehensive customer services that meet various customer needs.

Market Share

1st (Futures)

3rd (Options)

Even under the shrinking financial market, Shinhan Investment Corp. maintained its lead in the global equities and derivatives brokerage business in terms of market share (first in futures and third in options).

2012 Performance Results

Net profit in 2012 was KRW 63.9 billion, a decline from 2011 due to a contraction in the brokerage market affected by the global financial crisis. However, Shinhan Investment Corp. has made significant improvement in infrastructure and other areas and such is reflected in the various recognitions that we earned throughout the years. For example, we were voted to be #1 in research and corporate sales. Further, we successfully expanded Private Wealth Management centers and increased funds under management.

Retail business: Identified possibilities for business improvement through wealth management operations / profitability from brokerage operations drops due to market contraction

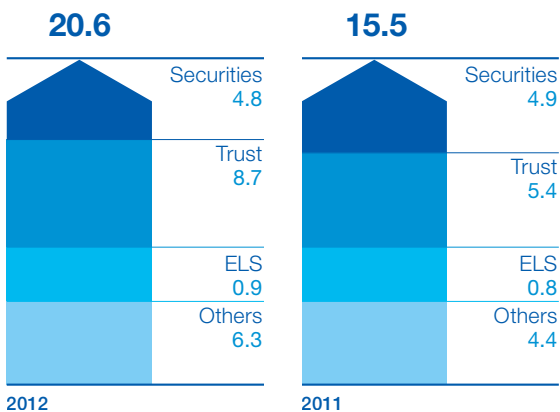
For 2012, Shinhan Investment Corp.’s retail business sought to reorganize systems and operational processes to shift to an asset management business model. We redoubled our efforts to expand asset management business that centers on Private Wealth Management, netting growth in size and profitability from retail financial products.

On the other hand, our brokerage business witnessed reduced business from low trading volume. In 2012, net operating profit recorded KRW 240.7 billion, a 28% decrease from the previous year. This is largely due to the deteriorated profitability in the brokerage business (KRW 171.7 billion net operating profit, a 34% decrease year-on-year) from nearly 30% drop in the market trading volume compared to the previous year. However, non-brokerage recorded profit of KRW 74 billion, a 4% decrease from the previous year. The non-brokerage business accounted for 31% of profits of overall retail business, continuing the trend of increasing income contribution from nonbrokerage since 2009.

Asset management business recorded profits from financial products of KRW 29.3 billion, on the back of the strong performance from retail fixed income sales and ELS/DLS sales. Funds under management reached KRW 8.9 trillion, an increase of KRW 2.3 trillion from the previous year. Our Private Wealth Management center, providing comprehensive

Financial Product Assets

Unit: KRW in trillions



asset management solutions to high-net-worth individuals, has laid the foundation for asset management-based business. During 2012, the number of PWM branches rose from 4 to 13, AUM was increased from KRW 1.3 trillion to KRW 5.9 trillion, and the number of high-net worth customers (customers with more than KRW 100 million) was increased from 924 to 4,363.

In the future, our company will continue to seek ways to strengthen asset management sales activities to become a market-leading investment firm.

Wholesale Business Group: Relatively Good Performance in Terms of Expansion and Profitability

In 2012, the Wholesale Business Group of Shinhan Investment set “maintaining core competitiveness through selection and concentration” as the strategic objective for the group. As a result, despite the difficult market situation, the group maintained its position in the global equities and derivatives brokerage business in terms of market shares (first in futures and third in options). Commission revenue was increased from KRW 3.1 billion in 2011 to KRW 3.4 billion in 2012 on the basis of increased reliability.

Corporate sales relatively outperformed its peers despite decreased income dropped year-on-year due to the difficult market environment. Moreover, we were able to increase our market share by leveraging on our market-leading research department and was ranked as the #1 in corporate sales from Korea Economic Daily.

IB Group: Poor Performances Amid Slump in IPO Market and Relatively Good Results in ABS Sector

The 2012 strategic goal of the IB Business Group was “successful introduction of a synergy-based IB business model and building the foundation for long-term growth”. We strived to systemize synergy business and reinforce capabilities to acquire sound assets.

In 2012, we were #1 lead manager in the ABS market with market share of 21.5%. In addition, we were able to increase our market share in corporate bond underwriting by successfully adopting to the regulation change (MS: 7.3% in 2011 → 7.6% in 2012). Lastly, we diversified into non-IPO businesses such as capital increase and mezzanine financing-related incomes.

Sales & Trading Business Group: Enhancing Product Development Capabilities and Yielding Good Results in Fixed Income Investments

In 2012, S&T Business Group aimed to grow into the core engine of the asset management-based business model through increasing its capabilities. S&T Business Group overall posted KRW 81.3 billion in net operating income, an increase of KRW 55.3 billion year on year, propelled by a robust result from FICC (Fixed Income, Currency, Commodity)

business (KRW 62.8 billion net operation income in 2012, up from 45.3 billion in 2011). In the products side, we laid foundation for asset management-based business models through increasing our capabilities. For example, we issued KRW 5 trillion worth of ELS (45% increase year-on-year and ranked #2 in market share¹) and introduced equity swap business. In addition, our outstanding RP balance posted KRW 4.2 trillion, a year-on-year increase of 22% based on stable investments.

Business Plan for 2013

In 2012, we established our mid-term strategic objective under “VISION 2015” and focused on strategic tasks such as increasing S&T / wholesale capabilities, expanding asset management sales, and establishing CIB/WM. For 2013, we seek to expand our customer base through differentiation in products and services and carry out the following four strategic tasks.

The first strategy is a migration to the asset management-based business. To this end, we will seek to bring a substantial upgrade to our products and services and diversification in channels such as smart finance and non-face-to-face mediums. At the same time, we will focus on increasing our asset management capabilities.

The second strategy is completing the sales and trading model. We will seek to expand our customer base with stronger product development and increase asset management returns by increasing our investment skills and capabilities. In addition, we will enhance stability by systematically increasing risk management capabilities.

The third strategy is increasing WM/CIB competitiveness. We will upgrade the WM channel, increase its profitability and develop the expertise of IPS division. In CIB system, we will expand our customer base by building IB track records and core customer network. To this end, we will develop career development programs (CDPs) for IB RMs and PMs, thereby securing products competitiveness in IB and diversifying profit sources.

The fourth strategy is strengthening survival capabilities in case of emergencies. We will continue to make long-term efforts in increasing operational efficiency in organizations, functions and human resources and making process improvements and IT innovation. Further, the execution of compassionate finance will improve brand images and our company will become stronger thorough the overhaul of its synergy system.

Note.

1. Excluding short-term products

INSURANCE

Shinhan Life Insurance provides insurance services via differentiated business channels such as FCs, direct sales, AM, and bancassurance. Overcoming challenging business conditions such as stricter regulations and fiercer market competition, we achieved strong growth by expanding our market control, obtaining the highest rating in the insurance financial strength rating (IFSR) for five consecutive years, building a smart management system, and enhancing communications with our customers.

Monthly Initial Premiums

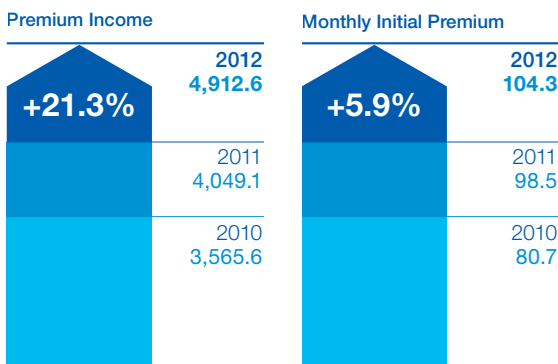
104.3

KRW in billions

Shinhan Life Insurance posted KRW 104.3 billion in initial insurance premiums, surpassing KRW 100 billion for the first time in the history of the company. Accordingly our total insurance premiums grew by KRW 900 billion to KRW 4.9 trillion from a year before.

Premium Income & Monthly Initial Premium

Unit: KRW in billions



Shinhan Insurance has grown into a trusted insurer by offering a wide array of advanced insurance products based on its total financial network of Shinhan Financial Group and practicing Compassionate Finance. Shinhan Insurance has achieved balanced growth by providing insurance products (life insurance and third insurance), pension (individual and retirement) and related services through diversified sales channels such as FC channels, direct channels (telemarketing, Cyber), AM channels (agency market) and bancassurance channels. Within the asset management channel, we manage securities such as loans to insurance buyers, credit loans, loans on security, stocks, bonds and derivatives with industry leading investment return track records. Lastly, through thorough management of both risk and operational efficiency, we are able to achieve solid operational stability.

2012 Performance Results

In 2012, under our strategic goal of "Big Shinhan, Different Growth 2012", Shinhan Insurance achieved strong organic growth despite tough business conditions such as strict regulations and increased market competition.

First, we achieved strong size growth by expanding face-to-face channels. The number of FCs grew by 1,530 and reached 9,708, just shy of 10,000. We recorded KRW 104.3 billion in initial insurance premiums, surpassing the KRW 100 billion mark for the first time. Accordingly our total insurance premiums grew by KRW 900 billion to KRW 4.9 trillion and our total assets reached KRW 16.9 trillion, an increase of about KRW 3 trillion in 2012.

Second, Shinhan Insurance obtained the highest grade (2nd grade) in the CS service evaluation of the Financial Supervisory Service. Shinhan Life obtained the highest (AAA) rating in the insurance financial strength rating (IFSR) for five years in a row and its incomplete sales ratio stood at 5.5%, 2.3% improvement from FY2011. About 20 external organizations recognized the value of the customer-oriented management of Shinhan Life. For example, the life insurer was awarded the Customer Satisfaction Grand Prize and the Best CEO Prize in the Korea Service Awards of the Korea Standards Association and the Financial Supervisory Service (FSS) Director's Prize in the Herald Insurance Awards. The FSS selected Shinhan Life as a case subject for consumer protection.

Third, Shinhan Life introduced a mobile business support system and electronic signature-based new contract system. Other smart-finance initiatives include developing a smart underwriting system and a QR code-based marketing campaign. Our strenuous risk management efforts resulted in an RBC ratio of 287.7% (as of December 2012). Our efficient “Good Cost” initiative helped post KRW 209.4 billion in net income and ROE of 16.7%.

Fourth, we promoted communications with customers by holding customer panels and events and managing our Facebook website.

Finally, we took new initiatives for “Compassionate Insurance” through the Compassionate Insurance Group and actively put “Compassionate Insurance” into practice such as setting new missions based on “Compassionate Insurance” and mapping out plans for win-win partnership with our partners.

Business Plan for 2013

We established our strategic goal, “BIG SHINHAN, Different Win-Win 2013” to realize win-win growth between the company and the customers by maximizing fundamental competitiveness in this adverse business environment of low interest rates, low growth and low profits.

In particular, we will move forward with systems that promote win-win growth of Shinhan Life and its customers such as the quality management index system while setting 2013 as the first year of quality management for healthy growth.

We will achieve our goals by concentrating companywide capabilities on three strategic tasks – (1) marketing differentiation (2) active practicing of “Compassionate Insurance” (3) increasing our capabilities.

First, we will differentiate by upgrading our product portfolio, introducing popular, trendy products and improved risk-return products. To better execute differentiated product marketing, we will improve each channel’s positioning and increase systematic support in product planning, support, education, sales promotion. In addition, we will increase the level of joint marketing efforts with other Group members. In the asset management sector, we will increase profitability, soundness and capabilities by expanding into alternative investments to build stable growth-type portfolio.

Second, we will institutionalize Compassionate Insurance projects such as Happy Retention Service and the Compassionate Insurance Awards. At the same time, we will step up our efforts to offer differentiated customer services and conduct customer service activities to enhance our CS competitiveness. In terms of our branding strategy, we will streamline companywide branding strategies and strengthen promotion platform branding and CSR.

Last, in terms of the preparing for future growth, we will efficiently distribute resources to reduce strategic costs and enhance management capabilities. We will systemize profit-loss management by branches, propagate a companywide cost-cutting culture and build up our proactive risk management capabilities. To strengthen our organizational capabilities, we will reinforce front office education around business headquarters, enhance HR competitiveness through CDPs and foster a healthy corporate culture. In addition, we will advance our global capabilities for new growth and initiate new projects such as online sales models and VIP market-specialized sales units.

2012 Key Results

		Unit: Persons, KRW in billions, %		
		2012	2011	2010
No. of Branches		244	199	171
No. of FCs		9,708	8,178	7,830
Quantitative Measure	· Premium Income	4,912.6	4,049.1	3,565.6
	· Monthly Initial Premium	104.3	98.5	80.7
	· Total Assets	16,942.0	13,976.7	11,974.5
Net Income		209.4	236.9	213.4
RBC		288	324	398
Incomplete Sales Ratio		5.5	7.8	10.8

- Incomplete sales ratio : Based on FSS standard (FY 2012 1H)

ASSET MANAGEMENT

In 2012, Shinhan BNP Paribas Asset Management maintained its position as a leading asset management company despite domestic and global economic slowdowns. Shinhan BNP Paribas Asset Management secured stable business operations through a strong combination of its industry-leading research team and an excellent management ability of fund managers.

Asset Management Ranking

4th

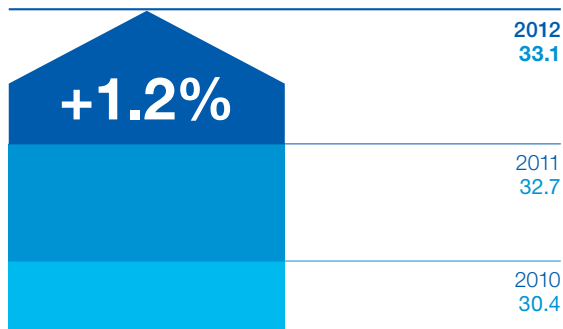
Shinhan BNP Paribas Asset Management's assets under management (AUM), including discretionary investment management assets, surpassed KRW 33 trillion in 2012. We rank Forth among the 84 Korean asset management firms in terms of AUM.

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.

SFG and BNP Paribas Group each own 65% and 35% stake in Shinhan BNP Paribas Asset Management, respectively. It is the key player in the asset management business of SFG. 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 foreign investment solutions such as structured vehicles and special asset products as well as traditional stocks and bonds. We aim to earn trust from customers on the basis of excellent long-term performance. Shinhan BNP Paribas Asset Management's assets under management (AUM), including discretionary investment management assets, stood at KRW 33 trillion. As of the end of December 2012, we ranked fourth in terms of AUM among 84 Korean asset management firms.

Asset Under Management

Unit: KRW in trillions



2012 Performance Results

In 2012, Shinhan BNP Paribas Asset Management maintained its position as a leading asset management company despite numerous difficulties such as the debt crisis in Europe, fiscal cliff in the U.S., slow down of the global economy, and reduced customers from underperforming global indices. For three consecutive years, Shinhan BNP Paribas Asset Management won the "Korea's Asset Management Company of the Year" Prize from The Asset, a Hong Kong-based investment magazine on the basis of its outstanding long-term performances. The minister of health and welfare gave the company the Excellent Korean Stock Investment Manager Prize in connection with the management of national pension funds. We also picked up the Innovative Fund of the Year Prize in the 2012 Korea Fund Awards in recognition of our steady efforts including the launching of various fund products targeting absolute returns, a fast-growing area.

Since its integration in 2012, the company solidified its brand as a leading asset management company through increased capabilities and synergies. Shinhan BNP Paribas Asset Management secured stable business operations through a strong combination of its industry-leading research team with analyses and value assessment models and the fund managers with excellent management ability. We have achieved continuity that delivers superior investment results to our customers in the long term. Further, we are endeavoring to increase our asset management capability through knowledge transfer programs from BNP Paribas Group.

Business Plan for 2013

We expect to see continued unfavorable business conditions such as protracted economic slumps both locally and abroad, a shrinking retail market and financial regulators' stricter regulations on fund sales channels in 2013. However, we also expect to see new business opportunities in the long-term fund market thanks to the rapid growth of the retirement market such as individual and retirement pension funds. Also, we expect more corporate customers to come on board due to lingering low interest rates. Under these market conditions, we will make steady efforts to solidify our position as a trustworthy asset management company by actively researching the

market and customer needs, and developing excellent new products for customers. To achieve this goal, Shinhan BNP Paribas Asset Management selected and is currently carrying out three tasks (1) reinforcing its growth engine through stronger product competitiveness based on the excellent performance of traditional products; (2) meeting customer needs by beefing up medium-risk / medium-return product line-up; and (3) expanding its customer base by offering specialized products and services.

Based on these tasks, we strive to maintain our leadership position in the asset management community by developing attractive products to customers and maximizing Group synergies.

ASSET MANAGEMENT AWARDS RECEIVED IN 2012

- Won the Best Korean Institutional Investor in the Asia Asset Management Best of Best Awards for four years in a row.
- Picked up the Best Korean Asset Management Company Prize in the Hong Kong The Asset Triple A Investment Awards for the third consecutive year.
- Awarded the Excellence Prize in the Asset Management Company Category of the 2012 Market Leader of the Year Awards by E-Today
- Our 'Chagok Chagok Plus Fund' received the Innovative Fund of the Year Prize in the 2012 Korea Fund Awards by Money Today
- Won the Grand Prize in the Risk Management Category in the Stock Awards by Ajou Economy
- Selected winner of the Minister of Health and Welfare Prize in the Korean Stock Management Company Category by the National Pension Service
- Received the Grand Prize in the Best Active-Type Fund Category of the 2012 Asia Fund Awards by the Asia Economic Newspaper
- Won the Best Fund Prize in the 2012 Korea Fund Awards by the Korea Economic Daily
- Our "Good Morning Hope Fund" won the Grand Prize in the Best Financial Product Awards by E-Daily

Social Stewardship

Since its establishment, SFG has steadily fulfilled the responsibilities as demanded by customers, shareholders, and local communities. We are carrying out differentiated social contribution activities by securing sustainable growth through “Compassionate Finance.” We are also selecting three major sectors for corporate social responsibilities -- welfare (coexistence), culture (sympathy) and the environment (symbiosis) -- with the intent to fulfill our social responsibilities as a corporate citizen.

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<u>CSR</u>	<u>050</u>
<u>Ethical Management</u>	<u>052</u>

CORPORATE SOCIAL RESPONSIBILITY

SFG is steadily engaging in a wide array of socially conscious activities that contribute to the community through the main roles of finance. The Hands-on Financial Education Program for Children, Arumin Libraries at local children's centers across the nation, the Shinhan Scholarship Foundation, and environment preservation activities on Jeju Island are some of the examples of our active execution of "Compassionate Finance".

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 is offering financial and economic education as one of its social contribution activities as a means to contribute to society through basic functions of finance. In 2012, we provided finance education to various 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 its branch offices to children for the "Financial Experience Education Program for Children." These branches were opened on the weekends to aid children in understanding difficult concepts in finance and the economy.

Shinhan Card has been participating in educational infrastructure projects by building libraries and conducting financial education at local children's centers across the nation.

Shinhan Investment held the "Compassionate Finance Camp" for middle and high school students. Participating teenagers partook in quiz contests and board games and visited Shinhan's key offices and training centers.

Shinhan Life is hosting the "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 formulate retirement plans by giving financial and tax consulting around preparations for retirement lives 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 has contributed a total of KRW 60 billion since the founding of SSMB in late 2009 and plans to expand its contributions to KRW 70 billion by 2013.



- **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 2012, the contributions stood at a total of KRW 100 billion. Scholarships were awarded to 745 students in 2012.

- **'Love Sharing' Festival:** Employees and customers participated in CSR programs at the end of the year. They made Kimchi, held charity events, and supported rural communities by opening a marketplace to sell products from rural towns.

- **Arumin Library Project:** The project aims to build small libraries at local children's centers with a poor educational environment. As of the end of 2012, about 290 Arumin Libraries were in service.

- **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. In 2012, we carried out various activities such as providing food for the homeless, protecting cultural properties and forming vegetable gardens.

Social Contribution Activities in Cultural Sector

- **Traditional Culture Preservation:** Shinhan Bank signed a contract to preserve cultural heritages with the 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 social companies for cultural treasures and creating cultural jobs with a fund of about KRW 500 million in cooperation with the Cultural Heritage Administration.

In addition, we ran the "Understanding Korean Cultural Heritage Campaign" that donates money to a cultural preservation fund through a quiz contest for online participants in partnership with Happy Bean, the social contribution foundation of Naver, the leading search portal in Korea.

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

Social Contribution Activities in the Environmental Sector

- **Donating LED Bulbs to Low-Income Families:** Shinhan Bank helped low-income families save electric power by replacing their incandescent bulbs with 6,500 energy-efficient LED bulbs.

- **Environmental Photography Contest:** Since 1994, the contest has been held annually to renew interest in Korea's beautiful landscape and raise awareness of environmental conservation. All registration fees have been used for environment preservation projects.

- **Environment Preservation on Jeju Island:** Jeju Bank named its environment preservation activities the "Jeun Purmi" campaign in April 2004. Since then, employees of Jeju Bank have been conducting nature preservation activities not only in densely populated areas such as parks and tourist attractions but also in less known areas such as streams and coastal areas.



ETHICAL MANAGEMENT

SFG's ethical management maintains its base of trust to a greater extent by implementing the SFG Code of Ethics. Every year, all employees sign a "pledge of ethical practice" and commit themselves for transparent growth by establishing the Code of Behavior for Partners of SFG for mutual growth with our partners.

Shinhan Financial Group's ethical management is enforced by compliance officers. In February 2010 when the revised Financial Holding Companies Act began taking effect, a compliance officer of the holding company was appointed to manage the group's internal control system and strengthen ethical management. The compliance officer is also responsible for supervising the Group's ethical management. SFG will reinforce ethical management with the aim of becoming a leading financial group trusted by customers, shareholders and society.

Establishment and Enforcement of a Code of Ethics

Since June 2011, we have implemented the SFG Code of Ethics to put into practice the Group ethical management vision in an integrated and consistent manner. In addition, we employed the SFG Staff Financial Code of Ethics to ensure accounting-related personnel's transparent and precise accounting practices and the reliability of financial information. We made endeavors to encourage employees to put the Employees' Code of Conduct into practice by establishing the code in September 2012. The Employees' Code of Conduct is a more concrete version of the SFG Code of Ethics. Moreover, each subsidiary also has put in place its own code of ethics to prevent cases of bribery and corruption and protect information. Such codes of ethics provide employees with specific standards of conduct when performing their jobs. They prescribe the ethical virtues and values to be followed as corporate citizens and workers in the finance industry. 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 Programs

To implement ethical management, SFG conducts various programs in compliance with the group's management philosophy and principles and each subsidiary's code of ethics, and updates and upgrades the programs every year. 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 employees confirm their commitment by engaging in ethical practices through the Pledge of Shinhan Card Employees.

Moreover, SFG runs a financial transactions reporting system to prevent conflicts of interest with business partners and has introduced a voluntary compliance program for fair transactions to forestall unfair competition. The program includes establishing a voluntary compliance system for fair transactions, publishing a manual, enacting the guidelines and training and monitoring systems. Shinhan Bank conducted training sessions for



units responsible for fair trading at the head office three times in 2012 (A total of 103 trainees in 2012).

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 the Code of Behavior for Partners of SFG to promote win-win growth with our partners and applied it to all of our partners. Accordingly, we are making efforts 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 preparing for possible financial accidents in advance by implementing the Financial Irregularities Reporting System through which customers can report a breach of law and/or irregularities by employees, and the Whistleblower Reporting System through which employees can report internal violations of the law, company rules or code of ethics.

SFG carries out online/offline education programs to elevate employee awareness on issues such as a wholesome organizational culture, proper stock transactions, healthy investment practices and the prevention of bribery during holiday seasons.

We are working to make such ethical practices a natural part of Shinhan's culture.

Ethical Management Training

Ethical and legal compliance education is given 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 been helping all Group subsidiaries, to easily understand and execute the philosophies and basic values of ethical management via joint Group-wide ethical and legal compliance cyber education.

Shinhan Bank has made the third week of every month Compliance Education Week ("ABC Week"). During the 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.

At Shinhan Card, once a year, all employees must take part in an annual online training session which aims to raise awareness of legal compliance and prevent financial malfeasance. In 2012, 2,944 employees completed the course. Employees also perform self-compliance checks once a year.

Shinhan Investment Corp. conducts an annual compliance awareness survey among employees to check their general level of understanding of ethical and legal compliance and promote self-awareness on ethical issues. The company also provides training sessions on ethical compliance each year. In addition, compliance awareness is raised through training on changes in finance-related laws and regulations, main compliance monitoring tasks, and incident prevention through field surveys at branches.

Shinhan Life Insurance reinforces its ethical and legal compliance education system by publishing guides on the code of ethics and through a compliance monitoring manual, a casebook, and ethical and legal compliance communications. On the other hand, the insurer runs an employee self-assessment system via a monthly checklist at all departments.

External Assessment of Ethical Management

SFG has been acclaimed for its great efforts for ethical management. Shinhan Bank was named an All Star for the seventh straight year on the 2011 Korea's Most Admired Company survey by the Korea Management Association (KMA), selected as Korea's Most Admired Company in the Banking category for the ninth consecutive year, and picked up the Korea Social Contribution Grand Prize in CSR for seven years running. In addition, the Korea Standard Association selected Shinhan Bank as the top bank in the Korean Sustainability Index category in its 2012 Korea Sustainability Awards. The 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 about corporate social responsibilities.

Shinhan Card topped the 2011 Korea's Most Admired Companies list for the fifth year in a row, and held first place on the Korea Sustainability Index by the Korean Standards Association (KSA) in the Credit Card category. The Grand Prize of the Korean Consumers' Most Trusted Companies Awards was also given to Shinhan Card.



Financial Section

SFG posted KRW 2,322.7 billion in net income on a consolidated basis in 2012. The Group's net income dwindled 25.1% from KRW 3.1 trillion in 2011 due to a drop in its NIM caused by lowering of key interest rates and an increase in loan loss provisions triggered by corporate restructuring. Outside of 2009, when the global financial crisis reached its peak, the Group has maintained KRW 2 trillion or more in net income every year since 2007.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2012

In 2012, we witnessed a global economy that was faced with a stream of destabilizing factors including the financial crisis and the lingering fiscal crisis in the Euro Zone that began in 2011. The economic downturn and tighter regulations triggered the volatility of stock market, interest rates, and foreign exchange rates throughout the year. For example, central banks in the U.S. and Europe expanded the money supply to fight recession, substantially impacting the global economy. The Korean financial industry continued to struggle in a difficult business climate caused by a number of factors including slowing growth, reduction in key interest rates, sluggish exports caused by adverse KRW/JPY movement, protracted slack in domestic demand, tightened regulations in banking, credit cards, and life insurance sectors, as well as the sluggish real estate market.

Since the beginning of the so-called "New Normal" era that can be highlighted by low growth, low interest rates, and tightened regulations, those in the financial industry have been facing new challenges to maintain profits in the banking and non-banking sectors. Namely, we faced mounting pressures to lower interest income, a key factor in total income, as well as heightened regulations on various non-interest income generating activities.

In 2012, the financial sector moved forward with the additional restructurings on construction companies with real estate PF delinquencies. It also adopted conservative risk management measures including heightened measures on defaulting real estate development loans, restructuring of companies in court receivership, and proactive management of potential default cases.

Furthermore, the financial industry strove to meet the growing demand for social responsibility and request for reductions in banking and credit card commissions. We saw a changing competitive environment from M&A activities within the banking industry. Also, we had to adapt to rapidly changing business models from changes in IT technology, the convergence of the financial business and the telecommunication business, and smart finance.

In this time of growing uncertainty and volatility, SFG was able to maintain its profitability and soundness. We grew our loan book ahead of the interest rate cuts and practiced conservative management. As a result, SFG achieved the best results among major financial groups, thus highlighting Shinhan's ability to generate stable profits.

On a consolidated basis, the Group's net income was KRW 2,322.7

billion in 2012, down 25.1% from KRW 3.1 trillion in 2011. Net income decreased because of lowered interest income and non-interest income, as well as increase in provisions. However, excluding one-off factors, the Group is maintaining a strong income flow.

The banking business of the Group generated KRW1,675.6 billion in net income, down 21.5% from a year earlier. Shinhan Bank's loan book grew by 3.7% reflecting its efforts to expand loan assets around clients with good credit ratings. However, net interest margin fell by 23bp a year due to base rate cuts and growing competition, causing interest income to slide 4.4% compared to 2011. Non-interest income declined 25.5% from the previous year due to the elimination of one-off gains from securities sales in 2011. Bad debt expenses grew 21.4% from 2011, impacted by restructurings, defaults and work-outs of ailing industries which has been carried out since 2009.

Net income of the non-banking segment stood at KRW 1,026.3 billion, a year-on-year decrease of 19.9%. The non-banking segment was impacted by stricter regulations, an increment in policy reserves, a reduction in brokerage commission due to substantial drop in trading volume, and the accumulation of loan-loss reserves for shipping finance of Shinhan Capital. However, net income contribution from non-banking segment was stable at 38% of the Group net income. Furthermore, higher profitability in the non-banking segment led by credit card and life insurance contributed to an increase in Group's ROA.

Shinhan Card and Shinhan Life Insurance recorded net income of KRW 749.8 billion and KRW 209.4 billion, respectively, accounting for 28% and 8% of the total Group net income. The net incomes of Shinhan Investment, Shinhan Capital and Shinhan BNPP Asset Management were KRW 63.9 billion, KRW 4.7 billion and KRW 20.3 billion respectively. The Group's total consolidated assets grew 4.4% from 2011 as Shinhan Bank's loan assets increased 3.7%, showing appropriate level of growth. Earning assets of Shinhan Card grew by 1.3% and assets of Shinhan Life Insurance and Shinhan Investment Corp. each grew by 21.2% and 35.3%.

Shinhan Bank's deposits and loans expanded by 4.5% and 3.7%, respectively. Loan-to-Deposit ratio (excluding CD) stood at 98.0%, maintaining below 100% level.

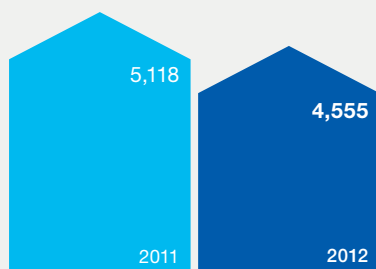
Since the global financial crisis, SFG has implemented growth strategies centering on high-quality assets and rigorous risk management by managing credit risks and writing off or selling considerable amounts of non-performing loans. As a result, the

Group's NPL ratio marked 1.28% at the end of 2012, indicating the Group's stability in comparison to its peers.

The NPL ratios of Shinhan Bank and Shinhan Card sat at a comfortable level of 1.08% and 2.15%, respectively, at the close of 2012. The NPL Coverage Ratio is higher than the industry average at 176% for the Group, 171% in Shinhan Bank and 254% in Shinhan Card.

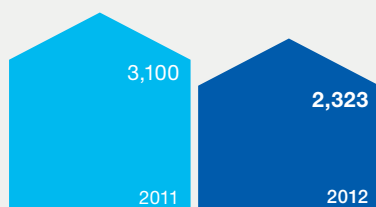
Pre-provision Income

KRW in billions



Net Income

KRW in billions



SUMMARY OF THE REPORTED INCOME STATEMENT (PROFITABILITY AND MARKET POSITION)

1. Group Overview

In 2012, SFG's consolidated net income stood at KRW 2,322.7 billion, down 25.1%(777.3bil.) from the KRW 3,100.0 billion posted the previous year. In an adverse business environment with lingering impacts of the global financial crisis and the impacts from restructuring, we continued to take proactive risk management measures and

managed a solid balance sheet via write-offs and sales of non-performing loans. The Group also recorded higher bad debt expenses from restructuring companies in construction, shipbuilding, shipping, and real estate industries. On the other hand, interest income was lowered from a decrease in net interest margin and a slowdown in the growth of loan assets, while non-interest income business showed a decrease due to tightened regulations and adverse market conditions. The Group outperformed its financial group peers by recording the highest net income for 5 consecutive years.

Since 2010, SFG has put forth initiatives to generate stable profits and expand profit base in this "New Normal" environment of low growth, low interest rate and high regulation. Based on a balanced portfolio of banking and non-banking businesses, we have strengthened the core businesses of our subsidiaries through utilizing our nation-wide channels and customer base. At the same time, the Group's profit is greatly benefiting from increased synergies created by moving its WM (Wealth Management) and CIB (Corporate & Investment Banking) business structures into matrix structures centered on banking and securities. Furthermore, SFG is putting forth efforts to steadily increase income from overseas, as well as working towards reducing costs Group-wide. In the banking sector, the Group is intent on keeping its core income at a stable level through the stabilization of interest income and credit costs. In the non-banking sector, continued efforts are made to defend the profitability of cash cow businesses such as credit card and life insurance.

