YOUR ULTIMATE COMPANION

Shinhan Financial Group

Annual Report 2011

SHINHAN FINANCIAL GROUP

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Your — Ultimate Companion

We come to you before you call.
We perceive your requirements before you ask.
We are here for you, pure and simple.
We unreservedly state we shall remain your constant companion for the long term.

SHARE INFORMATION

Number of Shares Issued

As of December 31, 2011

Type of Stock	No. of Shares
Registered common stock	474,199,587
*Registered redeemable preferred stock	40,090,000
Registered convertible redeemable preferred stock	14,721,000
Total	**529,010,587**

* Excludes 52,583,961 of redeemed preferred stock

Stock Performance (Common Stock)

	2011	2010
Average Daily Trading Volume	**1.8 million shares**	1.8 million shares
Share Price high	**₩ 53,800**	₩ 53,600
Share Price Low	**₩ 36,150**	₩ 39,250
Share Price (Year End)	**₩ 39,750**	₩ 52,900
Market Capitalization (Year End)	**₩ 18.8 trillion**	₩ 25.1 trillion
Weighting in the KOSPI (Year End)	**1.8%**	2.2%
Dividend Per Share	**₩ 750**	₩ 750
Dividend Paid	**₩ 356 billion**	₩ 356 billion

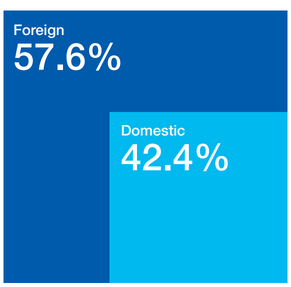
Shareholders holding ownership of more than 1%

As of December 31, 2011

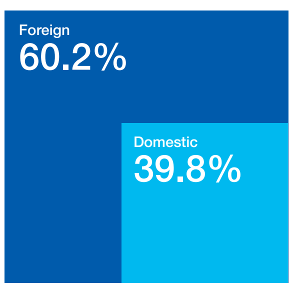
Name of Shareholder	% Owned	Name of Shareholder	% Owned
National Pension Service	7.34%	The Government of Singapore	1.74%
BNP Paribas	6.35%	Mizuho	1.26%
CITIBANK.N.A (ADR DEPT.)	3.72%	ABU DHABI INVESTMENT AUTHORITY	1.19%
SFG Employee Stock Ownership Association	3.58%	Samsung Life Insurance	1.19%
Saudi Arabian Monetary Agency	3.52%	Others	68.06%
The Lazard Funds Inc.	2.05%	**Total**	**100%**

Share Ownership (%)

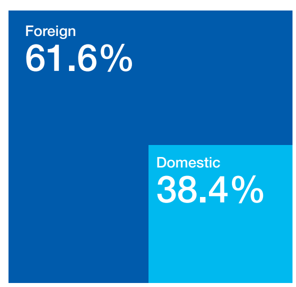
2009



2010



2011



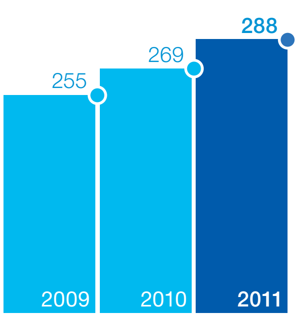
FINANCIAL HIGHLIGHTS

	2011	2010	change amount	% change
For the Year (KRW in billion)				
Operating Income Before Provisioning	**5,060.5**	4,753.3	307.2	6.5%
Net Income	**3,100.0**	2,684.6	415.4	15.5%
As of Year End (KRW in trillion)				
Total assets	**288.1**	268.6	19.6	7.3%
Total loans	**192.6**	181.3	11.2	6.2%
Total deposits	**163.0**	149.4	13.6	9.0%
Total stockholders' Equity	**24.4**	24.7	-0.3	-1.2%
Key Financial Ratio				
ROA	**1.2%**	1.1%	0.1%p	
ROE	**12.6%**	11.9%	0.7%p	
Group Net Interest Margin	**3.59%**	3.51%	0.08%p	
Cost to Income Ratio	**45.0%**	44.7%	0.3%p	
NPL(Substandard and below loans) Ratio	**1.25%**	1.46%	-0.2%p	
NPL Coverage Ratio	**166%**	142%	24.0%p	
Group BIS Ratio	**11.4%**	12.4%	-1.0%p	
Shinhan Bank BIS Ratio	**15.3%**	15.5%	-0.2%p	
(Tier1 Ratio)	**12.4%**	12.4%	0.0%p	
BPS(KRW)	**48,610**	44,660	3,950	8.8%
EPS(KRW)	**5,837**	5,077	760	15.0%

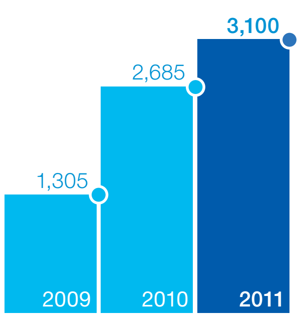
Credit Ratings

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

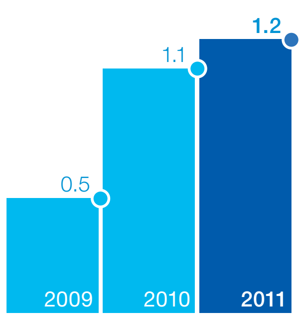
Total Assets KRW in trillion



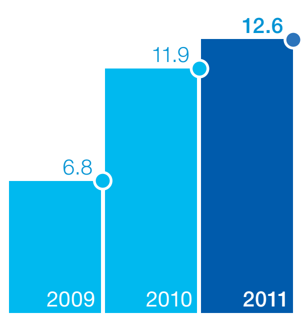
Net Incom KRW in billion



ROA %



ROE %



* Figures for 2009 K-GAPP, from 2010 IFRS standard


When you want to start out anew >>

You are about to embark on an ambitious venture, exploring a vast sea of new possibilities. Shinhan can provide you with the power you need to succeed, like a mighty wind that drives your sail forward.

Market Capitalization

KRW 18.8 trillion

The market capitalization of the Shinhan Financial Group reached KRW 18.8 trillion in 2011. That is the highest of all domestic financial institutions. Shinhan is unrivalled.
We are the partner for you when you want a new start in life.


When you thirst for growth >>

You want to reach higher and extend farther. Shinhan can satisfy your thirst, letting you grow to your full potential, like a plant under the warm sun.

Asset Growth

500% in 10 Years

The Shinhan Financial Group currently has total assets of KRW 332 trillion, which is 500 percent what we had when we started out ten years ago. When you team up with us, you can achieve the growth and progress you seek. Shinhan can take you there.


When you are looking for a guiding light >>

You want things to work out just like you planned. When darkness descends around you, we are there to light the way. We can lend a helping hand when you need it most.

Customer Base

28 million

The number of people who rely on the Shinhan Financial Group topped 28 million in 2011. Let us work for you, too. Our business philosophy puts your value as customers ahead of our value as financial service provider.


When you want to expand your boundaries >>

You are aiming for broader coverage for your business, and Shinhan can help you. Our broad network gives you access to wherever you want and will increase your potential for success.

Network Locations

1,464

As of the end of 2011, the Shinhan network spans 1,464 locations inside and outside Korea. We are taking on new challenges constantly so that we can communicate the message you need.

MESSAGE FROM THE CHAIRMAN

GREETINGS TO OUR VALUED CUSTOMERS AND SHAREHOLDERS:

It is an honor for me to represent Shinhan Financial Group to our customers and shareholders in our annual report for 2011.

The Korean economy experienced considerable challenges as uncertainties at home and abroad increased. Global economic activities began to decline as Eurozone sovereign debt crisis intensified, which, in turn, led the domestic economy into a downturn. In addition, major changes occurred in the business environment facing financial institutions, as regulations were tightened and public demand for corporate social responsibility was heightened.

Even under these difficult conditions, Shinhan Financial Group was able to preserve its assets soundness, improve its profitability base and successfully carry out an overhaul of its management systems, once again bearing out the axiom that Shinhan emerges even stronger from a crisis.

Industry-leading Performance amid Difficult Domestic and Foreign Conditions

Ongoing control of asset quality and implementation of a consistent mid-to long-term growth strategy enabled us to increase our assets by a solid 7.3% in 2011, while credit costs were down 31% over the previous year. As a result consolidated net income reached KRW 3.1 trillion, a new record for the industry and the fourth straight year that we have remained the industry's top performer. As such, we have continued to solidify our position as Korea's leading financial group.

In the banking sector, interest earnings grew 8.3% over the previous year as Won-denominated loans rose by 9% and the accumulated net interest margin (NIM) maintained a stable level of 2.2%. Adding to this, we reduced our exposure to companies under restructuring and stabilized credit cost to a normalized level, which led to lower loan loss provisioning down by 42.3% from the 2010 figure. As a result, net income from banking operations surpassed KRW 2.13 trillion, an increase of 26.9% year on year.

Turning to the non-banking sector, thanks to the higher credit purchase sales and reduced funding costs, our credit card unit achieved a net profit of KRW 875.9 billion. At the same time, our life insurance business was able to expand its market position as monthly initial premiums rose 22% year on year and the insurance policy persistency rate remained steady. All together, the non-banking sector represented 38% of SFG's total net profit, a significantly higher level of profit contribution that further differentiates us from our peers.

Our competitiveness has been strengthened with greater transparency in our corporate governance structure and a result-awarding organizational culture that fairly assesses employee capabilities and performances. As a result, we boast the most balanced business portfolio among Korean financial groups and have achieved performance that consistently outshines that of our rivals.

New Evolution in Response to Changing Times, Beautiful Partnerships with Customers

The world economy has yet to escape from the looming shadows of the crisis. Therefore, the adverse business conditions that we experienced in 2011 are likely to plague us for some time to come.

We will focus on our "Compassionate Finance" initiative, blending the economic value of the business world with the social values of the community.
In the process, we hope to earn greater trust from our customers and society as a whole.

Downside risks will remain prevalent as the financial difficulties in Europe are expected to persist. At the same time, the competition landscape within the Korean financial market is changing fast, while the level of competition is expected to intensify. In addition, advances in technology and business convergence will spur a complete overhaul of the traditional business models used by banks and other financial institutions.

Amid these circumstances, the ability to detect change and react accordingly is of paramount importance. Therefore, Shinhan has decided to make "New Evolution" the strategic objective for 2012.

First, we will bolster our fiscal soundness and elevate our ability to respond to change, building a solid business structure that withstands any adverse circumstances.
Especially in a low growth high uncertainty environment, companies and institutions lacking a strong business foundation and stable revenue generation capability can quickly be knocked off center as conditions change. We will improve our ability to adapt to change by bolstering operational soundness through firming up the revenue structure and raising organizational efficiency.
At the same time, focus on maintaining high asset soundness will remain our top priority, while a sophisticated crisis response system will be developed for any contingencies.

Next, we are creating products and services that provide greater value to customers through integration and hybridization.
Business environment continues to become more difficult and growth of financial institutions and banks are slowing. Meanwhile, environmental and technological changes are accelerating, and customer needs for new kinds of financial services are growing. Shinhan Financial Group will bring together its internal competencies and take full advantage of external networks to raise the

level of “smart” competitiveness and make more vigorous inroads into new markets. Efforts such as these will allow us to adapt to future trends in the finance industry. The new business models for corporate & investment banking as well as for wealth management launched early this year will be firmly established and developed to offer new values to customers.

Moreover, we will focus on our “Compassionate Finance” initiative, blending the economic value of the business world with the social values of the community. In the process, we hope to earn greater trust from our customers and society as a whole.
Going forward, businesses will no longer be able to prosper if they only pursue economic gain at the cost of benefits to society. Sustainable growth will only be made at organizations that can aim for embrace of economic and social value simultaneously. For this reason, we announced the SFG “Compassionate Finance” initiative last year and have since engaged in various programs that coincide with our philosophy of “benefitting society through the finance business.” Going forward, we will expand the consensus concerning this ideal to our operations around the country and ensure that each SFG subsidiary plays an active role in bolstering our foundation for sustainable growth.

DEAR SHAREHOLDERS

Every year we are presented with a different set of challenges. However, we have always managed not only to prevail and prosper, but to excel beyond expectations, SFG employees were unfazed by the chaos and uncertainty experienced inside and outside Korea during 2011. Instead they continued to carry out their duties well and achieved exceptional results, which I believe is the strength of the people of Shinhan.

To date, we have been able to keep growing by turning diverse challenges and crises into new opportunities for change. In the future, our solid business systems and robust organizational culture will be leveraged to bring about a “New Evolution,” allowing the Shinhan Financial Group to continue growing as Korea’s premiere financial institution and emerge as a major world player.

We wish you the very best of health and good fortune in 2012, and we look forward to continued encouragement and support in the future.

D. W. Han

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 29, 2012.