Despite the 3.7% rise in outstanding loan amount, interest income fell by 1.5% as the Group's net interest margin dropped 18bp from the year before. The non-interest income segment fell 23.8% from the previous year due to the elimination of proceeds from security sales of Hyundai Engineering and Construction in 2011, drops in merchant fee from credit card business and commissions from brokerage services.

As for costs, despite the rise in personnel cost at the bank and credit card company, the Group's SG&A expense contracted 1.8% compared to the previous year. This was achieved by the reduction in severance allowances, performance-based bonuses and Group-wide cost-cutting efforts.

Provision for credit losses of the Group increased KRW 396.2 billion (42.8%) from the previous year and credit cost ratio rose by 20bp to 67bp from 47bp the year before. This was largely driven by the accumulation of additional reserves for companies in need of restructuring, elimination of one-off loan loss provisions reversal,

MANAGEMENT'S DISCUSSION AND ANALYSIS

and an increase in loan loss provisions for the shipping finance from Shinhan Capital.

SFG Condensed Income Statements

	KRW in billions			
	2012	2011	Chg Amt	Chg %
Total Operating Income	8,587.0	9,195.8	-608.8	-6.6%
Interest Income	6,974.2	7,080.0	-105.8	-1.5%
Non-interest Income	1,612.8	2,115.9	-503.1	-23.8%
SG&A Expense	4,059.6	4,135.4	-75.8	-1.8%
Pre-Provision Operating Income	4,527.4	5,060.5	-533.1	-10.5%
Other	27.5	57.8	-30.3	-52.3%
Pre-Provision Income	4,555.0	5,118.3	-563.3	-11.0%
Provision for Credit Losses	1,321.9	925.7	396.2	42.8%
Pre-tax Income	3,233.0	4,192.6	-959.6	-22.9%
Income Tax Expense	738.9	919.9	-181.0	-19.7%
Consolidated Net Income ¹⁾	2,322.7	3,100.0	-777.3	-25.1%

1) Net Income in Controlling Interest

Net income of the banking segment dwindled from the year prior due to a drop in NIM and an increase in loan loss provisions. The net income of the non-banking segment also fell 19.9% due to tighter regulations on non-banking subsidiaries such as Shinhan Card and Shinhan Life Insurance.

Shinhan Card saw its net income decrease by 14.4% from the previous year to KRW 749.8 billion mainly due to increased competition, increased scrutiny on merchant fee commissions, and bad debt expenses. However, it safely managed its assets by focusing on credit sales and maintained appropriate profit margins by reducing funding costs and gaining profits from Sales of Visa shares.

The net income of Shinhan Investment Corp. was reduced by 37.2% from 2011, driven by lowered commission income due to weak stock market affected by external factors such as the Euro zone fiscal crisis.

Shinhan Life Insurance recorded an 11.6% reduction in profits due to the growth in policy reserves, despite growth in initial premium payments and gains on sales of fixed income securities.

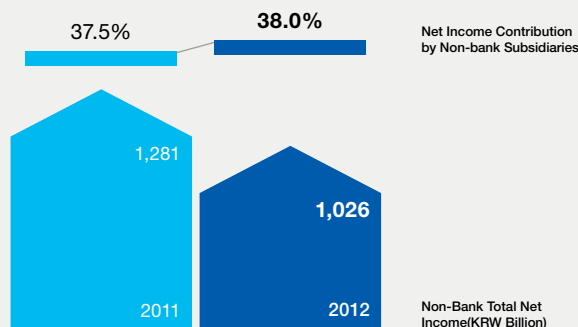
Shinhan Capital's net income was reduced by 90.9% year on year since its loan-loss reserves for shipping finance and others swelled to KRW 70.3 billion.

Net Income by Subsidiaries

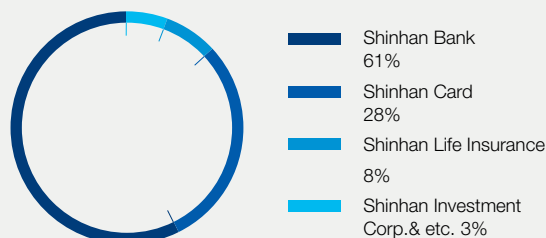
	KRW in billions			
	2012	2011	Chg Amt	Chg %
Bank (a)	1,675.6	2,133.9	-458.3	-21.5%
Shinhan Bank	1,656.8	2,118.4	-461.6	-21.8%
Jeju Bank	18.8	15.4	3.3	21.7%
Non-Bank (b)	1,026.3	1,281.1	-254.8	-19.9%
Shinhan Card	749.8	875.9	-126.2	-14.4%
Shinhan Investment Corp.	63.9	101.7	-37.8	-37.2%
Shinhan Life Insurance	209.4	236.9	-27.5	-11.6%
Shinhan BNPP AM	20.3	22.8	-2.4	-10.7%
Shinhan Capital	4.7	51.1	-46.5	-90.9%
Shinhan Savings Bank	-23.4	-	-23.4	n.a
Shinhan Data System	0.9	1.1	-0.1	-10.5%
Shinhan AITAS	-0.5	-	-0.5	n.a
Shinhan Credit Information	0.0	-0.7	0.7	n.a
Shinhan PE Investment Mgmt	1.2	-7.6	8.8	n.a
Total Income (a+b)	2,701.9	3,414.9	-713.0	-20.9%
Consolidated Net Income	2,322.7	3,100.0	-777.3	-25.1%

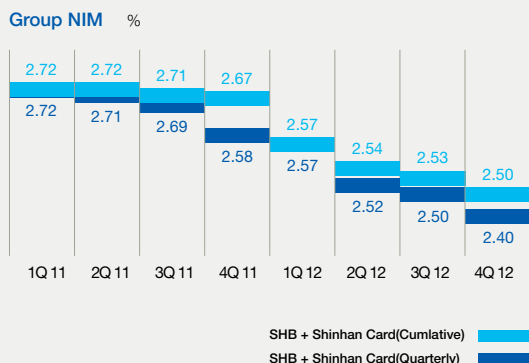
Note) after reflecting ownership by SFG

Net Income Contribution by Non-Bank Subsidiaries



Net Income Contribution by Subsidiaries





2. Shinhan Bank

1) Overview

Shinhan Bank's 2012 net income stood at KRW 1,656.8 billion, down by 21.8% (KRW 461.6 billion) from the previous year.

The Bank's interest income reached KRW 4,751.6 billion, down by 4.4% year on year due to a 23bp drop in the net interest margin. Non-interest income fell by KRW 295.4 billion or 25.5% to KRW 846.3 billion. Non-interest income from mutual fund sales commissions, securities related profits and FX valuation gain on equity method assets all decreased; however, the degree of decrease was not substantial when taking into account one-off items such as last year's gain from selling equity holdings of Hyundai Engineering and Construction.

SG&A was lowered by KRW 95.2 billion or 3.4% from the year before due to lowered provisions for retirement benefits and bonus, despite additional costs incurred from wage increase and voluntary retirements. The allowance for bad debt increased to KRW 831.4 billion, a 21.4% increase from 2011, mainly driven by restructuring of large companies and construction companies, and additional reserves for loans to companies with negative equity. During the year, Shinhan Bank sold or wrote off loans totaling KRW 1,345.6 billion, which helped manage delinquency ratios for households (0.53%) and SMEs (0.89%) at reasonable levels. NPL ratio was also moderate at 1.08%.

In 2013, we expect to see a continued difficult environment from prolonged period of low growth and low interest rate, greater regulatory scrutiny around consumer protection and security, and heightened market competition. As such, Shinhan Bank set "creativity and innovation, the establishment of new Shinhan Standards" as its strategic goal to foster creativity and innovation for sustainable growth

and competitiveness. We will proactively manage asset quality, increase efficiencies, seek new growth engines, reorganize customer platform, and gain differentiated competencies in the market. Lastly, we will develop creative talent and foster a great working environment.

SHB Condensed Income Statements

KRW in billions

	2012	2011	Chg Amt	Chg %
Total Income	5,615.9	6,130.8	-515.0	-8.4%
Interest Income	4,751.6	4,971.1	-219.5	-4.4%
Non-interest Income	864.3	1,159.7	-295.5	-25.5%
SG&A Expense	2,724.7	2,819.9	-95.2	-3.4%
Pro-Provision Operating Income	2,891.1	3,310.9	-419.8	-12.7%
Other	21.9	29.0	-7.1	-24.5%
Pre-provision Income	2,913.0	3,339.9	-426.9	-12.8%
Provision for Credit Losses	831.4	685.0	146.4	21.4%
Pre-tax Income	2,081.6	2,654.9	-573.3	-21.6%
Net Income	1,656.8	2,118.4	-461.6	-21.8%

2) Interest Income and NIM

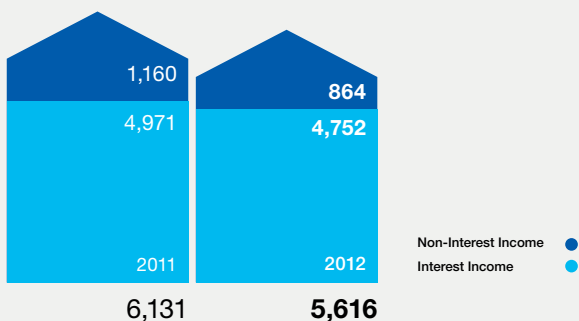
Shinhan Bank's interest income contracted by KRW 219.5 billion or 4.4% from the previous year caused by reduced net interest margin (NIM), despite an increase in loan assets from new products such as loans for police officers. The NIM was sharply reduced as lowered market interest rate depressed loan yields, followed by gradually lowered funding cost from deposits with longer maturities.

In 2012, Shinhan Bank's accumulated NIM stood at 1.99%, down by 23bps from the 2.22% posted in 2011. In terms of both funding and operations, the bank strove to prevent interest income from falling due to a drop in the NIM. As for the funding side, Shinhan Bank heightened its efforts to curb the rise in funding cost by attracting low-cost deposits and retaining low interest-bearing time deposits. In terms of operations, the bank worked to expand interest-bearing assets.

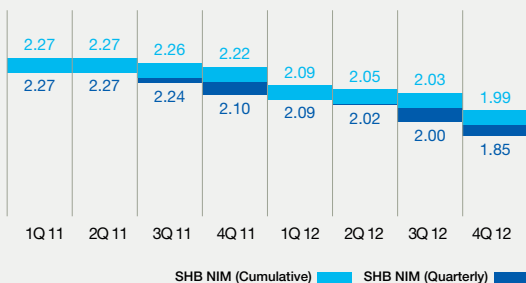
MANAGEMENT'S DISCUSSION AND ANALYSIS

Shinhan Bank Interest Income, Non-Interest Income, and Total Income

KRW in billions



Shinhan Bank NIM %



3) Non-Interest Income

Shinhan Bank's non-interest income narrowed by KRW 295.4 billion (-25.5%) to reach KRW 864.3 billion. Compared to 2011, commissions from bancassurance sales jumped 51.1%. However, Mutual fund sales commissions, profits related to securities, and FX / derivatives related income were each lowered by 26.2%, 40.5% and 27.3%. For profits related to securities, the main contributor for its decrease (KRW 248.9 billion) was the elimination of gain from selling Hyundai Engineering and Construction shares in 2011.

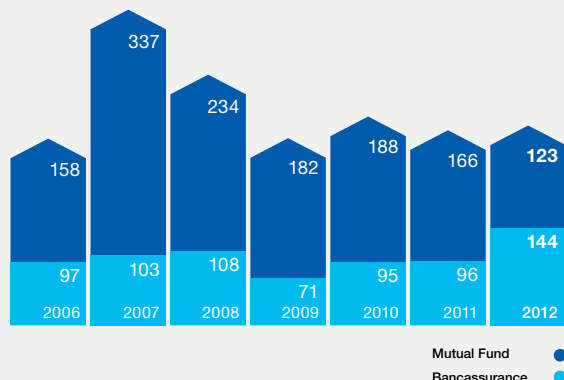
Non-Interest Income

KRW in billions

	2012	2011	Chg Amt	Chg %
Non-Interest Income	864.3	1,159.7	-295.5	-25.5%
Fees & Commissions	856.6	885.6	-29.0	-3.3%
Mutual Fund	122.6	166.2	-43.6	-26.2%
Bancassurance	144.0	95.3	48.7	51.1%
Trust Fees	60.7	62.2	-1.5	-2.5%
Securities related	366.1	614.9	-248.9	-40.5%
FX Trading/Derivatives	159.5	219.4	-59.9	-27.3%
Others	-517.9	-560.2	42.3	n.a

Fees and Commissions from Mutual Fund / Bancassurance Sale

KRW in billions



4) Sales, General and Administrative Expenses

SG&A was lowered by KRW 95.2 billion or 3.4% from the year before due to lowered provisions for retirement benefits and bonus, despite additional costs incurred from wage increase and voluntary retirements. Cost Income Ratio was 48.5%, an increase of 2.5%p from 46.0% of 2011, as the rate of decrease in operating income outpaced the rate of decrease in SG&A.

SG&A Expenses

KRW in billions

	2012	2011	Chg Amt	Chg %
SG&A Expenses	2,724.7	2,819.9	-95.2	-3.4%
Salary & Employee Benefits	1,240.3	1,270.0	-29.7	-2.3%
D & A	141.6	153.2	-11.6	-7.6%
Other Expenses	1,342.8	1,396.6	-53.8	-3.9%

3. Shinhan Card

1) Overview

During 2012, Korean economy faced slow recovery in household income and discretionary consumer spending caused by financial crisis in the developed countries and low domestic growth. Also the industry faced increased regulations, namely, "merchant fee system restructuring" and "comprehensive measure to restructure credit card market". Despite these difficulties, Shinhan Card was able to grow both in size and quality, while maintaining its stable profitability and financial stability.

Shinhan Card, on the strength of economies of scale, posted net income of KRW 749.8 billion for 2012 with 15.1 million active

cardholders (22.2 including debit card holders) and 2.76 million merchants.

Moreover, despite the loss of child care expenditure card business in early 2012, Shinhan Card was able to maintain its pole position as a market leader (a 22.4% market share based on retail credit purchase volume as of end of 2012.) by cross-selling through the Group, leveraging the Group's network, and conducting strenuous risk management. In particular, Shinhan Card won first place in all three major brand value tests - the Premium Brand Index of the Korea Standard Association, the National Competition Index of the Korea Productivity Center, and the Brand Power in the Korean Industry of Korea Management Association Consulting. This feat is an indication of Shinhan Card's leadership in size as well as brand value.

In 2013, the credit card industry is expected to face difficulties in boosting its profitability and growth potential due to a drop in merchant fees and the restrained expansion of financial products given concerns regarding increasing household debts. Shinhan Card is planning to build a stable business platform over a long term by removing inefficiencies and fostering a healthy customer base.

In particular, we will increase the level of monitoring on potential risk factors such as household debt and actively allocate more capital to high quality customers.

2) Income Statement Analysis

Condensed Income Statements of Shinhan Card

	KRW in billions			
	2012	2011	Chg Amt	Chg %
Operating Revenue	4,594.7	4,526.1	68.6	1.5%
Card Business	3,802.6	3,836.0	-33.4	-0.9%
Installment Finance	105.4	108.5	-3.1	-2.9%
Lease	47.8	53.4	-5.6	-10.5%
Others	638.9	528.3	110.6	20.9%
(Derivatives & FX)	172.8	94.9	77.9	82.1%
Interest Expense	622.0	735.5	-113.5	-15.4%
SG&A Expenses	612.8	656.8	-44.0	-6.7%
Commissions & Other Expenses	2,097.8	1,869.2	228.6	12.2%
(Derivatives & FX)	159.6	81.3	78.3	96.2%
Pre-Provision Income	1,262.0	1,264.7	-2.7	-0.2%
Provision for Credit Losses	295.0	164.5	130.5	79.3%
Pre-tax Income	967.0	1,100.2	-133.2	-12.1%
Income Tax	217.3	224.2	-6.9	-3.1%
Net Income	749.8	875.9	-126.1	-14.4%

In 2012, Shinhan Card's operating income was up 1.5% from the previous year backed by FX gains and ancillary businesses such as insurance sales. This countered the effects of lowered product income from new merchant fee standard and other regulatory scrutiny. Shinhan Card's total transaction volume totaled KRW 134 trillion, down 1.1% from the 2011 previous figure of 136 trillion. However, excluding transaction volume from low-profit products such as the purchase card, the figure stood at KRW 129 trillion, a 0.3% increase from KRW 128 trillion won in 2011.

In 2012, interest expense was 15.4% (KRW 113.5 billion) lower than the previous year due to lowered funded amount and funding costs. SG&A fell by 6.7% from the previous year from reduced marketing activities and more efficient human resources management. Fee expenses and other operating expenses increased by 12.2%, showing increases in operating expenses from increased retail and debit card sales (3.0%). Also, increase in asset management fees and guarantee insurance from factoring business contributed as well.

Provision for Credit Losses was increased by KRW 130.5 billion from lowered recovery ratio and higher delinquencies. Recovery from loan write-offs was KRW 279.2 billion, a drop of KRW 39.7 billion from KRW 318.9 billion in the year before. The outstanding balance of written-off assets stood at KRW 6.5 trillion as of the close of 2012. Recovery from written-off loan is expected to gradually decrease due to the aging nature; however, it will remain a major profit source. Pre-tax income and net income decreased by 12.1% and 14.4% from the year before.

4. Shinhan Investment Corp.

During 2012, anxiety over the financial crisis in Europe, the fiscal cliff in the U.S., and the overall global economic recession including a slowdown in the Chinese economy forced investors to retreat to safe assets, thus dragging down the Korean stock market. Notably, average daily transaction volume plummeted to KRW 7.7 trillion in 2012 from KRW 10.9 trillion in 2011, which led to a substantial negative impact on the performances of Shinhan Investment Corp. and the financial investment industry overall. Shinhan Investment Corp.'s 2012 operating income and net income dropped 44.8% and 37.2% to KRW 67.9 billion and KRW 63.9 billion from the year earlier.

In 2012, the corporation set "Vision 2015" and moved forward with a wide array of business strategies to increase the head office's business capabilities including Sales & Trading and wholesale, boosting the

MANAGEMENT'S DISCUSSION AND ANALYSIS

asset business through the reinforcement of employee's specialties, and the successful establishment of CIB/WM. These efforts have paid off tangibly. We will continue to exert ourselves to enhance our performance in 2013.

On operating income breakdown, commissions fell by 22.6% from the year before. This can be attributed to the decrease in the average commission rate from weak volume and expansion of the low commission market including mobile trading. Income from financial products was KRW 10.6 billion, a 14.5% drop from 2011. Lowered commission from securities sale was the main contributor. Income from new securities, trust, RP, sales of retail bonds, and bancassurance showed substantial improvement from 2011.

Income from IB grew by 18.6% from last year's KRW 30.6 billion despite a weak IPO market, as collaboration within CIB netted greater performance in corporate bond / ABS market.

Income from product management was less than satisfactory as stock market was held at a depressed level; however, market timing helped the earning from fixed income to grow 43.2% to KRW 123.0 billion from KRW 85.9 billion in 2011.

Interest and other income stood at KRW 45.9 billion, a year-to-year decrease of 35.5%. This was caused by the decreased interest income from customers and Korea Securities Finance Corporation, as well as increased interest expenses on REPO and other products.

SG&A decreased by 0.3% from the previous year's figure of KRW 351.4 billion, driven by lowered marketing expenses and bonuses. Provision for Credit Losses, which skyrocketed after the financial crisis, was lowered by KRW 9.6 billion due to the reversal in allowance from PF loan sales.

Condensed Income Statements of Shinhan Investment Corp.

	KRW in billions			
	CY2012	CY2011	Chg Amt	Chg %
Operating Revenue	461.4	535.1	-73.7	-13.8%
Fees & Commission	292.6	378.0	-85.4	-22.6%
Proprietary Trading	123.0	85.9	37.1	43.2%
Other operating income	45.9	71.2	-25.3	-35.5%
Operating Expense	393.5	412.2	-18.7	-4.5%
SG&A Expense	350.2	351.4	-1.2	-0.3%
Commission Expense	44.6	52.5	-7.9	-15.0%
Provision for Credit Losses	-1.3	8.3	-9.6	-115.7%
Operating Income	67.9	122.9	-55.0	-44.8%
Net Income	63.9	101.7	-37.8	-37.2%

Fees & Commission

	KRW in billions			
	CY2012	CY2011	Chg Amt	Chg %
Fees & Commission	292.6	378.0	-85.4	-22.6%
Brokerage Commissions	223.3	318.3	-95.0	-29.8%
Commission on BC/MF Sales	10.6	12.4	-1.8	-14.5%
Wrap Account fees	3.7	5.1	-1.4	-27.5%
Commission on trust mgt. and RP sales	10.3	9.2	1.1	12.0%
IB related Commission ¹⁾	36.3	30.6	5.7	18.6%
Other Commission	8.4	2.4	6.0	250.0%

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

SG&A expenses

	KRW in billions			
	CY2012	CY2011	Chg Amt	Chg %
SG&A Expense	350.2	351.4	-1.2	-0.3%
Salary	224.0	226.8	-2.8	-1.2%
Other general expenses	114.3	111.8	2.5	2.2%
Depreciation	11.9	12.8	-0.9	-7.0%

1) Trading Volume & Market Share

The volume of stocks traded through Shinhan Investment Corp. was KRW 189 trillion in 2012, down 21% from the previous year. However, it accounted for 4.9% of the market, a 0.5%p increase in market share. Meanwhile, the company traded KRW 945 trillion worth of futures, a drop of 48% from the totals in 2011. Market share in futures market also fell by 1.7%p to 6.7%. Options trading volume was KRW 29 trillion, down 44% from the year before. Market share in options market was 4.9%, a 1.2%p decrease from 2011.

Market Share

	CY2012	CY2011	Chg %p
Stocks	4.9%	4.4%	0.5%p
Futures	6.7%	8.4%	-1.7%p
Options	4.9%	6.0%	-1.1%p

Trading Volume

	KRW in trillions		
	CY2012	CY2011	Chg %
Stocks	189	239	-21%
Futures	945	1,803	-48%
Options	29	52	-44%

5. Shinhan Life Insurance

The business environment for the life insurance industry worsened in 2012 as a result of low growth, low interest rates, tougher regulations, and increased market competition. Despite these challenges, Shinhan Life Insurance is continuing to grow at a healthy pace. Total insurance premium was KRW 4.9 trillion and net income was KRW 209.4 billion, both of which placed Shinhan Life among the top five of the 24 life insurance companies in Korea. Its initial monthly insurance premium was KRW 104.3 billion (ranked 4th), surpassing KRW 100 billion mark for the first time in the company's history.

In 2012, Shinhan Life Insurance posted KRW 209.4 billion in net income, a decrease of KRW 27.5 billion from the previous year although still managing to surpass the KRW 200 billion mark for 3 consecutive years. This was achieved despite the low interest rate and tough business environment.

Insurance premium rose by KRW 863.5 billion thanks to an increase in new insurance policy sales. Investment income was increased by KRW 76.8 billion, mainly from gains from selling fixed income securities. In total, total operating net results rose by KRW 627.0 billion compared to the previous year.

However, the provision of policy reserves increased by KRW 671.9 billion, forcing pre-tax income to fall by KRW 44.9 billion.

The insurance margin grew 35.4% from 2011 levels to reach KRW 549.4 billion due to higher premiums from expanded sales network (9,708 sales representatives, up 18.7% year on year) and as an increase in initial monthly premium (up 5.9% year on year at KRW 104.3 billion) outpaced additional marketing expenses and insurance paid.

Investment margin showed an increase of KRW 76.8 billion (12.8%) from the previous year as higher gains from securities sales (increased by KRW 22.0 billion from 2011) outweighed lowered interest income (decreased by KRW 10.5 billion).

Condensed Income Statements of Shinhan Life Insurance

KRW in billions

	CY2012	CY2011	Chg Amt	Chg %
Insurance Operating Net Results	2,099.2	1,549.8	549.4	35.4
Premiums Written	4,912.6	4,049.1	863.5	21.3
Claims Paid(-)	1,508.8	1,329.1	179.7	13.5
Reinsurance Operating Results	0.4	0.8	△0.4	△50.0
Operating Expenses(-)	806.3	677.0	129.3	19.1
Net Investment Gains Net Results	676.3	599.5	76.8	12.8
Others Net Results	43.5	42.7	0.8	1.9
Total Operating Net Results	2,819.0	2,192.0	627.0	28.6
Provision of Policy Reserve(-)	2,554.3	1,882.4	671.9	35.7
Pre-tax Income	264.7	309.6	△44.9	△14.5
Net Income	209.4	236.9	△27.5	△11.6

BALANCE SHEET REVIEW & ASSET QUALITY

1. Shinhan Financial Group

1) Total Assets

Total assets for Shinhan Financial Group on a consolidated basis stood at KRW 300.8 trillion at the end of 2012, representing an increase of KRW 12.8 trillion (4.4%) compared to the figure recorded in 2011. By subsidiary, Shinhan Bank added KRW 2.7 trillion in its total assets; Shinhan Investment Corp., KRW 4.3 trillion; Shinhan Life Insurance, KRW 3.0 trillion; and Shinhan Card stood at nearly the same level as 2011 year end.

By category, Shinhan Financial Group's loan assets were up KRW 7.1 trillion; Available for sales securities, KRW 2.2 trillion; trading assets, KRW 2.1 trillion; and currency & due from banks was down by KRW 1.3 trillion.

The Groups' deposits were KRW 7.1 trillion higher, while borrowings were KRW 1.1 trillion lower than figures posted a year earlier. This is largely because the group has strived to ensure stable funding by relying less on market borrowings or corporate bonds, and more on customer deposits. This has allowed SFG to manage the Loan-to-Deposit ratio (LDR) and Liquidity ratio at a stable level.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SFG Condensed Balance Sheets

	KRW in billions			
	2012	2011	Chg Amt	Chg %
Currency & Due from Banks	13,394.3	14,730.9	-1,336.6	-9.1%
Trading Assets	14,018.9	11,954.3	2,064.6	17.3%
Financial Assets at FVTPL	2,585.1	1,800.8	784.3	43.5%
Derivative Instruments Assets	2,164.9	2,319.6	-154.7	-6.7%
Loans	199,655.7	192,572.6	7,083.2	3.7%
Available for Sales Securities	36,328.4	34,105.7	2,222.7	6.5%
Hold to Maturity Securities	11,659.2	11,894.7	-235.4	-2.0%
Tangible Fixed Assets	3,046.7	2,993.9	52.8	1.8%
Intangible Fixed Assets	4,190.8	4,203.5	-12.7	-0.3%
Investment Using Equity Method	298.5	248.8	49.7	20.0%
Other Assets	13,505.9	11,217.0	2,288.9	20.4%
Total Assets	300,848.5	288,041.8	12,806.7	4.4%
Deposits	170,096.5	163,015.7	7,080.7	4.3%
Trading Liabilities	1,370.7	704.4	666.3	94.6%
Financial Liability at FVTPL	4,822.2	3,298.4	1,523.8	46.2%
Derivative Instruments Liability	1,904.0	1,972.2	-68.2	-3.5%
Borrowings	18,891.4	20,033.2	-1,141.9	-5.7%
Trading Corporate Bonds in Won	38,840.2	39,737.0	-896.8	-2.3%
Allowance for Severance and Retirement Benefits	214.1	274.7	-60.6	-22.1%
Other Liabilities	35,929.6	32,147.4	3,782.3	11.8%
Total Liabilities	272,068.7	261,183.0	10,885.7	4.2%
Total Stockholder's Equity	28,779.8	26,858.8	1,921.0	7.2%
Total liabilities and shareholders' equity	300,848.5	288,041.8	12,806.7	4.4%

Asset Breakdown by Subsidiaries

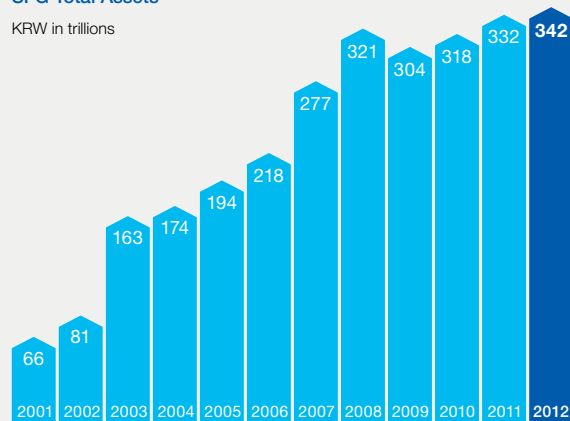
	KRW in billions			
	2012	2011	Chg Amt	Chg %
Banks	259,439.8	256,640.1	2,799.7	1.1%
Shinhan Bank	256,196.8	253,471.9	2,724.9	1.1%
Jeju Bank	3,242.9	3,168.2	74.8	2.4%
Non-Banks	79,923.2	72,295.4	7,627.8	10.6%
Shinhan Card	22,279.9	22,356.9	-77.0	-0.3%
Shinhan Investment Corp.	16,465.3	12,166.1	4,299.2	35.3%
Shinhan Life Insurance	16,942.2	13,976.7	2,965.4	21.2%
Shinhan BNPP AM	19,484.2	19,765.6	-281.4	-1.4%
Shinhan Capital	3,526.2	3,518.3	7.9	0.2%
Shinhan Savings Bank	636.1	4.0	632.1	n.m
Shinhan Data System	16.3	15.5	0.8	4.9%
Shinhan Aitas	31.0	0.0	31.0	n.a
Shinhan Credit Info	19.2	19.5	-0.3	-1.6%
Shinhan PE	421.8	343.2	78.6	22.9%
Others	101.0	129.5	-28.6	-22.1%
Total Assets ¹⁾	342,257.9	332,276.5	9,981.4	3.0%

Note 1) Including Bank trust account and AUM of Shinhan BNPP AM

In the meantime, the total assets of the group, including bank trust accounts and AUM, increased KRW 10.0 trillion (3.0%) to KRW 342.3 trillion at the end of 2012.

SFG Total Assets

KRW in trillions



2) Total Deposits

Group deposits totaled KRW 170.1 trillion at the end of 2012, an increase of KRW 7.1 trillion (4.3%) from the previous year. This increase was fueled by a KRW 4.2 trillion growth in deposits at Shinhan Bank. Deposits have continued to go up as customers are in search of safer assets due to economic uncertainties, and banks are continuing their efforts to secure funding given the emphasis for their LDR and liquidity.

Total Deposits

	KRW in billions			
	2012	2011	Chg Amt	Chg %
Shinhan Bank	166,820.3	162,582.3	4,238.0	2.6%
Deposits in Won	147,317.7	140,987.5	6,330.3	4.5%
Low Cost Deposits	47,105.0	45,773.6	1,331.4	2.9%
Time Deposits	91,922.4	88,532.6	3,389.8	3.8%
Installment Deposits	8,290.3	6,681.3	1,609.0	24.1%
CDs	943.1	2,462.9	-1,519.8	-61.7%
RPs & Bills Sold	361.9	643.3	-281.4	-43.7%
Deposits in FC	6,519.6	6,259.9	259.7	4.1%
Trust Account	15,452.8	14,000.4	1,452.4	10.4%
Merchant A/C and other consolidating entities	-3,774.9	-1,771.7	-2,003.2	113.1%
Shinhan Investment	909.8	970.1	-60.3	-6.2%
Jeju Bank	2,486.6	2,442.2	44.3	1.8%
Shinhan Savings Bank	525.2	-	525.2	n.a
(-) Intra Transaction	-645.4	-2,978.9	2,333.5	-78.3%
Total	170,096.5	163,015.7	7,080.7	4.3%

3) Total Loans

Total loans for Shinhan Financial Group increased by KRW 7.1 trillion (3.7%) to KRW 199.7 trillion. Breaking down this figure, Shinhan Bank went up by KRW 5.5 trillion; Shinhan Life Insurance KRW by 0.6 trillion; Shinhan Investment Corp. by KRW 0.4 trillion; and Shinhan Card by KRW 0.3 trillion. For Shinhan Bank, household loans and loans to SOHO businesses increased, and call loans and RP displayed a significant rise as short-term capital inflows escalated. For Shinhan Card, total loans went up a mere 1.3% despite increased credit sales and leased assets, as we strategically brought down risky cash advances by KRW 0.4 trillion.