Management of the Company includes the current Chairman & CEO of the Group, Mr. Dong Woo Han, 3 deputy presidents, and 3 executive vice 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 : BA 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

Hoon Namkoong

Date of Birth : June 26, 1947
Current Position : Chairman of the BOD, Shinhan Financial Group
Outside Director, Samsung Electro-Magnetics Co., Ltd.
Education : M.A. in Public Administration, University of Wisconsin at Madison, USA
Main Work Experience :
2009. Outside Director, KORAMCO (Korea Real Asset Management Company)
2005. Chairman, Korea Life Insurance Association
1999. Chairman and President, Korea Deposit Insurance Corporation

Taeeun Kwon

Date of Birth : January 29, 1941
Current Position : Professor, Nagoya University of Foreign Studies
Education : Ph.D. in Business Administration, Nanzan University, Nagoya, Japan
Main Work Experience :
1997. Committee member, Korean Residents' Union HQ in Japan
1983. Chief Executive Officer, Nam Bu Ham Co., Ltd

Kee Young Kim

Date of Birth : October 7, 1937
Current Position : President, Kwangwoon University
Education : Ph.D. in Business Administration, Washington University, St. Louis, USA
Main Work Experience :
2004. Outside Director, GS Holdings Corp
2003. Outside Director, KTB Networks
2000. Dean, Graduate School of Information, Yonsei University

Seok Won Kim

Date of Birth : April 29, 1947
Current Position : Chairman, Credit Information Companies Association
Education : Ph.D. in Economics, Kyung Hee University, Seoul, Korea
Main Work Experience :
2006. Chairman, Korea Federation of Savings Banks
2005. Outside Director, Woori Bank
2002. Vice President, Korea Deposit Insurance Corporation

Jaekun Yoo

Date of Birth : August 24, 1941
Current Position : Chairman, Sankeihonsha Co., Ltd.
Main Work Experience :
1998. Non-executive Director, Shinhan Bank
1997. Chairman of Korean-Japanese Chamber of Commerce in Tokyo

Ke Sop Yun

Date of Birth : May 20, 1945
Current Position : Emeritus Professor, College of Business Administration, Seoul National University
Education : Ph.D. in Business Administration, Seoul National University, Seoul, Korea
Main Work Experience :
2001. Chairman, Seoul Economist Club
1999. Dean, College of Business Administration, Seoul National University
1997. Member, Financial Renovation Committee

Outside Directors (Continued)

Jung Il Lee
Date of Birth : August 28, 1952
Current Position : CEO, Hirakawa Shoji Co., Ltd. (Kanagawa, Japan)
Education : BA in Political Science & Economics, Meiji University, Tokyo, Japan
Main Work Experience :
2006. Board Member, Korean Residents Union in Japan
1985. CEO, Hirakawa Shoji Co., Ltd

Sang-Kyeong Lee
Date of Birth : September 20, 1945
Current Position : Representative Attorney, Law Firm WONJON
Education : B.A. in Law, Chung-Ang University, Seoul, Korea
Main Work Experience :
2004. Chief Judge, Constitutional Court of Korea
2002. President, Busan High Court
2000. President, Daegu District Court & Incheon District Court

Haruki Hirakawa
Date of Birth : November 7, 1964
Current Position : CEO, Kokusai Kaihatsu Co., Ltd
Education : BA in Political Science & Economics, Kinki University, Osaka, Japan
Main Work Experience :
2006. CEO, Shinei Shoji Co., Ltd
1994. CEO, Hirakawa Shoji Co., Ltd (Osaka, Japan)

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), France
Main Work Experience :
2006. Head of Retail Banking for China, BNP Paribas
2002. Head, BNP Paribas Group Investor Relations and Financial Information

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

Deputy Presidents (Continued)

Sung Ho Wi
Date of Birth : June 12, 1958
Current Position : Deputy President / Wealth management Planning Office
Education : BA in economics, Korea University, Seoul, Korea
Main Work Experience :
2007. Managing Director, Shinhan Financial Group
2004. General Manager of Private Banking Division, Shinhan Bank

Se Il Oh
Date of Birth : September 1, 1957
Current Position : Deputy President /
Corporte & Investment Banking Planning Office
Education : BA in economics, Yonsei University, Seoul, Korea
Main Work Experience :
2009. Managing Director, Shinhan Bank
2007. Head of Retail business development group, Shinhan Bank
2006. General manager of Merchant banking department, Shinhan Bank

Executive Vice Presidents

Jae Gwang Soh
Date of Birth : August 15, 1961
Current Position : Executive Vice President, Shinhan Financial Group
Education : MBA, University of Rochester, New York, USA
BA 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 : Executive Vice President & CFO, Shinhan Financial Group
Education : Graduate School of International Economics, 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

Dong Hwan Lee
Date of Birth : September 18, 1959
Current Position : Executive Vice President, Shinhan Financial Group
Education : MBA, Duke University, Durham, USA
BA in Business Administration, Yonsei University, Seoul, Korea
Main Work Experience :
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 AND STRATEGY

>> SFG Overview

"New Evolution 2012" is our strategic target for the coming year. We aim to be Korea's No. 1 financial brand by 2015.

We started out in 2001 with the establishment of the holding company, Since then we have pursued balanced growth between the banking and non-banking sectors, searched out new growth drivers, and establishing differentiated business models. In so doing, new value has been created and world-class competencies cultivated, enabling SFG to emerge as a world-class financial group that proudly represents Korea on the global stage.

Strategic Mid-to Long-term Strategy for the Group

The global financial crisis that hit in 2008 became the "new normal" environment for the industry. Regulations were tightened and fiscal soundness was emphasized. Debt was curtailed, while low growth and low profitability prevailed generally. High growth was centered on Asia and other emerging markets.

VISION 2015 >>

PHASE 01. >>

Develop Foundation: 2000~2002

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

PHASE 02. >>

Surge Ahead: 2003~2009

- Enlarge Banking Scale
- Strengthen Non-banking
- Acquired LG Card
- Launched Shinhan BNPP Asset Management
- Fully owned Shinhan Life Insurance

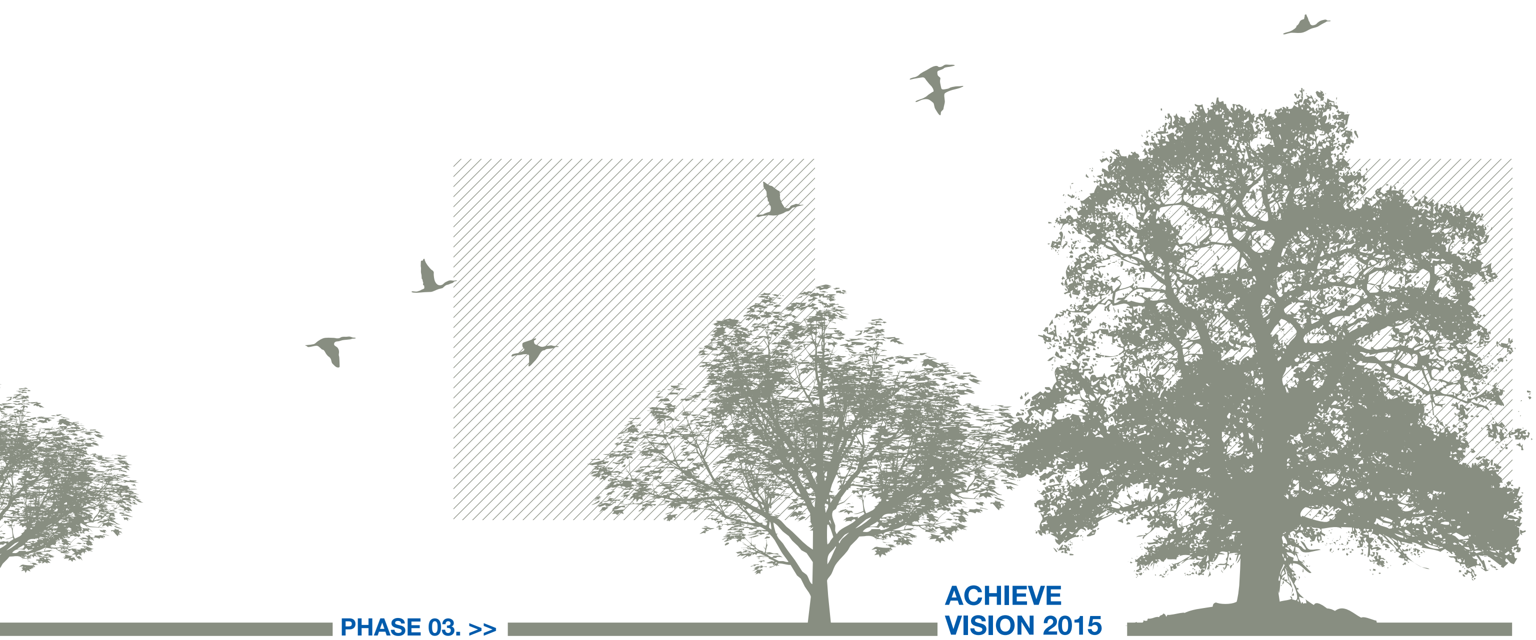
The Shinhan Financial Group is responding to these changes with the aim of becoming a world-class financial Group by 2015. "Being firmly established as Korea's No. 1 financial brand" is our new overall strategic objective to this end. In terms of our business performance, we will (1) achieve "good growth," which is higher than the market average; (2) maintain asset soundness to allow for an ROA of 1% or higher; and (3) have a balanced business portfolio that generates steady revenue. As for competencies, (1) our goal is to emerge as a new game changer that is a step ahead of the markets and competition. (2) Our brand is to become the one most respected by customers, and (3) we aim to be the financial institution where people want to work the most. To achieve these strategic goals, we have set the following key missions:

First, Be the "Local Best" in Core Business

We will become the best in the local market by (1) building a qualitatively leading brand, (2) achieving quantitative growth that befits the industry leader, and (3) providing customers with an exceptional experience that is difficult for competitors to imitate. To this end we will establish a distinctive competitive edge. Our banking operation will solidly retain its top status; our credit card company will bolster its ability to be the dominant player; our securities firm will also be a driver of sustainable growth.

Second, Strengthen the Non-interest Income Portfolio

We will bolster our non-interest income portfolio, to include the strategically vital securities, asset management and insurance industries. Improved asset management in the securities business will help us to establish a virtuous circle between the retail and manufacturing sectors. Our plans call for us to build a leading asset management brand based on a platform of manufacturing capabilities that generate customer value. Our insurance operation will pursue steady growth and seek out opportunities to consolidate for greater size in order to join the ranks of the industry leaders.



PHASE 03. >>

Develop Leadership: 2010~2015

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

ACHIEVE VISION 2015

NO. 1 WORLD-CLASS FINANCIAL GROUP

Third, Generate Next-generation Synergy Oriented toward Customers

We will lead the market by realizing synergistic customer services that are a cut above the rest, offering total solutions that cater to individual lifestyles from the customers' perspective. To make this happen, we will go beyond the synergy centered on face-to-face channels and maximize synergy in the non-face-to-face channels (i.e. smart phones and online). The Group's wealth management capabilities will be enhanced by leveraging the Group-wide CRM system to offer financial services that satisfy specific customer groups. In addition, a shared service platform will be established at the Group level to maximize the synergy for lowering costs.

Fourth, Secure Competitiveness in Strategic Areas Targeted for Cultivation

The Korean financial industry is entering the stage of maturity and low growth. We will overcome the limitations by identifying strategically important areas with high growth potential that should be intensively cultivated, while at the same time we will maintain our competitiveness. We are reestablishing our investment banking business model to secure competitiveness in this sector. We will also continue to pursue global strategy that is focused on the Asian region. Finally, we will continue to develop new business opportunities such as the integration of the retail and telecommunications sectors.

Group Management Plans for 2012

Strategic Objective: "New Evolution 2012, a Beautiful Partnership with Customers"

Global economic activity has entered a stage of persistent low growth, and the global effects of the European sovereign debt crisis are increasing steadily. These circumstances are increasing the uncertainty in the Korean market and conventional capitalism now must also move in a new direction. Society is demanding the financial market players fulfill their social obligations more faithfully, as evidenced by the Occupy Wall street movement and steadily strengthening of the regulations that govern the industry

Moreover, recent technological advances suggest the probability that the conventional business models at financial institutions will undergo a complete transformation. The changes witnessed recently are very different from changes we experienced previously. Past alterations in the business environment were repetitive and tied to cycles in economic activity. On the other hand, we must consider the recent transformations as belonging to a more fundamental and systematic paradigm shift.

Under these circumstances, companies must obtain the support and trust of customers and society as a whole. Therefore they need to transform themselves in step with the times if they are to sustain historical growth and amass social capital. To this end, SFG will carry out the following three key action plans:

Action Plan 1: Solid Organizational Competencies

Low growth coupled with uncertainty will characterize the business environment going forward. Therefore, we must strengthen operational soundness, enhance our responsiveness to change, and secure a solid business structure that will not be easily shaken under any circumstance. We will strive to bolster ourselves internally by balancing the revenue structure and raising organizational efficiency. Our asset quality control will be improved and a sophisticated crisis response system will be established to allow us to address changes effectively. In addition, the control system for our global business will be revamped, and our business competencies bolstered so that our global business proceeds on a solid footing.