Total Loans

	KRW in billions			
	2012	2011	Chg Amt	Chg %
Total	199,655.7	192,572.6	7,083.2	3.7%
Shinhan Bank	169,140.9	163,638.0	5,502.9	3.4%
Bank Account	162,617.8	156,696.0	5,921.8	3.8%
Trust Account	559.7	566.0	-6.3	-1.1%
Others	5,963.5	6,376.0	-412.6	-6.5%
Shinhan Card	20,026.7	19,772.0	254.7	1.3%
Shinhan Investment	1,217.7	798.4	419.3	52.5%
Shinhan Life Insurance	3,581.0	2,957.4	623.7	21.1%
Shinhan Capital	3,065.8	3,027.6	38.2	1.3%
Jeju Bank	2,320.8	2,258.8	61.9	2.7%
Shinhan Savings Bank	315.0	-	315.0	n.a
Others	-12.0	120.4	-132.5	-110.0%

4) Asset Quality

As of the end of 2012, the Group's non-performing loan (NPL) ratio went up 3bps from the previous year to 1.28%. The increase was due to a higher NPL ratio at Shinhan Card, which increased KRW 91.3 billion while the level of Shinhan Bank's NPL was similar to that of the previous year.

Despite the overall deterioration of the economy caused by the economic downturn, the group was able to prevent the worsening of its asset quality at each affiliate by aggressively working to maintain its asset soundness. In particular, Shinhan Bank kept the NPL ratio at 1.08% nearly the same level as last year despite the high risk of loss caused by corporate restructuring, corporate rehabilitation, and workout programs of some large companies. This was done by taking proactive measures and selling or writing off bad assets.

Shinhan Financial Group has tightened its management of asset quality after the financial crisis, taking into consideration a possible rise in

NPLs, followed by the deterioration of macroeconomic indicators.

The Group's NPL coverage ratio was 176.2% at the end of 2012, up 10.4%p from the year before, which is the highest level in the domestic financial industry.

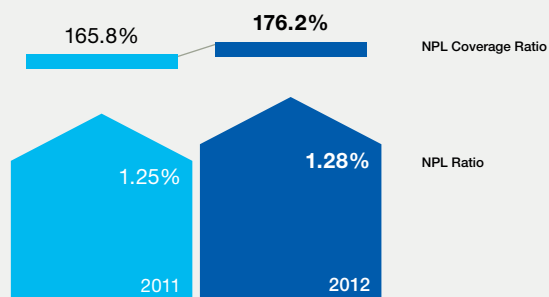
SFG Asset Quality

	KRW in billions			
	2012	2011	Chg Amt	Chg %
Total ¹⁾	198,148.6	195,497.1	2,651.5	1.4%
Normal	192,614.9	190,695.3	1,919.6	1.0%
Precautionary	2,992.2	2,356.3	635.8	27.0%
Substandard	1,242.9	1,304.9	-61.9	-4.7%
Doubtful	502.8	469.5	33.3	7.1%
Estimated Loss	795.8	671.0	124.8	18.6%
Substandard & below	2,541.6	2,445.4	96.1	3.9%
NPL Ratio	1.28%	1.25%	-	0.03%p
Allowance + Reserve ²⁾	4,478.8	4,054.0	424.8	10.5%
Coverage Ratio	176.2%	165.8%	-	10.4%p

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

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

SFG NPL Ratio & Coverage Ratio



2. Shinhan Bank

1) Loans in KRW

Shinhan Bank's total KRW loan increased 3.7% from 2011, with most of the growth contributed by loans to households, SOHO businesses and large corporates. Total household loans rose by KRW 4.6 trillion, with an increase of KRW 1.8 trillion in loans specially designed for police officers. A further KRW 1 trillion growth in loans was for leasehold rights. A meager increase of 0.2% was attributable to mortgage loans, affected by the weak housing market.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total loans to corporate clients went up a mere KRW 0.6 trillion as loans for operating capital decreased to KRW 2.9 trillion, while loans for facility investment went up KRW 3.5 trillion. SME loans declined approximately KRW 0.9 trillion compared to the previous year, affected by the KRW 3.7 trillion, a loan amount that has been reclassified as belonging to large corporations rather than SMEs. Loans to large companies showed an increase of a mere KRW 1.5 trillion due to the repayment of loans totaling KRW 2 trillion by Korea Deposit Insurance Corporation that suspended savings banks.

Loans in KRW

	KRW in billions			
	2012	2011	Chg Amt	Chg %
Loans in Won	144,228.0	139,082.4	5,145.6	3.7%
Retail	69,803.6	65,227.6	4,575.9	7.0%
Mortgage	45,668.0	45,570.9	97.1	0.2%
Others	24,135.6	19,656.8	4,478.8	22.8%
Corporate	74,424.5	73,854.8	569.7	0.8%
SME	51,323.7	52,268.3	-944.7	-1.8%
(SOHO)	24,984.4	22,773.6	2,210.8	9.7%
Large Corp. & Public	23,100.8	21,586.5	1,514.3	7.0%

2) Asset Quality

Shinhan Bank's NPL ratio was 1.08%, 1bp lower at the end of 2012 than it was the year earlier, maintaining the best asset quality among Korean banks. On top of this, the NPL coverage ratio stood at 171.3%, providing sufficient buffer for potential risks.

The bank's NPLs fell by a mere KRW 1 billion compared to the year before. The prolonged delinquency caused by large corporate restructuring and collective loan disputes, and the application of big companies for court receivership and workout programs led the group to experience difficulties in managing its asset quality. However, the bank was able to improve its NPL ratio by normalizing NPLs through appropriate write-off, sales, aggressive effort to retrieve NPLs, and the active support for companies at risk.

The delinquency ratio rose by 1bp to 0.61% from the previous year. Household loans grew 13bp from the year prior due to the collective loan delinquency mentioned previously. However, the ratio for corporate loans fell by 8bp even in the midst of the economic downturn as the group put forth strenuous efforts to maintain asset soundness.

SHB Asset Quality

	KRW in billions			
	2012	2011	Chg Amt	Chg %
Total	167,777.1	166,432.5	1,344.6	0.8%
Normal	163,852.1	162,625.4	1,226.7	0.8%
Precautionary	2,111.0	1,992.1	118.9	6.0%
Substandard	1,078.7	1,157.0	-78.3	-6.8%
Doubtful	333.1	265.5	67.6	25.5%
Estimated Loss	402.2	392.5	9.7	2.5%
Substandard & below	1,814.1	1,815.0	-1.0	-0.1%
NPL Ratio	1.08%	1.09%	-	-0.01%p
Allowance + Reserve ^{note)}	3,107.8	3,011.3	96.5	3.2%
Coverage Ratio	171.3%	165.9%	-	5.4%p

3. Shinhan Card

1) Cardholder

Despite a decrease in the number of cardholders at the beginning of 2012 which was led by the change of the issuing company of the child care expenditure card (Love for Children Card), Shinhan Card still commands the largest customer base in the domestic credit card industry. Although the total number of its cardholders fell by 350,000 to 15.1 million (22.2 million when debit card holders are included) at the end of 2012, compared to 15.4 million the year earlier, Shinhan Card has been able to maintain its leadership position due to continuous new credit card issuances to high quality customers and active retention programs.

In addition, the number of effective customers amounted to 9.94 million, which was almost the same to the 9.95 million from the previous year. This was made possible by the company's launch of new cards and services to satisfy customers combined with its marketing efforts focusing on customer values.

2) Earning Assets

In 2012, transaction volume posted a slight decline at Shinhan Card because of the slowdown in domestic economic growth, contraction in consumer spending, and changes in the issuing company of the childcare expenditure card. Credit purchase rose 4.1% from 2011 while cash advances and card loans decreased by 13.1% and 1.9%, respectively. These figures were due to the overall declining market and tightened risk management.

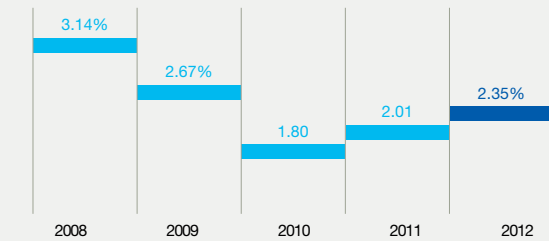
Shinhan Card's lower risk earning asset portfolio expanded (57.7%) compared to the year earlier (56.1%) due to relatively low-risk credit

purchase receivables, while the percentage of high-risk assets, including cash advance services and card loans, declined.

Earning Asset Portfolio

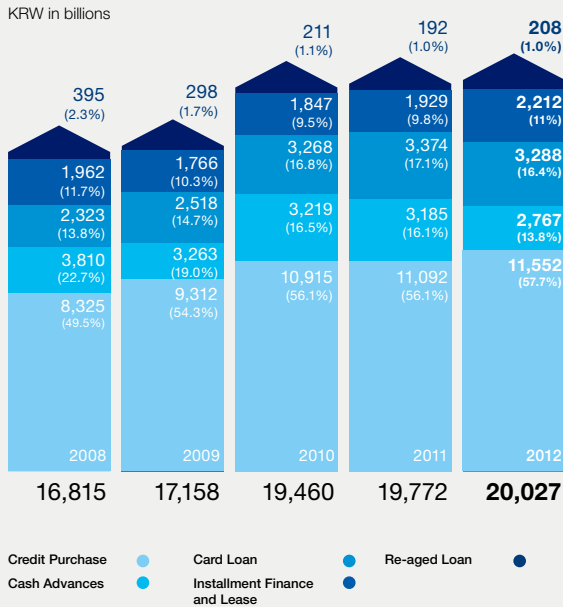
Category	KRW in billions			
	2012	2011	Chg Amt	Chg %
Earning Assets (Managed)	20,027	19,772	255	1.3%
Credit Purchase	11,552	11,092	459	4.1%
Cash Advances	2,767	3,185	-418	-13.1%
Card Loan	3,496	3,566	-70	-1.9%
(Re-aged Loan)	208	192	16	8.5%
Installment Finance	1,242	1,226	16	1.3%
Lease	970	703	267	38.0%

Delinquency Ratio

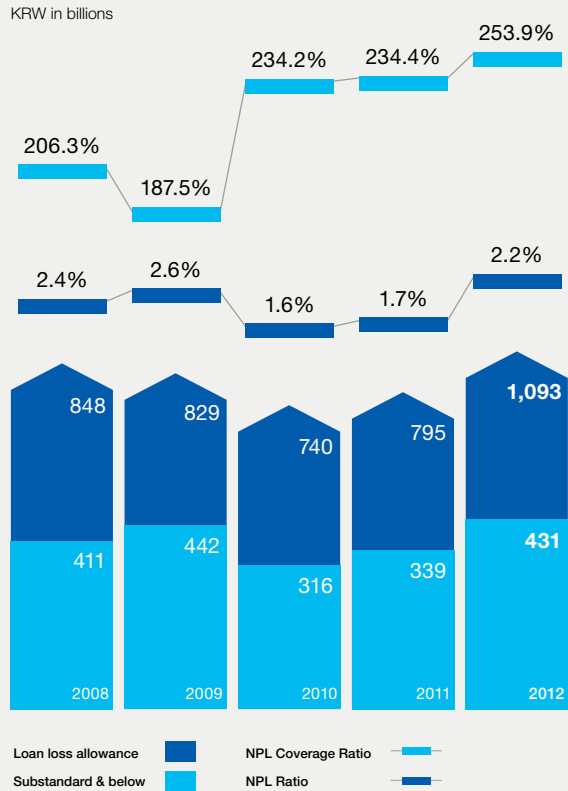


* 1 month overdue delinquency

Earning Asset Breakdown by Products



NPL Ratio & NPL Coverage Ratio



* Sum of IFRS standard LLA and reserves for credit losses, excluding those for unused credit lines

3) Asset Quality

At the end of 2012, Shinhan Card's delinquency ratio that exceeded one-month of overdue payments increased marginally to 2.35% compared to the previous year. This delinquency ratio demonstrates solidity of the firm considering the continuous growth in household debts. The NPL ratio rose to 2.15%, up 0.43%p from 2011. The NPL coverage ratio also increased to 254% at the end of 2012 versus 234% at the end of the previous year, which can be largely attributed to conservative policies regarding loan-loss provision. The write-off of NPLs in 2012 amounted to KRW 511.6 billion, an increase from the previous year's KRW 466 billion figure.

MANAGEMENT'S DISCUSSION AND ANALYSIS

3. Shinhan Investment Corp.

Condensed Balance Sheets of Shinhan Investment Corp.

	KRW in billions			
	2012	2011	Chg Amt	Chg %
Assets				
Cash and Deposit	3,065	3,202	-137	-4.3%
Securities	10,435	6,684	3,751	56.1%
(Trading securities)	8,483	4,699	3,784	80.5%
Derivatives	303	71	232	326.8%
Loans	1,218	798	420	52.6%
(Broker's loans)	716	728	-12	-1.6%
Tangible fixed assets	114	144	-30	-20.8%
Other assets	1,330	1,267	63	5.0%
Total Assets	16,465	12,166	4,299	35.3%
Liabilities				
Deposits	910	985	-75	-7.6%
(Customers' deposits)	903	970	-67	-6.9%
Borrowings	12,032	7,769	4,263	54.9%
(Call money)	814	579	235	40.6%
(Borrowings)	310	83	227	273.5%
(Bonds sold under repurchase agreements)	4,893	3,466	1,427	41.2%
(Derivatives-combined securities sold)	4,844	3,306	1,538	46.5%
Other liabilities	1,345	1,294	51	3.9%
Total Liabilities	14,287	10,048	4,239	42.2%
Total Stockholder's equity	2,178	2,118	60	2.8%
Total Liabilities & Stockholder's equity	16,465	12,166	4,299	35.3%

At the end of 2012, the total assets of Shinhan Investment Corp. rose to KRW 16.5 trillion, a 35.3% increase compared to the year before. Among these assets, securities of KRW 10.4trillion, including short-term trading securities, accounted for 63.4%, while cash and deposits were responsible for KRW 3.7 trillion, or 18.6% of the total.

Cash and deposits decreased by 4.3% compared to the previous year. This is largely because long term deposits were replaced with bonds in managing assets resulting from the issuance of equity-linked securities despite the increase in reserve for claims on customers' deposits.

Securities increased 56.1% from the previous year, and 85% of this growth was boosted by a surge in bonds due to a rise in customer assets such as RPs, retirement pensions, and equity-linked securities.

Meanwhile, KRW loan balance rose 52.6% from their year-end figures in 2011 to KRW 1,217.7 billion at the end of 2012, in large part due to

the increase in loans purchased, led by a rise in Repo trading between institutions and acquisition finance of IBs.

Total liabilities rose 42.2% from the previous year to reach KRW 14.3trillion at the end of 2012. The growth in liabilities is attributable to an increase in the sales of financial products resulting in a rise in the outstanding RP balance, as well as derivatives-combined securities sold. Bonds sold under repurchase agreements were up 41.2%, from KRW 3.5 trillion recorded at the end of 2011 to KRW 4.9 trillion the following year, and derivatives-combined securities sold rose by 46.5%, from KRW 3.1 trillion in 2011 to KRW 4.8 trillion a year later.

Total stockholders' equity increased by 2.8% from 2011 marks to reach KRW 2.2 trillion at the end of 2012, driven by growth in earnings.

FUNDING

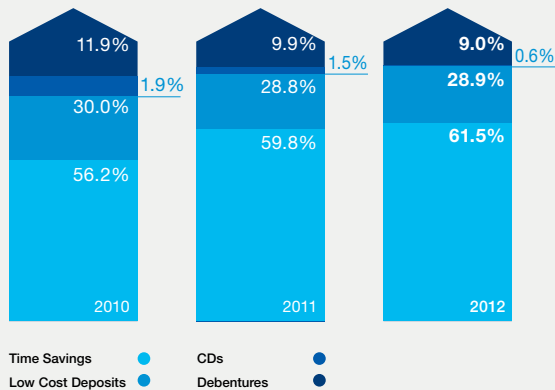
1. Shinhan Bank

At the end of 2012, Shinhan Bank's deposits in KRW increased by 4.5% (KRW 6.3 trillion) from the year before. The bank made efforts to secure funding from customer deposits rather than the market in order to manage the adequate level of LDR and liquidity. This allowed the bank to witness a rise in low-cost deposits of KRW 1.3 trillion, time deposits of KRW 3.4 trillion, and installment savings of KRW 1.6 trillion throughout the year. The bank has been establishing a stable funding portfolio by decreasing funding from the market through certificates of deposits (CDs) and corporate bonds by KRW 2.6 trillion.

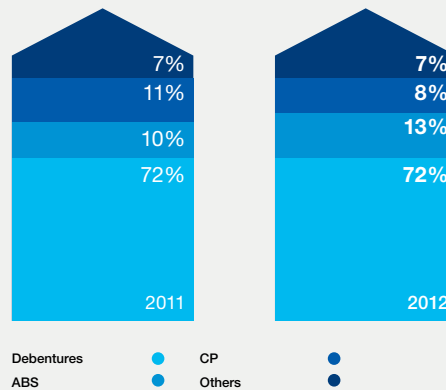
Deposits and Debentures

	KRW in billions			
	2012	2011	Chg Amt	Chg %
Deposits in Won	147,317.7	140,987.5	6,330.3	4.5%
Low Cost Deposits	47,105.0	45,773.6	1,331.4	2.9%
Time Deposits	91,922.4	88,532.6	3,389.8	3.8%
Installment Deposits	8,290.3	6,681.3	1,609.0	24.1%
CDs	943.1	2,462.9	-1,519.8	-61.7%
Debentures In KRW	14,643.7	15,722.2	-1,078.5	-6.9%

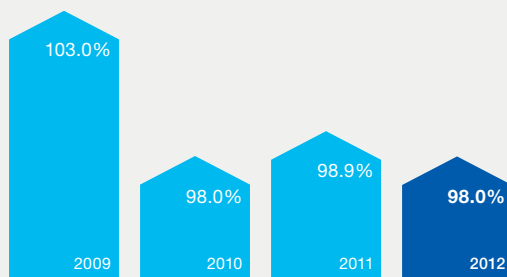
Shinhan Bank Funding Composition



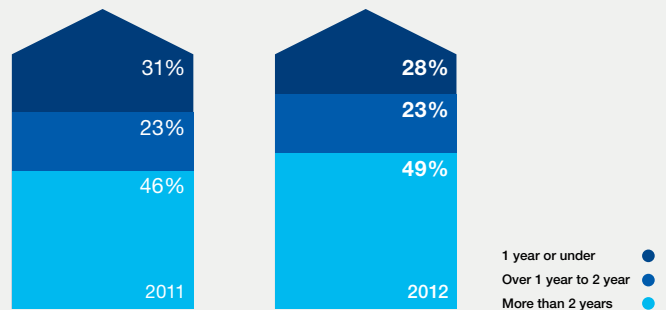
Shinhan Card Funding Composition



Loan to Deposit Ratio



Debt Maturity Profile



2. Shinhan Card

Shinhan Card is raising necessary funds through diverse channels, including corporate bonds, asset-backed securities, and commercial paper. As of December 2012, the funding balance stood at KRW 12.9 trillion, down 7.4% from the previous year's total of KRW 13.9 trillion.

The table below summarizes the maturity and composition of Shinhan Card's funding portfolio. In 2012, abundant liquidity in the market and a revitalized bond market helped maintain the percentage of corporate bonds in the mix at around 72%. One-year maturity bonds witnessed a decrease of 28%, a small drop from the year before, as Shinhan Card relied mainly on long-term bonds for its funding due to favorable market conditions.

CAPITAL MANAGEMENT

1. Shinhan Financial Group

As of 2012 year end, the Group's BIS ratio (BASEL I) stood at 12.46%, up 1.05%p from the previous year. Given Shinhan Bank's BIS ratio (BASEL II) of 15.8%, the figure is considered to be relatively low. Two main factors may be cited to explain this. First, goodwill amounting to KRW 3.8 trillion related to various past mergers and acquisitions is deducted from the Tier 1 capital when the Group's BIS ratio is calculated. Second, the bank follows the Basel II F-IRB approach, while the Group adheres to the BIS Basel I criteria with higher risk weights applied to risk-weighted assets.

The 1.05%p increase in BIS ratio is attributable to an increase in Tier 1 capital resulting from higher profits and Tier 2 capital from issuing subordinated debts. As profits grew in 2012, Tier 1 capital rose 10.4%

MANAGEMENT'S DISCUSSION AND ANALYSIS

from the year prior. Going forward, continued growth in profits is expected to enhance the Group's capital adequacy, particularly the Tier 1 capital ratio, and the group is likely to maintain the capital adequacy even under BASEL III.

Group BIS Ratio

	KRW in billions			
	2012	2011	Chg Amt	Chg %(%p)
Risk-Weighted Assets	201,184	195,579	6,309	2.9%
Capital	25,076	22,315	2,769	12.4%
Tier 1	19,125	17,317	1,808	10.4%
Tier 2	5,951	4,999	961	19.0%
BIS Ratio	12.46%	11.41%		1.05%p
Tier 1	9.51%	8.85%		0.66%p
Tier 2	2.96%	2.56%		0.40%p

2. Shinhan Bank

Shinhan Bank's BIS ratio as of the end of 2012 rose by 0.57%p from 2011 to stand at a firm 15.83% and Tier 1 ratio was maintained at a sound 12.64%. Even though risk-weighted assets increased 4.6% due to a rise in assets, BIS capital adequacy ratio increased compared to the previous year as equity capital grew 8.6% as a result of stable earnings.

Shinhan Bank obtained approval from the Financial Supervisory Service to use the Basel II Foundation Internal Ratings-Based (F-IRB) approach in April 2008, and accordingly, the Bank has been calculating its BIS capital adequacy ratio on this basis since the second quarter of 2008.

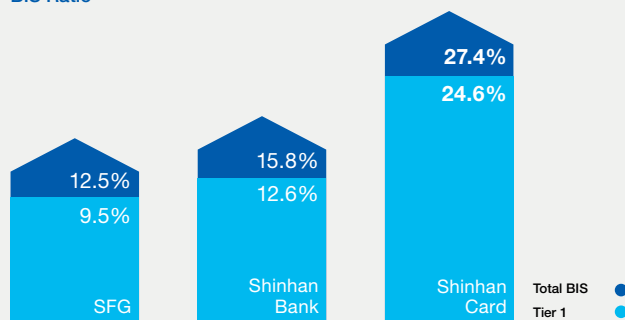
SHB BIS Ratio

	KRW in billions			
	2012	2011	Chg Amt	Chg %(%p)
Risk-Weighted Assets	129,146.1	123,353.1	5,793.0	4.7%
Capital	20,448.6	18,826.4	1,622.1	8.6%
Tier 1	16,325.4	15,342.5	982.9	6.4%
Tier 2	4,123.1	3,483.9	639.2	18.3%
BIS Ratio	15.83%	15.26%		0.57%p
Tier 1	12.64%	12.44%		0.20%p
Tier 2	3.19%	2.82%		0.37%p

3. Shinhan Card

As of 2012 year end, Shinhan Card's equity capital stood at KRW 5.8 trillion with a capital adequacy ratio (CAR) of 27.4%. The company has managed to maintain a CAR above 20% for six consecutive years on the back of excellent net income levels recorded for the past several years, following the launch of an integrated Shinhan Card in 2007.

BIS Ratio



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, 2012 and 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. 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, 2012 and 2011 and the results of its operations and its cash flows for the years then ended, in accordance with Korean International Financial Reporting Standards.

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

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 18, 2013

This report is effective as of March 18, 2013, 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, 2012 and 2011

	Note	2012	2011
In millions of won			
Assets			
Cash and due from banks	4,8,20	₩ 13,394,331	14,730,932
Trading assets	4,9,20	14,018,894	11,954,266
Financial assets designated at fair value through profit or loss	4,10,20	2,585,111	1,800,846
Derivative assets	4,11	2,164,852	2,319,585
Loans	4,12,20	199,655,732	192,572,571
Available-for-sale financial assets	4,13,20	36,328,429	34,105,747
Held-to-maturity financial assets	4,13,20	11,659,215	11,894,664
Property and equipment, net	14,20	3,046,686	2,993,860
Intangible assets, net	15	4,190,776	4,203,460
Investments in associates	16	298,518	248,848
Current tax receivable		14,128	9,022
Deferred tax assets	42	95,970	29,202
Investment properties, net	17	246,970	275,123
Other assets, net	4,18	13,094,465	10,887,878
Assets held for sale		54,412	15,792
Total assets		₩ 300,848,489	288,041,796
Liabilities			
Deposits	4,21	170,096,454	163,015,732
Trading liabilities	4,22	1,370,723	704,418
Financial liabilities designated at fair value through profit or loss	4,23	4,822,197	3,298,409
Derivative liabilities	4,11	1,904,044	1,972,197
Borrowings	4,24	18,891,378	20,033,246
Debt securities issued	4,25	38,840,175	39,736,958
Liability for defined benefit obligations	26	214,068	274,661
Provisions	27	746,846	869,592
Current tax payable		252,283	568,074
Deferred tax liabilities	42	19,890	282
Liabilities under insurance contracts	28	13,418,559	10,867,254
Other liabilities	4,29	21,492,049	19,842,168
Total liabilities		272,068,666	261,182,991
Equity	30		
Capital stock		2,645,053	2,645,053
Other equity instrument		537,443	238,582
Capital surplus		9,887,199	9,886,849
Capital adjustments		(393,097)	(392,654)
Accumulated other comprehensive income		1,134,820	1,188,948
Retained earnings		12,499,259	10,829,723
Total equity attributable to equity holders of Shinhan Financial Group Co.,Ltd.		26,310,677	24,396,501
Non-controlling interests	30	2,469,146	2,462,304
Total equity		28,779,823	26,858,805
Total liabilities and equity		₩ 300,848,489	288,041,796

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2012 and 2011

		In millions of won, except earning per share	
	Note	2012	2011
Interest income		₩ 13,857,112	13,780,714
Interest expense		(6,882,901)	(6,700,743)
Net interest income	32	6,974,211	7,079,971
Fees and commission income		3,513,839	3,557,132
Fees and commission expense		(1,941,748)	(1,797,961)
Net fees and commission income	33	1,572,091	1,759,171
Net insurance loss	28	(209,303)	(119,201)
Dividend income	34	175,783	208,860
Net trading income (loss)	35	595,866	(131,848)
Net foreign currency transaction gain		280,028	13,874
Net gain (loss) on financial instruments designated at fair value through profit or loss	36	(532,070)	171,911
Net gain on sale of available-for-sale financial assets	13	536,581	846,345
Impairment losses on financial assets	37	(1,415,794)	(982,958)
General and administrative expenses	38	(4,059,560)	(4,135,357)
Net other operating expenses	40	(723,881)	(538,382)
Operating income		3,193,952	4,172,386
Equity in income of associates	16	27,538	57,790
Other non-operating income(loss), net	41	11,522	(37,614)
Income before income taxes		3,233,012	4,192,562
Income tax expense	42	(738,944)	(919,929)
Net income for the year	30,43	2,494,068	3,272,633
Other comprehensive income (loss) for the year, net of income tax			
Foreign currency translation adjustments for foreign operations		(85,343)	16,120
Net change in unrealized fair value of available-for-sale financial assets		11,260	(460,437)
Equity in other comprehensive income of associates		4,097	2,717
Net change in unrealized fair value of cash flow hedges		15,655	1,429
Other comprehensive income (loss) of separate account		570	(579)
Total other comprehensive loss, net of income tax	30	(53,761)	(440,750)
Total comprehensive income for the year		₩ 2,440,307	2,831,883
Net income attributable to:			
Equity holders of Shinhan Financial Group Co., Ltd.	30,43	₩ 2,322,732	3,100,011
Non-controlling interest		171,336	172,622
		₩ 2,494,068	3,272,633
Total comprehensive income attributable to:			
Equity holders of Shinhan Financial Group Co., Ltd.		₩ 2,268,604	2,659,464
Non-controlling interest		171,703	172,419
		₩ 2,440,307	2,831,883
Earnings per share:	30,43		
Basic earnings per share in won		₩ 4,686	5,954
Diluted earnings per share in won		₩ 4,686	5,832

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2012 and 2011

In millions of won

	Capital stock	Other equity instruments	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub-total	Non-controlling interest	Total
Balance at January 1, 2011	₩ 2,589,553	-	8,834,971	(390,853)	1,629,495	12,071,221	24,734,387	2,460,838	27,195,225
Net income for the period	-	-	-	-	-	3,100,011	3,100,011	172,622	3,272,633
Other comprehensive income, net of income tax									
Foreign currency translation adjustments	-	-	-	-	16,086	-	16,086	34	16,120
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	(460,200)	-	(460,200)	(237)	(460,437)
Equity in other comprehensive income of associates	-	-	-	-	2,717	-	2,717	-	2,717
Net change in unrealized fair value of cash flow hedges	-	-	-	-	1,429	-	1,429	-	1,429
Other comprehensive income of separate account	-	-	-	-	(579)	-	(579)	-	(579)
	-	-	-	-	(440,547)	-	(440,547)	(203)	(440,750)
Total comprehensive income for the period	-	-	-	-	(440,547)	3,100,011	2,659,464	172,419	2,831,883
Transactions with owners, etc									
Dividends	-	-	-	-	-	(586,236)	(586,236)	-	(586,236)
Dividends to hybrid bonds	-	-	-	-	-	(2,594)	(2,594)	-	(2,594)
Issuance of preferred stock	55,500	-	1,050,664	-	-	-	1,106,164	-	1,106,164
Issuance of hybrid bonds	-	238,582	-	-	-	-	238,582	-	238,582
Redemption of preferred stock	-	-	-	-	-	(3,752,679)	(3,752,679)	-	(3,752,679)
Change in other capital surplus	-	-	1,214	-	-	-	1,214	-	1,214
Change in other capital adjustments	-	-	-	(1,801)	-	-	(1,801)	-	(1,801)
Change in other non-controlling interests	-	-	-	-	-	-	-	(170,953)	(170,953)
	55,500	238,582	1,051,878	(1,801)	-	(4,341,509)	(2,997,350)	(170,953)	(3,168,303)
Balance at December 31, 2011	₩ 2,645,053	238,582	9,886,849	(392,654)	1,188,948	10,829,723	24,396,501	2,462,304	26,858,805

See accompanying notes to the consolidated financial statements

In millions of won

	Capital stock	Other equity instruments	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub-total	Non-controlling interest	Total
Balance at January 1, 2012	₩ 2,645,053	238,582	9,886,849	(392,654)	1,188,948	10,829,723	24,396,501	2,462,304	26,858,805
Net income for the period						2,322,732	2,322,732	171,336	2,494,068
Other comprehensive income, net of income tax									
Foreign currency translation adjustments	-	-	-	-	(85,121)	-	(85,121)	(222)	(85,343)
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	10,671	-	10,671	589	11,260
Equity in other comprehensive income of associates	-	-	-	-	4,097	-	4,097	-	4,097
Net change in unrealized fair value of cash flow hedges	-	-	-	-	15,655	-	15,655	-	15,655
Other comprehensive income of separate account	-	-	-	-	570	-	570	-	570
	-	-	-	-	(54,128)	-	(54,128)	367	(53,761)
Total comprehensive income for the period	-	-	-	-	(54,128)	2,322,732	2,268,604	171,703	2,440,307
Transactions with owners, etc									
Dividends	-	-	-	-	-	(629,508)	(629,508)	-	(629,508)
Dividends to hybrid bonds	-	-	-	-	-	(23,688)	(23,688)	-	(23,688)
Issuance of hybrid bonds	-	298,861	-	-	-	-	298,861	-	298,861
Change in other capital surplus	-	-	350	-	-	-	350	-	350
Change in other capital adjustments	-	-	-	(443)	-	-	(443)	-	(443)
Change in other non-controlling interests	-	-	-	-	-	-	-	(164,861)	(164,861)
	-	298,861	350	(443)	-	(653,196)	(354,428)	(164,861)	(519,289)
Balance at December 31, 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

See accompanying notes to the consolidated interim financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2012 and 2011