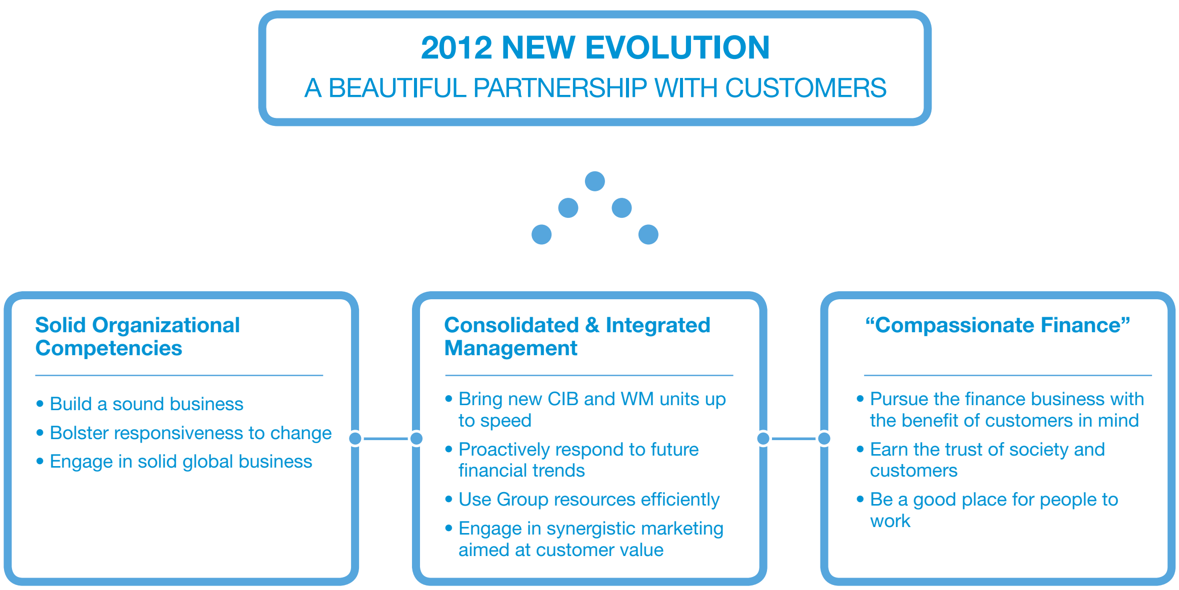
Action Plan 2: Consolidated & Integrated Management

The business environment is steadily becoming more difficult, and growth is slowing at financial institutions. On the other hand, rapid environmental and technological changes are giving rise to greater customer needs for new financial services. The competencies within SFG must be brought closely together and external networks employed to find new growth drivers. To this end we plan to accommodate future financial trends by utilizing Group resources most efficiently, bolster our "smart competitiveness" and aggressively go after new markets. Importantly, the new corporate investment banking and wealth management business models devised in 2011 will be implemented successfully and used extensively, enabling us to offer our customers new kinds of value.

Action Plan 3: "Compassionate Finance"

In the future, companies will be unable to survive if they sacrifice social value in their pursuit of economic value. Sustainable growth will only be possible when companies aim for financial and social value at the same time. Therefore, the Shinhan Financial Group announced the "Compassionate Finance" initiative in 2011 and is now pursuing programs on multiple fronts with the intention of "benefitting the world through the financial industry." In the future, a consensus will be built on this effort at branch operations, and activities will be pursued by all subsidiaries. In the process the social value of SFG will be enhanced. At the same time, financial consumers will be better protected, and CSR activities will be carried out continuously to earn greater trust from customers and society alike.

SFG's Strategic Objectives & Priority Action Plans for 2012



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 newly 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.

Committees of the Board of Directors

BOARD STEERING COMMITTEE
- Dong Woo Han
- Hoon Namkoong
- Jung Il Lee
- Ke Sop Yun

RISK MANAGEMENT COMMITTEE
- Kee Young Kim
- Hoon Namkoong
- Philippe Aguignier

AUDIT COMMITTEE
- Taeeun Kwon
- Seok Won Kim
- Ke Sop Yun
- Sang-Kyeong Lee

COMPENSATION COMMITTEE
- Kee Young Kim
- Seok Won Kim
- Sang-Kyeong Lee
- Haruki Hirakawa

AUDIT COMMITTEE MEMBER RECOMMENDATION COMMITTEE
- Entire outside directors

OUTSIDE DIRECTOR RECOMMENDATION COMMITTEE
- Dong Woo Han
- Taeeun Kwon
- Seok Won Kim
- Jaekun Yoo

CORPORATE GOVERNANCE & CEO RECOMMENDATION COMMITTEE
- Dong Woo Han
- Taeeun Kwon
- Kee Young Kim
- Hoon Namkoong
- Jaekun Yoo
- Philippe Aguignier

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 BOD chairperson and chief executive officer, and appointing the chairperson among outside directors from 2010. Moreover, to increase the professionalism of the BOD, 10 outside directors were appointed at the 2011 GMS Meeting, compared to the 8 appointed at the 2010 meeting. In addition, separate sessions by outside directors are being held to ensure their independence and authority 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 to keep the business operations of executive management in check and provide constructive alternatives to practices and problems. To assist with their fiduciary duties as board members, a BOD secretariat has been put in place to provide transparent information on corporate management and explanation of the BOD's agenda.

Board Steering Committee

Comprised of four directors, the Board Steering Committee recommends a member of the committee for the BOD; recommends executive director candidates, excluding Group CEO & outside directors; deliberates on the appointment and dismissal of members of executive management, excluding the company's directors; and decides on other BOD operation-related matters.

Risk Management Committee

Composed of three directors, this committee develops basic risk management policies that are in line with management strategies, and gives approval for appropriate investment limits or loss tolerance limits.

Audit Committee

The Audit Committee is made up of four directors, including one accounting expert, who oversee and audit the company's accounting and audit work. The committee has an audit team within the holding company to help raise the committee's efficiency.

Compensation Committee

Comprised of four directors, this committee evaluates the company's executive management and decides, deliberates, and adjusts the compensation system.

Outside Director Recommendation Committee

The committee, assembled when necessary, recommends the company's outside director candidates and makes decisions on other necessary matters with regard to such recommendations.

Audit Committee Member Recommendation Committee

Composed entirely of outside directors and assembled when necessary, this committee recommends candidates for the company's audit committee and makes decisions on relevant matters.

Corporate Governance & CEO Recommendation Committee

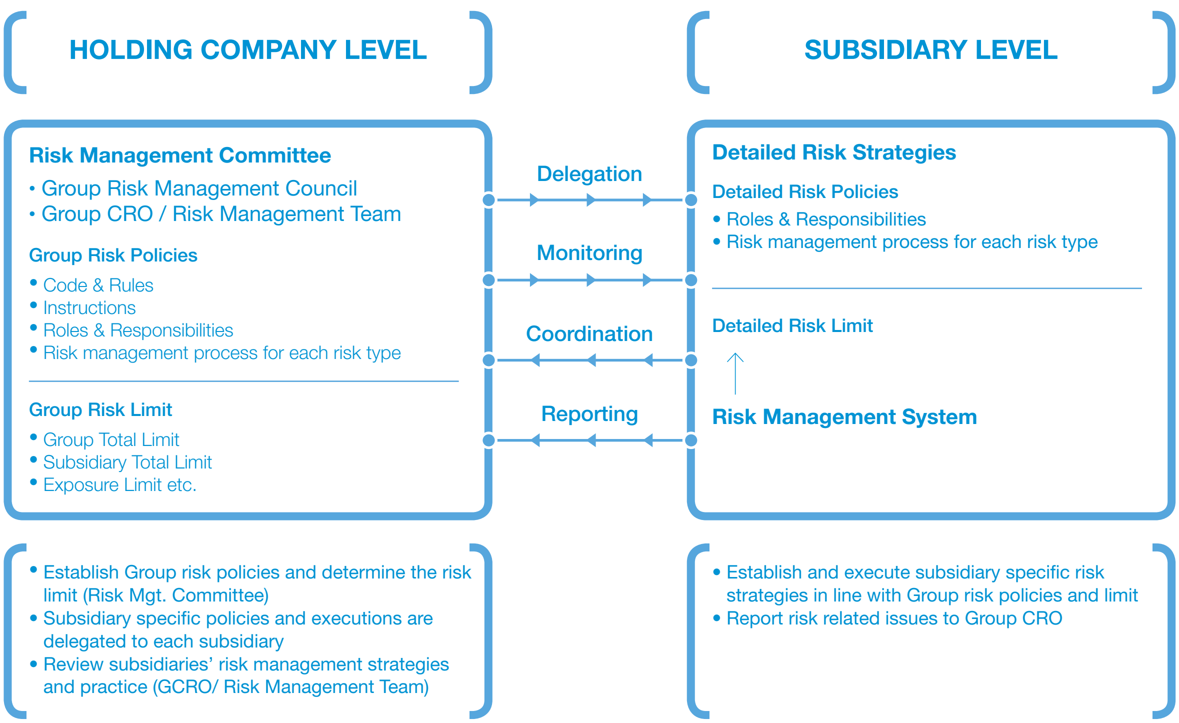
Comprised of six directors, this Committee deliberates on matters relating to the governance structure of the company; recommends an executive director candidate for Group CEO; establishes CEO succession plan and makes decisions on relevant matters.

RISK MANAGEMENT

Shinhan Financial Group has instituted an organization-wide risk 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 day-to-day business practices." This philosophy serves as the basic principle and guides the path in managing the various risks associated with our operations.

Guided by this basic philosophy, we manage diverse risks that can become problems in each of our business areas. A semi-matrix risk management organization system has been established at the holding company and subsidiaries, enabling the management of risks at each subsidiary as well as playing an effective mediator role when managing overall risk at the Group level.
In 2011, the restructuring of companies continued with the delayed recovery of problem-ridden industries such as shipping, construction, and real estate project financing. At the same time, concerns increased over the soundness of household loans. In response, SFG engaged in preemptive and proactive credit risk management, preventing major increases in loan losses and maintaining sounder assets than our competitors were able to do.
In 2012 credit risk-weighted assets will be carefully managed, and asset soundness in the household loan sector will be aggressively defended to curb an increase in household defaults. The system for responding to a foreign currency liquidity crisis will be maintained, and careful preparations will be made for the possibility of a financial crisis recurrence.

Group Risk Management Summary



Differentiated Group Risk Management Tools

Adhering to the Group Risk Philosophy and Principles

Daily operations are conducted in accordance with the Group's risk philosophy and seven main risk management principles. Thus, risk management is routinely practiced throughout the organization, starting with the front office.

Setting Risk Tolerance Limits & Managing Risk

Risk tolerance limits are the extent to which annual loss levels are allowed for individual Group subsidiaries and business segments. Subsidiary operations are managed so that these limits are not exceeded. These risk tolerance limits are reflected in the various loss limit controls that are implemented at each subsidiary. This system enables us to avoid risk concentration so that we do not sustain a major loss from any singular event.

Comprehensive Group-level Risk Monitoring System

We operate a group-level system that comprehensively monitors external economic indicators, key risk indicators for the Group as well as the Group's current risk management status. This system enables us to identify and analyze risk factors and major issues facing the Group in a timely manner, as well as analyze their potential effects.

A Group-level Risk Expert Network (REN)

To upgrade our overall risk management competencies, we have assembled a team of risk experts, each of whom has extensive experience and knowledge in specific business areas and risk types. They are responsible for conducting training and workshops to instill our risk philosophy organization-wide and cultivate risk management specialists.

Organization

The SFG risk management organization is made up of the Group Risk Management Committee, Group Risk Management Council, Group Chief Risk Officer (CRO), Group Risk Management Team, and a risk committees and risk team at each subsidiary.

Group Risk Management Committee

The Group Risk Management Committee is the highest decision-making body for establishing basic policy and strategies for Group risk management. The committee members, who include the chairman and outside directors of the holding company BOD, perform the following tasks:

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

Group Risk Management Committee

The council is made up of the Group CRO, Group Risk Management Team head, and risk officers from the major subsidiaries. They deliberate on risk policies and strategies implemented at the Group as well as subsidiary levels. The Council agenda includes the following issues:

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

Group Chief Risk Officer (Group CRO)

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

The Group Risk Management Team supports the Group CRO.

Finally, the risk management committees and organizations at the subsidiaries implement their respective risk policies and strategies in line with those established at Group level. They submit regular reports to the holding company, mitigate risks that are likely to become problems, and make constant improvements to their risk management systems.

Group Asset Quality (%)

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

ONE SHINHAN: The Shinhan Way was introduced as a value system for the Shinhan Financial Group in 2010. This new set of values helps bring employees together onto a common vision for the ways the Group should move forward. It also encourages employees to think and act as a team with conviction and enthusiasm.

The newly-introduced Shinhan Way went through the process of becoming recognized, understood and propagated in 2010. The following year, numerous activities were conducted to strengthen implementation capabilities and make the Shinhan Way an integral part of the organizational culture. As a result, the Group can take a step closer to full-fledged implementation.

Shinhan Way Components

SHWAY

Management from the organizational perspective for achieving the SFG vision

CORE VALUES

A Path for Thinking

Criteria for judgments that should be ingrained in all members of our organization

CREDO

A Path for Action

Code of conduct that encourages change in both the actions and attitudes of an organization's members

BUSINESS PRINCIPLES

A Path for Business Management

Principles that serve as a basis for the Group to attain its vision

Venue for Establishing Group Solidarity

Importantly, the Shinhan Way Prize program has been instituted at the Group level to recognize employees who have been outstanding in practicing the new value system and disseminate best practices. In so doing, all employees will be encouraged to put make the Shinhan Way their own. In addition, We Are Family (WAF), the webpage for SFG employees, has been made over into a venue for establishing a consensus and stimulating communication among employees.

Going forward, the Shinhan Way will serve as "the way to customers," serving as a solid platform for achieving sustainable growth for the Group and facilitating the rise to "World-class Financing Group."

Major Results of Shinhan Way Implementation in 2011

Strengthen competencies for Shinhan Way propagation, expansion, and implementation	• Train all employees on the Shinhan Way at each subsidiary • Collect and share best practices of Shinhan Way implementation at each subsidiary • Establish the Shinhan Way Prize and select recipients (Prizes are presented at the performance assessment event at each subsidiary, Grand Prize winners get Chairman's citation) • Continue to raise awareness of the Shihan Way via various channels (Gold Wing, WAF site, Group newsletter)
Establish a sense of belonging to and solidarity with the Group, foster Group pride	• Conduct joint training among holding company & subsidiaries • Conduct joint training for change agent units at holding company & subsidiaries • Conduct joint training for all the Group's new employees • Conduct Shinhan Asia Quest program (led by Strategic Planning Team)
Stimulate communication among employees	• Upgrade and better utilize the WAF site, the intro-organizational communication channel • Conduct combined CoP activities • Conduct the Group cyber mentoring program
Strengthen role of people in charge of organizational culture	• Overseas corporate culture benchmarking: for all people in charge of Shinhan Way promotion • Classes on corporate culture theory and best practices: outsource from specialized firms

Shinhan Way Establishment

The Shinhan Way Prize was instituted in 2011 to implement and propagate the Shinhan Way, spread the new Shinhan culture, recognize teams that contribute to Group advancement and encourage all employees to practice the Shinhan Way.

In the future, the Shinhan Way Prize program will be a major conduit for disseminating best practices and developing a tradition of success unique to the Shinhan Group.

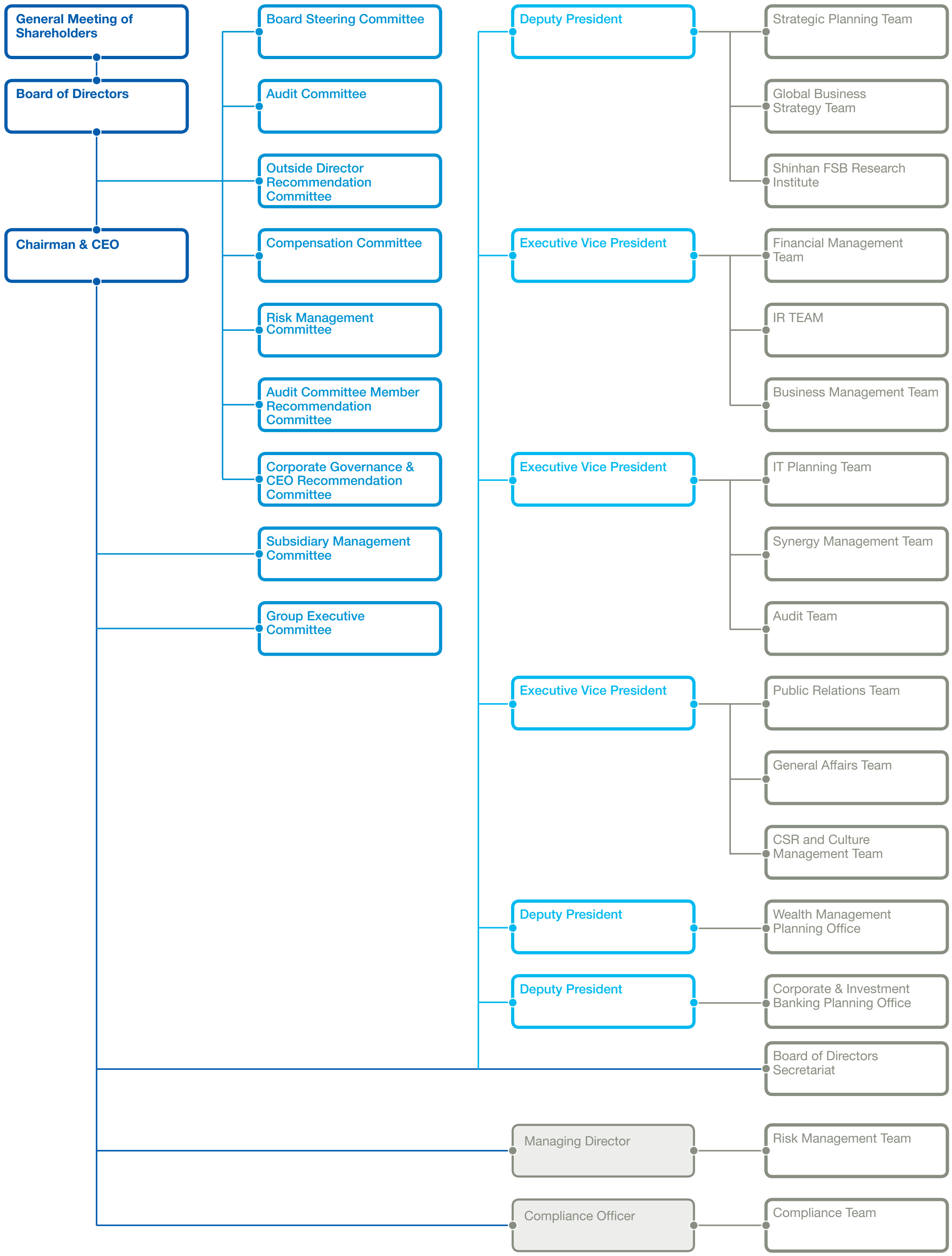
Major Plans for the Shinhan Way in 2012

Continuous and systematic promotion of the Shinhan Way will take place in 2012. In addition, the "Compassionate Finance" initiative announced in September 2011 will become the framework for the Shinhan culture, guiding how employees approach their work. To this end, understanding of "Compassionate Finance" will be raised, and a consensus formed so that all employees are willing to become engaged.

Propagation of "Compassionate Finance"	• Use diverse channels (employee newsletter, WAF, Gold Wing) and joint training to raise understanding and engagement • Practice "Compassionate Finance" at Group level, make it the framework for the Shinhan culture
Upgraded Shinhan Way training	• Reinforce training for unit chiefs • Improve joint training for all Group recruits establish their identity as employees • Expand joint training for change agent units, conduct combined activities • Conduct joint organizational training for all employees
Group solidarity through improved internal communication	• Upgrade the networking program among group companies (Group Reporter Corps, cyber mentoring, Group combined hobby & interest clubs, Group CoP) • Make greater use of WAF site (bolster PR and organize various employee participation programs)

ORGANIZATION

>> SFG Overview



History of Value

10th
ANNIVERSARY
2001-2011

SHINHAN FINANCIAL GROUP

Our Story of Growth & Value

Shinhan Financial Group was established in 2001 as Korea's first private financial holding company. The company has its roots in Shinhan Bank, a relatively new institution established in 1982. Since the beginning, SFG has remained at the forefront of innovation, leading the paradigm shift within the Korean financial industry. The year 2011 marks the 10th anniversary of the group. Here we take a look back at our history, key achievements and noteworthy improvements. Join us as we continue our journey in constant pursuit of a better future.

Market Capitalization

No. 1 among Korea's Financial Institutions

18.8 (KRW in trillion)

SFG recorded a market capitalization of KRW 5.1 trillion at the end of 2001. That figure has increased to KRW 18.8 trillion over the past ten years to lead all Korean financial institutions.

Total Assets

5-fold increase in 10 Years

332 (KRW in trillion)

Total assets for SFG were a mere KRW 66 trillion at the end of 2001, while at the end of 2011 the figure stood at KRW 332 trillion.

Net Income

1st among Korean Financial Institutions

3.1 (KRW in trillion)

Net income for SFG reached KRW 3.1 trillion in 2011, which is a record performance within the Korean financial industry.

Group Financial Subsidiaries

12

SFG started out with 6 subsidiaries, but that number doubled to 12 by 2011. As such SFG has emerged as a truly comprehensive provider of financial services.

Network Locations

1,464 (locations)

SFG has built a business network that spans 1,464 locations, 73 of which are based overseas.

Customer Base

28 (million)

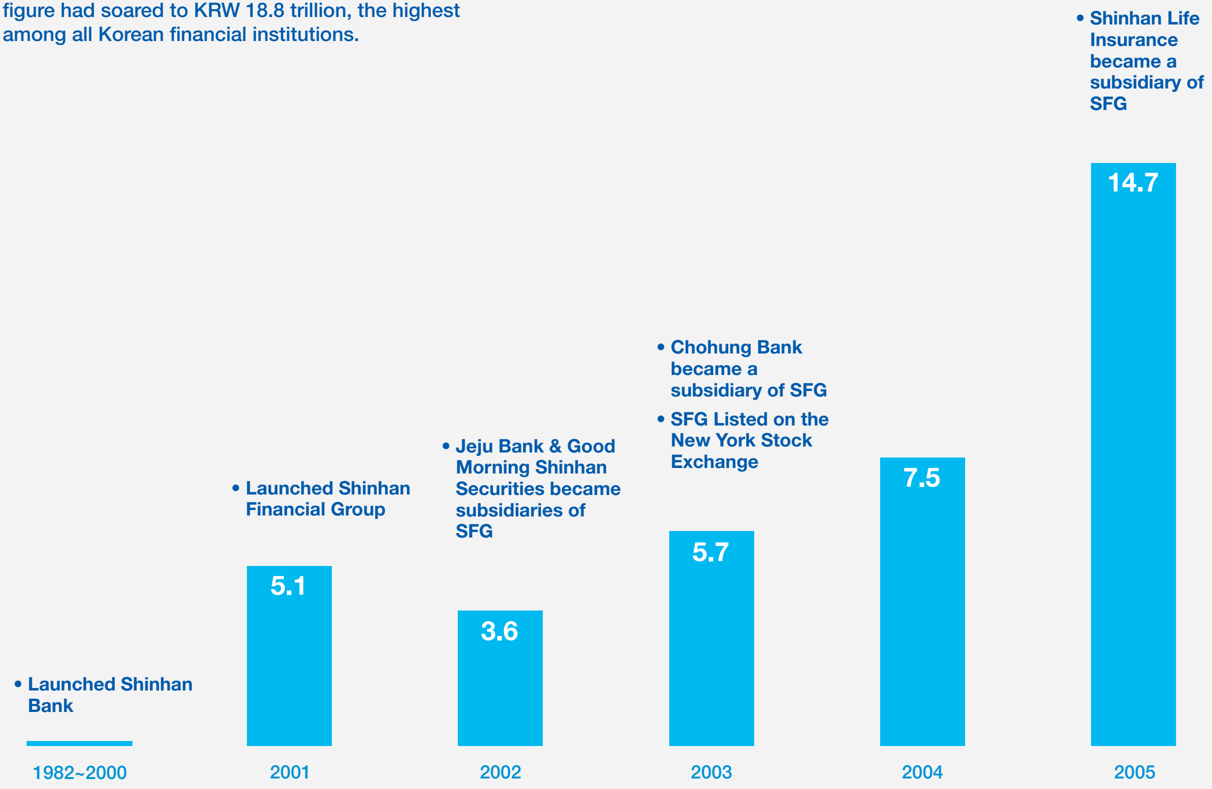
The customer base for SFG now stands at 28 million, more than half the total population of the Republic of Korea.

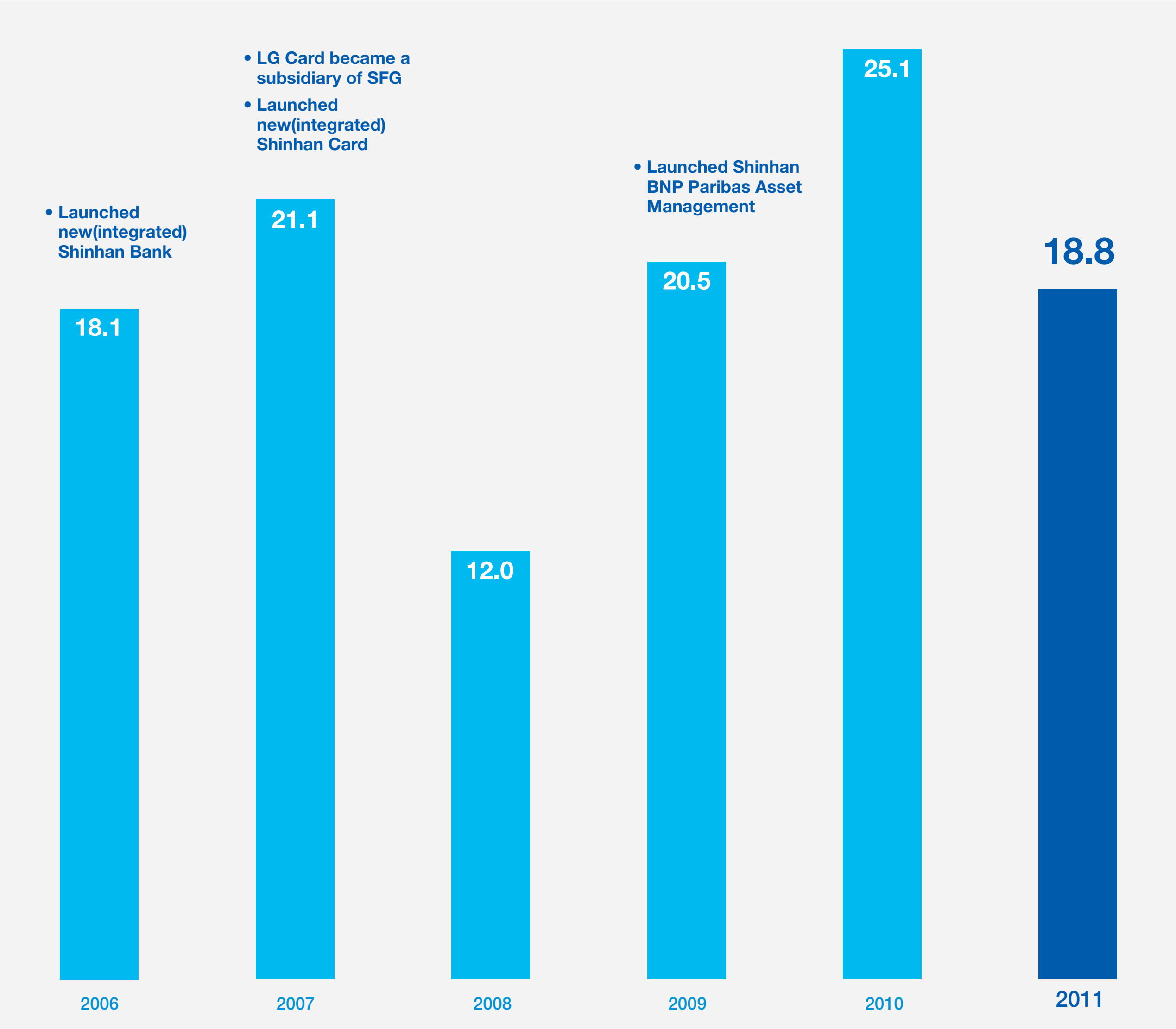
Market Capitalization and M&A History

Market Capitalization

18.8 (KRW in trillion)

Market capitalization for SFG stood at KRW 5.1 trillion at the end of 2001. By the end of 2011, that figure had soared to KRW 18.8 trillion, the highest among all Korean financial institutions.