	Note	2012	2011
In millions of won			
Cash flows from operating activities			
Income before income taxes		₩ 3,233,012	4,192,562
Adjustments for:			
Net interest income	32	(6,974,211)	(7,079,971)
Dividend income	34	(175,783)	(208,860)
Net fees and commission expense		39,142	182,169
Insurance expense	28	3,043,780	2,297,723
Net trading loss (income)	35	(401,260)	17,876
Net foreign currency transaction loss (gain)		(86,820)	11,293
Net loss (gain) on financial assets designated at fair value through profit or loss	36	353,830	(167,961)
Gain on disposal of available-for-sale financial assets	13	(536,581)	(846,345)
Provision for allowance	12	1,315,159	896,006
Impairment losses on other financial assets		100,635	91,303
Salaries expense		146,265	217,739
Depreciation and amortization	38	298,836	287,734
Other operating income		(526,504)	(586,604)
Equity in income of associates	16	(27,538)	(57,790)
		(3,431,050)	(4,945,688)
Changes in assets and liabilities:			
Due from banks		1,848,425	(3,540,709)
Trading assets		(1,358,678)	(2,723,770)
Financial instruments designated at fair value through profit or loss		467,291	1,821,807
Derivative assets		303,947	195,134
Loans		(8,963,549)	(11,397,231)
Other assets		(3,251,261)	(1,036,742)
Deposits		8,473,410	12,941,911
Liability for defined benefit obligations	26	(206,634)	(115,687)
Provision	27	153,118	(19,564)
Other liabilities		6,136,185	(298,829)
		3,602,254	(4,173,680)
Income taxes paid		(1,075,460)	(651,914)
Interest received		13,428,249	13,273,499
Interest paid		(6,855,041)	(6,492,566)
Dividends received		175,934	208,860
Net cash provided by operating activities		₩ 9,077,898	1,411,073

See accompanying notes to the consolidated financial statements

In millions of won

	Note	2012	2011
Cash flows from operating activities			
Proceeds from disposition of financial assets designated at fair value through profit or loss		₩ 52,909	98,472
Acquisition of disposition of financial assets designated at fair value through profit or loss		(134,507)	-
Proceeds from disposition of available-for-sale financial assets		40,687,182	43,335,156
Acquisition of available-for-sale financial assets		(42,526,208)	(47,704,240)
Proceeds from disposition of held-to-maturity financial assets		2,684,122	4,499,462
Acquisition of held-to-maturity financial assets		(2,489,373)	(3,828,684)
Proceeds from disposition of property and equipment	14,41	21,668	69,347
Acquisition of property and equipment	14	(292,898)	(302,111)
Proceeds from disposition of intangible assets	15,41	7,044	12,676
Acquisition of intangible assets	15	(123,736)	(168,132)
Proceeds from disposition of investments in associates		15,543	71,827
Acquisition of investments in associates		(43,353)	(27,661)
Proceeds from disposition of investment property	17,41	2,880	23,037
Acquisition of investment property	17	(38)	(17)
Proceeds from disposition of assets held for sale		6,489	2,047
Decrease in other assets		1,145,505	7,122,334
Increase in other assets		(1,312,098)	(7,213,256)
Business combination, net of cash acquired	45	90,010	(103,859)
Net cash used in investing activities		(2,208,859)	(4,113,602)
Cash flows from financing activities			
Issuance of preferred stock		-	1,107,278
Issuance of hybrid bond		298,861	238,682
Proceeds from borrowings		573,185,672	21,300,793
Repayments of borrowings		(574,028,621)	(19,397,747)
Proceeds from debt securities issued		11,696,281	13,056,571
Repayments of debt securities issued		(12,506,217)	(13,760,022)
Increase in other liabilities		187,534	47,483
Decrease in other liabilities		(166,538)	(69,995)
Repayments of preferred stock		(3,765,124)	-
Dividends paid		(650,697)	(585,557)
Cash inflows from cash flow hedges		36,752	75,887
Decrease in non-controlling interest		(164,874)	(173,559)
Net cash provided by (used in) financing activities		(5,876,971)	1,839,814
Effect of exchange rate fluctuations on cash and cash equivalents held		4,316	(1,088)
Increase (decrease) in cash and cash equivalents		996,384	(863,803)
Cash and cash equivalents at beginning of year	45	3,969,342	4,833,145
Cash and cash equivalents at end of year	45	₩ 4,965,726	3,969,342

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011

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, 2012, 2011 are as follows:

Investor	Investee(*)	Location	Reporting date	Ownership (%)	
				2012	2011
Shinhan Financial Group	Shinhan Bank	Korea	December 31	100.0	100.0
"	Shinhan Card Co., Ltd.	"	"	100.0	100.0
"	Shinhan Investment Corp.	"	"	100.0	100.0
"	Shinhan Life Insurance Co., Ltd.	"	"	100.0	100.0
"	Shinhan Capital Co., Ltd.	"	"	100.0	100.0
"	Jeju Bank	"	"	68.9	68.9
"	Shinhan Credit Information Co., Ltd.	"	"	100.0	100.0
"	Shinhan Private Equity Investment management	"	"	100.0	100.0
"	Shinhan BNP Paribas AMC	"	"	65.0	65.0
"	SHC Management Co., Ltd.	"	"	100.0	100.0
"	Shinhan Data system	"	"	100.0	100.0
"	Shinhan Savings Bank	"	"	100.0	100.0
"	Shinhan Aitas Co., Ltd.(*2)	"	"	99.8	-
Shinhan Bank	Shinhan Asia Limited	Hong Kong	"	99.9	99.9
"	Shinhan Bank America	USA	"	100.0	100.0
"	Shinhan Europe GmbH	Germany	"	100.0	100.0
"	Shinhan Khmer Bank	Cambodia	"	90.0	90.0
"	Shinhan Kazakhstan Bank	Kazakhstan	"	100.0	100.0
"	Shinhan Canada Bank	Canada	"	100.0	100.0
"	Shinhan China Limited	China	"	100.0	100.0
"	Shinhan Aitas Co., Ltd.(*2)	Korea	"	-	99.8
"	SBJ Bank	Japan	"	100.0	100.0
"	Shinhan Bank Vietnam	Vietnam	"	100.0	100.0
Shinhan Investment Corp.	Shinhan Investment Corp. Europe Ltd.(*3)	UK	"	-	100.0
"	Shinhan Investment Corp. America Inc.	USA	"	100.0	100.0
"	Shinhan Investment Corp. Asia Ltd.	Hong Kong	"	100.0	100.0
Shinhan Private Equity Investment management	Symphony Energy Co., Ltd.	Korea	September 30	77.6	77.6
"	HKC&T Co., Ltd.	"	"	100.0	100.0
Shinhan BNP Paribas AMC	Shinhan BNP Asset Mgt HK Ltd.	Hong Kong	December 31	100.0	100.0

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

(*2) The Shinhan Financial Group acquired 469,358(99.79%) shares of Shinhan Aitas 469,358(99.79%) from Shinhan Bank, a subsidiary of Shinhan Financial Group, at ₩ 50,014 million.

(*3) The investee is in liquidation for the current period.

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 Audits of Corporations 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 and errors

i) Changes in accounting policies

The Group adopted the amendments pursuant to the amended K-IFRS No. 1001, *Presentation of Financial Statements* from the annual period ended December 31, 2012 and non-operating income is accounted for separately from operating income in the consolidated statements of comprehensive income.

The Group retrospectively applied the amendment to K-IFRS No. 1001 and there was no impact net income, for which the impact is as follows:

	2012	2011
Operating profit before adoption of the amendments	₩ 3,205,474	4,134,772
Changes		
Non-operating income		
Gain on sale of assets	19,365	4,571
Investments in associates	36,084	45,773
Other non-operating income	148,735	158,549
	204,184	208,893
Non-operating expense		
Gain on sale of assets	2,924	5,378
Investments in associates	10,400	4,821
Other non-operating expense	179,338	236,308
	192,662	246,507
Operating profit (or loss) after adoption of the amendment	₩ 3,193,952	4,172,386

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011

ii) Correction of a prior period error

The Group has started to offset synthetic options since the third quarter of 2012 while it had been recorded comprising options on a gross basis. The Group restated the comparative financial information for the prior period, retrospectively.

As a result, the amounts of derivative assets, derivative liabilities, total assets and total liabilities as of December 31, 2011 are decreased by ₩ 75,685 million, respectively. And there was no impact of net income and presentation of consolidated statements of comprehensive income.

The opening balances of assets and liabilities for the prior period presented wasn't restated considering quantitative as well as qualitative materiality.

(f) Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Director in February 21, 2013, which will be submitted for approval to the shareholders' meeting to be held on March 28, 2013.

3. Significant accounting policies

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

(a) Operating segments

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

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Group has reportable segments which consist of banking, credit card, securities, life insurance, others, as described in note 7.

(b) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of the other entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

ii) Special purpose entities

The Group has established a number of special purpose entities (SPEs) for trading and investment purposes. The Group does not have any direct or indirect shareholdings in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

iii) Intra-group transactions

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

iv) Non-controlling interest

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

(c) Business combination

i) Business combination

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

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

- Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with 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 *Non-current Assets Held for Sale*

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

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

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with 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.

(d) Associates and jointly controlled entities

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

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, and require unanimous consent for strategic financial and operating decisions.

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

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

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

(e) Cash and cash equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011

(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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011

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 was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

iii) Held-to-maturity financial assets

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

(i) Property and equipment

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

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

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

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

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.

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iii) Lessor

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

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

(m) Assets held for sale

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

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with 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 cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

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

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

(o) Non-derivative financial liabilities

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

i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

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

ii) Other financial liabilities

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

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

(p) Foreign currency**i) Foreign currency transactions**

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

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

ii) Foreign operations

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

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

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

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

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

iii) Hedge of net investment in foreign operations

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

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

(q) Equity**i) Capital stock**

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

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.

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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.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, are recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes the past service cost immediately.

v) Termination benefits

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

(s) Share-based payment transactions

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

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

(t) Provisions

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

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.

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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.

(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, 2012, and the Group has not early adopted them.

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i) Amendments to K-IFRS No. 1110 *Consolidated Financial Statements*

The standard introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees (i.e. Trusts guaranteed as to principal shall be consolidated). The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Management is currently analyzing the impact of the amendments on the Group's consolidated financial statements as of December 31, 2012.

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

The standard classifies joint arrangements into two types - joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognize an investment and to account for that investment using the equity method. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Management believes the impact of the amendments on the Group's consolidated financial statements is not material.

iii) Amendments to K-IFRS No. 1112 *Disclosure of Interests in Other Entities*

The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. The standard requires the disclosure of information about the nature, risks and financial effects of these interests. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Management is currently analyzing the impact of the amendments on the Group's consolidated financial statements as of December 31, 2012.

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

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Group's annual periods beginning on or after January 1, 2013. The Group recognized the actuarial gain or loss amounting to ₩ (6,518) million and ₩ 140,680 million for the ended December 31, 2012 and 2011, respectively in salaries expense. As a result, management believes the impacts of the amendments on the Group's consolidated financial statements will be significant.

v) K-IFRS No. 1113 *Fair Value Measurement*

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Group's annual periods beginning on or after January 1, 2013. Management is currently analyzing the impact of the amendments on the Group's consolidated financial statements as of December 31, 2012.

4. Financial risk management

(a) Overview

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

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

i) Risk management principles

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

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

ii) Risk management organization

The Group risk management system is organized along the following hierarchy: from the top and at the controlling company level, the Group Risk Management

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

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

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

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

iii) Risk management framework

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

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

Risk monitoring – The Group are currently installing a multidimensional risk monitoring system under which the Group will, on a periodic basis, proactively and preemptively review risks that may impact the Group's overall operations. Currently, each of subsidiaries is required to report to the controlling company any factors that could have a material impact on the groupwide risk management, and the controlling company reports to the Group's chief risk officer and other members of the Group's senior management the results of risk monitoring on a weekly, monthly and continual basis. In addition, the Group perform preemptive risk management through a "risk dashboard system" under which the Group closely monitor any increase in asset size, risk levels and sensitivity to external factors with respect to the major asset portfolios of each of subsidiaries, and to the extent such monitoring yields any warning signals, the Group promptly analyze the causes and, if necessary, formulate and implement actions in response to these warning signals.

Risk review – Prior to entering any new business, offering any new products or changing any major policies, the Group review any relevant risk factors based on a prescribed risk management checklist and, in the case of changes for which assessment of risk factors is difficult, promote reasonable decision-making in order to avoid taking any unduly risky action. The risk management departments of all subsidiaries are required to review all new businesses, products and services prior to their launch and closely monitor the development of any related risks following their launch, and in the case of any action that involves more than one subsidiary, the relevant risk management departments are required to consult with the risk management team at the controlling company level prior to making any independent risk reviews.

Risk management – The Group maintain a groupwide risk management system to detect the early warnings signals of any crisis and, in the event of a crisis actually happening, to respond on a timely, efficient and flexible basis so as to ensure the Group's survival as a going concern. Each subsidiary maintains crisis planning for three levels of contingencies, namely, "alert", "imminent crisis" and "crisis", determination of which is made based on quantitative and qualitative monitoring and consequence analysis, and upon the happening of any such contingency, is required to respond according to a prescribed contingency plan. At the controlling company level, the Group maintains and installs crisis detection and response system which is applied consistently groupwide, and upon the happening of any contingency at a subsidiary level, the Group directly takes charge of the situation so that the Group manages it on a concerted groupwide basis.

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(b) Credit risk

i) Credit risk management

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

Credit Risk Management of Shinhan Bank

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

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

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

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

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

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

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

Credit Risk Management of Shinhan Card

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

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

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

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, 2012 and 2011 are as follows:

	2012	2011
Due from banks and loans (*1), (*6)	₩ 210,052,982	205,171,862
Banks	11,013,154	10,213,726
Retail	82,439,453	77,111,426
Government	7,597,140	9,199,551
Corporate	91,934,538	91,490,418
Card receivable	17,068,697	17,156,741
Trading assets	11,684,538	9,966,220
Financial assets designated at FVTPL(*3)	1,325,646	748,356
AFS financial assets(*4)	31,356,150	29,110,542
HTM financial assets(*5)	11,659,215	11,894,664
Derivative assets	2,164,852	2,319,585
Other financial assets (*1),(*2)	9,455,639	7,520,769
Financial guarantee contracts	2,895,878	2,766,331
Loan commitments and other liabilities for credit	72,200,742	67,130,382
	₩ 352,795,642	336,628,711

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

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

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

(*4) AFS : available-for-sale

(*5) HTM : held-to-maturity

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

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

Due from banks and loans as of December 31, 2012 and 2011 are as follows:

	2012					Total
	Banks	Retail	Government	Corporate	Card	
Neither past due nor impaired	₩ 11,021,036	81,909,672	7,600,456	91,468,794	16,539,121	208,539,079
Past due but not impaired	116	438,050	378	496,409	739,736	1,674,689
Impaired	-	477,792	-	1,624,585	533,902	2,636,279
	11,021,152	82,825,514	7,600,834	93,589,788	17,812,759	212,850,047
Less : allowance	(7,998)	(386,061)	(3,694)	(1,655,250)	(744,062)	(2,797,065)
	₩ 11,013,154	82,439,453	7,597,140	91,934,538	17,068,697	210,052,982

	2011					Total
	Banks	Retail	Government	Corporate	Card	
Neither past due nor impaired	₩ 10,255,903	76,603,830	9,201,687	91,023,364	16,779,871	203,864,655
Past due but not impaired	-	520,407	-	332,535	606,942	1,459,884
Impaired	-	288,064	-	1,723,100	445,448	2,456,612
	10,255,903	77,412,301	9,201,687	93,078,999	17,832,261	207,781,151
Less : allowance	(42,177)	(300,875)	(2,136)	(1,588,581)	(675,520)	(2,609,289)
	₩ 10,213,726	77,111,426	9,199,551	91,490,418	17,156,741	205,171,862

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Credit quality of due from banks and loans, net of allowance, that are neither past due nor impaired as of December 31, 2012 and 2011 are as follows:

2012						
	Banks	Retail	Government	Corporate	Card	Total
Grade 1 (*1)	₩ 11,020,950	78,934,568	7,597,923	54,598,546	15,186,242	167,338,229
Grade 2 (*1)	86	2,975,104	2,533	36,870,248	1,352,879	41,200,850
	11,021,036	81,909,672	7,600,456	91,468,794	16,539,121	208,539,079
Less : allowance	(7,998)	(141,399)	(3,690)	(1,070,400)	(321,865)	(1,545,352)
	₩ 11,013,038	81,768,273	7,596,766	90,398,394	16,217,256	206,993,727
Mitigation of credit risk due to collateral (*2)	₩ 124,104	55,033,908	388	41,695,341	5,529	96,859,270
2011						
	Banks	Retail	Government	Corporate	Card	Total
Grade 1 (*1)	₩ 10,198,810	73,908,262	9,201,687	53,299,436	14,916,233	161,524,428
Grade 2 (*1)	57,093	2,695,568	-	37,723,928	1,863,638	42,340,227
	10,255,903	76,603,830	9,201,687	91,023,364	16,779,871	203,864,655
Less : allowance	(42,177)	(139,618)	(2,136)	(922,728)	(329,064)	(1,435,723)
	₩ 10,213,726	76,464,212	9,199,551	90,100,636	16,450,807	202,428,932
Mitigation of credit risk due to collateral (*2)	₩ 5,610	52,895,049	58	41,212,129	5,990	94,118,836

(*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, 2012 and 2011 are as follows:

2012						
	Banks	Retail	Government	Corporate	Card	Total
Less than 30 days	₩ 116	351,351	378	360,946	636,595	1,349,386
31~60 days	-	53,263	-	59,230	65,267	177,760
61~90 days	-	32,021	-	58,400	37,874	128,295
More than 90 days	-	1,415	-	17,833	-	19,248
	116	438,050	378	496,409	739,736	1,674,689
Less : allowance	-	(20,005)	(3)	(25,601)	(93,680)	(139,289)
	₩ 116	418,045	375	470,808	646,056	1,535,400
Mitigation of credit risk due to collateral (*)	₩ -	266,454	44	271,123	22	537,643
2011						
	Banks	Retail	Government	Corporate	Card	Total
Less than 30 days	₩ -	416,178	-	193,612	499,261	1,109,051
31~60 days	-	53,033	-	103,461	66,687	223,181
61~90 days	-	50,162	-	20,413	40,994	111,569
More than 90 days	-	1,034	-	15,049	-	16,083
	-	520,407	-	332,535	606,942	1,459,884
Less : allowance	-	(20,027)	-	(17,427)	(87,251)	(124,705)
	₩ -	500,380	-	315,108	519,691	1,335,179
Mitigation of credit risk due to collateral (*)	₩ -	327,509	-	134,002	78	461,589

(*) 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, 2012 and 2011 are as follows:

						2012
	Banks	Retail	Government	Corporate	Card	Total
Impaired loans	₩ -	477,792	-	1,624,585	533,902	2,636,279
Less : allowance	-	(224,656)	-	(559,249)	(328,517)	(1,112,422)
	₩ -	253,136	-	1,065,336	205,385	1,523,857
Mitigation of credit risk due to collateral (*)	₩ -	124,546	-	606,059	6	730,611

						2011
	Banks	Retail	Government	Corporate	Card	Total
Impaired loans	₩ -	288,064	-	1,723,100	445,448	2,456,612
Less : allowance	-	(141,230)	-	(648,426)	(259,205)	(1,048,861)
	₩ -	146,834	-	1,074,674	186,243	1,407,751
Mitigation of credit risk due to collateral (*)	₩ -	90,760	-	638,660	12	729,432

(*) The Group holds collateral against due from banks and loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of quantification of the extent to which collateral mitigate credit risk are based on the fair value of collateral.

iv) Credit rating

Credit rating of debt securities as of December 31, 2012 and 2011 are as follows:

					2012
	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩ 3,286,526	177,567	19,868,860	9,594,045	32,926,998
AA- to AA+	3,610,513	131,845	5,923,292	1,411,353	11,077,003
A- to A+	2,935,088	527,359	3,175,284	293,422	6,931,153
BBB- to BBB+	1,223,112	350,891	1,404,382	19	2,978,404
Lower than BBB-	12,321	-	246,909	26,337	285,567
Unrated	179,050	137,984	737,424	334,039	1,388,497
	₩ 11,246,610	1,325,646	31,356,151	11,659,215	55,587,622

					2011
	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩ 2,384,749	158,076	17,199,474	9,031,172	28,773,471
AA- to AA+	3,152,592	127,319	6,751,848	2,062,005	12,093,764
A- to A+	2,987,225	268,079	2,913,116	463,494	6,631,914
BBB- to BBB+	503,929	174,572	1,118,624	8,607	1,805,732
Lower than BBB-	191,427	-	80,936	31,512	303,875
Unrated	404,864	20,310	1,046,544	297,874	1,769,592
	₩ 9,624,786	748,356	29,110,542	11,894,664	51,378,348

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The credit qualities of securities (debt securities) according to the credit ratings by external rating agencies are as follows:

	KIS (*1)	KR (*2)	S&P	Fitch	Moody's
AAA	-	-	AAA	AAA	Aaa
AA- to AA+	AAA	AAA	AA- to AA+	AA- to AA+	Aa3 to Aa1
A- to A+	AA- to AA+	AA- to AA+	A- to A+	A- to A+	A3 to A1
BBB- to BBB+	BBB- to A	BBB- to A	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than Baa3
Unrated	Unrated	Unrated	Unrated	Unrated	Unrated

(*1) KIS : Korea Investors Service

(*2) KR : Korea Ratings

Credit status of debt securities as of December 31, 2012 and 2011 are as follows:

	2012	2011
Neither past due nor impaired	₩ 55,556,669	51,348,868
Impaired	30,953	29,480
	₩ 55,587,622	51,378,348

Assets acquired through foreclosures amounting to ₩ 9,977 million, ₩ 14,876 million were classified as assets held for sale (non-business purpose property) as of December 31, 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, 2012 and 2011 are as follows:

		2012						Total
		Korea	USA	Japan	Vietnam	China	Other	
Due from banks and loans	Banks	₩ 7,518,628	538,588	142,839	104,819	1,112,010	1,596,270	11,013,154
	Retail	81,925,020	246,192	43,919	9,062	13,672	201,588	82,439,453
	Government	7,042,917	221,413	226,426	50,827	617	54,940	7,597,140
	Corporate	85,598,501	1,043,872	1,252,544	681,755	1,275,962	2,081,904	91,934,538
	Card	17,051,936	5,812	1,793	1,145	2,266	5,745	17,068,697
		199,137,002	2,055,877	1,667,521	847,608	2,404,527	3,940,447	210,052,982
Trading assets		11,237,723	-	1,127	-	-	445,688	11,684,538
Financial assets designated at FVTPL (*1)		1,322,056	-	-	-	-	3,590	1,325,646
AFS financial assets (*2)		30,755,834	264,487	-	218,275	-	117,554	31,356,150
HTM financial assets (*3)		11,524,931	1,210	62,629	19,609	-	50,836	11,659,215
		₩ 253,977,546	2,321,574	1,731,277	1,085,492	2,404,527	4,558,115	266,078,531
		2011						Total
		Korea	USA	Japan	Vietnam	China	Other	
Due from banks and loans	Banks	₩ 7,307,389	283,602	55,841	264,492	1,124,431	1,177,971	10,213,726
	Retail	76,655,578	258,329	23,991	4,011	8,549	160,968	77,111,426
	Government	8,904,636	176,171	42,452	28,843	3,460	43,989	9,199,551
	Corporate	85,613,216	1,212,055	1,213,332	369,601	965,277	2,116,937	91,490,418
	Card	17,145,287	5,002	1,669	20	1,385	3,378	17,068,697
		195,626,106	1,935,159	1,337,285	666,967	2,103,102	3,503,243	205,171,862
Trading assets		9,624,786	-	-	-	-	341,434	9,966,220
Financial assets designated at FVTPL (*1)		748,356	-	-	-	-	-	748,356
AFS financial assets (*2)		28,626,932	292,717	-	-	-	190,893	29,110,542
HTM financial assets (*3)		11,758,431	1,922	37,172	7,412	-	89,727	11,894,664
		₩ 246,384,611	2,229,798	1,374,457	674,379	2,103,102	4,125,297	256,891,644

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

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

vi) Concentration by industry sector

An analysis of concentration by industry sector of due from banks and loans, net of allowance, as of December 31, 2012 and 2011 are as follows:

								2012
		Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans	Banks	₩ 9,977,432	-	-	120,696	915,026	-	11,013,154
	Retail	-	-	-	-	-	82,439,453	82,439,453
	Government	7,304,220	6	132	39	292,743	-	7,597,140
	Corporate	3,078,782	32,594,720	11,630,743	16,528,355	28,101,938	-	91,934,538
	Card	46,493	127,504	140,127	25,846	610,321	16,118,406	17,068,697
		20,406,927	32,722,230	11,771,002	16,674,936	29,920,028	98,557,859	210,052,982
Trading assets		7,384,391	1,155,863	522,699	941,586	1,679,999	-	11,684,538
Financial assets designated at FVTPL (*1)		817,997	112,852	10,371	123,632	260,794	-	1,325,646
AFS financial assets (*2)		20,369,556	1,177,830	229,618	1,040,793	8,538,353	-	31,356,150
HTM financial assets (*3)		3,803,177	10,005	-	694,149	7,151,884	-	11,659,215
		₩ 52,782,048	35,178,780	12,533,690	19,475,096	47,551,058	98,557,859	266,078,531
								2011
		Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans	Banks	₩ 8,688,817	-	-	505,686	1,019,223	-	10,213,726
	Retail	-	-	-	-	-	77,111,426	77,111,426
	Government	8,820,239	-	-	-	379,312	-	9,199,551
	Corporate	3,606,014	32,838,172	11,398,011	15,582,663	28,065,558	-	91,490,418
	Card	68,350	132,549	148,799	23,504	747,226	16,036,313	17,156,741
		21,183,420	32,970,721	11,546,810	16,111,853	30,211,319	93,147,739	205,171,862
Trading assets		6,042,069	799,297	302,896	1,142,451	1,679,507	-	9,966,220
Financial assets designated at FVTPL (*1)		532,833	-	-	127,214	88,309	-	748,356
AFS financial assets (*2)		18,106,456	1,059,028	194,409	1,173,502	8,577,147	-	29,110,542
HTM financial assets (*3)		3,845,680	19,998	-	592,479	7,436,507	-	11,894,664
		₩ 49,710,458	34,849,044	12,044,115	19,147,499	47,992,789	93,147,739	256,891,644

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

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

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(c) Market risk

Market risk from trading positions is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Interest rate risk from non-trading positions is the risk of loss resulting from interest rate fluctuations that adversely affect the financial condition and results of operations of the Group and affects the earnings and the economic value of net assets of the Group.

Foreign exchange risk arises because of the Group's assets and liabilities which are denominated in currencies other than the Won.

The Group's market risks arise primarily from Shinhan Bank, and to a lesser extent, Shinhan Investment, which incurs market risk relating to its trading activities.

Shinhan Bank's Asset & Liability Management Committee, or the ALM Committee, acts as the executive decision making body in relation to market risks in terms of setting the risk management policies and risk limits in relation to market risks and assets and controlling market risks arising from trading and non-trading activities. In addition, Shinhan Bank's Risk Management Department comprehensively manages market risks on an independent basis from Shinhan Bank's operating departments, and functions as the middle office of Shinhan Bank.

Shinhan Investment's Risk Management Working Committee is the executive decision-making body for managing market risks related to Shinhan Investment, and determines, among other things, Shinhan Investment's overall market risk management policies and strategies, and assesses and approves trading activities and limits. In addition, Shinhan Investment's Risk Management Department manages various market risk limits and monitors operating conditions on an independent basis from Shinhan Investment's operating departments.

i) Market risk management from trading positions

Trading activities are to realize short-term trading profits in debt and stock markets and foreign exchange markets based on short-term forecast of changes in market situation and profits from arbitrage transactions in derivatives such as swap, forward, futures and option transactions. The Group manages market risk related to its trading positions using VaR, market value-based tool.

Shinhan Bank currently uses the ten-day 99% confidence level-based VaR for purposes of calculating the regulatory capital used in reporting to the Financial Supervisory Service and uses the more conservative ten-day 99.9% confidence level-based VaR for purposes of calculating its "economic" capital used for internal management purposes, which is a concept used in determining the amount of Shinhan Bank's requisite capital in light of the market risk. In addition, Shinhan Bank also uses the one-day 99% confidence level-based VaR on a supplemental basis for purposes of setting and managing risk limits specific to each desk or team in its operating units as well as for back-testing purposes. Shinhan Bank manages VaR measurements and limits on a daily basis based on an automatic interfacing of its trading positions into its market risk measurement system. In addition, Shinhan Bank establishes pre-set loss, sensitivity, investment and stress limits for its trading departments and desks and monitors such limits daily.

Shinhan Investment primarily uses the one-day 99% confidence level-based VaR for managing market risk as this is the norm in the securities industry in Korea. However, since its VaR computation is based on parametric normal distribution, Shinhan Investment also calculates the ten-day 99% VaR by multiplying the one-day 99% VaR by the square root of ten and uses such VaR on a supplemental basis for internal management purposes. Shinhan Investment is currently using a variance-covariance methodology called "delta-gamma method" for its overall VaR calculation. The Group managed risk limits that were comprised of VaR limits, risk limits, stop loss, and transaction limits.

In order to streamline such differences and use a consistent VaR among operating subsidiaries, the Group has adopted starting in 2012 a unified group-wide market risk measurement methodology, which uses the ten-day 99.9% confidence level for calculating the VaR.

An analysis of the Group's requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2012 and 2011, based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, was as follows:

	2012			
	Average	Maximum	Minimum	At December 31
Interest rate	₩ 189,958	203,740	176,840	182,318
Equities	63,419	74,694	55,241	74,694
Foreign exchange	114,537	117,037	112,022	113,434
Option volatility	4,602	5,801	3,828	4,594
	₩ 372,515	401,272	347,932	375,041

	2011			
	Average	Maximum	Minimum	At December 31
Interest rate	₩ 186,606	197,935	177,707	187,740
Equities	68,308	115,713	34,035	45,738
Foreign exchange	100,125	125,526	81,265	110,259
Option volatility	9,837	11,480	7,406	7,406
	₩ 364,876	450,654	300,413	351,143

Insurance company, Shinhan life insurance, was excluded when the Group estimated the market risk, due insurance company was not included in the Group's subsidiaries for the consolidated BIS capital ratio.

An analysis of market risk for trading positions of the major subsidiaries as of and for the years ended December 31, 2012 and 2011 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, 2012 and 2011 are as follows:

	2012			
	Average	Maximum	Minimum	At December 31
Interest rate	₩ 24,085	32,036	19,817	19,817
Equities	26,476	41,920	11,085	12,247
Foreign exchange	79,449	95,661	49,583	55,243
Option volatility	257	897	95	251
Portfolio diversification	(60,274)	(80,989)	(37,435)	(38,967)
	₩ 69,993	89,525	43,145	48,591

	2011			
	Average	Maximum	Minimum	At December 31
Interest rate	₩ 32,725	49,155	25,933	30,722
Equities	19,227	32,447	8,492	21,825
Foreign exchange	58,848	101,775	13,688	88,334
Option volatility	488	1,123	92	313
Portfolio diversification	(55,238)	(97,474)	(8,187)	(58,078)
	₩ 56,050	87,026	40,018	83,116

(*) 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, 2012 and 2011, based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, is as follows:

	2012			
	Average	Maximum	Minimum	At December 31
Interest rate	₩ 358	900	250	500
Foreign exchange	35,291	40,972	32,313	36,905
	₩ 35,649	41,872	32,563	37,405

	2011			
	Average	Maximum	Minimum	At December 31
Interest rate	₩ 688	750	500	750
Foreign exchange	26,611	34,683	23,127	34,683
	₩ 27,299	35,433	23,627	35,433

(*) 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.

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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, 2012 and 2011 are as follows:

	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

	Average	Maximum	Minimum	2011 At December 31
Interest rate	₩ 6,291	12,150	2,561	5,215
Equities	5,301	12,114	826	6,445
Foreign exchange	741	3,051	26	85
Option volatility	810	3,438	108	847
Portfolio diversification	(5,491)	(12,391)	(1,184)	(4,917)
	₩ 7,652	18,362	2,337	7,675

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, 2012 and 2011 are as follows:

	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

	Average	Maximum	Minimum	2011 At December 31
Interest rate	₩ 243	327	210	234
Equities	705	1,074	571	671
Foreign exchange	241	288	235	240
	₩ 1,189	1,689	1,016	1,145

ii) Interest rate risk management from non-trading positions

Principal market risk from non-trading activities of the Group is interest rate risk, which affects the Group's earnings and the economic value of the Group's net assets:

- Earnings: interest rate fluctuations have an effect on the Group's net interest income by affecting its interest-sensitive operating income and expenses and EaR (Earnings at Risk) is a commonly used risk management technique.
- Economic value of net assets: interest rate fluctuations influence the Group's net worth by affecting the present value of cash flows from the assets, liabilities and other transactions of the Group and VaR is a commonly used risk management technique.