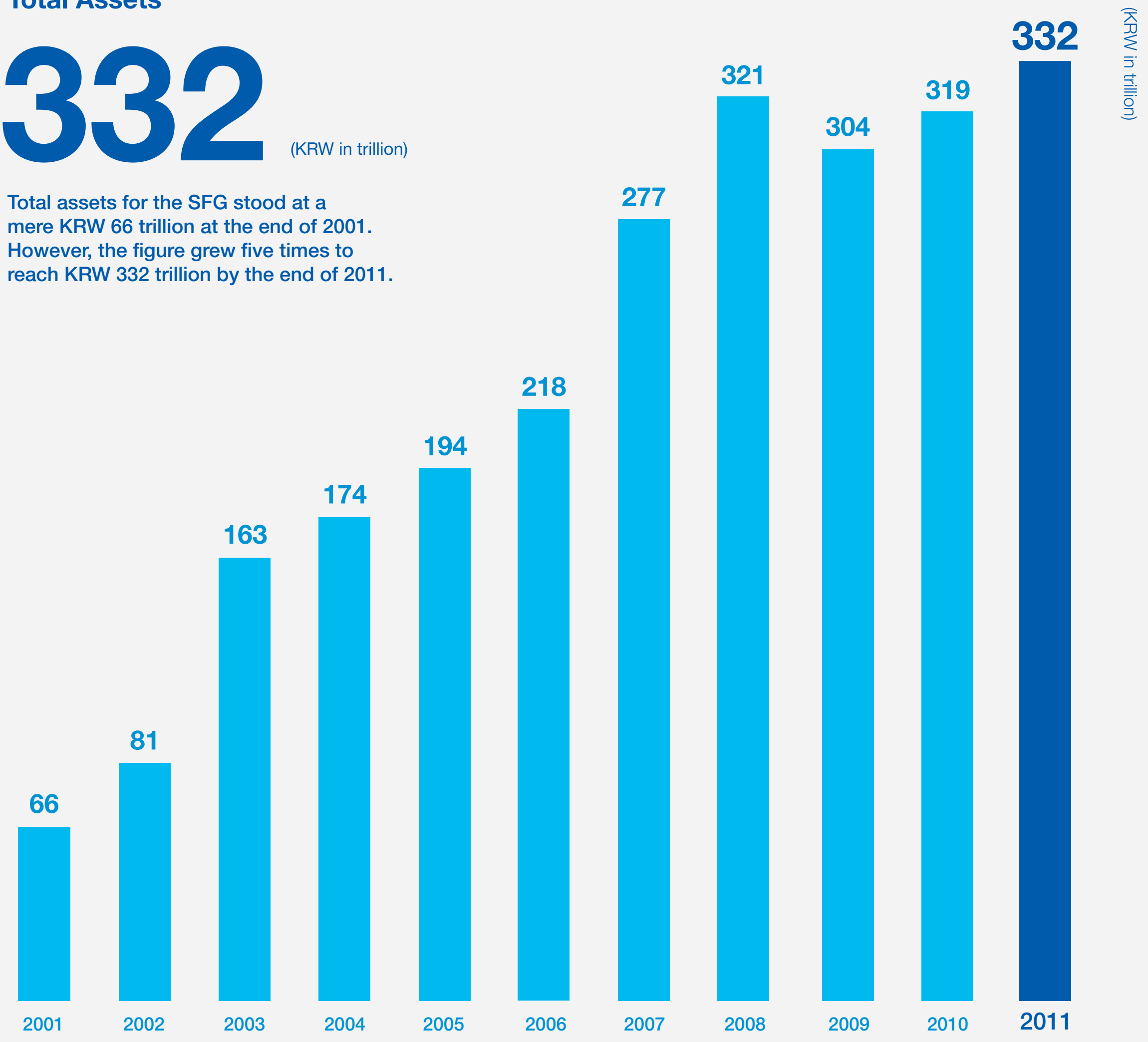

• Launched new(integrated) Shinhan Bank
• LG Card became a subsidiary of SFG
• Launched new(integrated) Shinhan Card
• Launched Shinhan BNP Paribas Asset Management
18.1
21.1
12.0
20.5
25.1
18.8
2006
2007
2008
2009
2010
2011

Asset Growth

Total Assets

332 (KRW in trillion)

Total assets for the SFG stood at a mere KRW 66 trillion at the end of 2001. However, the figure grew five times to reach KRW 332 trillion by the end of 2011.

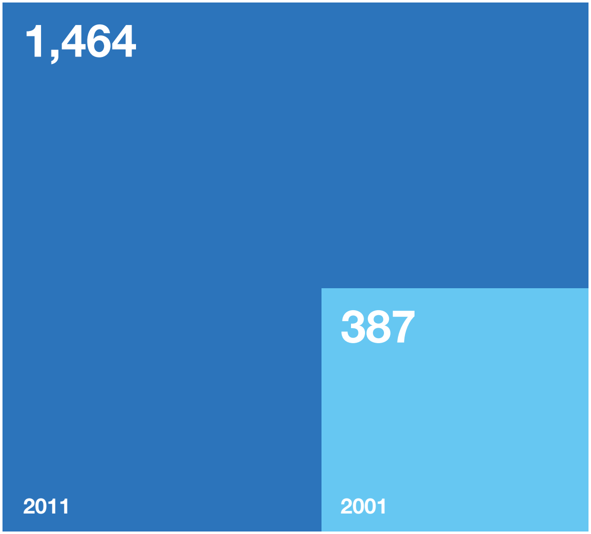


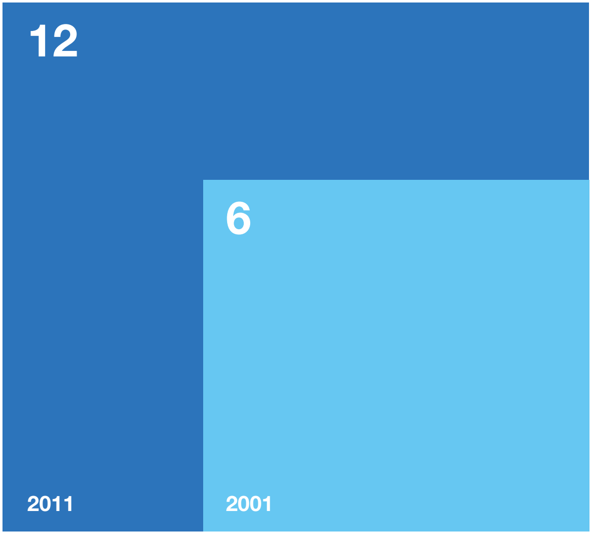
Network Locations

1,464

3.7-fold in 10 years

In 2001, SFG started out with a network spanning 387 locations. As of the end of 2011, that network encompassed 1,464 locations, including 970 for Shinhan Bank, 42 for Shinhan Card, 105 for Shinhan Investment Corp., 200 for Shinhan Life Insurance, 64 for Jeju Bank and other subsidiaries, and 73 overseas networks.





Group Financial Subsidiaries

12

double in 10 years

SFG started out with six financial subsidiaries, but that number doubled to 12 by 2011. As such SFG has emerged as a truly comprehensive provider of financial services.

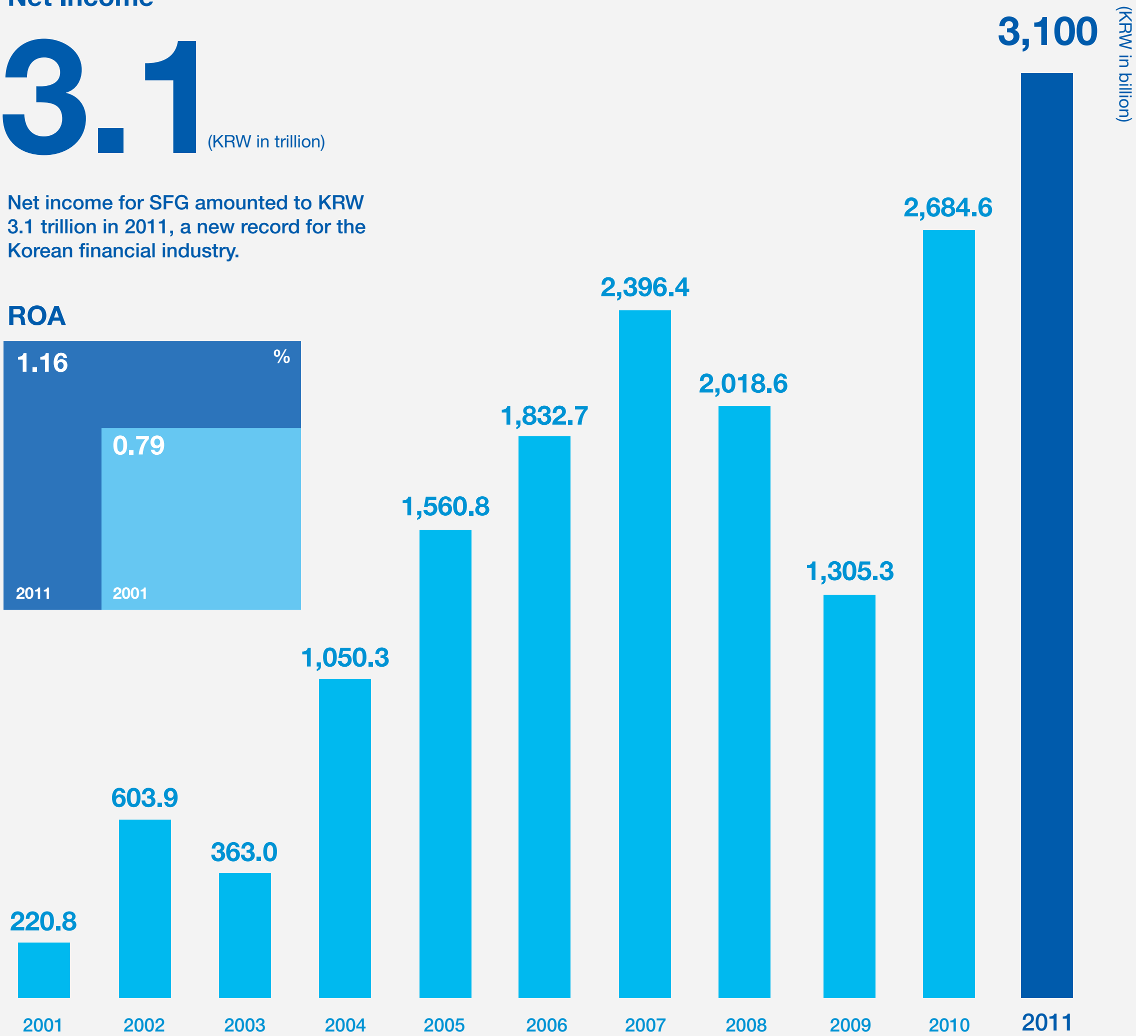
Profitability

Net Income

3.1 (KRW in trillion)

Net income for SFG amounted to KRW 3.1 trillion in 2011, a new record for the Korean financial industry.

ROA

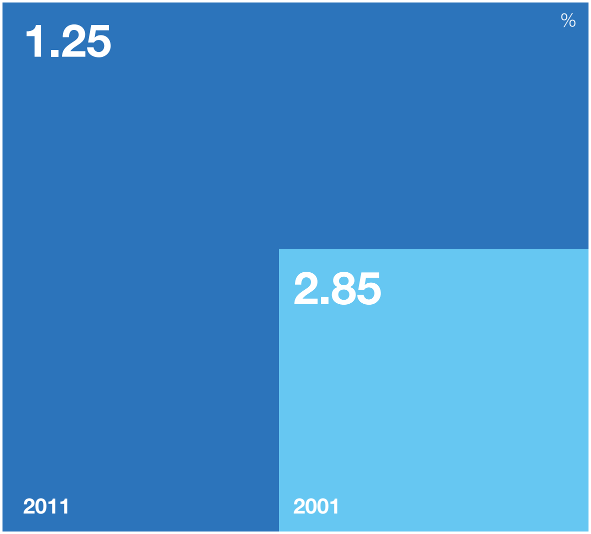


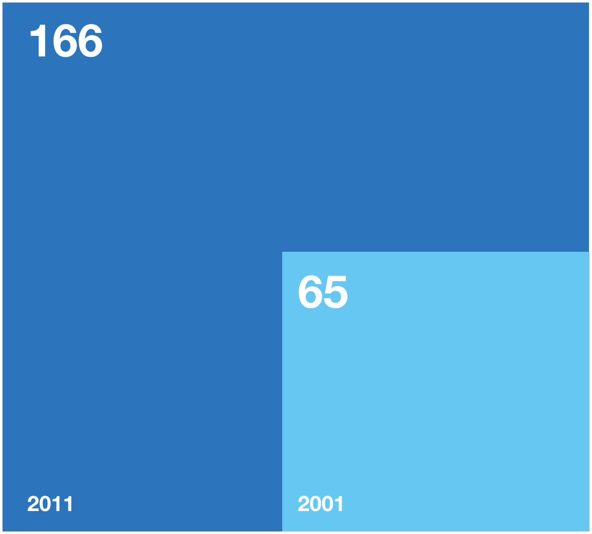
Asset Quality

NPL Ratio

1.25%

The SFG employed preemptive and proactive credit risk management measures to curb major increases in bad debts. As a result, the NPL ratio was maintained at just 1.25% despite the high concerns over asset quality that prevailed within the industry.





NPL Coverage Ratio

166%

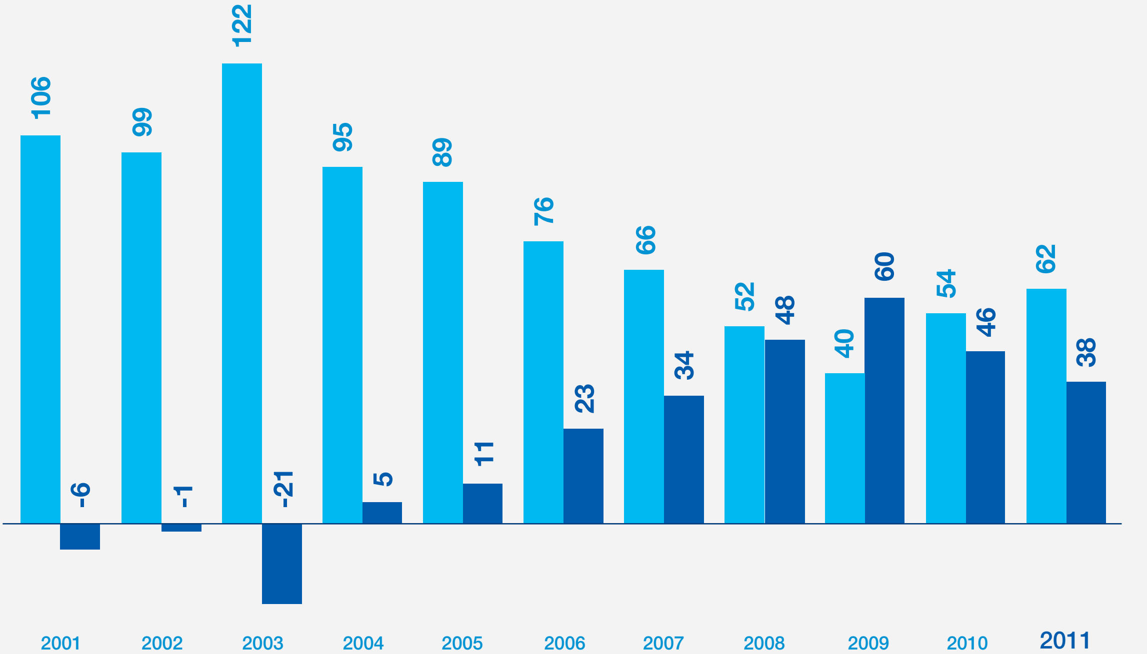
The Group's NPL coverage ratio now stands at 166%, which is 101%p higher than the figure posted in 2001, maintaining a sufficient buffer against problematic loans. This NPL coverage ratio is the highest in the Korean financial industry.

Business Portfolio

Net income Contribution by subsidiaries

62 : 38

Net income contribution of bank vs non-bank subsidiaries stood at 62:38 in 2011, demonstrating the strength of our well diversified business portfolio.



Shinhan Bank

1st

Shinhan Bank posted over KRW 2.12 trillion in **net income** in 2011, the highest among all Korean banks, while total assets topped KRW 253 trillion, which is ranked third.

Shinhan BNP Paribas AM

3rd

Shinhan BNP Paribas Asset Management had KRW 30 trillion in **assets under management** as of February 2012, which is the third highest among the 78 asset management companies in Korea.

Shinhan Investment Corp.

1st

Shinhan Investment Corp. is a leader among Korean brokerage houses and maintains the top share of the market for **futures and options** trading. The company boasts topnotch customer services, research activities, product management, risk management system, and personnel.

Shinhan Financial Group

1st

Shinhan Financial Group has continued to lead the Korean financial industry in terms of **market capitalization** and **net income**. *The Banker* magazine has ranked the SFG brand 57th globally and 1st in Korea.

Shinhan Card

1st

Shinhan Card's **No. 1 Market Share**, strengthened our competitive advantage in terms of customer base and furthered our domestic market leadership.

Shinhan Life Insurance

1st

Shinhan Life Insurance achieved a record KRW 236.9 billion in net income in 2011, posting industry-leading profitability. The company's **direct sales channels** staunchly remain the best in the industry.

Others

- Jeju Bank
- Shinhan Capital
- Shinhan Savings Bank
- Shinhan Credit Information
- Shinhan Data System

We continue to create customer value by offering diverse products and services to satisfy an ever-changing financial environment and customer needs.

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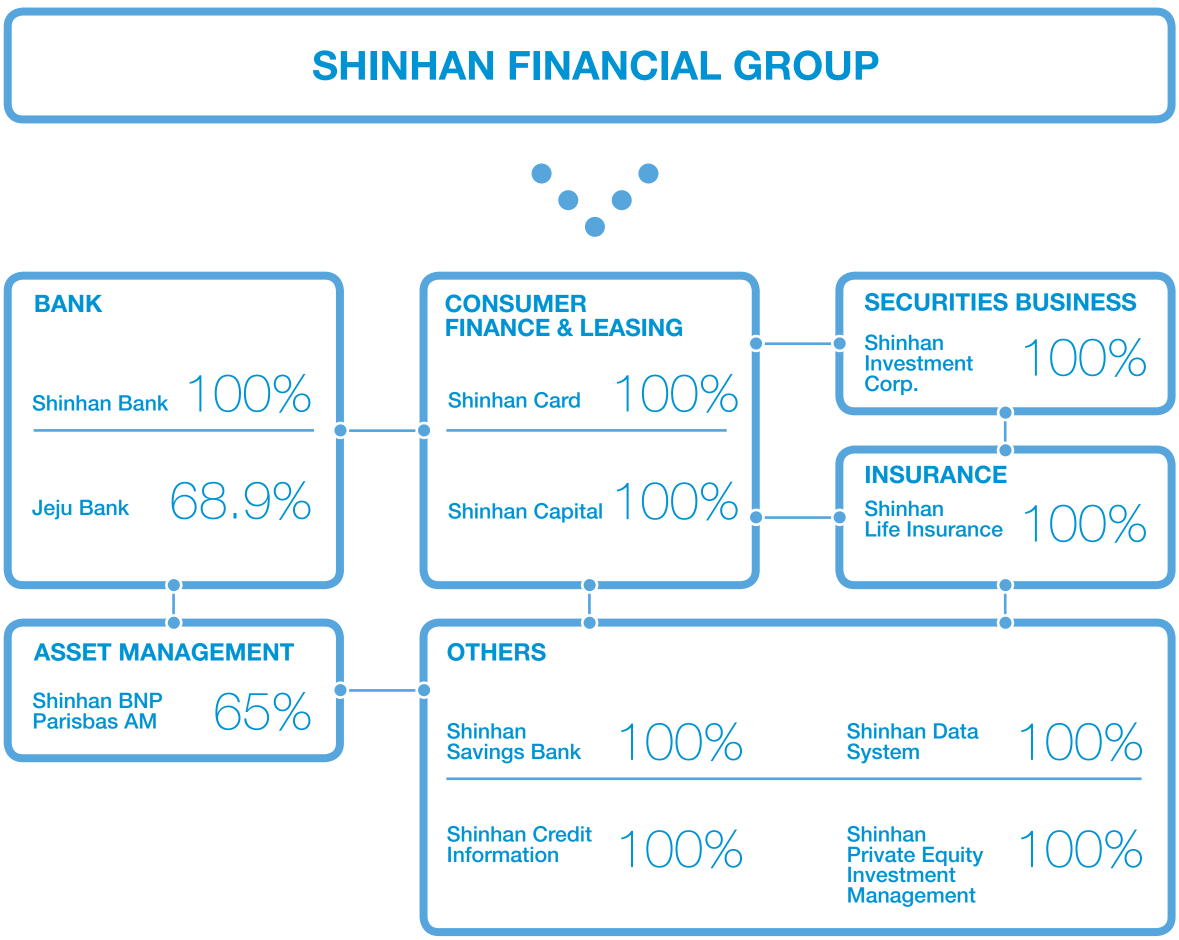
BUSINESS PORTFOLIO

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



Review of Operations

Our Group provides a comprehensive financial service package that covers banking, credit cards, securities, insurance, asset management and other areas to customers, who are our ultimate goal. We believe in being close to the customers in everything we do; our concern is whatever customers need or want. Our ongoing development of new products and services as well as our innovation for growth are part of efforts to maximize customer value.

The ideal financial portfolio for you

The SFG synergy model is to leverage Group competencies to develop hybrid products, engage in joint marketing, and cross-sell to customers to create an outstanding synergy effect especially for customers.

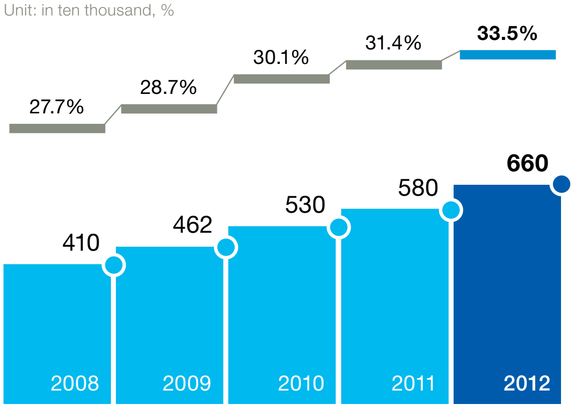
Number of Customers

28 (Persons in million)

SFG serves 28 million, more than half of the total population

Cross-selling Customers within SFG

Unit: in ten thousand, %



The Shinhan Financial Group has acquired LG Card and other key units over the years to build a highly efficient portfolio that spans banking, credit card services, brokerage, life insurance, consumer finance & leasing, and asset management. This well-balanced portfolio has enabled SFG to provide diverse products and services to meet customer needs and accommodate a fast-changing financial environment. Moreover, the Group can generate greater synergies than other financial groups do, thanks to a business network that spans more than 1,400 locations nationwide as well as a customer base that exceeds 29 million.

Our synergy-focused drive consists of three major components. First, diverse, highly competitive SFG financial products are cross-sold via the sales channels at Shinhan Bank, Shinhan Investment and other Group subsidiaries. Second, hybrid financial instruments are co-developed and jointly marketed among Group subsidiaries, and finally, customer introductions and up-selling activities that target customers' specific financial needs are conducted at each subsidiary. For example, bank branches may offer their retail customers various non-bank financial products such as credit cards or funds as well as hybrid products that have been co-developed among multiple SFG subsidiaries. Corporate customers, on the other hand, may use either the bank or the securities firm to receive IPO services, corporate bond underwriting and other offerings. In addition, customer information utilization is maximized, while customer relationship management and preferred customer management system (the Tops Club program) are integrated Group-wide.

We are committed to generating "customer-oriented synergy." The broad customer base and outstanding customer service channels are being leveraged to develop a steady stream of new products that proactively accommodate customer needs and rapid changes in the financial environment.

Review of 2011 Synergy Performance Highlights

SFG made "Ushering in the Future with Smart Synergy Generation" a strategic goal for 2011. Toward this end, the following action plans were pursued: (1) "enhance synergetic competencies for leadership going forward," (2) "develop products and services that can create new markets," (3) "strengthen Group-wide CRM through the segmentation and elaboration of customer data," and "elevate the synergy mindset of front office employees."

In 2009, we began to refocus our approach to synergy generation. Instead of relying solely on servicing conventional customers of individual subsidiaries, cross-selling was increased to customers among subsidiaries. In the process, we have become better able to generate synergy that brings greater customer value.

In 2011 a further push was made to increase cross-sales transactions. The competencies of individual subsidiaries were shared at the Group level, and new markets were developed to make SFG the industry leader in terms of synergy generation. Cross-sold products and services were jointly marketed within the Group, and the number of cross-sales customers at each subsidiary increased faster than the number of customers who only use that subsidiary's products and services. This result is attributable to the concerted effort to promote cross-selling, to include joint marketing programs and jointly developed hybrid products.

In 2009, we also launched the S-MORE My Car program for financing automobile purchases. An ongoing marketing campaign has helped the program to generate KRW 318.5 billion in 2011, up about KRW 100 billion from the previous year. In addition, we launched National Pension receivable accounts in a bid to secure a leading position in this market segment, as Korean society is aging rapidly. To date some 70,000 of these accounts have been opened.

Increasing the number of active cross-sales customers within the Group has been a key part of our synergy enhancement drive. In 2011 the number of customers who use the products and services of at least two SFG subsidiaries rose by about half a million to some 5.8 million. They now comprise 20% of all the customers served Group-wide. This growth has elevated value for the customers as well as the Group, and we intend to continue this movement going forward. Securing additional customers who do business with multiple SFG subsidiaries is the most effective way to promote the synergy effect throughout the organization.

Plan for Promoting Synergistic Operations in 2012

SFG already has 28 million customers, which is more than half the total population of Korea, and new customers are being secured at an ever-slower rate. The potential for expanding the customer base is clearly limited. Therefore, we have determined that our key tasks in 2012 are to increase intra-Group cross-sales to existing customers as well as raise value for customers and the Group alike.

First, the number of active cross-sales customers is to be increased by turning the customers of any given Group subsidiary into customers at multiple subsidiaries. For example, Shinhan Bank and Shinhan Card are planning a joint cross-selling marketing campaign that targets 2.5 million customers. Shinhan Investment Corp. is working to expand its mass-customer base by offering cash management accounts with preferential interest rates to 340,000 Shinhan Cardholders. Shinhan Life Insurance seeks to expand its customer base through a new database marketing effort that targets people who under the age of 25 or at least 52 years old.