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

The principal objectives of Shinhan Bank's interest rate risk management are to generate stable net interest income and to protect Shinhan Bank's net asset value against interest rate fluctuations. Through its asset and liability management system, Shinhan Bank measures and manages its interest rate risk based on various analytical measures such as interest rate gap, duration gap and net present value and net interest income simulations, and monitors on a monthly basis its interest rate VaR limits, interest rate earnings at risk ("EaR") limits and interest rate gap ratio limits. Shinhan Bank measures its interest rate VaR and interest rate EaR based on a simulated estimation of the maximum decrease in net asset value and net interest income in a one-year period based on various scenario analyses of historical interest rates.

Shinhan Card Co., Ltd. also monitors and manages its interest rate risk for all its interest-bearing assets and liabilities (including off-balance sheet items) in terms of impact on its earnings and net asset value from changes in interest rates. Shinhan Card primarily uses interest rate VaR and EaR analyses to measure its interest rate risk.

In addition, Shinhan Life Insurance monitors and manages its interest rate risk for its investment assets and liabilities based on simulations of its asset-liability management system. These simulations typically involve subjecting Shinhan Life Insurance's current and future assets and liabilities to more than 2,000 market scenarios based on varying assumptions, such as new debt purchases and target investment portfolios, so as to derive its net asset value forecast for the next three years at a 99% confidence level.

Non-trading positions for interest rate VaR and EaR as of December 31, 2012 and 2011 are as follows:

ii-1) Shinhan Bank

	2012	2011
VaR	₩ 841,157	561,088
EaR	249,567	262,405

ii-2) Shinhan Card

	2012	2011
VaR	₩ 338,930	324,331
EaR	29,318	45,233

ii-3) Shinhan Investment

	2012	2011
VaR	₩ 26,289	33,040
EaR	107,733	69,589

ii-4) Shinhan Life Insurance

	2012	2011
VaR	₩ 126,359	195,201
EaR	28,705	28,097

(*1) The Interest VaR was calculated by The Financial Supervisory Service regulations that based on the Bank for International Settlements Framework

(*2) The Interest EaR was calculated by The Financial Supervisory Service regulations that based on the Bank for International Settlements Framework

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iii) Foreign exchange risk

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

The management of Shinhan Bank's foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage Shinhan Bank's overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps. Shinhan Bank sets a limit for net open positions by currency and the limits for currencies other than the U.S. dollars, Japanese yen, Euros and Chinese yuan are set in order to minimize other foreign exchange trading.

Foreign currency denominated assets and liabilities as of December 31, 2012 and 2011 are as follows:

	USD	JPY	EUR	CNY	Other	2012 Total
Assets						
Cash and due from banks	₩ 1,193,925	1,119,555	74,962	870,378	340,001	3,598,821
Loans	11,790,540	4,932,804	1,323,022	1,351,857	1,964,774	21,362,997
Trading assets	153,521	-	-	14,715	451,165	619,401
Derivative assets	276,729	-	9,939	-	127	286,795
Available-for-sale financial assets	1,357,859	44,099	9,005	-	335,003	1,745,966
Held-to-maturity financial assets	1,210	392,628	-	-	40,648	434,486
Other financial assets	2,065,975	215,778	15,696	145,082	95,961	2,538,492
	₩ 16,839,759	6,704,864	1,432,624	2,382,032	3,227,679	30,586,958
Liabilities						
Deposits	₩ 5,328,631	5,651,318	247,045	1,634,518	1,523,852	14,385,364
Trading liabilities	-	-	-	-	484,061	484,061
Derivative liabilities	123,007	47,718	-	-	60	170,785
Borrowings	4,968,386	669,168	688,261	85,055	250,880	6,661,750
Debt securities issued	4,863,268	436,625	106,220	210,002	701,964	6,318,079
Other financial liabilities	1,334,236	227,995	253,896	245,871	227,323	2,289,321
	₩ 16,617,528	7,032,824	1,295,422	2,175,446	3,188,140	30,309,360
Net assets (liabilities)	₩ 222,231	(327,960)	137,202	206,586	39,539	277,598
Off-balance derivative exposure	794,675	328,526	(123,325)	203,512	614,279	1,817,667
Net position	₩ 1,016,906	566	13,877	410,098	653,818	2,095,265

						2011
	USD	JPY	EUR	CNY	Other	Total
Assets						
Cash and due from banks	₩ 1,344,600	937,422	136,535	778,064	760,627	3,957,248
Loans	12,818,591	4,997,137	1,301,212	1,204,832	1,857,358	22,179,130
Trading assets	57,129	6,013	-	-	341,433	404,575
Derivative assets	299,323	2,035	8,679	-	737	310,774
Available-for-sale financial assets	1,545,602	53,129	136	-	66,812	1,665,679
Held-to-maturity financial assets	3,725	400,474	-	-	50,780	454,979
Other financial assets	794,175	126,597	132,293	34,353	144,654	1,232,072
	₩ 16,863,145	6,522,807	1,578,855	2,017,249	3,222,401	30,204,457
Liabilities						
Deposits	₩ 4,107,459	5,914,508	463,390	1,391,892	1,231,495	13,108,744
Trading liabilities	-	-	-	-	414,088	414,088
Derivative liabilities	221,619	7,860	244	-	116	229,839
Borrowings	7,463,865	734,684	939,682	37,829	427,544	9,603,604
Debt securities issued	5,664,942	-	-	-	419,708	6,084,650
Other financial liabilities	882,068	259,040	153,612	100,939	230,953	1,626,612
	₩ 18,339,953	6,916,092	1,556,928	1,530,660	2,723,904	31,067,537
Net assets (liabilities)	₩ (1,476,808)	(393,285)	21,927	486,589	498,497	(863,080)
Off-balance derivative exposure	3,097,436	217,255	138,379	(11,561)	133,240	3,574,749
Net position	₩ 1,620,628	(176,030)	160,306	475,028	631,737	2,711,669

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Each subsidiary seeks to minimize liquidity risk through early detection of risk factors related to the sourcing and managing of funding that may cause volatility in liquidity and by ensuring that it maintains an appropriate level of liquidity through systematic management. At the groupwide level, the Group manages liquidity risk by conducting monthly stress tests that compare liquidity requirements under normal situations against those under three types of stress situations, namely, the group-specific internal crisis, crisis in the external market and a combination of internal and external crisis. In addition, in order to preemptively and comprehensively manage liquidity risk, the Group measure and monitor liquidity risk management using various indices, including the "limit management index", "early warning index" and "monitoring index".

Shinhan Bank applies the following basic principles for liquidity risk management:

- raise funding in sufficient amounts, at the optimal time at reasonable costs;
- maintain risk at appropriate levels and preemptively manage them through a prescribed risk limit system and an early warning signal detection system;
- secure stable sources of revenue and minimize actual losses by implementing an effective asset-liability management system based on diversified sources of funding with varying maturities;
- monitor and manage daily and intra-daily liquidity positions and risk exposures for timely payment and settlement of financial obligations due under both normal and crisis situations;
- conduct periodic contingency analysis in anticipation of any potential liquidity crisis and establish and implement emergency plans in case of a crisis actually happening; and
- consider liquidity-related costs, benefits of and risks in determining the pricing of the Group's products and services, employee performance evaluations and approval of launching of new products and services.

As for any potential liquidity shortage at or near the end of each month, Shinhan Card maintains liquidity at a level sufficient to withstand credit shortage for three months. In addition, Shinhan Card manages liquidity risk by defining and managing various indicators of liquidity risk, such as the actual liquidity gap ratio (in relation to the different maturities for assets as compared to liabilities), the liquidity buffer ratio, the maturity repayment ratio, the ratio of actual funding compared to budgeted funding and the ratio of asset-backed securities to total borrowings, at different risk levels of "caution", "unstable" and "at risk", and the Group also has contingency plans in place in case of any emergency or crisis.

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Contractual maturities for financial instruments including cash flows of principal and interest and off balance as of December 31, 2012 and 2011 are as follows:

							2012
	Less than 1 month	1~3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	Total
Non-derivatives:							
Assets							
Cash and due from banks	₩ 9,731,124	1,168,721	991,752	1,247,796	281,700	51,490	13,472,583
Loans	29,509,587	28,460,078	32,525,473	45,129,706	47,471,629	47,228,026	230,324,499
Trading assets (*3)	14,018,894	-	-	-	-	-	14,018,894
Financial assets designated							
at fair value through profit or loss	1,836,435	73,857	5,169	41,007	609,711	21,728	2,587,907
Available-for-sale financial assets (*3)	33,047,392	1,243,237	-	60,648	35,377	1,945,647	36,332,301
Held-to-maturity financial assets	269,701	424,714	437,935	1,527,358	7,663,374	4,192,561	14,515,643
Other financial assets	5,682,658	184,686	40,126	268,247	3,359,838	105,639	9,641,194
	₩ 94,095,791	31,555,293	34,000,455	48,274,762	59,421,629	53,545,091	320,893,021
Liabilities							
Deposits (*2)	₩ 70,013,325	19,777,711	17,425,821	57,969,260	10,246,002	859,714	176,291,833
Trading liabilities (*3)	1,370,723	-	-	-	-	-	1,370,723
Borrowings	9,269,643	2,085,094	1,390,841	1,416,346	4,226,831	821,363	19,210,118
Debt securities issued	1,070,263	1,949,034	2,922,035	6,558,938	27,084,263	4,321,377	43,905,910
Financial liabilities designated							
at fair value through profit or loss	85,260	173,289	296,974	495,799	3,617,151	153,724	4,822,197
Other financial liabilities	17,885,442	50,675	38,652	160,998	330,231	67,965	18,533,963
	₩ 99,694,656	24,035,803	22,074,323	66,601,341	45,504,478	6,224,143	264,134,744
Off balance							
Financial guarantee contracts	₩ 2,895,878	-	-	-	-	-	2,895,878
Loan commitments and others	72,200,742	-	-	-	-	-	72,200,742
	₩ 75,096,620	-	-	-	-	-	75,096,620
Derivatives:							
Cash inflow	₩ 2,024,108	373,602	161,696	571,717	2,137,068	625,855	5,894,046
Cash outflow	1,761,438	100,083	167,306	569,682	1,939,458	375,361	4,913,328
	₩ 262,670	273,519	(5,610)	2,035	197,610	250,494	980,718

							2011
	Less than 1 month	1~3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	Total
Non-derivatives:							
Assets							
Cash and due from banks	₩ 10,520,487	963,771	1,576,557	1,239,826	308,543	430,652	15,039,836
Loans	27,238,020	29,970,845	32,398,858	43,102,458	46,775,318	44,977,810	224,463,309
Trading assets (*3)	11,954,266	-	-	-	-	-	11,954,266
Financial assets designated at fair value through profit or loss	1,291,196	24,413	7,575	13,873	219,272	247,147	1,803,476
Available-for-sale financial assets (*3)	29,844,070	1,437,439	4,651	39,960	63,776	2,721,146	34,111,042
Held-to-maturity financial assets	232,597	679,645	386,117	1,569,682	8,045,528	3,705,312	14,618,881
Other financial assets	3,270,720	315,005	551,257	259,214	3,144,913	200,953	7,742,062
	₩ 84,351,356	33,391,118	34,925,015	46,225,013	58,557,350	52,283,020	309,732,872
Liabilities							
Deposits (*2)	₩ 73,121,781	15,291,478	14,541,814	54,516,187	10,631,904	1,777,738	169,880,902
Trading liabilities (*3)	704,418	-	-	-	-	-	704,418
Borrowings	7,440,730	3,825,822	2,762,415	2,037,255	3,569,776	763,971	20,399,969
Debt securities issued	1,003,215	1,597,580	4,030,191	6,375,282	28,259,385	4,519,559	45,785,212
Financial liabilities designated at fair value through profit or loss	196,349	198,883	287,454	432,277	2,153,707	29,739	3,298,409
Other financial liabilities	15,725,632	230,363	569,582	167,563	396,613	195,330	17,285,083
	₩ 98,192,125	21,144,126	22,191,456	63,528,564	45,011,385	7,286,337	257,353,993
Off balance							
Financial guarantee contracts	₩ 2,766,331	-	-	-	-	-	2,766,331
Loan commitments and others	67,130,382	-	-	-	-	-	67,130,382
	₩ 69,896,713	-	-	-	-	-	69,896,713
Derivatives:							
Cash inflow	₩ 2,118,963	460,627	538,092	304,329	2,620,766	1,180,302	7,298,764
Cash outflow	1,873,471	86,306	460,169	325,585	2,308,557	543,004	5,672,777
	₩ 245,492	374,321	77,923	(21,256)	312,209	637,298	1,625,987

(*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.

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(f) Measurement of fair value

Fair values, which the Group primarily uses for the measurement of financial instruments, are the published price quotations based on market prices or dealer price quotations of financial instruments traded in an active market where available.

If the market for a financial instrument is not active, fair value is determined either by using a valuation technique or independent third-party valuation service. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, referencing to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

For example, fair value of interest rate swaps and currency forwards were calculated discounted cash flow analysis method and exchange forward rate method.

i) Financial instruments measured at amortized cost

The method of measuring the fair value of financial instruments measured at amortized cost is as follows:

Type	Measurement methods of fair value
Cash and due from banks	The book amount and the fair value for cash are identical and the most of deposits are floating interest rate deposit or the next day deposit of a short-term instrument. For this reason, the book value approximates fair value.
Loans	The fair value of the loans is measured by discounting the expected cash flow at the market interest rate and credit risk, etc.
Held-to-maturity financial assets	The fair value of held-to-maturity financial assets is determined by applying the lesser of two quoted bond prices provided by two bond pricing agencies as of the latest trading date
Deposits and borrowings	The book amount and the fair value for demand deposits, cash management account deposits, call money as short-term instrument are identical. The fair value of others is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.
Debt securities issued	The fair value of deposits and borrowings is based on the published price quotations in an active market. In case there is no data for an active market price, it is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.

The book value and the fair value of financial instruments measured at amortized cost as of December 31, 2012 and 2011 are as follows:

Assets	2012		2011	
	Book value	Fair value	Book value	Fair value
Cash and due from banks				
Cash and cash equivalent	₩ 2,999,622	2,999,622	2,131,642	2,131,642
Due from Banks	10,394,709	10,394,709	12,599,290	12,599,290
Loans				
Household loans	73,861,146	74,262,101	69,359,777	69,746,678
Corporate loans	101,104,954	102,296,855	98,601,504	100,484,038
Public and other	3,097,430	3,116,192	4,910,917	4,944,862
Loans to bank	4,525,531	4,542,843	2,543,631	2,565,594
Card receivables	17,066,671	17,374,025	17,156,742	17,372,172
Held-to-maturity financial assets				
Government bonds	5,716,713	6,107,448	5,869,832	6,165,461
Financial institutions bonds	1,700,583	1,757,653	2,064,369	2,161,896
Corporate bonds and others	4,241,919	4,418,585	3,960,463	4,052,373
Other financial assets	9,455,639	9,519,669	7,520,769	7,621,858
	₩ 234,164,917	236,789,702	226,718,936	229,845,864
Liabilities				
Deposits				
Demand deposits	₩ 52,171,149	52,171,149	49,861,856	49,861,856
Time deposits	111,021,657	111,288,201	102,902,575	102,879,778
Negotiable certificates of deposits	1,303,683	1,333,871	2,967,419	3,035,910
Note discount deposits	3,013,376	3,013,147	4,623,801	4,623,359
CMA	1,626,061	1,626,061	1,614,377	1,614,377
Others	960,528	960,668	1,045,704	1,045,874
Borrowings				
Call money	1,088,535	1,088,535	1,309,137	1,309,137
Bill sold	55,397	55,023	105,697	104,933
Bonds sold under repurchase agreements	5,189,539	5,189,537	3,890,665	3,890,665
Borrowings	12,401,757	12,465,776	14,495,375	14,491,372
Due to Bank of Korea in foreign currency	156,150	156,151	232,372	232,557
Debt securities issued				
Debt securities issued in won	32,548,907	33,352,509	33,674,175	33,644,730
Debt securities issued in foreign currency	6,291,268	6,523,753	6,062,773	5,895,247
Other financial liabilities	18,579,081	18,580,972	17,306,513	17,291,615
	₩ 246,407,088	247,805,353	240,092,439	239,921,410

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ii) Financial instruments measured at the fair value

The Group classifies and discloses fair value of the financial instruments into the following three-level hierarchy:

- Level 1: Financial instruments measured at quoted prices from active markets are classified as fair value level 1.
- Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.
- Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

The table below analyzes financial instruments measured at the fair value as of December 31, 2012 and 2011 by the level in the fair value hierarchy into which the fair value measurement is categorized:

				2012
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
Debt securities	₩ 2,951,249	8,122,690	172,671	11,246,610
Equity securities	395,026	1,934,550	4,780	2,334,356
Gold deposits	437,928	-	-	437,928
Financial assets designated at fair value through profit or loss				
Debt securities and others	161,056	614,664	549,926	1,325,646
Equity securities	101,550	1,014,981	142,934	1,259,465
Derivative assets				
Trading	25,315	1,607,049	269,364	1,901,728
Hedging	-	193,207	69,917	263,124
Available-for-sale financial assets				
Debt securities	7,987,288	23,326,884	41,978	31,356,150
Equity securities	2,159,574	235,287	2,577,418	4,972,279
	₩ 14,218,986	37,049,312	3,828,988	55,097,286
Liabilities				
Trading liabilities				
Debt securities	₩ 886,662	-	-	886,662
Gold deposits	484,061	-	-	484,061
Borrowings	-	563,998	4,258,199	4,822,197
Derivative liabilities				
Trading	21,286	1,481,257	210,866	1,713,409
Hedging	-	139,997	50,638	190,635
	₩ 1,392,009	2,185,252	4,519,703	8,096,964

				2011
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
Debt securities	₩ 1,717,858	7,896,937	9,991	9,624,786
Equity securities	177,911	1,810,135	-	1,988,046
Gold deposits	341,434	-	-	341,434
Financial assets designated at fair value through profit or loss				
Debt securities and others	160,230	280,097	308,029	748,356
Equity securities	260,758	791,732	-	1,052,490
Derivative assets				
Trading	5,472	1,678,824	287,590	1,971,886
Hedging	-	285,670	62,029	347,699
Available-for-sale financial assets				
Debt securities	7,293,784	21,810,639	6,119	29,110,542
Equity securities	2,331,274	388,098	2,275,833	4,995,205
	₩ 12,288,721	34,942,132	2,949,591	50,180,444
Liabilities				
Trading liabilities				
Debt securities	₩ 290,331	-	-	290,331
Gold deposits	414,087	-	-	414,087
Borrowings	-	-	3,298,409	3,298,409
Derivative liabilities				
Trading	7,376	1,575,371	261,328	1,844,075
Hedging	-	61,055	67,067	128,122
	₩ 711,794	1,636,426	3,626,804	5,975,024

iii) Changes in level 3 of the fair value hierarchy for the years ended December 31, 2012 and 2011 are as follows:

	2012				
	Trading assets	Financial assets designated at fair value through profit or loss	Available-for- sale financial assets	Net derivatives	Financial liabilities designated at fair value through profit or loss
Beginning balance	₩ 9,991	308,029	2,281,952	21,224	3,298,409
Comprehensive income					
Profit or loss	2,680	42,955	88,500	417,441	649,683
Other comprehensive income	-	-	43,549	19	-
	2,680	42,955	132,049	417,460	649,683
Purchases	640,000	981,102	489,376	66,852	-
Issuances	-	-	-	(170,367)	9,080,911
Settlements	(480,000)	(737,868)	(579,857)	(221,565)	(8,770,804)
Transfers into (out of) level 3	4,780	98,642	295,876	(35,827)	-
Ending balance	₩ 177,451	692,860	2,619,396	77,777	4,258,199

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2011

	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Net derivatives	Financial liabilities designated at fair value through profit or loss
Beginning balance	₩ 8,510	378,914	2,391,645	182,744	1,613,346
Comprehensive income					
Profit or loss	178	(19,887)	327,647	(141,067)	209,801
Other comprehensive income	-	-	8,927	1,175	-
	178	(19,887)	336,574	(139,892)	209,801
Purchases	40,000	(21,686)	276,925	52,250	-
Issuances	-	-	-	-	1,475,262
Settlements	(38,697)	(29,312)	(721,507)	(153,337)	-
Transfers into (out of) level 3	-	-	(1,685)	79,459	-
Ending balance	₩ 9,991	308,029	2,281,952	21,224	3,298,409

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, 2012 and 2011, are as follows:

	2012	2011
Beginning balance	(3,097)	(1,292)
Deferral on new transactions	₩ 88	(5,042)
Recognized in the income statement during the period	435	3,237
Ending balance	₩ (2,574)	(3,097)

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, 2012 and 2011 are as follows:

2012

	Trading	FVTPL assets (*1)	AFS (*2)	HTM (*3)	Loans and receivable	Derivatives held for hedging	Total
Assets :							
Cash and due from banks	₩ -	-	-	-	13,394,331	-	13,394,331
Trading assets	14,018,894	-	-	-	-	-	14,018,894
Financial assets designated at FVTPL (*1)	-	2,585,111	-	-	-	-	2,585,111
Derivatives	1,901,727	-	-	-	-	263,125	2,164,852
Loans	-	-	-	-	199,655,732	-	199,655,732
AFS financial assets (*2)	-	-	36,328,429	-	-	-	36,328,429
HTM financial assets (*3)	-	-	-	11,659,215	-	-	11,659,215
Other	-	-	-	-	9,455,639	-	9,455,639
	₩ 15,920,621	2,585,111	36,328,429	11,659,215	222,505,702	263,125	289,262,203

	2012				
	Trading	FVTPL liabilities (*1)	Amortized cost	Derivatives held for hedging	Total
Liabilities :					
Deposits	₩ -	-	170,096,454	-	170,096,454
Trading liabilities	1,370,723	-	-	-	1,370,723
Financial liabilities designated at FVTPL (*1)	-	4,822,197	-	-	4,822,197
Derivatives	1,713,410	-	-	190,634	1,904,044
Borrowings	-	-	18,891,378	-	18,891,378
Debt securities issued	-	-	38,840,175	-	38,840,175
Other	-	-	18,579,081	-	18,579,081
	₩ 3,084,133	4,822,197	246,407,088	190,634	254,504,052

(*1) FVTPL : Fair value through profit of loss

(*2) AFS : Available-for-sale

(*3) HTM : Held-to-maturity

	2011						
	Trading	FVTPL assets (*1)	AFS (*2)	HTM (*3)	Loans and receivable	Derivatives held for hedging	Total
Assets :							
Cash and due from banks	₩ -	-	-	-	14,730,932	-	14,730,932
Trading assets	11,954,266	-	-	-	-	-	11,954,266
Financial assets designated at FVTPL (*1)	-	1,800,846	-	-	-	-	1,800,846
Derivatives	1,971,886	-	-	-	-	347,699	2,319,585
Loans	-	-	-	-	192,572,571	-	192,572,571
AFS financial assets(*2)	-	-	34,105,747	-	-	-	34,105,747
HTM financial assets(*3)	-	-	-	11,894,664	-	-	11,894,664
Other	-	-	-	-	7,520,769	-	7,520,769
	₩ 13,926,152	1,800,846	34,105,747	11,894,664	214,824,272	347,699	276,899,380

	2011				
	Trading	FVTPL liabilities (*1)	Amortized cost	Derivatives held for hedging	Total
Liabilities :					
Deposits	₩ -	-	163,015,732	-	163,015,732
Trading liabilities	704,418	-	-	-	704,418
Financial liabilities designated at FVTPL (*1)	-	3,298,409	-	-	3,298,409
Derivatives	1,844,075	-	-	128,122	1,972,197
Borrowings	-	-	20,033,246	-	20,033,246
Debt securities issued	-	-	39,736,958	-	39,736,958
Other	-	-	17,306,513	-	17,306,513
	₩ 2,548,493	3,298,409	240,092,449	128,122	246,067,473

(*1) FVTPL : Fair value through profit of loss

(*2) AFS : Available-for-sale

(*3) HTM : Held-to-maturity

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(g) 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, 2012 and 2011 are as follows:

	2012	2011
Transferred asset:	₩	
Financial assets designated at fair value through profit or loss	4,721,888	3,428,699
Available-for-sale financial assets	448,224	247,680
Held-to-maturity financial assets	241,592	416,011
Associated liabilities:		
Bonds sold under repurchase agreements	5,384,333	4,022,369

② Securities loaned as of December 31, 2012 and 2011 are as follows:

	2012	2011	Lender
Government bonds	₩ 434,140	282,468	Korea Securities Finance Corp., Mitsui Sumitomo and others
Financial institutions bonds	370,143	60,267	Korea Securities Finance Corp.,
Corporate bonds	12,634	1,968	Mirae Asset Securities Co. Ltd.,
	₩ 816,917	344,703	

ii) Qualify for derecognition and continued involvement financial instrument.

There are no financial instrument which qualify for derecognition and continued involvement as of December 31, 2012 and 2011.

(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 Tier I capital (including capital stock, retained earnings, etc.) and Tier II capital (including qualifying subordinated liabilities, etc.) less any deductible items (including goodwill, income tax assets, etc.), each as defined under the Regulation on the Supervision of Financial Holding Companies. "Risk-weighted assets" is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

The capital adequacy ratio of the Group as of December 31, 2012 and 2011 are as follows:

	2012	2011
Capital (A)	₩ 25,075,736	22,315,419
Risk-weighted assets (B)	201,184,402	195,579,399
BIS ratio (A/B)	12.46%	11.41%

At December 31, 2012 and 2011, the Group met the regulatory capital ratio above 8%.

5. Significant estimate and judgment

The preparation of consolidated financial statements requires the application of certain critical accounting and assumptions relative to the future. The management's estimate of outcome may differ from an actual outcome if the managements' estimate and assumption based on its best judgment at the reporting date are different from an actual environment. The change in an accounting estimate is recognized prospectively by including in profit or loss in the year of the change, if the change affects that year only, or the year of the change and future years, if the change affects both.

(a) Goodwill

The Group assesses annually whether any objective evidence of impairment on goodwill exists in accordance with the accounting policy as described in note 3. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is measured based on estimates.

(b) Income taxes

The Group is subject to tax law from various countries. Within the normal business process, there are various types of transaction and different accounting method that may add uncertainties to the decision of the final income taxes. The Group has recognized current and deferred tax that reflect tax consequences that would follow from the manner in which the entity expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities. However, actual income tax in the future may not be identical to the recognized deferred tax assets and liabilities, and this difference can affect current and deferred tax at the year when the final tax effect is conformed.

(c) Fair value of financial instruments

The fair values of financial instruments which are not actively traded in the market are determined by using valuation techniques. The Group determines valuation method and assumptions based on significant market conditions at the end of each reporting year. Diverse valuation techniques are used to determine the fair value of financial instruments, from general market accepted valuation model internally developed valuation model that incorporates various types of assumptions and variables.

(d) Allowances for loan losses, guarantees and unused loan commitments

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes provision for guarantees and unused loan commitments. The accuracy of provisions of credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for allowances on individual loans and collectively assessing allowances for groups of loans, guarantees and unused loan commitments.

(e) Defined benefit obligation

The present value of defined benefit obligation that is measured by actuarial valuation method uses various assumptions which can change according to various elements. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting year on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in profit or loss. Other significant assumptions related to defined benefit obligation are based on current market situation

(f) Impairment of available-for-sale equity investments

When there is significant or prolonged decline in the fair value of an investment in an equity instrument below its original cost, there is objective evidence that available-for-sale equity investments are impaired. Accordingly, the Group considers the decline in the fair value of over 50% against the original cost as "significant decline" and a six-month continuous decline in the market price for marketable equity instrument as "prolonged decline".

From now on, a significant decline in standards has been permuted from 50% to 30%. There was subject to change in accounting estimate that was reinforced a significant decline in standards because stock market volatility has been reduced. Additional impairment loss is ₩ 19,876 million.

(g) Hedging relationship

The hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

6. Business combinations

(a) Acquisition of Shinhan Vina Bank

On November 11, 2011, the Group obtained a controlling ownership over Shinhan Vina Bank, formerly a jointly controlled entity, by acquiring an additional 50 % of the outstanding and voting interests for ₩ 105,940 million.

Shinhan Bank Vietnam merged with Shinhan Vina Bank on November 28, 2011. The Group applied the pooling method instead of the acquisition method, since the transaction was regarded as a "business combination of entities under common control" in accordance with K-IFRS No.1103 *Business Combinations*.

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Taking control of Shinhan Vina Bank will enable the Group to implement the localization strategy through access to loans to or deposits from corporations, including small or medium sized companies in Vietnam. The acquisition is expected to provide the Group with an increased share of the corporate Banking market through access to the acquiree's customer base. The Group also expects to reduce costs through economies of scale.

Net assets from the business combination are as follows:

	Amount
Assets	
Cash and due from banks	₩ 56,489
Held-to-maturity securities	7,439
Loans (*1)	357,245
Property and equipment	1,790
Intangible assets (*2)	17,685
Other assets	3,906
Sub-total	444,554
Liabilities	
Deposits from banks & customers, etc.	281,111
Borrowings	17,415
Provisions	121
Other liabilities	9,410
Sub-total	308,057
Net assets acquired	₩ 136,497

(*1) The fair value of loans approximates their carrying amount.

(*2) ₩ 17,685 million of customer-related intangible assets (core deposits) were recognized.

Goodwill recorded from the business combination is as follows:

	Amount
Cash paid (cash and cash equivalents)	₩ 105,940
Fair value of previously held equity interest (*)	105,940
Consideration	211,880
Net assets acquired	(136,497)
Goodwill	₩ 75,383

(*) The Group regarded the fair value of previously held equity interests as consideration transferred for the additional purchase of 50%.

The goodwill is attributable mainly to the expected synergies from combining operations of the Group and Shinhan Vina Bank and economies of scale. Goodwill recognized is not expected to be deductible for income tax purposes.

Acquisition-related costs of ₩ 323 million relating to legal fees and due diligence costs were recognized as general and administrative expenses in the Group's consolidated statement of comprehensive income for the year ended December 31, 2011.

₩ 44,243 of a gain as a result of remeasuring to fair value the 50% equity interest in Shinhan Vina Bank held by the Group before the business combination was recognized as other operating income in the Group's consolidated statement of comprehensive income for the year ended December 31, 2011.

The disclosure of Shinhan Vina Bank's operating income and net income since the acquisition date is unavailable as Shinhan Vina Bank's separate financial information has not been prepared subsequent to the merger of Shinhan Vina Bank and Shinhan Vietnam Bank.

Had the acquisition of Shinhan Vina Bank occurred at January 1, 2011, the operating income of ₩ 4,149,059 million and net income of ₩ 3,112,862 million would have been included in the consolidated statement of comprehensive income.

(b) Incorporation of Shinhan Savings Bank and acquisition of Tomato Savings Bank.

The Group established Shinhan Hope Co. Ltd., on December 12, 2011, in order to acquire and assume certain assets and liabilities of Tomato Savings Bank. Shinhan Hope Co. Ltd. obtained a savings bank license on December 28, 2011 and changed its name to "Shinhan Savings Bank" on December 29, 2011.

On January 2, 2012, Shinhan Savings Bank acquired certain assets and liabilities of Tomato Savings Bank.

Assets acquired and liabilities assumed from the business combination were as follows:

	Amount
Assets	
Cash and due from banks	₩ 237,443
Trading assets	83,860
Loans (*)	361,728
Available-for-sale financial assets	125,446
Property and equipment	180
Intangible assets (Core deposit intangibles)	24,023
Other assets	798,676
	₩ 1,631,356
Liabilities	
Deposits	1,563,377
Other liabilities	95,533
	₩ 1,658,910
Net assets acquired	27,554
Consideration	-
Goodwill	₩ 27,554

(*) The aggregate principal amount of loans was ₩ 533,165 million.

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Comprehensive income of the business acquired from the date of acquisition to December 31, 2012 were as follows:

	Amount
Net interest income	
Interest income	₩ 99,139
Interest expense	(35,616)
	63,523
Net fees and commission expense	
Fees and commission income	121
Fees and commission expense	(2,235)
	(2,114)
Net trading income	8,286
Gain on disposition of available-for-sale financial assets	647
Impairment loss on financial assets	
Bad debt expenses	(60,093)
General and administrative expenses	(27,428)
Net other operating expenses	(6,007)
Non-operating income (expense)	3,891
Loss before income taxes	(19,295)
Income tax expense	(4,094)
Net loss for the period	(23,389)
Other comprehensive income for the period	
Valuation loss on available-for-sale financial assets	(3,078)
Total comprehensive loss for the period	(26,467)
Net loss attributable to:	
Equity holders of Shinhan Savings Bank	(23,389)
Total comprehensive loss attributable to:	
Equity holders of Shinhan Savings Bank	₩ (26,467)

(c) Yehanbyoung Savings Bank

On January 11, 2013, Shinhan Financial Group has signed a share purchase agreement with KDIC for the acquisition of Yehanbyoung Savings Bank (payment for acquisition is ₩ 45,296 million) which was established acquiring certain assets and liabilities of Jinheung Savings Bank by Korea Deposit Insurance Corporation. On January 31, 2013, Yehanbyoung Savings Bank joined Shinhan Financial Group as a direct subsidiary subject to the approval of Financial Services Commission.

According to Statements of Korea Accounting Standards, total assets and total liabilities of Yehanbyoung Savings Bank are ₩ 1,326,889 million and ₩ 1,285,975 million as of establishment date (November 16, 2012) and payment for acquisition (Cash and cash equivalents) is ₩ 45,296 million

7. Operating segments

(a) Segment information

The general descriptions by operating segments as of December 31, 2012 and 2011 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.

	2012					
	Banking					
	Retail	Corporate	International	Other	Adjustments	
Net interest income (loss)	₩ 2,512,950	1,049,010	288,688	970,231	15,272	
Net fees and commission Income (loss)	599,935	275,065	47,578	(63,027)	7,909	
Net other expense	(2,408,728)	(436,825)	(125,544)	(514,664)	(108,040)	
Operating income	704,157	887,250	210,722	392,540	(84,859)	
Equity method income	-	-	-	-	21,897	
Income tax expense	141,012	181,507	53,739	90,902	(33,618)	
Income for the year	549,519	711,244	155,291	354,811	(86,623)	
Controlling interest	549,519	711,244	155,291	354,811	(86,796)	
Non-controlling interest	₩ -	-	-	-	173	
	(continued)					
	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income (loss)	₩ 1,410,193	248,254	566,499	(95,866)	8,980	6,974,211
Net fees and commission Income (loss)	246,000	236,573	34,945	204,340	(17,227)	1,572,091
Net other expense	(703,995)	(416,948)	(330,020)	(352,523)	44,937	(5,352,350)
Operating income	952,198	67,879	271,424	(244,049)	36,690	3,193,952
Equity method income	-	2,221	-	1,517	1,903	27,538
Income tax expense	217,251	15,177	55,313	11,346	6,315	738,944
Income for the year	749,764	63,912	209,399	569,366	(782,615)	2,494,068
Controlling interest	749,764	63,912	209,399	571,635	(956,047)	2,322,732
Non-controlling interest	₩ -	-	-	(2,269)	173,432	171,336

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2011

Banking

	Retail	Corporate	International	Other	Adjustments
Net interest income (loss)	₩ 2,671,278	1,013,951	259,548	1,049,467	60,820
Net fees and commission Income (loss)	623,694	279,177	45,580	(47,282)	(2,442)
Net other expense	(2,425,006)	(459,041)	(231,861)	(120,497)	(8,516)
Operating income	869,966	834,087	73,267	881,688	49,862
Equity method income	-	-	-	-	28,995
Income tax expense	170,895	168,205	20,050	168,308	16,016
Income for the year	682,065	667,521	51,385	664,527	75,830
Controlling interest	682,065	667,521	51,385	664,527	75,335
Non-controlling interest	₩ -	-	-	-	495

(continued)

	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income (loss)	₩ 1,359,734	230,747	523,663	(96,275)	7,038	7,079,971
Net fees and commission Income (loss)	319,845	319,115	27,533	219,555	(25,604)	1,759,171
Net other expense	(606,446)	(426,967)	(232,594)	(191,901)	36,073	(4,666,756)
Operating income	1,073,133	122,895	318,602	(68,621)	17,507	4,172,386
Equity method income	-	8,170	-	15,748	4,877	57,790
Income tax expense	224,227	39,206	72,664	32,922	7,436	919,929
Income for the year	875,930	101,710	236,927	1,748,333	(1,831,595)	3,272,633
Controlling interest	875,930	101,710	236,927	1,750,068	(2,005,457)	3,100,011
Non-controlling interest	₩ -	-	-	(1,735)	173,862	172,622

(c) The following table provides information of assets for each operating segment as of December 31, 2012 and 2011.

2012

Banking

	Retail	Corporate	International	Other	Adjustments
Trading assets	₩ -	5,606,443	-	329,266	(576,199)
Loans	104,011,790	58,446,375	8,645,957	1,930,038	(1,591,205)
Available-for-sale financial assets	607,848	25,030,962	871,999	2,664,564	(250,778)
Held-to-maturity financial assets	-	8,789,842	434,486	-	-
	₩ 104,619,638	97,873,622	9,952,442	4,923,868	(2,418,182)

(continued)

	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Trading assets	₩ 100,023	7,776,746	473,707	308,908	-	14,018,894
Loans	20,156,564	1,217,660	3,581,004	4,663,577	(1,406,028)	199,655,732
Available-for-sale financial assets	486,540	1,455,369	5,339,775	290,395	(168,245)	36,328,429
Held-to-maturity financial assets	-	-	2,429,848	5,039	-	11,659,215
	₩ 20,743,127	10,449,775	11,824,334	5,267,919	(1,574,273)	261,662,270

2011						
Banking						
	Retail	Corporate	International	Other	Adjustments	
Trading assets	₩ -	7,479,525	-	332,897	(1,048,081)	
Loans	100,089,361	57,229,149	8,058,557	2,098,758	(1,522,425)	
Available-for-sale financial assets	523,931	23,609,648	726,981	2,874,481	(485,427)	
Held-to-maturity financial assets	-	9,447,411	454,979	32	-	
	₩ 100,613,292	97,765,733	9,240,517	5,306,168	(3,055,933)	
(continued)						
	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Trading assets	₩ 150,056	4,444,608	216,446	391,130	(12,315)	11,954,266
Loans	19,480,828	798,378	2,957,350	4,699,329	(1,316,714)	192,572,571
Available-for-sale financial assets	457,702	1,641,197	4,646,014	302,782	(191,562)	34,105,747
Held-to-maturity financial assets	-	-	2,042,196	5,045	(54,999)	11,894,664
	₩ 20,088,586	6,884,183	9,862,006	5,398,286	(1,575,590)	250,527,248

(d) Financial information of geographical area

The following table provides information of revenue from external consumers by geographical area for the years ended December 31, 2012 and 2011.

	Operating revenue		Operating expense		Net income	
	2012	2011	2012	2011	2012	2011
Domestic	₩ 28,452,926	29,287,746	25,447,373	25,259,688	3,005,553	4,028,058
Overseas	1,189,637	973,905	1,001,238	829,577	188,399	144,328
	₩ 29,642,563	30,261,651	26,448,611	26,089,265	3,193,952	4,172,386

The following table provides information of non-current assets by geographical area as of December 31, 2012 and 2011.

	2012	2011
Domestic	₩ 7,432,754	7,391,966
Overseas	51,678	80,477
	₩ 7,484,432	7,472,443

(*) Non-current assets as of December 31, 2012 and 2011 include property and equipment, intangible assets, investment properties.

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8. Cash and due from banks

(a) Cash and due from banks as of December 31, 2012 and 2011 are as follows:

	2012	2011
Cash and cash equivalents	₩ 2,997,082	2,131,642
Deposits in won:		
Reserve deposits	2,804,583	3,391,601
Time deposits	2,779,738	3,641,613
Certificate of deposits	-	19,760
Other	1,597,689	2,116,900
	7,182,010	9,169,874
Deposits in foreign currency:		
Deposits	1,561,565	1,433,884
Time deposits	1,232,353	1,669,938
Other	425,777	357,761
	3,219,695	3,461,583
Provisions	(4,456)	(32,167)
	₩ 13,394,331	14,730,932

(b) Restricted due from banks as of December 31, 2012 and 2011 are as follows:

	2012	2011
Deposits in won		
Reserve deposits	₩ 2,804,583	3,391,601
Other (*)	996,503	1,298,609
	3,801,086	4,690,210
Deposits in foreign currency	728,619	855,025
	₩ 4,529,705	5,545,235

(*) 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, 2012 and 2011 are as follows:

	2012	2011
Debt securities:		
Governments	₩ 833,935	698,192
Financial institutions	4,404,444	2,993,836
Corporations	2,023,057	1,441,253
Bills bought	2,787,392	3,566,763
CMA (*)	1,018,520	911,728
Others	179,262	13,014
	11,246,610	9,624,786
Equity securities:		
Stocks	284,952	135,139
Beneficiary certificates	1,672,624	1,822,901
Others	376,780	30,006
	2,334,356	1,988,046
Other		
Gold deposits	437,928	341,434
	₩ 14,018,894	11,954,266

(*) CMA: Cash management account deposits

10. Financial asset designated at fair value through profit or loss

Financial asset designated at fair value through profit or loss as of December 31, 2012 and 2011 are as follows:

	2012	2011	Condition
Debt securities	₩ 853,433	440,327	Evaluation and management on a fair value basis, accounting mismatch
Equity securities	1,259,465	1,052,490	Evaluation and management on a fair value basis, accounting mismatch
Others	472,213	308,029	Combined instrument
	₩ 2,585,111	1,800,846	

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11. Derivatives

(a) The notional amounts of derivatives as of December 31, 2012 and 2011 are as follows:

	2012	2011
Foreign currency related		
Over the counter		
Currency forwards	₩ 32,456,980	41,915,985
Currency swaps	11,789,631	12,416,078
Currency options	387,852	1,707,857
	44,634,463	56,039,920
Exchange traded		
Currency futures	123,215	118,382
	44,757,678	56,158,302
Interest rates related		
Over the counter		
Interest rate swaps	91,314,373	97,090,640
Interest rate options	5,776,662	8,803,485
	97,091,035	105,894,125
Exchange traded		
Interest rate futures	631,050	41,860
	97,722,085	105,935,985
Credit related		
Over the counter		
Credit swaps	165,789	89,186
Equity related		
Over the counter		
Equity swap and forwards	3,091,829	2,087,186
Equity options	1,665,463	6,727,624
	4,757,292	8,814,810
Exchange traded		
Equity futures	161,051	6,323
Equity options	4,811,288	3,031,229
	4,972,339	3,037,552
	9,729,631	11,852,362
Commodity related		
Over the counter		
Swaps and forwards	467,334	38,045
Equity options	77,011	130,463
	544,345	168,508
Exchange traded		
Equity options	282,185	17,989
	826,530	186,497
Hedge		
Currency forwards	2,807	4,455
Currency swaps	1,848,578	1,918,435
Interest rate swaps	8,484,998	9,137,426
	10,336,383	11,060,316
	₩ 163,538,096	185,282,648

(b) Fair values of derivative instruments as of December 31, 2012 and 2011 are as follows:

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Foreign currency related				
Over the counter				
Currency forwards	₩ 511,226	611,165	628,214	439,086
Currency swaps	361,588	257,034	450,092	526,878
Currency options	25,167	11	115,118	7,798
	897,981	868,210	1,193,424	973,762
Interest rates related				
Over the counter				
Interest rate swaps	694,505	593,361	670,831	576,866
Interest rate options	23,921	33,297	32,998	36,611
Interest rate forwards	11	-	-	-
	718,437	626,658	703,829	613,477
Credit related				
Over the counter				
Credit swaps	1,147	842	-	1,734
Equity related				
Over the counter				
Equity swap and forwards	182,282	46,436	11,581	222,017
Equity options	69,847	144,417	52,105	22,722
	252,129	190,853	63,686	244,739
Exchange traded				
Equity futures	3	-	-	-
Equity options	20,740	18,995	5,109	6,948
	20,743	18,995	5,109	6,948
	272,872	209,848	68,795	251,687
Commodity related				
Over the counter				
Swaps and forwards	5,679	5,189	1,625	1,835
Equity options	1,052	371	3,850	1,152
	6,731	5,560	5,475	2,987
Exchange traded				
Commodity futures	4,560	2,291	363	428
	11,291	7,851	5,838	3,415
Hedge				
Currency forwards	447	-	-	358
Currency swaps	1,157	100,156	80,405	11,052
Interest rate swaps	261,520	90,479	267,294	116,712
	263,124	190,635	347,699	128,122
	₩ 2,164,852	1,904,044	2,319,585	1,972,197

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(c) Gain or loss on valuation of derivatives for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Foreign currency related		
Over the counter		
Currency forwards	₩ (160,903)	176,646
Currency swaps	189,056	(94,365)
Currency options	(9,160)	5,117
	18,993	87,398
Exchange traded		
Currency futures	63	116
	19,056	87,514
Interest rates related		
Over the counter		
Interest rate swaps	(17,681)	42,931
Interest rate options	985	(3,501)
	(16,696)	39,430
Exchange traded		
Interest rate futures	(777)	(617)
	(17,473)	38,813
Credit related		
Over the counter		
Credit swaps	1,547	(411)
Equity related		
Over the counter		
Equity swap and forwards	352,700	(200,928)
Equity options	21,552	(75,330)
	374,252	(276,258)
Exchange traded		
Equity futures	(1,446)	749
Equity options	1,347	62,571
	(99)	63,320
	374,153	(212,938)
Commodity related		
Over the counter		
Swaps and forwards	1,286	(430)
Commodity options	(1,393)	(6,055)
	(107)	(6,485)
Exchange traded		
Commodity futures	2,404	104
	2,297	(6,381)
Hedge		
Currency forwards	1,252	(358)
Currency swaps	(128,935)	30,065
Interest rate swaps	15,429	45,081
	(112,254)	74,788
	₩ 267,326	(18,615)

(d) Gain or loss on fair value hedges for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Hedged item	₩ (18,970)	(51,205)
Hedging instruments	20,209	29,467
	₩ 1,239	(21,738)

(e) Hedge of net investment in foreign operations

Net investments in foreign operations for some of the hedge accounting is applied, the amount which is reflected of the gain or loss on the hedging instruments overseas operations translation for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Borrowings in foreign currency	₩ 56,314	(4,790)
Debt securities issued in foreign currency	25,782	-
	₩ 82,096	(4,790)

12. Loans

(a) Loans as of December 31, 2012 and 2011 are as follows:

	2012	2011
Household loans	₩ 74,052,971	69,450,520
Corporate loans	102,724,657	100,238,573
Public and other	3,106,885	4,929,661
Loans to banks	4,536,968	2,556,629
Card receivables	17,853,527	17,879,640
	202,275,008	195,055,023
Present value discount	(39,144)	(44,263)
Deferred loan origination costs and fees	212,477	138,933
	202,448,341	195,149,693
Allowance for impairment	(2,792,609)	(2,577,122)
	₩ 199,655,732	192,572,571

(b) Changes in the allowance for impairment for the years ended December 31, 2012 and 2011 are as follows:

						2012	Total
	Household	Corporate	Credit Card	Other	Loans Subtotal	Other (*2)	
Beginning balance	₩ 221,192	1,648,265	675,520	32,145	2,577,122	152,008	2,729,130
Provision for (reversal of) allowance	177,334	859,538	294,616	(6,908)	1,324,580	(9,421)	1,315,159
Write-offs	(116,395)	(713,805)	(490,108)	-	(1,320,308)	(21,484)	(1,341,792)
Effect of discounting	(321)	(66,155)	(1,526)	-	(68,002)	-	(68,002)
Allowance related to loans transferred	(17,221)	(86,350)	6,125	-	(97,446)	-	(97,446)
Recoveries	32,030	86,403	256,651	-	375,084	(8,986)	366,098
Others (*1)	-	(1,206)	2,785	-	1,579	(10,892)	(9,313)
Ending balance	₩ 296,619	1,726,690	744,063	25,237	2,792,609	101,225	2,893,834

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						Loans	Other	Total
	Household	Corporate	Credit Card	Other	Subtotal	(*2)		
Beginning balance	₩ 194,004	1,939,988	670,747	47,207	2,851,946	142,971	2,994,917	
Provision for (reversal of) allowance	65,971	646,917	166,234	(15,062)	864,060	31,946	896,006	
Write-offs	(70,388)	(847,076)	(447,008)	-	(1,364,472)	(21,416)	(1,385,888)	
Effect of discounting	(248)	(66,416)	(1,462)	-	(68,126)	-	(68,126)	
Allowance related to loans transferred	(11,115)	(127,662)	67	-	(138,710)	-	(138,710)	
Recoveries	42,968	76,907	283,163	-	403,038	904	403,942	
Others (*1)	-	25,607	3,779	-	29,386	(2,398)	26,988	
Ending balance	₩ 221,192	1,648,265	675,520	32,145	2,577,122	152,007	2,729,129	

(*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, 2012 and 2011 are as follows:

	2012	2011
Beginning balance	₩ 138,933	2,728
Loan originations	122,985	85,200
Amortization	(49,441)	51,005
Ending balance	₩ 212,477	138,933

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, 2012 and 2011 are as follows:

	2012	2011
Available-for-sale financial assets		
Debt securities (*1)		
Government bonds	₩ 5,446,367	4,829,146
Financial institutions bonds	13,750,391	13,689,821
Corporate bonds and others	12,159,392	10,591,575
	31,356,150	29,110,542
Equity securities (*2)		
Stock	3,773,380	3,989,752
Equity investments	506,012	525,175
Beneficiary certificates	643,885	415,508
Others	49,002	64,770
	4,972,279	4,995,205
	36,328,429	34,105,747
Held-to-maturity financial assets		
Debt securities		
Government bonds	5,716,713	5,869,832
Financial institutions bonds	1,700,583	2,064,369
Corporate bonds and others	4,241,919	3,960,463
	11,659,215	11,894,664
	₩ 47,987,644	46,000,411

(*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 ₩ 140,941million and ₩ 203,911million as of December 31, 2012 and 2011, respectively.

(b) Gain or loss on sale of available-for-sale financial assets for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Gain on sale of available-for-sale financial assets	₩ 567,160	866,138
Loss on sale of available-for-sale financial assets	(30,579)	(19,793)
	₩ 536,581	846,345

14. Property and equipment, net

(a) Property and equipment as of December 31, 2012 and 2011 are as follows:

	Acquisition cost	Accumulated depreciation	Book value
			2012
Land	₩ 1,732,072	-	1,732,072
Buildings	948,426	(93,073)	855,353
Other	2,061,152	(1,601,891)	459,261
	₩ 4,741,650	(1,694,964)	3,046,686
			2011
Land	₩ 1,751,634	-	1,751,634
Buildings	924,103	(62,094)	862,009
Other	1,969,988	(1,589,771)	380,217
	₩ 4,645,725	(1,651,865)	2,993,860

(*) 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, 2012 and 2011 are as follows:

	Land	Buildings	Other	Total
				2012
Beginning balance	₩ 1,751,634	862,009	380,217	2,993,860
Acquisitions (*1), (*2)	1,699	41,386	266,848	309,933
Disposals (*1)	(180)	(7,191)	(14,674)	(22,045)
Depreciation	-	(31,982)	(169,789)	(201,771)
Amounts transferred from (to) investment property	(4,659)	(2,042)	-	(6,701)
Amounts transferred to assets held for sale (*3)	(16,243)	(5,264)	-	(21,507)
Effects of foreign currency movements	(179)	(1,563)	(3,341)	(5,083)
Ending balance	₩ 1,732,072	855,353	459,261	3,046,686

(*1) ₩ 13,651 million of transfers from construction-in-progress and ₩ 60,070 million of included in other.

(*2) ₩ 3,384 million of an Includes asset retirement obligation on a rented facility.

(*3) Comprised of land and buildings, etc.

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				2011
	Land	Buildings	Other	Total
Beginning balance	₩ 1,781,408	851,393	343,606	2,976,407
Acquisitions (*)	10,943	61,469	243,245	315,657
Disposals (*)	(27,774)	(12,194)	(28,454)	(68,422)
Depreciation	-	(30,964)	(180,807)	(211,771)
Amounts transferred from (to) investment property	(14,321)	(7,094)	-	(21,415)
Amounts transferred to assets held for sale	1,327	(1,064)	-	263
Acquisitions from business combinations	51	463	837	1,351
Effects of foreign currency movements	-	-	1,790	1,790
Ending balance	₩ 1,751,634	862,009	380,217	2,993,860

(*) ₩ 13,546 million of transfers from construction-in-progress and ₩ 33,405 million of included in others.

(c) Insured assets as of December 31, 2012 are as follows:

Type of insurance	Assets insured	Amount covered	Insurance company
Comprehensive insurance for financial institution	Cash and cash equivalent	22,500	Samsung Fire & Marine Insurance Co.,Ltd. and 7 other entities
Package insurance	Land and buildings	1,213,755	Samsung Fire & Marine Insurance Co.,Ltd. and 5 other entities
Fire insurance	Equipment	15,609	American Home Assurance Company Korea and 1 other entity
Theft insurance	Cash and securities	55,000	LIG Insurance Co.,Ltd. and 7 other entities
Directors' and Officers' Liability and Company Reimbursement Insurance	-	100,986	Samsung Fire & Marine Insurance Co.,Ltd.
Other	Cash and cash equivalent, securities	2,670	MERITZ Fire & Marine Insurance Co.,Ltd. and 3 other entities
		1,410,520	

(*) In addition, the Group maintains vehicle insurance, medical insurance, fire insurance for its assets, and employee compensation insurance covering loss and liability arising from accidents.

(d) There is no significant difference between the carrying amount of property and equipment and their fair value.

15. Intangible assets, net

(a) Intangible assets as of December 31, 2012 and 2011 are as follows:

	2012	2011
Goodwill	₩ 3,827,954	3,854,524
Software	70,896	75,164
Development cost	115,438	99,529
Other	176,488	174,243
	₩ 4,190,776	4,203,460

(b) Changes in intangible assets for the years ended December 31, 2012 and 2011 are as follows:

	2012				
	Goodwill	Development cost	Software	Other	Total
Beginning balance	₩ 3,854,524	99,529	75,164	174,243	4,203,460
Acquisitions	27,554	50,339	28,795	44,602	151,290
Disposals	-	-	(805)	(6,824)	(7,629)
Impairment (*1)	(54,124)	-	(185)	(4,208)	(58,517)
Amortization (*2)	-	(34,430)	(31,483)	(31,152)	(97,065)
Effects of foreign currency movements	-	-	(590)	(173)	(763)
Ending balance	₩ 3,827,954	115,438	70,896	176,488	4,190,776

	2011				
	Goodwill	Development cost	Software	Other	Total
Beginning balance	₩ 3,810,684	77,331	68,862	116,024	4,072,901
Acquisitions	-	53,270	31,623	83,239	168,132
Business combination	75,383	-	-	17,685	93,068
Disposals	-	(3,420)	-	(11,708)	(15,128)
Impairment (*1)	(31,543)	-	-	(8,131)	(39,674)
Amortization (*2)	-	(27,652)	(25,321)	(22,990)	(75,963)
Effects of foreign currency movements	-	-	-	124	124
Ending balance	₩ 3,854,524	99,529	75,164	174,243	4,203,460

(*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, 2012 and 2011 are as follows:

	2012	2011
Banking		
Retail	₩ 652,344	652,344
Corporate and investment	107,856	107,856
International	-	43,840
Other	82,060	82,060
Credit card	2,685,389	2,685,389
Life insurance	275,370	275,370
Others	24,935	7,665
	₩ 3,827,954	3,854,524

ii) The changes in goodwill for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Beginning balance	₩ 3,854,524	3,810,684
Acquisition of subsidiaries	27,554	75,383
Impairment (*1),(*2)	(54,124)	(31,543)
Ending balance	₩ 3,827,954	3,854,524

(*1) The impairment losses was recognized in 'Others CGU' of ₩ 43,480 million and 'international CGU of Shinhan Bank' of ₩ 10,284 million for the year ended December 31, 2012, respectively.

(*2) The impairment losses were wholly recognized in treasury and 'international CGU of Shinhan Bank' for the year ended December 31, 2011.

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iii) Goodwill impairment test

The recoverable amounts of all CGUs to which goodwill has been allocated was based on their respective value in use and was determined by discounting the estimated future cash flows to be generated from the continuing use of the respective CGUs.

The recoverable amounts of CGUs have been determined using cash flow estimates which cover a 5.25 year period (October 1, 2012 through December 31, 2017) from the date of valuation, which is September 30, 2012, with a valuation of terminal value applied thereafter. In case of Shinhan Life Insurance, only the 30 years of future cash flows are applied since the present value of the future cash flows thereafter is not significant.

Discount and terminal growth rates

The discount rates applied have been determined based on the cost of equity which is comprised of a risk-free interest rate, a market risk premium and systemic risk (beta factor).

Expected terminal growth rate of cash flow estimation is on the basis of inflation rates.

Discount and terminal growth rates applied to each CGU are as follows:

	Discount rates	Terminal growth rate
Banking		
Retail	12.8%	2.9%
Corporate and investment	11.2%	2.9%
International	9.8%, 15.5%	0.3%, 6.8%
Other	11.2%, 12.6%	2.9%
Credit card	12.1%	2.9%
Life insurance	10.5%	-
Other	11.2%, 15.66%	2.9%, 0%

Key assumptions used in the discounted cash flow calculations of CGUs (other than Shinhan Life Insurance) are as follows:

	2012	2013	2014	2015	2016 and thereafter
CPI growth	2.10%	1.90%	2.80%	3.30%	3.20%
Real retail sales growth	1.50%	2.70%	3.00%	3.70%	3.60%
Real GDP growth	2.30%	1.90%	3.30%	3.90%	3.60%

Key assumptions used in the discounted cash flow calculations of Shinhan Life Insurance are as follows:

	Key assumptions
Return on investment	4.85%
Risk-based solvency margin ratio	311.9%

Total recoverable amount and book value of CGUs, to which goodwill has been allocated, are as follows:

	Amount
Total recoverable amount	₩ 33,566,915
Total book value	30,919,494
	₩ 2,637,421

16. Investments in associates

(a) Investments in associates as of December 31, 2012 and 2011 are as follows:

Investees	Country	Reporting date	Ownership (%)	
			2012	2011
Cardif Life Insurance (*4)	Korea	September 30	14.99	14.99
Aju Capital Co., Ltd. (*2), (*3)	"	"	12.85	12.85
Macquarie Shinhan Infrastructure Management (*1), (*3)	"	"	-	50.00
Pohang TechnoPark 2PFV (*3)	Korea	December 31	14.90	14.90
Daewontos Co., Ltd.(*9)	"	"	36.33	-
Shinhan KT Mobile Card (*8)	"	"	-	50.00
Shinhan Corporate Restructuring Fund 5th	"	"	45.00	45.00
DCC Corporate Restructuring Fund 1st	"	"	24.14	24.14
KTB Corporate Restructuring Fund 18th	"	"	-	47.17
PT Clemont Finance Indonesia (*2)	Indonesia	September 30	30.00	30.00
Haejin Shipping Co. Ltd.	Hong Kong	December 31	24.00	24.00
APC Fund	"	"	25.20	25.20
TSYoon 2nd Corporate Restructuring Fund	Korea	"	-	23.26
SHC-IMM New Growth Fund (*7)	"	"	64.52	64.52
Now IB Fund 6th	"	"	-	25.00
QCP New Technology Fund 20 th	"	"	47.17	47.17
UAMCO., Ltd. (*5)	"	"	17.50	17.50
Miraeasset 3rd Investment Fund	"	"	50.00	50.00
Now IB Fund 8th	"	"	-	38.46
Aju-Shinhan 1st Investment Fund (*7)	"	"	60.00	60.00
Aju-Shinhan 2nd Investment Fund	"	"	33.33	33.33
Aju 3rd Investment Fund (*7)	"	"	60.00	60.00
Stonebridge New growth Investment Fund	"	"	-	23.33
Medici 2nd Investment Fund (*7)	"	"	54.67	54.67
STI New growth engine Investment Fund	"	"	50.00	-
AJU-SHC WIN-WIN Company Fund 3 (*7)	"	"	70.16	-
Shinhan K2 Secondary Fund (*6)	"	"	10.75	-
Aju 4th Investment Fund (*7)	"	"	30.00	-
KDB Daewoo Securities Platinum PEF	"	"	20.00	-
Shinhan-stonebridge Petro PEF (*6)	"	"	1.82	-

(*1) Considered common share ratio except preferred shares.

(*2) Financial statements as of September 30, 2012 were used for the equity method.

(*3) The Group used the equity method of accounting as the Group has significant influence in electing on the board of directors.

(*4) The Group has significant influence due to material transaction with investee.

(*5) The Group determined to apply equity method accounting since the investee classified as the subsidiary by the Banking Act.

(*6) As a managing partner, the Group has significant management control over the investee.

(*7) As a limited partner, the Group is not able to participate in policy-making processes to obtain economic benefit from the investee.

(*8) The investee was liquidated for the current period.

(*9) The Group reclassifies available-for-sale financial assets that were acquired by debt-equity swap to investments in associates because vergleich procedures were completed and voting rights were restored.

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(b) Changes in investments in associates for the years ended December 31, 2012 and 2011 are as follows:

Investees	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	2012
						Ending balance
Cardif Life Insurance	₩ 25,028	9,775	1,138	6,706	-	42,647
Aju Capital Co., Ltd. (*1)	33,944	(1,849)	5,505	494	(8,441)	29,653
Macquarie Shinhan Infrastructure Management	4,576	(4,000)	-	(576)	-	-
Pohang TechnoPark 2PFV	3,697	-	(802)	-	-	2,895
Daewontos Co., Ltd.	-	-	122	-	-	122
Shinhan Corporate Restructuring Fund 5th	669	-	6	-	-	675
DCC Corporate Restructuring Fund 1st	845	(290)	(259)	-	-	296
KTB Corporate Restructuring Fund 18th	10	(88)	78	-	-	-
PT Clemont Finance Indonesia	7,346	-	517	(971)	-	6,892
Haejin Shipping Co. Ltd.	1,164	-	(644)	16	(536)	-
APC Fund	38,400	279	2,391	(2,969)	-	38,101
TSYoon 2nd Corporate Restructuring Fund	2,472	(3,475)	570	433	-	-
SHC-IMM New Growth Fund	6,816	2,260	(192)	-	-	8,884
Now IB Fund 6th	1,474	(1,529)	55	-	-	-
QCP New Technology Fund 20th	121	-	138	-	-	259
UAMCO., Ltd.	104,240	-	16,652	25	-	120,917
Miraeasset 3rd Investment Fund	4,688	-	17	-	-	4,705
Now IB Fund 8th	1,334	(1,566)	170	62	-	-
Aju-Shinhan 1st Investment Fund	3,370	-	378	-	-	3,748
Aju-Shinhan 2nd Investment Fund	2,036	(1,645)	284	-	-	675
Aju 3rd Investment Fund	2,789	-	251	-	-	3,040
Stonebridge New Growth Investment Fund	564	(564)	-	-	-	-
Medici 2nd Investment Fund	3,265	-	(57)	-	-	3,208
STI New growth engine Investment Fund	-	2,000	824	-	-	2,824
AJU-SHC WIN-WIN Company Fund 3	-	2,375	579	-	-	2,954
Shinhan K2 Secondary Fund	-	1,750	(58)	-	-	1,692
Aju 4th Investment Fund	-	3,000	(23)	-	-	2,977
KDB Daewoo Securities Platinum PEF	-	6,580	(63)	-	-	6,517
Shinhan-stonebridge Petro PEF	-	14,910	(73)	-	-	14,837
NSC New Technology Fund 1st	-	(34)	34	-	-	-
	₩ 248,848	27,889	27,538	3,220	(8,977)	298,518

(*1) The market values of investments are ₩ 29,654 million as of December 31, 2012 based on the quoted market price at that date.