Second, the database shared Group-wide is being reconfigured and data analysis methods are being upgraded. The data on 29 million customers around the Group are being integrated to ensure synergy promotion activities are consistent and that customers are seen as belonging to the Group rather than to individual subsidiaries.

Third, we will establish a framework for developing and managing hybrid products. Synergy-generating competencies at individual subsidiaries are being utilized in an integrated fashion, and customer panels are being organized to manage hybridized customer needs. In addition, we are establishing a way to assess and analyze the performance of hybrid products after they are put on the market, thereby allowing us to develop optimal hybrid products.

Fourth, we will develop a mechanism for running joint marketing and promotion campaigns among multiple Group subsidiaries. Standardized processes will be defined; the role of the holding company will be set, and a system will be put in place for sharing marketing data. This will stimulate joint marketing and promotion activities and generate synergy at front office operations.

Finally, Shinhan Savings Bank and the Wealth Management/ Corporate Investment Bank Divisions were recently made part of the holding company organization, and process is being established for introducing customers at subsidiaries to the Savings Bank and support is being provided to the Wealth Management/Corporate Investment Bank operation to generate greater synergy.

The first bank that reaches out to you

Our top management believes that "a strong front office makes a strong bank." Therefore we engage in diverse innovation activities to maximize communication with customers.

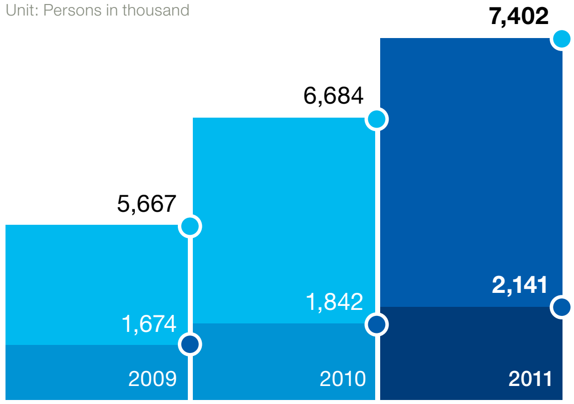
Core Deposits

31.1 (KRW in trillion)

Shinhan Bank's total balance of retail core deposit is over 31 trillion. This figure was ranked second in the industry with a market share of 24% in 2011

Active Customers & Tops Club Customers

Unit: Persons in thousand



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.

Our Retail Banking Group consists of the Retail Business Development Group, which operates sales channels; the Wealth Management Group, which serves high net worth clients; and the Institutional Banking Group, which manages government and institutions. Under these three groups are the head office, comprising 11 divisions; and 22 regional offices, which oversee 814 branches. The Retail Banking Group has served as a reliable generator of revenue, providing a foundation for the bank's sustainable growth.

Shinhan's strength lies in the strong front office organization. We organize all retail branches and sub-branches by region. The top-performing branch managers are selected to be regional managers, while the best deputy branch managers are named "retail relationship manager" (RRM). They coach their subordinates and devote themselves to customer relationship management. Additionally, exceptional managers at each branch are named JUMP managers, representing their peers. This approach helps everyone work with the same vision and goals by facilitating open communication between the head office and the retail branches nationwide.

Review of 2011 Management Goals and Performance Results

In 2011, the Retail Banking Group devised a three-point "3S" strategy under the slogan of "Laying the Foundation for Good Growth through Retail Revolution 3.0." Those strategies are expanding our customer base who use us as their main bank (Strong Business); implementing "smart asset" operations (Smart Assets); and upgrading our systems (Superior Systems).

Implementation of the strategies described above paid off handsomely for the Retail Banking Group, which outperformed rival banks in terms of customer base, core businesses, profitability, and market dominance: At year's end, we had 7.4 million active customers and 2.1 million preferred customers namely those in the Tops Club. Total credit stood at KRW 96.5 trillion; total deposits came to KRW 132.4 trillion and core deposits were KRW 31.1 trillion. Operating revenue totaled KRW 32.3 trillion for the year, while earnings before income tax amounted to KRW 900 billion, and the delinquency ratio was 0.58%.

The most ambitious effort by the Retail Banking Group was to increase the number of Tops Club customers in 2011. The target was to achieve a net increase of 230,000, whereas the actual figure reached 300,000 for the year. Meanwhile, active retail customers rose by 720,000 during 2011

Noteworthy growth was also achieved in the scale of core business lines. Household loans increased at the appropriate rate and the volume of quality SOHO assets also rose, while Shinhan Bank managed to maintain the highest asset soundness of all Korean banks: a household delinquency rate of 0.58% and sole proprietorship delinquency rate of 1.13%. This means that "smart asset" growth was genuinely achieved. Year-on-year growth in core deposits also exceeded the target of KRW 600 billion to reach KRW 1.6 trillion.

Retirement pensions represented the most hotly contested segment of Korea's financial markets in both 2010 and 2011. The banks all promoted their products aggressively, and the government authorities tightened their regulations to prevent excessive competition. Yet, a bank-wide pension fund sales promotion during November and December, when half of all the pension fund business transacted each year, boosted the annual growth in total trust accounts at Shinhan Bank to KRW 2 trillion. As a result, the Bank was able to recapture the top share of the retirement pension market.

Shinhan Bank also secured the most customers in the non-face-to-face channels among all Korean banks—9.7 million people who use internet banking services and 2 million who do their banking via their smart phones.

Business Plans for 2012

The Retail Banking Group has designated 2012 as the first year of a fundamental transition, laying the solid groundwork for breaking way from the past and advancing into a new future. "Achieving solid growth through optimal resource allocation" is the strategic path in 2012 for reaching this longer-term goal. Three "Smart" strategies have been established to this end: (1) growing assets in a balanced way (Smart Assets); (2) selecting specific customer segments and concentrating resources accordingly (Smart Business); and (3) optimizing the overall system (Smart Channels).

First, we will achieve balanced asset growth (Smart Assets). Achieving an appropriate rate of growth in high-quality household loans and sole proprietorship loans was a priority in 2011 and will remain so in 2012. At the same time, front office operations are to be focused on elevating profitability through higher margin. On the financing side, the portion of household deposits in the portfolio will be raised to accommodate the regulatory environment, and core deposits, namely low-cost deposits, will be increased. Other priorities for the year include stimulating interest in funds, bancassurance and other synergistic business lines; maximizing non-interest income; maintaining a strong position in the retirement pension market; and being a frontrunner in the new IRP accounts. Preemptive risk management will enhance our ability to ensure asset soundness, and the soundness of large loans will be secured prior to their issuance.

Second, we will focus on selected customer segments (Smart Business). The Retail Banking Group will optimize the use of limited resources in 2012 by specifically targeting three customer segments: those with high net worth, those who are salaried and those who own their own businesses. The new wealth management business model will be adopted quickly by focusing customer service capabilities on attracting new customers with high net worth, cultivating their business with SFG and maintaining their loyalty. Joint marketing by the Retail and Corporate Banking Groups will be aimed at attracting new salaried customers. Business loan offerings and merchant accounts tailored to customer needs will be provides in order to expand the customer base for high-revenue sole proprietorships.

Meanwhile, Shinhan Bank will do more than fulfill corporate social responsibilities to partner with society and create shared value. We will strengthen our microcredit program and search out ways to give low-income customers preferential treatment.

Third, we will optimize our system (Smart Channels). In order to optimize the sales capability after organizational rearrangement, we will rebuild our performance assessment system, bolster intra-organizational cooperation in head offices, and redefine the front office role at retail branches. Face-to-face and non-face-to-face services will be jointly marketed to support the implementation of a new non-face-to-face business model. Channel competitiveness is being boosted and optimized. The customer management system is being improved and refurbished to accommodate the new reality in front office operations. Last but not least, the training program will be improved in order to hone employee job skills and service capabilities most effectively, while financial consumer protection activities are also being reinforced.

Implementing these strategies will serve as the basis for instilling greater customer trust and employee pride. Our establishment of a powerful brand will enhance our image, while efficient organizational operation will bring us cost leadership, and we will take steps to strengthen these fundamentals.

Financial solutions by the industry's top corporate financing specialists

Shinhan employs 386 Relationship Managers specialized in serving corporate customers and capable of satisfying their ever-changing needs by offering the best solutions.

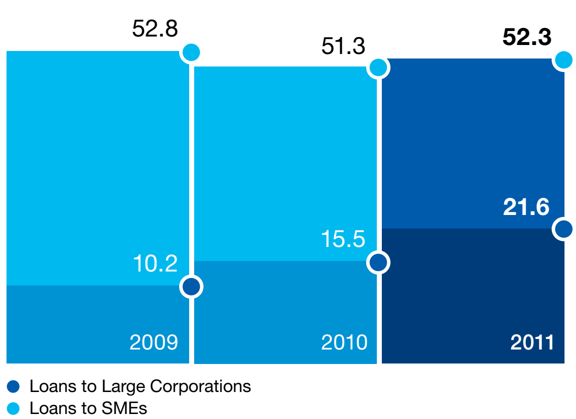
Retirement Pension Accounts

1st

Shinhan Bank's total balance of retirement pension funds is over KRW 4.88 trillion, the highest among all Korean banks.

Total Corporate Loans

Unit: KRW in trillions



The Corporate Banking Group has provided services to both large corporations and small- and medium-sized enterprises (SME) through 2011. However, an organizational restructuring carried out in early 2012 transferred the responsibility for serving large corporations to the Corporate Investment Banking (CIB) Group. Henceforward, the Corporate Banking Group will be in charge of SME accounts. The Group consists of four departments at the head office and 144 sales branches nationwide. Financial services include electronic settlements, cash management and corporate internet banking in addition to the traditional corporate deposits, corporate loans and foreign exchange transactions.

Review of 2011 Management Goals and Performance Results

The economic environment in 2011 was marked by various risk factors, to include business uncertainty in the Eurozone, alongside such opportunity factors as a modest recovery in the Korean economy. Against this backdrop, the Corporate Banking Group set its strategic objectives for the year as "Be a Reliable Financial Partner and Achieve Value-oriented Growth." Three strategic directions were identified for achieving these objectives: "steady expansion of growth-based assets," "earnings-based expansion," and "stronger capabilities to provide differentiated corporate financial services." Priority tasks were pursued accordingly.

Our first strategic objective was to continue expanding growth-based assets. Specific markets and customer segments were selected, and targeted marketing activities were stepped up toward those targeted (i.e., large corporations, well-managed companies subject to independent audits and well-managed companies not subject to independent audits). Our market share for these targeted segments was 10.2% at the end of 2011, up 0.3 percentage points from the figure posted a year earlier. We also introduced new products with preferential interest rates for well-managed companies and offered then easier loan conditions. At the end of 2011, outstanding loans to well-managed companies (i.e. with a BB credit rating or higher) amounted to KRW 40.6 trillion, which was KRW 5.16 trillion higher year on year. This figure represented 81.9% of all the loans issued by the Corporate Banking Group.

An aggressive marketing campaign was launched targeting pension funds, which are products based on growth over the long term. The pension fund balance at year's end surpassed KRW 3. 15 trillion, an increase of over KRW 1.27 trillion from a year earlier. Importantly, Shinhan Bank's total balance of retirement pension funds is over KRW 4.88 trillion, the highest among all Korean banks.

Our second strategic objective was to expand the foundation for earnings generation. Korean banks competed fiercely in 2011 over well-performing corporate customers, yet we managed to post a strong pre-tax income. Marketing activities were stepped up to increase the profitability of export-import transactions. As a result, our market share increased 0.5%p, from 16.7% at the end of 2010 to 17.2% a year later. We also aggressively marketed electronic settlement products, and our average balance during the year for account receivable collateral (ARC) loans rose KRW 0.23 trillion (9.79%), from KRW 1.83 trillion in 2010 to more than KRW 2.06 trillion in 2011.

We launched the "Inside Bank" product, which provides integrated cash management services (CMS), in 2010. An aggressive marketing campaign was conducted in 2011 in a bid to increase the volume of long-term transactions done with Shinhan Bank. As a result, the number of Inside Bank users increased by 23,398 companies, from 18,635 at the end of 2010 to 41,763 a year later.

Our third strategic objective was to bolster our capabilities to provide exceptional corporate financing. Therefore, we organized a new training program to cultivate the core competencies of selected Relationship Manager (RM) candidates. In addition, we opened the Foreign Customer Division in July 2011 as part of ongoing efforts to differentiate our services from those offered by rival banks. The Division is tasked with developing and launching products and services exclusively for foreign-invested companies and foreigners. Thirty branches were selected for their strategic proximity to this business, and they are now offering this suite of products and service available only from Shinhan Bank.

Plans for 2012

The Corporate Banking Group will build in the strong showing in 2011 in a bid to make Shinhan Bank the nation's top provider of corporate banking services. The Group's strategic objectives for 2012 are "Smart Growth" and "Corporate Banking Leadership." The three strategic directions laid out for 2011 will continue to be followed during 2012 in order to accomplish these goals.

Our first task is to expand the foundation for smart growth. The Corporate Banking Group will focus the marketing effort on well-managed corporations as part of efforts to expand a sustainable growth platform in the corporate banking market. A new business model will be developed that can stimulate business with foreign-invested companies, provide financial incentives for "green-growth" industries," and globally introduce our products and services. We will strengthen our position in the retirement pension market by intensifying our efforts to attract foreign invested and newly established enterprises. In the process we aim to receive a competitive rate of return on assets under management. Greater synergy will be generated among the Corporate Banking Group and Retail Banking Group by ramping up deal sourcing activities and the incidental transactions by individual employees from our corporate customers.