						2011
Investees	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
Cardif Life Insurance	₩ 13,826	9,750	3,157	(1,705)	-	25,028
Aju Capital Co., Ltd. (*1)	34,904	(692)	4,577	(494)	(4,351)	33,944
Macquarie Shinhan Infrastructure Management	4,282	(4,714)	4,433	575	-	4,576
Shinhan Vina Bank	57,833	(61,696)	928	2,935	-	-
Pohang TechnoPark 2PFV	-	4,470	(751)	(22)	-	3,697
Shinhan Corporate Restructuring Fund 5th	1,212	-	(833)	290	-	669
Shinhan Corporate Restructuring Fund 8th	25,407	(30,027)	4,620	-	-	-
DCC Corporate Restructuring Fund 1st	2,023	(1,207)	29	-	-	845
KTB Corporate Restructuring Fund 18th	10	-	-	-	-	10
PT Clemont Finance Indonesia	6,286	-	794	266	-	7,346
Haejin Shipping Co. Ltd.	996	-	167	1	-	1,164
APC Fund	19,998	7,233	9,585	1,584	-	38,400
Westend Corporate Restructuring Fund	8,210	(9,466)	1,256	-	-	-
TSYoon 2nd Corporate Restructuring Fund	4,153	(1,767)	257	(171)	-	2,472
SHC-IMM New Growth Fund	2,731	4,300	(215)	-	-	6,816
SHC-AJU 1st Investment Fund	2,626	(4,862)	2,236	-	-	-
Now IB Fund 6th	2,669	(1,175)	(20)	-	-	1,474
QCP New Technology Fund 20th	1,164	-	(1,043)	-	-	121
UAMCO., Ltd.	86,480	-	17,785	(25)	-	104,240
Miraeasset 3rd Investment Fund	4,512	(1,500)	1,676	-	-	4,688
Now IB Fund 8th	1,036	-	360	(62)	-	1,334
SHC-AJU 2nd Investment Fund	1,984	(2,116)	132	-	-	-
Aju-Shinhan 1st Investment Fund	3,162	(59)	267	-	-	3,370
Aju-Shinhan 2nd Investment Fund	-	1,930	106	-	-	2,036
Aju 3rd Investment Fund	-	3,000	(211)	-	-	2,789
Stonebridge New Growth Investment Fund	701	-	(137)	-	-	564
Aju M&A 1st Investment Fund	3,994	(4,256)	262	-	-	-
Petra Private Equity Fund	9,613	(18,001)	8,388	-	-	-
Medici 2nd Investment Fund	-	3,280	(15)	-	-	3,265
	₩ 299,812	(107,575)	57,790	3,172	(4,351)	248,848

(*1) The market values of investments are ₩ 36,790 million as of December 31, 2011 based on the quoted market price at that date.

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(c) Condensed financial statements of associates as of and for the years ended December 31, 2012 and 2011 are as follows:

Investees	2012		2011	
	Asset	Liability	Asset	Liability
Cardif Life Insurance	₩ 2,993,361	2,765,496	2,361,638	2,180,638
Aju Capital Co., Ltd.	5,857,903	5,153,149	5,200,373	4,523,282
Macquarie Shinhan Infrastructure Management	-	-	17,294	6,559
Shinhan Vina Bank (*)	-	-	426,868	308,057
Pohang TechnoPark 2PFV	20,993	1,564	35,415	10,603
Daewontos Co., Ltd.	5,314	4,979	-	-
Shinhan KT Mobile Card	-	-	53	1
Shinhan Corporate Restructuring Fund 5th	2,749	1,250	1,823	337
Shinhan Corporate Restructuring Fund 8th	-	-	-	-
DCC Corporate Restructuring Fund 1st	1,237	11	3,553	53
KTB Corporate Restructuring Fund 18th	-	-	21	-
PT Clemont Finance Indonesia	77,548	54,573	93,130	68,642
Haejin Shipping Co. Ltd.	19,681	22,942	2,614	-
APC Fund	35,634	2,488	152,557	177
Westend Corporate Restructuring Fund	-	-	-	-
TSYoon 2nd Corporate Restructuring Fund	-	-	10,741	110
SHC-IMM New Growth Fund	13,772	2	10,664	100
SHC-AJU 1st Investment Fund	-	-	-	-
Petra Private Equity Fund	-	-	-	-
Now IB Fund 6th	-	-	5,944	46
QCP New Technology Fund 20 th	548	-	256	-
UAMCO., Ltd.	4,906,009	4,215,061	3,738,326	3,146,227
Miraeasset 3rd Investment Fund	9,474	63	9,438	61
Now IB Fund 8th	-	-	3,503	36
Aju-Shinhan 1st Investment Fund	6,353	106	5,679	61
Aju-Shinhan 2nd Investment Fund	2,031	7	6,121	13
Aju-Shinhan 3rd Investment Fund	5,070	3	4,651	3
Stonebridge New growth Investment Fund	-	-	2,417	-
Medici 2nd Investment Fund	5,869	-	5,974	2
STI New growth engine Investment Fund	5,649	-	-	-
AJU-SHC WIN-WIN Company Fund 3	4,229	19	-	-
Shinhan K2 Secondary Fund	15,732	-	-	-
Aju 4th Investment Fund	9,945	23	-	-
KDB Daewoo Securities Platinum PEF	32,676	90	-	-
Shinhan-stonebridge Petro PEF (*6)	814,189	-	-	-
NSC New Technology Fund 1st	-	-	-	-
	₩ 14,845,966	12,221,826	12,099,053	10,245,008

Investees	2012		2011	
	Operating revenue	Net income	Operating revenue	Net income
Cardif Life Insurance	₩ 798,918	2,497	646,812	4,915
Aju Capital Co., Ltd.	775,227	40,353	730,272	35,423
Macquarie Shinhan Infrastructure Management	-	-	16,797	8,865
Shinhan Vina Bank (*)	-	-	48,534	1,857
Pohang TechnoPark 2PFV	-	(5,440)	-	(5,038)
Daewontos Co., Ltd.	24,397	243	-	-
Shinhan KT Mobile Card	-	-	-	60
Shinhan Corporate Restructuring Fund 5th	19	15	292	252
Shinhan Corporate Restructuring Fund 8th	-	-	16,513	15,218
DCC Corporate Restructuring Fund 1st	16	(1,064)	202	121
KTB Corporate Restructuring Fund 18th	166	163	-	-
PT Clemont Finance Indonesia	6,558	1,343	7,705	59
Haejin Shipping Co. Ltd.	2,482	(3,287)	29,778	696
APC Fund	3,564	2,076	41,635	37,968
Westend Corporate Restructuring Fund	-	-	2,360	939
TSYoon 2nd Corporate Restructuring Fund	2,564	2,486	1,220	1,105
SHC-IMM New Growth Fund	102	(300)	65	(334)
SHC-AJU 1st Investment Fund	-	-	9,425	9,161
Petra Private Equity Fund	-	-	31,398	25,724
Now IB Fund 6th	116	92	580	(79)
QCP New Technology Fund 20th	1	(21)	1	(2,211)
UAMCO., Ltd.	599,570	95,828	468,220	101,624
Miraeasset 3rd Investment Fund	195	36	3,611	3,353
Now IB Fund 8th	961	933	961	933
Aju-Shinhan 1st Investment Fund	677	630	479	(37)
Aju-Shinhan 2nd Investment Fund	882	852	659	318
Aju-Shinhan 3rd Investment Fund	433	419	161	(352)
Stonebridge New growth Investment Fund	10	10	46	(518)
Medici 2nd Investment Fund	5	(104)	25	(27)
STI New growth engine Investment Fund	-	1,648	-	-
AJU-SHC WIN-WIN Company Fund 3	844	825	-	-
Shinhan K2 Secondary Fund	-	(543)	-	-
Aju 4th Investment Fund	374	(77)	-	-
KDB Daewoo Securities Platinum PEF	-	(314)	-	-
Shinhan-stonebridge Petro PEF (*6)	26	(3,991)	-	-
NSC New Technology Fund 1st	147	122	-	-
	₩ 2,218,254	135,430	2,057,751	239,995

(*) Deemed acquisition date is November 28, 2011

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17. Investment properties, net

(a) Investment properties as of December 31, 2012 and 2011 are as follows:

	2012	2011
Acquisition cost	₩ 273,298	292,956
Accumulated depreciation	(26,328)	(17,833)
Book value	₩ 246,970	275,123

(*) 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, 2012 and 2011 are as follows:

	2012	2011
Beginning balance	₩ 275,123	285,956
Acquisitions	38	17
Disposals	(2,991)	(23,032)
Depreciation	(9,062)	(9,245)
Amounts transferred from investment property	6,701	21,415
Amounts transferred to assets held for sale (*)	(22,825)	-
Foreign currency adjustment	(14)	12
Ending balance	₩ 246,970	275,123

(*) Comprise of land and buildings, etc.

(c) Income and expenses on investment property for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Rental Income	₩ 27,433	26,955
Direct operating expenses for investment properties that generated rental income	8,412	8,299

(d) The fair value of investment property as of December 31, 2012 and 2011 are as follows:

	2012	2011
Land and buildings	₩ 259,844	254,607

(*) 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, 2012 and 2011 are as follows:

	2012	2011
Accounts receivable	₩ 4,518,260	2,790,826
Domestic exchange settlement debit	2,134,806	1,876,400
Guarantee deposits	1,356,950	1,329,141
Accrued income	1,477,120	1,557,307
Prepaid expense	185,972	197,433
Suspense payments	91,426	122,700
Sundry assets	126,674	109,088
Separate account assets	1,896,072	1,657,639
Advance payments	183,858	255,430
Unamortized deferred acquisition cost	1,239,756	1,098,230
Other	67,961	112,927
Present value discount	(87,620)	(99,403)
Allowances for impairment	(96,770)	(119,840)
	₩ 13,094,465	10,887,878

19. Leases

(a) Finance lease receivables of the Group as lessor as of December 31, 2012 and 2011 are as follows:

	2012			
	Gross investment	Unearned finance income	Present value of minimum lease payment	Unguaranteed residual value
Not later than 1 year	₩ 767,000	91,342	675,655	-
1 ~ 5 years	1,131,866	146,687	985,179	-
Later than 5 years	42,489	3,171	39,318	-
	₩ 1,941,355	241,200	1,700,152	-
	2011			
	Gross investment	Unearned finance income	Present value of minimum lease payment	Unguaranteed residual value
Not later than 1 year	₩ 784,923	86,082	686,907	11,933
1 ~ 5 years	970,068	91,958	878,109	-
Later than 5 years	67,905	5,370	62,535	-
	₩ 1,822,896	183,410	1,627,551	11,933

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(b) The scheduled maturities of minimum lease payments of the Group as lessor as of December 31, 2012 and 2011 are as follows:

i) Finance leases

	2012		
	Minimum lease payment	Unearned finance income	Present value of minimum lease payment
Not later than 1 year	₩ 767,000	91,342	675,655
1 ~ 5 years	1,131,866	146,687	985,179
Later than 5 years	42,489	3,171	39,318
	₩ 1,941,355	241,200	1,700,152

	2011		
	Minimum lease payment	Unearned finance income	Present value of minimum lease payment
Not later than 1 year	₩ 772,989	86,082	686,907
1 ~ 5 years	970,067	91,958	878,109
Later than 5 years	67,905	5,370	62,535
	₩ 1,810,961	183,410	1,627,551

ii) Operating leases

	Minimum lease payment	
	2012	2011
Not later than 1 year	₩ 7,491	6,281
1 ~ 5 years	11,135	7,078
	₩ 18,626	13,359

(c) Future minimum lease payments under non-cancellable operating lease of the Group as lessee as of December 31, 2012 and 2011 are as follows:

	Minimum lease payment	
	2012	2011
Not later than 1 year	₩ 104,108	70,712
1 ~ 5 years	122,332	81,945
Later than 5 years	9,606	1,289
	₩ 236,046	153,946

20. Pledged assets

(a) Assets pledged as collateral as of December 31, 2012 and 2011 are as follows:

	2012	2011
Loans	₩ 127,588	154,425
Securities		
Trading assets	5,645,860	3,644,128
Available-for-sale financial assets	1,531,366	1,953,753
Held-to-maturity financial assets	5,551,874	5,541,627
Financial assets designated at fair value through profit or loss	400,837	263,578
	13,129,937	11,403,086
Deposits	100,498	-
Real estate	107,649	108,928
	₩ 13,465,672	11,666,439

(*) 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, 2012 and 2011 were ₩ 5,530,540 and ₩ 4,919,709 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, 2012 and 2011 are as follows:

	2012	
	Collateral held	Collateral sold or repledged
Securities	₩ 2,679,618	-
	2011	
	Collateral held	Collateral sold or repledged
Securities	₩ 781,902	-

21. Deposits

Deposits as of December 31, 2012 and 2011 are as follows:

	2012	2011
Demand deposits	₩ 52,171,149	49,861,856
Time deposits	111,021,657	102,902,575
Negotiable certificates of deposits	1,303,683	2,967,419
Note discount deposits	3,013,376	4,623,801
CMA (*)	1,626,061	1,614,377
Others	960,528	1,045,704
	₩ 170,096,454	163,015,732

(*) CMA: Cash management account deposits

22. Trading liabilities

Trading liabilities as of December 31, 2012 and 2011 are as follows:

	2012	2011
Securities sold		
Equity	₩ 126,160	49,401
Debt	760,502	240,930
Gold deposits	484,061	414,087
	₩ 1,370,723	704,418

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, 2012 and 2011 are as follows:

	2012	2011
Equity-linked securities sold	₩ 4,017,337	2,927,046
Derivatives-combined securities sold	804,860	371,363
	₩ 4,822,197	3,298,409

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24. Borrowings

(a) Borrowings as of December 31, 2012 and 2011 are as follows:

	Interest rate (%)	2012 Amount
Borrowings in won		
Borrowings from Bank of Korea	1.25%~1.50%	₩ 1,354,261
Others	0.00%~6.60%	5,147,077
		6,501,338
Borrowings in foreign currency		
Overdraft due to banks	0.00%~0.63%	155,269
Borrowings from banks	0.08%~3.88%	3,071,900
Others	0.30%~1.86%	2,676,092
		5,903,261
Call money	0.07%~9.00%	1,088,535
Bill sold	1.70%~3.80%	55,397
Bonds sold under repurchase agreements	0.30%~3.65%	5,189,539
Due to Bank of Korea in foreign currency	0.10%	156,150
Present value discounts		(2,842)
		₩ 18,891,378
	Interest rate (%)	2011 Amount
Borrowings in won		
Borrowings from Bank of Korea	1.50%	₩ 796,164
Others	0.00%~6.78%	5,423,558
		6,219,722
Borrowings in foreign currency		
Overdraft due to banks	0.89%~2.98%	1,021,187
Borrowings from banks	0.60%~9.26%	3,958,648
Others	0.70%~5.90%	3,299,947
		8,279,782
Call money	0.14%~3.55%	1,309,137
Bill sold	1.70%~6.08%	105,697
Bonds sold under repurchase agreements	0.10%~8.90%	3,890,665
Due to Bank of Korea in foreign currency	0.10%	232,372
Present value discounts		(4,129)
		₩ 20,033,246

25. Debt securities issued

Debt securities issued as of December 31, 2012 and 2011 are as follows:

	Interest rate (%)	2012 Amount
Debt securities issued in won		
Debt securities issued	0.00%~9.00%	₩ 27,355,181
Subordinated debt securities issued	3.41%~8.00%	5,150,290
Loss on fair value hedges		107,559
Discount		(64,123)
		<u>32,548,907</u>
Debt securities issued in foreign currency		
Debt securities issued	0.72%~8.13%	6,195,288
Subordinated debt securities issued	10.00%	5,695
Loss on fair value hedges		117,096
Discount		(26,811)
		<u>6,291,268</u>
		₩ 38,840,175
	Interest rate (%)	2011 Amount
Debt securities issued in won		
Debt securities issued	0.00%~11.95%	₩ 29,661,054
Subordinated debt securities issued	4.25%~14.45%	3,983,785
Loss on fair value hedges		87,656
Discount		(58,320)
		<u>33,674,175</u>
Debt securities issued in foreign currency		
Debt securities issued	1.05%~8.13%	5,983,933
Loss on fair value hedges		100,717
Discount		(21,867)
		<u>6,062,783</u>
		₩ 39,736,958

26. Employee benefits**(a) Defined benefit plan assets and liabilities**

Defined benefit plan assets and liabilities as of December 31, 2012 and 2011 are as follows:

	2012	2011
Present value of defined benefit obligation	₩ 1,008,119	877,037
Fair value of plan assets	(794,051)	(602,376)
Recognized liabilities for defined benefit obligation	₩ 214,068	274,661

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(b) Changes in the present value of defined benefit obligation for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Beginning balance	₩ 877,037	618,911
Current service cost	134,068	102,252
Interest expense	44,733	37,680
Actuarial losses (gains)	(7,315)	140,811
Foreign exchange adjustments	26	64
Benefit paid by the plan	(40,430)	(22,681)
Ending balance	₩ 1,008,119	877,037

(c) Changes in the fair value of plan assets for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Beginning balance	₩ (602,376)	(448,859)
Expected return on plan assets	(26,268)	(20,640)
Actuarial losses (gains)	797	131
Contributions paid into the plan	(177,362)	(151,142)
Benefit paid by the plan	11,158	18,134
Ending balance	₩ (794,051)	(602,376)

(d) Expense recognized in profit or loss for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Current service costs	₩ 134,068	102,252
Interest expense	44,733	37,680
Expected return on plan assets	(26,268)	(20,640)
Actuarial gains (losses)	(6,518)	140,680
	₩ 146,015	259,972

(e) Historical information for the amounts related to defined benefit plans recognized for the current year and previous years are as follows:

	December 31, 2012	December 31, 2011	December 31, 2010	January 1, 2010
Present value of defined benefit obligation	₩ 1,008,119	877,037	618,911	461,113
Fair value of plan assets	(794,051)	(602,376)	(448,859)	(314,747)
	₩ 214,068	274,661	170,052	146,366
Adjustments to defined benefit obligation	(7,315)	140,811	74,927	-
Adjustments to plan assets	797	131	90	-

(f) Plan assets as of December 31, 2012 and 2011 are as follows:

	2012	2011
Plan assets		
Equity securities	₩ 28,680	28,230
Debt securities	713	518,647
Due from banks	726,134	49,025
Other	38,524	6,474
	₩ 794,051	602,376

(g) Actuarial assumptions as of December 31, 2012 and 2011 are as follows:

	Assumptions	Descriptions
2012		
Discount rate	3.06%~4.44%	AA Corporate bond yields
Expected return on plan assets	3.17%~4.74%	Weighted average yield for the past
Future salary increasing rate	1.88%~4.22% + Upgrade rate	Average for 5 years
2011		
Discount rate	5.02% ~ 5.37%	AA Corporate bond yields
Expected return on plan assets	3.26% ~ 4.38%	Weighted average yield for the past
Future salary increasing rate	2.00% ~ 4.06% + Upgrade rate	Average for 5 years

27. Provisions

(a) Provisions as of December 31, 2012 and 2011 are as follows:

	2012	2011
Asset retirement obligations	₩ 39,348	35,727
Expected loss related to litigation	135,748	215,808
Unused credit commitments	415,372	444,770
Bonus card points program	24,873	24,439
Financial guarantee contracts issued	77,840	85,778
Others	53,665	63,070
	₩ 746,846	869,592

(b) Changes in provisions for the years ended December 31, 2012 and 2011 are as follows:

	2012						Total
	Asset retirement	Litigation	Unused credit	Card point (*)	Guarantee	Other	
Beginning balance	₩ 35,727	215,808	444,770	24,439	85,778	63,070	869,592
Provision (reversal)	676	13,986	(26,772)	39,142	7,949	13,356	48,337
Provision used	(439)	(93,586)	-	(38,708)	-	(22,118)	(154,851)
Foreign exchange translation	-	(460)	(2,651)	-	(2,428)	(643)	(6,182)
Others	3,384	-	25	-	(13,459)	-	(10,050)
Ending balance	₩ 39,348	135,748	415,372	24,873	77,840	53,665	746,846
2011							
	Asset retirement	Litigation	Unused credit	Card point (*)	Guarantee	Other	Total
Beginning balance	₩ 33,693	101,132	462,477	25,203	170,983	65,870	859,358
Provision (reversal)	297	124,551	(18,570)	17,265	(70,860)	(1,407)	51,276
Provision used	(526)	(9,875)	-	(18,029)	-	(4,751)	(33,181)
Foreign exchange translation	-	-	863	-	1,227	-	2,090
Others	2,263	-	-	-	(15,572)	3,358	(9,951)
Ending balance	₩ 35,727	215,808	444,770	24,439	85,778	63,070	869,592

(*) Provisions for card point were classified as fees and commission expense

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(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, 2012 and 2011 are as follows:

	2012	2011
Guarantees and acceptances outstanding	₩ 9,555,223	10,174,850
Contingent guarantees and acceptances	5,202,576	6,882,438
ABS and ABCP purchase commitments	1,773,404	1,605,269
Endorsed bill	3,946	9,748
	₩ 16,535,149	18,672,306
Allowance for loss on guarantees and acceptances	₩ 77,840	85,778
Ratio	0.47%	0.46%

28. Liability under insurance contracts

(a) Insurance liabilities as of December 31, 2012 and 2011 are as follows:

	2012	2011
Policy reserve	₩ 13,415,015	10,861,243
Policyholder's equity adjustment	3,544	6,011
	₩ 13,418,559	10,867,254

(b) Policy reserve of December 31, 2012 and 2011 are as follows:

	2012	2011
Insurance policy reserve		
Interest rate linked	₩ 8,092,651	6,055,822
Fixed interest rate	4,923,178	4,486,193
	13,015,829	10,542,015
Investment contract including discretionary participation feature		
Interest rate linked	399,186	319,228
	₩ 13,415,015	10,861,243

(c) The details of policy reserves as of December 31, 2012 and 2011 are as follows:

	2012			
	Pure endowment	Death	Endow-ment	Individual insurance 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

(continued)

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

2011

Individual insurance				
	Pure endowment	Death	Endowment	Subtotal
Premium reserve	₩ 2,411,566	5,065,110	2,715,919	10,192,595
Guarantee reserve	7,857	2,664	186	10,707
Unearned premium reserve	6	750	1	757
Reserve for outstanding claims	43,705	432,549	60,705	536,959
Interest rate difference guarantee reserve	2,650	275	22	2,947
Mortality gains reserve	8,318	8,741	444	17,503
Interest gains reserve	5,024	385	31	5,440
Long term duration dividend reserve	77	17	2	96
Reserve for policyholder's profit dividend	7,053	-	-	7,053
	₩ 2,486,256	5,510,491	2,777,310	10,774,057

(continued)

Group insurance				
	Pure protection	Savings	Subtotal	Total
Premium reserve	₩ 50,559	465	51,024	10,243,619
Guarantee reserve	-	-	-	10,707
Unearned premium reserve	798	-	798	1,555
Reserve for outstanding claims	35,360	-	35,360	572,319
Interest rate difference guarantee reserve	-	-	-	2,947
Mortality gains reserve	4	-	4	17,507
Interest gains reserve	-	-	-	5,440
Long term duration dividend reserve	-	-	-	96
Reserve for policyholder's profit dividend	-	-	-	7,053
	₩ 86,721	465	87,186	10,861,243

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(d) Reinsurance credit risk as of December 31, 2012 and 2011 are as follows:

	2012	
	Reinsurance assets	Reinsurance account receivable
AA- to AA+	₩ 133	139
A- to A+	777	2,518
	₩ 910	2,657
	2011	
	Reinsurance assets	Reinsurance account receivable
AA- to AA+	₩ 295	-
A- to A+	1,094	-
	₩ 1,389	-

(e) Income or expenses on insurance for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Insurance income		
Premium income	₩ 4,412,777	3,553,537
Reinsurance income	5,348	7,528
Separate account income	15,665	22,008
	4,433,790	3,583,073
Insurance expenses		
Claims paid	1,508,778	1,329,067
Reinsurance premium expenses	5,011	6,733
Provision for policy reserves	2,554,251	1,882,436
Separate account expenses	15,665	22,008
Discount charge	406	332
Acquisition costs	686,716	656,236
Collection expenses	13,793	12,373
Deferred acquisition costs (-)	(631,056)	(622,198)
Amortization of deferred acquisition costs	489,529	415,287
	4,643,093	3,702,274
Net loss on insurance	₩ (209,303)	(119,201)

(f) Maturity of premium reserve as of December 31, 2012 and 2011 are as follows:

	2012						
	Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	Total
Interest rate linked	₩ 9,302	209,844	212,810	1,191,045	659,385	5,590,001	7,872,387
Fixed interest rate	56,883	65,960	219,535	342,018	1,273,608	2,491,885	4,449,889
Others	-	892	592	633	2,075	377,469	381,661
Ending balance	₩ 66,185	276,696	432,937	1,533,696	1,935,068	8,459,355	12,703,937

	2011						
	Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	Total
Interest rate linked	₩ 5,342	137,826	128,667	945,079	463,675	4,206,526	5,887,115
Fixed interest rate	27,535	100,440	130,116	379,365	1,232,174	2,180,838	4,050,468
Others	-	3	1,157	446	1,879	302,551	306,036
Ending balance	₩ 32,877	238,269	259,940	1,324,890	1,697,728	6,689,915	10,243,619

(g) Liability adequacy test, LAT

Liability adequacy tests were performed on the premium reserve, unearned premium reserve and guarantee reserve as of March 31, 2012 of contract held at December 31, 2011 and 2010. The premium reserve considered the amount net level premium reserve less, where appropriate, deferred acquisition cost in accordance with the article 6-3 of Regulation on Supervision of Insurance Business Act. As a result, LAT surplus was ₩1,697,342 million. However, liability adequacy test as of December 31, 2012 was not performed since there had not been any significant changes in the estimation, compared with the preceding test.

The assumptions of the current estimation used to assessment and their basis for calculation was as follows:

	Assumption		Measurement basis
	2012	2011	
Discount rate	4.69% ~ 5.48%	4.96% ~ 5.41%	Future rate of return on invested asset based on the rate scenario suggested by FSS.
Mortality rate	15% ~ 160%	15% ~ 160%	Rate of premium paid on risk premium based on experience-based rate by classes of sales channel, product and transition period of last 5 years.
Operating expense rate	Acquisition cost - The first time: 90.0% ~ 394.0% - From the second time: 0% ~ 90.0% Maintenance expense (each case): 1,691won ~ 8,856won Collection expenses (on gross premium): 0.01% ~ 1.14%	Acquisition cost - The first time: 90.0% ~ 378.7% - From the second time: 0% ~ 90.0% Maintenance expense (each case): 1,170won ~ 8,589won Collection expenses (on gross premium): 0.11% ~ 1.71%	Operating expense rate on gross premium or expense per contract based on experience-based rate of last 1 year
Surrender ratio	1.4% ~ 46.3%	0.3% ~ 46.1%	Surrender ratio by classes of sales channel, product and transition period of last 5 years.

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The result of liability adequacy test as of December 31, 2011 and 2010 are as follows:

	2011		
	Provisions for test	LAT base	Premium loss (surplus)
Participating			
Fixed interest	₩ 584,566	740,489	155,923
Variable interest	483,985	464,575	(19,410)
	1,068,551	1,205,064	136,513
Non- Participating			
Fixed interest	3,097,139	2,474,500	(622,639)
Variable interest	6,579,371	5,478,979	(1,100,392)
	9,676,510	7,953,479	(1,723,031)
Option and Guarantee	12,126	67,255	55,129
	₩ 10,757,187	9,225,798	(1,531,389)
	2010		
	Provisions for test	LAT base	Premium loss (surplus)
Participating			
Fixed interest	₩ 576,604	694,219	117,615
Variable interest	590,919	561,188	(29,731)
	1,167,523	1,255,407	87,884
Non- Participating			
Fixed interest	2,829,997	2,225,492	(604,505)
Variable interest	5,203,899	3,972,820	(1,231,079)
	8,033,896	6,198,312	(1,835,584)
Option and Guarantee	12,788	63,145	50,357
	₩ 9,214,207	7,516,864	(1,697,343)

Sensitivity analysis as of December 31, 2011 and 2010 are as follows:

	LAT fluctuation	
	2011	2010
Discount rate increased by 0.5%	₩ (661,182)	(534,215)
Discount rate decreased by 0.5%	733,319	593,771
Operating expense increased by 10%	180,711	154,445
Mortality rate increased by 10%	382,932	309,112
Mortality rate increased by 5%	191,466	154,556
Surrender ratio increased by 10%	₩ 115,088	110,635

29. Other liabilities

Other liabilities as of December 31, 2012 and 2011 are as follows:

	2012	2011
Accounts payable	₩ 6,061,149	7,537,921
Accrued expenses	3,316,840	3,403,326
Dividend payable	27,599	25,987
Advance receipts	125,419	86,651
Unearned income (*)	318,603	335,845
Withholding value-added tax and other taxes	343,863	261,811
Securities deposit received	674,392	720,594
Foreign exchange remittances pending	207,461	202,365
Domestic exchange remittances pending	3,032,615	2,129,833
Borrowing from trust account	2,377,502	1,474,568
Due to agencies	657,855	394,206
Deposits for subscription	70,820	45,444
Separate account liabilities	1,922,465	1,690,179
Sundry liabilities	2,041,032	1,405,091
Other	340,151	157,915
Present value discount account	(25,717)	(29,568)
	₩ 21,492,049	19,842,168

(*) Changes in deferred (unearned) point income for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Beginning balance	₩ 150,177	138,940
Deferred income	184,248	171,061
Recognized income	(175,530)	(159,824)
Ending balance	₩ 158,895	150,177

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30. Equity

(a) Equity as of December 31, 2012 and 2011 are as follows:

	2012	2011
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	238,582
Capital surplus:		
Share premium	9,494,769	9,494,769
Others	392,430	392,080
	9,887,199	9,886,849
Capital adjustments	(393,097)	(392,654)
Accumulated other comprehensive income, net of tax:		
Valuation gain(loss) on available-for-sale financial assets	1,219,415	1,208,744
Equity in other comprehensive income of associates	5,501	1,404
Foreign currency translation adjustments for foreign operations	(86,962)	(1,841)
Net loss from cash flow hedges	(4,846)	(20,501)
Other comprehensive income of separate account	1,712	1,142
	1,134,820	1,188,948
Retained earnings:	12,499,259	10,829,723
Non-controlling interest	2,469,146	2,462,304
	₩ 28,779,823	26,858,805

(*) Legal reserve was restricted for the dividend to stockholders by law or legislation. According to the article 53 of the Financial Holding Companies Act, the controlling company is required to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 100% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common stocks in connection with a free issue of shares

(b) Capital stock

i) Capital stock of the Group as of December 31, 2012 and 2011 are as follows:

Number of authorized shares	1,000,000,000
Par value per share in won	₩ 5,000
Number of issued common stocks outstanding	474,199,587
Number of issued preferred stocks outstanding	
- As of December 31, 2012	11,100,000
- As of December 31, 2011	54,811,000

The capital stock does not match the total amount of the par value for preferred stock issued ₩55,500 million as of December 31, 2012 because redeemable preferred stock (43,711,000 shares) has been repaid by retirement of stock method.

ii) Preferred stocks issued by the Group as of December 31, 2012 are as follows:

	Number of shares	Predetermined dividend rate (%) (*1)	Redeemable period
Redeemable preferred stock:			
Series 12 (*2)	11,100,000	5.58%	April 21, 2016 - April 21, 2031

(*1) Based on initial issuance price

(*2) The Group maintains the right to redeem Series 10 and Series 12 redeemable preferred stock in part or in its entirety within the redeemable year at par value (considered contract dividend rate). If the preferred shares are not redeemed by the end of the redeemable year, those rights will lapse.

(c) Hybrid bond

Hybrid bond classified as other equity as of December 31, 2012 and 2011 are as follows:

	Issue date	Maturity date	Amount		Interest rate (%)
			2012	2011	
Hybrid bond	₩ October 24, 2011	October 24, 2041	238,582	238,582	5.80%
	May 22, 2012	May 22, 2042	298,861	-	5.34%
			537,443	238,582	

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, 2012 and 2011 are as follows:

	2012	2011
Beginning balance	₩ (392,654)	(390,853)
Changes in a parent's ownership interest in a subsidiary	-	(1,801)
Other transactions with owners	(443)	-
Ending balance	₩ (393,097)	(392,654)

(e) Accumulated other comprehensive income

i) Changes in accumulated other comprehensive income for the years ended December 31, 2012 and 2011 are as follows:

	2012					2011
	Valuation gain (loss) on available-for-sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other Comprehensive income of separate account	Total
Beginning balance	₩ 1,208,744	1,404	(1,841)	(20,501)	1,142	1,188,948
Fair value evaluation	442,237	3,220	-	-	841	446,298
Reclassification	(435,725)	-	-	154,820	-	(280,905)
Hedging	(3,861)	-	82,095	(134,167)	-	(55,933)
Effects from exchange rate fluctuations	12,785	-	(150,356)	-	-	(137,571)
Deferred income taxes	(4,176)	877	(17,082)	(4,998)	(271)	(25,650)
Non-controlling interest	(589)	-	222	-	-	(367)
Ending balance	₩ 1,219,415	5,501	(86,962)	(4,846)	1,712	1,134,820

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						2011
	Valuation gain (loss) on available-for- sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other Comprehensive income of separate account	Total
Beginning balance	₩ 1,668,944	(1,313)	(17,927)	(21,930)	1,721	1,629,495
Fair value evaluation	424,365	3,172	-	-	(681)	426,856
Reclassification	(956,829)	-	-	(37,345)	-	(994,174)
Hedging	(8,318)	-	(4,790)	38,569	-	25,461
Effects from exchange rate fluctuations	17	-	16,201	-	-	16,218
Deferred income taxes	80,329	(455)	4,709	205	102	84,890
Non-controlling interest	236	-	(34)	-	-	202
Ending balance	₩ 1,208,744	1,404	(1,841)	(20,501)	1,142	1,188,948

(f) Appropriation of retained earnings

Consolidated statements of appropriation of retained earnings for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Unappropriated retained earnings:		
Balance at beginning of year	₩ 4,846,219	7,744,070
Repayment of preferred stock	-	(3,752,679)
Interest on hybrid bond	(23,688)	(2,594)
Net income	590,449	1,672,908
	5,412,980	5,661,705
Reversal of regulatory reserve for loan loss:	9,901	-
	5,422,881	5,661,705
Appropriation of retained earnings:		
Legal reserve	59,045	167,291
Regulatory reserve for loan loss	-	18,687
Dividends		
Dividends on common stock	331,940	355,650
Dividends on preferred stock paid	61,938	273,858
	393,878	629,508
	452,923	815,486
Unappropriated retained earnings to be carried over to subsequent year	₩ 4,969,958	4,846,219

(*) 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 year ended December 31, 2012 are as follows:

	2012
Beginning balance	₩ 1,976,425
Provision for regulatory reserve for loan loss	285,839
Ending balance	₩ 2,262,264

ii) Income for the year and earnings per share after adjusted for regulatory reserve for loan loss for the year ended December 31, 2012 are as follows:

	2012
Income for the year	₩ 2,322,732
Provision for regulatory reserve for loan loss	(284,937)
Income adjusted for regulatory reserve	₩ 2,037,795
Basic earnings per share adjusted for regulatory reserve in won	₩ 4,085
Diluted earnings per share adjusted for regulatory reserve in won	₩ 4,085

31. Dividends

(a) Details of dividends recognized as distributions to common stockholders for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
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	700	750
Dividends	₩ 331,940	355,650
Dividend rate per share (%)	14%	15%

(b) Details of dividends recognized as distributions to preferred stockholders for the years ended December 31, 2012 and 2011 are as follows:

	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		
	2011				
	Total shares outstanding	Dividend per share in won	Total dividend	Issue price per share in won	Dividend rate per issue price
Redeemable preferred stock Series 10	28,990,000	7,000	₩ 202,930	100,000	7.00%
Convertible redeemable preferred stock Series 11	14,721,000	1,879	27,656	57,806	3.25%
Convertible redeemable preferred stock series 12	11,100,000	3,898	43,272	100,000	5.58%
	54,811,000		₩ 273,858		

(*) Dividend has been calculated from the date of issue, 255 days from April 21, 2011 and regarding dividend rate is annualized.

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(c) The calculation of dividend for hybrid bond is as follows:

	2012
Amount of hybrid bond	₩ 540,000
Interest rate	5.34%~5.80%
Dividend	₩ 23,688

(d) There is no unrecognized dividend on cumulative preferred stocks as of December 31, 2012 and 2011.

32. Net interest income

Net interest income for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Interest income		
Cash and due from banks	₩ 242,445	248,571
Trading assets	386,531	394,296
Financial assets designated at fair value through profit or loss	25,854	19,743
Available-for-sale financial assets	1,154,198	1,025,523
Held-to-maturity financial assets	594,684	642,931
Loans	11,274,840	11,281,606
Others	178,560	168,044
	13,857,112	13,780,714
Interest expense		
Deposits	(4,515,029)	(4,181,049)
Borrowings	(543,564)	(485,253)
Debt securities issued	(1,740,174)	(1,942,850)
Others	(84,134)	(91,591)
	(6,882,901)	(6,700,743)
Net interest income	₩ 6,974,211	7,079,971

33. Net fees and commission income

Net fees and commission income for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Fees and commission income		
Credit placement fees	₩ 57,900	50,440
Commission received as electronic charge receipt	133,842	145,449
Brokerage fees	353,694	495,082
Commission received as agency	239,792	114,970
Investment banking fees	70,142	68,856
Commission received in foreign exchange activities	148,271	161,887
Asset management fees	67,030	68,289
Credit card fees	2,070,625	2,020,010
Others	372,543	432,149
	3,513,839	3,557,132
Fees and commission expense		
Credit-related fee	(38,363)	(25,148)
Credit card fees	(1,678,342)	(1,544,291)
Others	(225,043)	(228,522)
	(1,941,748)	(1,797,961)
Net fees and commission income	₩ 1,572,091	1,759,171

34. Dividend income

Dividend income for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Trading assets	₩ 2,800	2,290
Available-for-sale financial assets	172,983	206,570
	₩ 175,783	208,860

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35. Net trading income (loss)

Net trading income (loss) for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Trading assets		
Gain (loss) on valuation of debt securities	₩ (2,532)	1,731
Gain on sale of debt securities	37,295	4,603
Gain (loss) on valuation of equity securities	31,312	(3,304)
Gain (loss) on sale of equity securities	48,911	(36,315)
Gain (loss) on valuation of other trading assets	(6,228)	23,939
	108,758	(9,346)
Trading liabilities		
Loss on valuation of securities sold	(5,850)	(251)
Loss on disposition of securities sold	(20,614)	(22,284)
Gain (loss) on valuation of other trading liabilities	4,977	(29,670)
Gain on disposition of other trading liabilities	2,944	5,308
	(18,543)	(46,897)
Derivatives		
Gain (loss) on valuation of derivatives	379,581	(93,403)
Gain on transaction of derivatives	126,070	17,798
	505,651	(75,605)
	₩ 595,866	(131,848)

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, 2012 and 2011 are as follows:

	2012	2011
Assets		
Cash and due from banks		
Gain on valuation	₩ 38,982	32,731
Debt securities		
Gain (loss) on valuation	46,370	(20,684)
Gain on sale and redemption	15,359	12,206
	61,729	(8,478)
Equity securities		
Dividend income	1,025	1,405
Loss on valuation	6,273	(27,596)
Gain on sale	16,443	18,864
	23,741	(7,327)
Liabilities		
Borrowings		
Gain (loss) on valuation	(445,455)	239,011
Loss on disposal and redemption	(211,067)	(84,026)
	(656,522)	154,985
	₩ (532,070)	171,911

37. Net impairment loss on financial assets

Net impairment loss on financial assets for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Impairment loss		
Loans	₩ 1,324,580	864,060
Available-for-sale financial assets	121,004	110,481
Other	-	31,946
	1,445,584	1,006,487
Reversal of impairment loss		
Available-for-sale financial assets	(20,369)	(23,529)
Others	(9,421)	-
	(29,790)	(23,529)
	₩ 1,415,794	982,958

38. General and administrative expenses

General and administrative expenses for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Employee benefits	₩ 2,433,722	2,489,916
Salaries	2,228,600	2,132,229
Severance benefits	160,658	278,545
Defined contribution	14,643	18,573
Defined benefit	146,015	259,972
Termination benefits	44,464	79,142
Rent	338,536	294,178
Entertainment	34,987	35,321
Depreciation	201,771	211,771
Amortization	97,065	75,963
Taxes and dues	160,493	145,685
Advertising	188,358	230,633
Research	12,447	10,819
Others	592,181	641,071
	₩ 4,059,560	4,135,357

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39. Share-based payments

(a) Stock options granted as of December 31, 2012 are as follows:

	4th grant	5th grant	6th grant	7th grant
Grant date	March 30, 2005	March 21, 2006	March 20, 2007	March 19, 2008
Exercise price in won	₩ 28,006	₩ 38,829	₩ 54,560	₩ 49,053
Number of shares granted	2,695,200	3,296,200	1,301,050	808,700
Contractual exercise year	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date
Changes in number of shares granted:				
Balance at January 1, 2012	666,892	2,035,136	1,025,856	619,778
Exercised or canceled	(564,503)	(22,430)	-	-
Balance at December 31, 2012	102,389	2,012,706	1,025,856	619,778

Assumptions used to determine the fair value of options:

Risk-free interest rate	-	2.74%	2.74%	2.74%
Expected exercise year	-	2 months	8 months	1 year 2 months
Expected stock price volatility	-	20.11%	21.88%	26.25%
Expected dividend yield	-	1.82%	1.82%	1.61%
Weighted average fair value per share	₩ 10,844	₩ 1,059	₩ 74	₩ 1,409

The weighted average exercise price for ₩3,760,729 options outstanding as of December 31, 2012 is ₩44,510

As of December 31, 2012, the exercise of the remaining stock options was temporarily prohibited and after the suspension, the exercise period will be extended.

(b) Performance shares granted as of December 31, 2012 are as follows:

	Content
Type	Cash-settled share-based payment
Performance conditions	Increase rate of stock price and achievement of target ROE
Number of shares estimated at December 31, 2012	677,899
Fair value per share in won	₩ 38,850

The amount of cash payment for the Group's cash-settled share-based payment arrangements with performance conditions is determined at the fourth anniversary date from the grant date based on the share price which is an arithmetic mean of weighted average share prices of the past two-months, past one-month and past one-week. The fair value of cash payment is estimated using the closing share price at the end of reporting year.

(c) Share-based compensation costs for the years ended December 31, 2012 and 2011 are as follows:

			2012	
			Employee of	Total
Shinhan Financial Group			Subsidiaries	
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
			2011	
			Employee of	Total
Shinhan Financial Group			Subsidiaries	
Stock options granted :				
4th	₩ (2,615)		(10,105)	(12,720)
5th	(3,656)		(19,130)	(22,786)
6th (*)	(1,073)		(4,784)	(5,857)
7th (*)	(1,642)		(5,854)	(7,496)
Performance share(*)	296		6,330	6,626
	₩ (8,690)		(33,543)	(42,233)

(*) Includes ₩ 1,474 million of reversal of share-based compensation costs.

(d) Accrued expenses and the intrinsic value as of December 31, 2012 and 2011 are as follows:

			2012	
			Employee of	Total
Shinhan Financial Group			Subsidiaries	
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.

			December 31, 2011	
			Employee of	Total
Shinhan Financial Group			Subsidiaries	
Stock options granted :				
4th	₩ 1,299		6,565	7,864
5th	1,562		8,847	10,409
6th	209		1,478	1,687
7th	327		1,726	2,053
Performance share	1,914		15,453	17,367
	₩ 5,311		34,069	39,380

The intrinsic value of share-based payments is ₩ 27,073 million based on the quoted market price ₩ 39,750 per share for stock options and performance share.

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40. Net other operating income (expense)

Other operating income and other operating expense for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Other operating income		
Gain on sale of assets:		
Loans	₩ 69,977	95,926
Others:		
Gain on hedge activity	190,680	321,444
Reversal of allowance for acceptances and guarantee	10	70,860
Gain on trust account	3,258	1,025
Gain on other allowance	37,832	22,455
Others	80,058	89,002
	311,838	504,786
	381,815	600,712
Other operating expense		
Loss on sale of assets:		
Loans	(40,397)	(57,806)
Others:		
Loss on hedge activity	(342,004)	(276,088)
Contribution to fund	(252,203)	(239,841)
Loss on allowance for acceptances and guarantee	(7,960)	-
Loss on other allowance	(36,888)	(123,792)
Depreciation of operating lease assets	(7,761)	(11,320)
Deposit insurance premium	(239,348)	(230,752)
Others	(179,135)	(199,495)
	(1,065,299)	(1,081,288)
	(1,105,696)	(1,139,094)
Net other operating expenses	₩ (723,881)	(538,382)

41. Net other non-operating expenses

Other non-operating income and other non-operating expense for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Other non-operating income		
Gain on sale of assets:		
Property and equipment	₩ 688	925
Investment property	315	5
Non-current assets held-for-sale	14,572	1
Lease assets	3,568	2,864
Others	222	776
	19,365	4,571
Gain on sale of Investments in associates	36,084	45,773
Others:		
Rental income on investment property	27,433	26,955
Reversal of impairment loss on Intangible asset	32	-
Gain from assets contributed	5,039	5,900
Gain on bond retirement	24	14,473
Gains on conversion of convertible bond	7,217	-
Others	108,990	111,221
	148,735	158,549
	204,184	208,893
Other non-operating expense		
Loss on sale of assets:		
Property and equipment	1,065	1,910
Investment property	426	-
Non-current assets held-for-sale	-	1,531
Lease assets	1,368	1,830
Others	65	107
	2,924	5,378
Loss on sale of Investments in associates	1,423	470
Impaired loss on Investments in associates	8,977	4,351
	10,400	4,821
Others:		
Donations	74,073	117,887
Depreciation of investment properties	9,062	9,245
Impaired loss on intangible assets	58,549	39,674
Write-off of intangible assets	585	3,682
Loss on bond retirement	10,256	296
Collecting of written-off expenses	6,414	6,433
Others	20,399	59,091
	179,338	236,308
	192,662	246,507
Net other non-operating income (expense)	₩ 11,522	(37,614)

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42. Income tax expense

(a) Income tax expense for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Current income tax expense	₩ 819,321	1,013,109
Adjustment for prior periods	(7,838)	(30,798)
Origination and reversal of temporary differences	(47,160)	(147,061)
Income tax recognized in other comprehensive income	(25,379)	84,679
Income tax expenses	₩ 738,944	919,929

(b) Income tax expense (benefit) is calculated by multiplying net income before tax with the tax rate for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Income before income taxes	₩ 3,233,012	4,192,562
Income taxes at statutory tax rates	782,362	1,014,476
Adjustments:		
Non-taxable income	(42,217)	(49,363)
Non-deductible expense	10,837	8,312
Tax credit	(1,819)	(9,228)
Other	(2,381)	(13,470)
Refund due to adjustments of prior year tax returns	(7,838)	(30,798)
Income tax expense	₩ 738,944	919,929
Effective tax rate (%)	22.86%	21.94%

(c) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2012 and 2011 are as follows:

	Beginning balance	Profit or loss	Other comprehensive income	2012 Ending balance
Unearned income	₩ (134,399)	(15,039)	-	(149,438)
Account receivable	(18,044)	5,074	-	(12,970)
Trading assets	(5,665)	(4,770)	-	(10,435)
Available-for-sale	3,646	51,513	(4,176)	50,983
Investment in subsidiaries	6,006	(17,428)	877	(10,545)
Valuation and depreciation of property and equipment	(162,899)	17,565	-	(145,334)
Derivative asset (liability)	33,762	21,902	(4,998)	50,666
Deposits	37,508	(5,508)	-	32,000
Accrued expenses	69,707	(5,656)	-	64,051
Defined benefit obligation	132,058	89,181	-	221,239
Plan assets	(127,344)	(27,424)	-	(154,768)
Other provisions	260,397	(25,658)	-	234,739
Allowance for acceptances and guarantees	26,540	(7,881)	-	18,659
Allowance related to asset revaluation	(44,873)	-	-	(44,873)
Allowance for expensing depreciation	(802)	56	-	(746)
Deemed dividend	1,334	-	-	1,334
Accrued contributions	20,282	(5,441)	-	14,841
Financial assets designated at fair value through profit of loss	(52,642)	(12,567)	-	(65,209)
Allowances	9,581	34,998	-	44,579
Fictitious dividend	1,077	(8)	-	1,069
Liability under insurance contracts	2,591	738	-	3,329
Other	(28,901)	(21,108)	(17,082)	(67,091)
	₩ 28,920	72,539	(25,379)	76,080

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	2011			
	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Unearned income	₩ (93,491)	(40,908)	-	(134,399)
Account receivable	(23,920)	5,876	-	(18,044)
Trading assets	(4,150)	(1,515)	-	(5,665)
Available-for-sale	(152,903)	76,329	80,220	3,646
Investment in subsidiaries	5,593	868	(455)	6,006
Valuation and depreciation of property and equipment	(147,921)	(14,978)	-	(162,899)
Derivative asset (liability)	126,672	(93,115)	205	33,762
Deposits	26,421	11,087	-	37,508
Accrued expenses	50,146	19,561	-	69,707
Defined benefit obligation	98,363	33,695	-	132,058
Plan assets	(75,674)	(51,670)	-	(127,344)
Other provisions	237,030	23,367	-	260,397
Allowance for acceptances and guarantees	45,992	(19,452)	-	26,540
Allowance related to asset revaluation	(45,098)	225	-	(44,873)
Allowance for expensing depreciation	(780)	(22)	-	(802)
Deemed dividend	9,811	(8,477)	-	1,334
Accrued contributions	10,711	9,571	-	20,282
Financial assets designated at fair value through profit of loss	(27,181)	(25,461)	-	(52,642)
Allowances	(176,813)	186,394	-	9,581
Fictitious dividend	1,081	(4)	-	1,077
Liability under insurance contracts	2,814	(223)	-	2,591
Other	15,156	(48,766)	4,709	(28,901)
	₩ (118,141)	62,382	84,679	28,920

(d) Deferred tax assets and liabilities that were directly charged or credited to equity for the years ended December 31, 2012 and 2011 are as follows:

	December 31, 2011		Changes		December 31, 2012	
	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect
Valuation gain (loss) on available-for-sale financial assets	₩ 1,593,980	(385,236)	14,847	(4,176)	1,608,827	(389,412)
Foreign currency translation adjustments for foreign operations	(6,469)	4,628	(68,038)	(17,082)	(74,508)	(12,454)
Gain (loss) on cash flow hedge	(27,046)	6,545	20,653	(4,998)	(6,393)	1,547
Equity in other comprehensive income of associates	1,520	(116)	3,221	877	4,741	761
The accumulated other comprehensive income in separate account	1,419	(277)	840	(271)	2,259	(548)
Income tax charged or credited directly to equity	₩ 1,563,404	(374,456)	(28,477)	(25,650)	1,534,926	(400,106)

	January 1, 2011		Changes		December 31, 2011	
	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect
Valuation gain (loss) on available-for-sale financial assets	₩ 2,134,400	(465,456)	(540,420)	80,220	1,593,980	(385,236)
Foreign currency translation adjustments for foreign operations	(17,846)	(81)	11,377	4,709	(6,469)	4,628
Gain (loss) on cash flow hedge	(28,270)	6,340	1,224	205	(27,046)	6,545
Equity in other comprehensive income of associates	(1,652)	339	3,172	(455)	1,520	(116)
The accumulated other comprehensive income in separate account	2,100	(379)	(681)	102	1,419	(277)
Income tax charged or credited directly to equity	₩ 2,088,732	(459,237)	(525,328)	84,781	1,563,404	(374,456)

(*) 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 are not recognized as deferred tax assets as of December 31, 2012 and 2011 are as follows:

	2012	2011
Tax loss carry forward (*)	₩ 139,759	139,759

(*) At the end of reporting date, the expected extinctive date of tax loss carry forward and tax credits carry forward that are not recognized as deferred tax assets are as follows:

	1 year or less	1~2 years	2~3 years	More than 3 years
Tax loss carry forward (*)	₩ -	-	-	139,759

(f) The amount of deferred tax liabilities regarding investment in subsidiaries which are not recognized as of December 31, 2012 and 2011 are as follows:

	2012	2011
Investment in subsidiaries	₩ (2,933)	(1,076)
Investment in associates	(11,346)	(18,873)
	₩ (14,279)	₩ (19,949)

(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, 2012 and 2011 are as follows:

	2012	2011
Deferred tax assets	₩ 210,273	288,303
Deferred tax liabilities	(134,193)	(259,383)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011

In millions of won, except per share data

43. Earnings per share

(a) Basic earnings per share

Basic earnings per share for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Net income for the year	₩ 2,322,732	3,100,011
Less: dividends on preferred stock and hybrid bond	100,788	276,452
Net income available for common stock	2,221,944	2,823,559
Weighted average number of common shares outstanding	474,199,587	474,199,587
Earnings per share in won	₩ 4,686	5,954

(b) Diluted earnings per share

Diluted earnings per share due to dilutive effect for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Net income available for common stock	₩ 2,221,944	2,823,559
Add: dividends on redeemable convertible preferred stock	-	27,657
Diluted net earnings	2,221,944	2,851,216
Weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares (*)	474,199,587	488,920,587
Diluted earnings per share in won	₩ 4,686	5,832

(*) Weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Weighted average number of common shares	474,199,587	474,199,587
Effect of conversion of convertible redeemable preferred stock	-	14,721,000
Weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares	474,199,587	488,920,587

44. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of December 31, 2012 and 2011 are as follows:

	2012	2011
Guarantees		
Guarantee outstanding	₩ 9,555,223	10,174,850
Contingent guarantees	5,202,576	6,882,438
	14,757,799	17,057,288
Commitments to extend credit		
Loan commitments in won	51,524,469	46,447,266
Loan commitments in foreign currency	19,267,753	19,374,617
ABS and ABCP Commitments	1,773,404	1,605,269
Others	1,171,917	1,232,896
	73,737,543	68,660,048
Endorsed bills		
Secured endorsed bills	3,946	9,748
Unsecured endorsed bills	11,519,392	8,773,124
	11,523,338	8,782,872
Loans sold with recourse	2,099	2,099
	₩ 100,020,779	94,502,307

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011

In millions of won

(b) Guaranteed principal money trust

As of December 31, 2012 and 2011, the Group guaranteed the return of the principal amount invested under management in the amount of ₩ 3,425,853 and ₩ 3,404,468 million, respectively. Additional losses may be recorded based on future performance of these guaranteed principal money trust accounts.

(c) Legal contingencies

The Group's pending lawsuits as a defendant for the years ended December 31, 2012 were as follows.

		2012
Plaintiff	Descriptions	Amount of damage claim
Confirmations on absence of debt litigation	1 A lawsuit against the Bank was filed claiming that the Bank should recover principal and interest of a trustee's account, insisting the payment out of the account were made improperly. The Group has paid ₩ 94.2 billion after losing the second appeal trial. The final appeal of the lawsuit is in progress.	₩ 96,286
Compensation for a loss	1 A lawsuit against the Bank was filed claiming that the Bank should compensate for a the plaintiff's losses insisting the Bank purchased shares of Shinho Paper Co., Ltd. (currently known as Artone Paper Co., Ltd.) with out appropriate customer authorization. The first appeal was ruled in favor of the plaintiff. The amounts of loss are recorded as provision. The Group has appealed and such appeal is currently pending at the second appeal.	90,200
Claimed for principal and interest of the ABCP	1 A holder of an Asset Backed Commercial Paper ("ABCP") has claimed for principal and interest of the ABCP against the Bank, the broker of the ABCP deal, as the Bank had refused to pay insisting the line of credit was provided illegally by their employee. The Group believes that there are low possibilities of resource outflows in respect of the lawsuit based on similar litigation.	65,000
Claimed uncollected receivables of goods	1 A plaintiff claimed uncollected receivables of goods against the Bank since the plaintiff had delivered goods based on a bank guarantee forged by the Bank issued. The case is currently pending at the first appeal. The Group recorded a provision based on similar litigation.	43,362
Refund a cost of the fixed collateral establishment	110 The plaintiffs filed the lawsuits against the Bank claiming that the Group should refund a cost of the fixed collateral establishment insisting a loan agreement was invalid since it regulated that the cost should be paid by the borrower.	11,621
Improper arrangements of PF loans	2 The plaintiffs (other banking institutions) filed the lawsuits against the Shinhan Investment claiming that the Shinhan Investment should pay PF loans for original borrower insisting the arrangements of PF loans were made improperly. The appeal has been ruled in favor of the plaintiffs. The amounts of loss were record as provision.	38,800
Contract void check and the return of unfair profits	37 As of December 31, 2012, the Bank established an allowance for the lawsuits that has filed to nullify investor's obligations under the KIKO contracts. The cases are currently pending at the second appeal or the final appeal.	205,897
Others	272	203,250
	425	₩ 754,416

As of December 31, 2012, the Group recorded a provision of ₩ 135,748 million and reserve of ₩ 724 million with respect to these lawsuits, in other liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011

In millions of won

45. Statement of cash flows

(a) Cash and cash equivalents in the consolidated statements of cash flows for as of December 31, 2012 and 2011 are as follows:

	2012	2011
Cash and due from banks	₩ 13,394,331	14,763,099
Due from financial institutions with a maturity over three months from date of acquisition	(3,898,900)	(5,248,522)
Restricted due from banks	(4,529,705)	(5,545,235)
	₩ 4,965,726	3,969,342

(b) Significant non-cash activities for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Increase in available-for-sale financial assets from debt-equity swap	₩ 61,893	72,219

(c) As of the acquisition date, the Group acquired cash and cash equivalents amounting to ₩ 90,010 million through the purchase & assumption (P&A) deal for selected assets and liabilities of Tomato Savings Bank Co., Ltd.

On November 11, 2011, the Group obtained a controlling ownership over Shinhan Vina Bank, formerly a jointly controlled entity, by acquiring an additional 50% of the outstanding and voting interests for ₩ 105,940 million.

The cash amount of ₩ 103,859 million paid as consideration for obtaining control of Shinhan Vina is reported in the statement of cash flows, net of cash and cash equivalents of ₩ 2,081 million acquired as part of transactions.

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, 2012 and 2011 are as follows:

Related party	Account	2012	2011
Investments in associates			
Aju Capital co., Ltd	Loans and receivables	₩ 50,000	50,000
	Allowances	(254)	(254)
	Provisions	-	11
	Deposits	20,297	-
UAMCO., Ltd	Loans and receivables	-	38,723
	Allowances	-	(52)
	Deposits	517	-
Pohang TechnoPark2PFV	Loans and receivables	-	658
	Allowances	-	(3)
	Provisions	-	286
	Deposits	14,794	-
Shinhan Corporate Restructuring Fund 5th	Account Receivable	27	27
	Allowances	(27)	-
Cardif Life Insurance	Deposits	2,353	-
	Credit card assets	94	83
Key management personnel and their immediate relatives			
Loans and receivables		3,221	2,056
Assets		53,061	91,856
Liabilities		₩ 37,961	297

(b) Significant transactions with the related parties for the years ended December 31, 2012 and 2011 are as follows:

Related party	Account	2012	2011
Investments in associates			
Aju Capital co., Ltd	Interest income	₩ 2,042	-
	Net other operating income	11	664
	Reversal of credit losses	-	304
UAMCO., Ltd	Interest income	311	-
	Reversal of credit losses	52	(23)
Pohang TechnoPark2PFV	Net other operating income	286	-
	Reversal of credit losses	3	(3)
	Interest losses	(17)	-
	Net other operating losses	-	(286)
Shinhan Corporate Restructuring Fund 8th	Fees and commission income	-	824
SHC-AJU 1st Investment Fund	"	-	97
Petra Private Equity Fund	"	-	365
SHC-AJU 2nd Investment Fund	"	-	11
Cardif Life Insurance	"	271	577
Shinhan K2 Secondary Fund	"	281	-
Key management personnel and their immediate relatives			
	Interest income	135	80
		₩ 3,375	2,610

(c) Key management personnel compensation

Key management personnel compensation for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Short-term employee benefits	₩ 23,679	21,310
Severance benefits	503	585
Share-based payment transactions	3,904	3,279
	₩ 28,086	25,174

(d) There are no guarantees provided between the related parties as of December 31, 2012 and 2011.

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47. Investment in subsidiaries

(a) Condensed financial information for the Group's subsidiaries.

i) Condensed financial position for the Group's subsidiaries as of December 31, 2012 and 2011 are as follows:

	2012			2011		
	Total assets	Total liabilities	Total equities	Total assets	Total liabilities	Total equities
Shinhan financial group (Separate)	₩ 27,212,924	7,546,003	19,666,921	30,844,250	11,413,443	19,430,807
Shinhan Bank	234,102,700	213,830,689	20,272,011	228,907,784	209,617,964	19,289,820
Shinhan Card Co., Ltd.	22,279,918	16,546,741	5,733,177	22,356,885	17,126,623	5,230,262
Shinhan Investment Corp.	16,465,338	14,287,115	2,178,223	12,166,106	10,046,342	2,119,764
Shinhan Life Insurance Co., Ltd	16,942,184	15,617,037	1,325,147	13,976,735	12,788,663	1,188,072
Shinhan Capital Co., Ltd.	3,526,185	3,053,871	472,314	3,518,266	3,037,927	480,339
Jeju Bank	3,242,918	2,965,024	277,894	3,168,168	2,920,296	247,872
Shinhan Credit Information Co., Ltd.	19,176	5,659	13,517	19,495	5,993	13,502
Shinhan Private Equity Investment management	421,840	414,292	7,548	343,231	334,599	8,632
Shinhan BNP Paribas AMC	168,911	23,218	145,693	170,665	24,369	146,296
SHC Management Co., Ltd.	8,747	331	8,416	8,620	355	8,265
Shinhan Data system	16,298	8,594	7,704	15,540	8,804	6,736
Shinhan Savings Bank	636,115	542,861	93,254	3,992	79	3,913
Shinhan Aitas Co., Ltd.	30,976	4,309	26,667	-	-	-
	₩ 325,074,230	274,845,744	50,228,486	315,499,737	267,325,457	48,174,280

ii) Condensed comprehensive income statement for the Group's subsidiaries for the years ended December 31, 2012 and 2011 are as follows:

	2012			2011		
	Operating income	Net income	Total comprehensive income	Operating income	Net income	Total comprehensive income
Shinhan financial group (separate))	₩ 992,790	590,446	590,446	2,145,768	1,672,908	1,674,610
Shinhan Bank	17,209,542	1,696,651	1,565,123	18,808,507	2,118,421	1,634,530
Shinhan Card Co., Ltd.	4,585,735	749,764	802,663	4,497,105	875,930	936,096
Shinhan Investment Corp.	1,981,619	63,912	78,307	2,061,234	101,710	113,316
Shinhan Life Insurance Co., Ltd	5,240,254	209,399	201,838	4,340,729	236,927	217,586
Shinhan Capital Co., Ltd.	352,876	4,653	(3,108)	344,579	51,109	48,729
Jeju Bank	193,310	27,272	29,977	193,042	22,412	22,275
Shinhan Credit Information Co., Ltd.	29,912	1	1	32,235	(746)	(746)
Shinhan Private Equity Investment management.	40,882	1,185	1,185	84,366	(7,624)	(7,624)
Shinhan BNP Paribas AMC	102,473	31,302	30,497	109,811	35,040	34,961
SHC Management Co., Ltd.	293	150	150	259	(34)	(34)
Shinhan Data system	58,170	946	946	50,128	1,056	1,056
Shinhan Savings Bank Co., Ltd.	109,672	(23,389)	(26,467)	-	(87)	(87)
Shinhan Aitas Co., Ltd.	4,385	(513)	(513)	-	-	-
	₩ 30,901,913	3,351,779	3,271,045	32,667,763	5,107,022	4,674,668

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

(b) Change in subsidiaries

i) Subsidiaries newly excluded in the Group for the year ended December 31, 2012 are as follows :

Subsidiary	Reason
Shinhan Investment Europe Ltd.	The investee is in liquidation for the current period.

ii) Subsidiaries newly consolidated in the Group for the year ended December 31, 2011 were as follows:

Subsidiary	Reason
Shinhan Savings Bank	The Group owns 100% of the voting power.

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

48. Information of trust business

(a) Significant balances with trust business as of December 31, 2012 and 2011 are as follows:

	2012	2011
Borrowings from trust account	₩ 2,377,502	2,011,569

(b) Transactions with trust business for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Trust management fees	₩ 62,886	62,305
Commission income	24	46
Interest on borrowings from trust account	52,469	61,976

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Investor Information

Forward-Looking Statements

Shinhan Financial Group's 2012 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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