Our second task is to raise our fundamental profitability. A banks' fundamental profitability is enhanced by strengthening asset soundness, increasing the total of low-cost deposits, and monitoring asset quality. We will strengthen our soundness by boosting non-interest income through increased cross-selling and import-export transactions and by raising the use of credit lines. In addition, more ARC loans will be processed electronically, new Inside Bank customers will be acquired, and the used of the Inside Bank program will be increased.

Periodic loan reviews will be performed and more on-site inspections will be made at branches with delinquent or potentially delinquent loans. A new program will also be developed to identify companies showing early signs of insolvency and to respond quickly.

Third, we will strengthen our brand as a corporate banking services provider. The Premiere Club program will be established for well-performing, long-term customers in order to bolster customer relationships. The program will provide preferential interest rates and various special services to eligible members. In addition, the management consulting service for SME customers will be expanded as part of the SFG's drive toward "Compassionate finance."

Meanwhile, the Corporate Jump Team will be implemented more widely at branches, strengthening communication between Headquarters and the branches. Relationship Managers' consulting and negotiating skills will also be elevated through in-house and outsources training programs as part of the drive to upgrade internal corporate banking competencies.

Korea's largest customer base and network of business establishments

Shinhan Card has built a leading position by having a solid network base for greater customer convenience, an efficient risk management system, and the ability to provide reliable financial support.

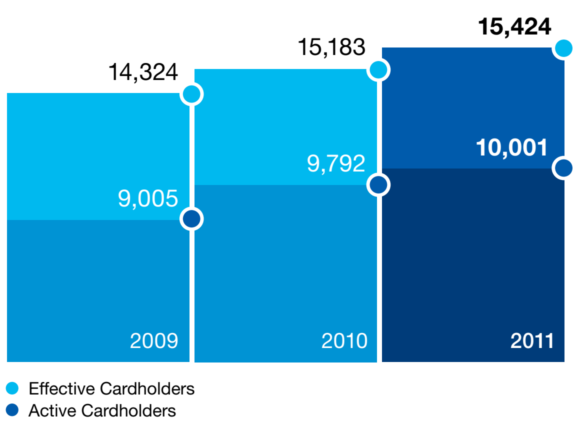
Market Share

23.9%

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

Effective Cardholders & Active Cardholders

Unit: Persons in thousand



Shinhan Card has, since consolidation, focused on business portfolio restructuring and cost rationalization throughout all products and processes. The enlarged customer base allows the economies of scale, which provides stability and flexibility in the face of external shocks such as the global financial crisis. As a member of the Shinhan Financial Group (SFG), Shinhan Card enjoys operating synergies by leveraging the Group's banking network and customer database, which provide cross-selling opportunities. An efficient Group-wide risk management system as well as assuring financial support from SFG allows us to solidify our leading position in Korea's credit card industry.

Review of 2011 Management Goals and Performance Results

The 2011 business goal for Shinhan Card was "to strengthen revenue generating ability by shifting to customer-centered business structure" in order to defend short-term profitability as well as to build long-term competitiveness.

Shinhan Card became Korea's first credit card issuer to reorient the business structure toward the customers, thereby maximizing customer value and group synergies. We continued to innovate products and services utilizing sophisticated analyses on customer lifestyle and consumption trends as well as marketing expertise. SFG's brand image and vast network were leveraged to elevate the operational competitiveness of Shinhan Card.

As a result, the number of active cardholders reached ten million in May 2011, earlier than expected. The number of individual membership and the number of merchants stood at 15.42 million (effective cardholders, 21.93 million including check card holders) and 2.67 million respectively, which strengthened our competitive advantage in terms of customer base and furthered our domestic market leadership (23.9% market share in retail credit purchases).

Along with efforts to bolster asset quality through a sophisticated risk management system, Shinhan Card remained focused on improving processes and cost efficiency by implementing the Six Sigma initiative across the board. This helped us to achieve the best business performance in the industry, with over KRW 19.77 trillion in operating assets and KRW 875.9 billion won in net profit for the year.

We worked hard to proactively explore new markets and take advantage of future trends. For example, a global credit

	2011	2010	2009
Earning Assets (KRW in billion)	19,772	19,460	17,158
Effective Cardholders (include. check card holders) (in thousand)	15,424(21,931)	15,183(21,221)	14,324(19,694)
Active Cardholders (active ratio, %) (in thousand)	10,001(69.1)	9,792(68.3)	9,005(65.7)

card business was launched at the Shinhan Vietnam Bank in May. The one millionth downloads of our mobile application was achieved in June (the first in the industry), and our social commerce business was rolled out in November.

Customer satisfaction is a top priority at Shinhan Card, and we have initiated diverse efforts to satisfy our customers better. In 2011, Shinhan Card was named as one of the "Most Respected Companies in Korea" by the Korea Management Association for the fourth consecutive year and ranked number one in the Korean Brand Competitiveness Index by the Korea Productivity Center. Indeed, we received the most certifications and awards (32) of all Korean credit card companies for the year, reconfirming our leading brand power and demonstrating our commitment to customer satisfaction.

2012 Business Plan and Key Strategy

With protracted financial uncertainties at home and abroad, Korea's economic growth rate is expected to slow further as consumer confidence weakens. At the same time, the government is likely to tighten regulations to improve the health of the general credit card industry and ease the household debt problem.

We remain committed to maintaining a sufficient level of financial soundness and profitability to withstand any external shock. Therefore our business portfolio and continues to be improved, and costs are being cut across all products and processes. At the same time we will accelerate qualitative growth by utilizing our comparative advantage with respect to customer base. This will allow us to be more proactive in dealing with changes in the business environment.

Another priority in 2012 is to be decisive in removing "size bubbles" and eliminating the inefficient use of resources to the extent that our strong market leadership is unimpaired. At the same time, the customer base will be restructured from the quality perspective. All these efforts are aimed at reinforcing our underlying fiscal health based on quality customers and robust profitability so that our operation can remain strong no matter how the external environment changes over the mid to long term.

To this end, we have set our 2012 strategic goal as "Establishing Firm Market Leadership through Accelerated Qualitative Growth." Five strategic tasks are being pursued to this end: (1) innovate the operating paradigm, (2) raise group synergy, (3) strengthen new growth engines, (4) optimize risk management, and (5) practice the Compassionate finance initiative.

In 2012, we will work on establishing an optimal marketing model to engage in customer-centered operations and elevate the quality of the customer base substantially. At the same time, ROI will be carefully managed for marketing investments and continuous effort will be made to improve our operational paradigm. While increasing the number of active cross-sales customers Group-wide, Shinhan Card will develop a new business model that incorporates our customers' consumption patterns and Group-wide products and channels to bolster internal synergies.

In order to build new growth drivers, we will offer diverse products and services that satisfy disparate customer needs. At the same time, we will establish and elevate the competitiveness of our mobile card business and social commerce services as early as possible. Concurrently proactive risk management will be practiced through an advanced risk management system, thereby enhancing our preparedness to respond to emergencies in all business areas, particularly should the household debt issue worsen going forward.

In the meantime, we will form a task force to fortify the system for implementing Compassionate finance, an SFG-wide initiative aimed at growing together with the customers.

Synergistic power between Shinhan Bank and Shinhan Investment Corp.

The separate Wealth Management businesses of Shinhan Bank and Shinhan Investment Corp. were integrated in January 2012 to create a Group Wealth Management Business Unit.

Business Performance

No. of Customers

281 (Person in thousand)

Total Loans

19.0 (KRW in trillion)

Total Deposits and AUM

48.6 (KRW in trillion)

We realized the limits of fragmented wealth management operations at the subsidiary level from the customers' point of view. Therefore, the decision was made to elevate the current wealth management business model to the group level. This move allows us to offer differentiated and integrated asset management solutions tailored to the specific needs of the customers while maintaining the existing expertise of each subsidiary. As a result the Group WM Business Unit was created in january 2012 after months of preparation. Following are the three key strategies of the Group WM business model:

The first strategy is to transition from the separated operations in play currently to a co-located collaboration model. To this end, the Private Wealth Management (PWM) Center, a dedicated WM channel, was newly created to boost convenience and satisfaction of the customers. The asset management channels of Shinhan Bank and the Shinhan Investment Corp. are now both inside the PWM Center as a "branch with a branch" to facilitate the provision of banking & securities products and wealth management services in one stop. This results in added benefit to customers.

Our second strategy is rely less on RMs' individual capabilities and take maximum advantage of organizational competencies by establishing and operating the new Investment Products & Services (IPS) unit. This approach leverages group-wide expertise to deliver integrated wealth management solutions.

Third, we are categorizing high net worth customers into three groups to differentiate marketing activities according to the products and services targeting each group.

1. Ultra High Net Wealth (UHNW) Group: Each individual customer is managed and served in an tailored fashion through a dedicated support channel composed of an RM and an expert at Headquarters.
2. High Net Wealth (HNW) Group: The high net value customers of Shinhan Bank and Shinhan Investment Corp. are offered integrated wealth management and investment solutions from group-wide expertise through stronger collaboration with the Retail Banking Group.
3. Affluent Group: Standard-platform investment solutions are provided through the Premier Lounge which serves Tops Premier Customers, the highest class VIPs at the retail baranches of Shinhan Bank and affluent customers at the retail branches of Shinhan Investment Corp.

Review of 2011 Management Goals and Performance Results

Before the launch of the Group WM business Unit in 2011, the Wealth Management (WM) Group of Shinhan Bank consisted of the WM, Private Banking (PB), and the Real Estate Dept to serve select VIP banking customers.

The WM Dept offers wealth management solutions to the “Tops Premier” customers (otherwise known as the “WM” customers), the highest class VIP customers of the Bank. The Dept posted the highest performance among all banking institutions in Korea, thanks to intensified marketing, more elaborate customer management infrastructure, more powerful preferential services and a broader lineup of exclusive products. At the end of the year, the number of WM customers stood at 276,000, a 12.7% increase from the previous year. Their contributions to the Bank’s total retail performance in 2011 included 52% of the total deposits and 35% of the net income.

The PB Dept provides one-on-one customized services to high net worth customers who have more than 500 million won in assets under management by the Bank. In August 2011, the Dept added a Private Banking Center in Ichon-dong, Seoul. After the establishment of the Group WM business model, three existing PB Centers were upgraded to PWM Centers. With the new PWM Center in Banpo district (in Seoul), the PB network grew to 22 Centers across Korea at the end of the year.

At the year’s end, the total AUM of the WM channels (both PB and PWM Centers) was KRW 11.5 trillion, with 4,800 HNWI customers, further consolidating the Bank’s leadership in the domestic PB market.

The Real Estate Dept, backed by differentiated strengths, was evaluated as one of Korea’s best providers of real estate-related services to VIP banking customers. The comprehensive service suite covers consulting, advisory and management.

2012 Business Plan

The SFG WM Business Unit was newly launched at the beginning of 2012. The goal for the year was to ensure the launch was highly successful and to establish a synergistic system that is centering on customer value. Three key action plans were drawn up in support of this goal:

First, we will work to increase our share of Korea’s WM market by strengthening our WM channel competitiveness at the Group level. To this end, more PWM Centers will be opened and an operational system will be built. Joint marketing between Shinhan Bank and Shinhan Investment Corp. will be intensified, while the PWM Centers and retail branches will work closely together. An employee sensitivity program will be operated to cement this collaboration.

Second, we plan to enhance the brand power of Shinhan WM in Korea. To that effect, special products and services will be refined to match the needs of each of the three VIP customer categories (UHNW, HNW and Affluent). We will intensify marketing efforts through affiliated marketing with outstanding firms and new campaigns aimed at specific target sectors. The goal is to acquire additional high net worth customers and broaden the base of high quality customers. At the same time, we are going to define a unique brand hierarchy for the Group WM Business Unit and carry out an integrated advertisement and PR strategy covering both Shinhan Bank and the Shinhan Investment Corp.

Third, we will provide comprehensive wealth management services that are the same in substance but differ in dimension from our peers, satisfying both customers and employees. The Investment Products and Services (IPS) Division will provide customers with reliable and consistent investment strategies as well as timely investment information. The new unit will strengthen the competitiveness of products that are unsurpassed in quality and establish a system of tailored professional support.

Awards Given to the WM Group of Shinhan Bank in 2011

- Ranked first in the PB category of the Korea Standard - Premium Brand Index (four years in a row, jointly organized by the Korea Standards Association, Choseon Ilbo, and Seoul National University)
- Ranked first in “The Proud” (index of top Korean brands published by the Korea Management Association Consulting, two years in a row)

Comprehensive financial and investment serves for both retail and corporate customers

Shinhan Investment Corp. provides unsurpassed services through 85 branches, 4 Private Wealth Management Centers, 9 BIBs, 6 Private Banking Centers, 3 overseas subsidiaries, and 3 overseas liaison offices.

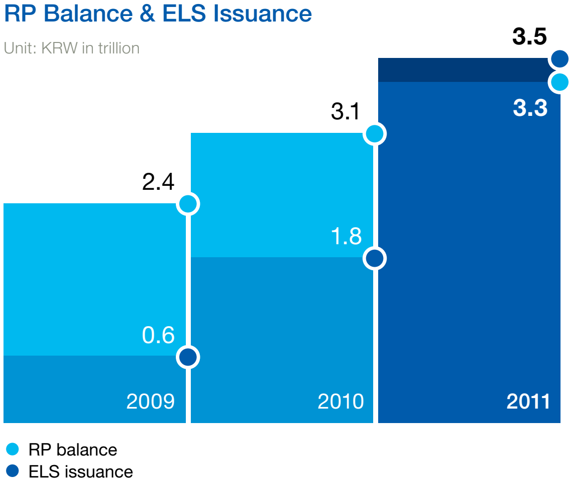
ELS Issuance

3.5 (KRW in trillion)

Thanks to our solid management, the amount of equity linked securities (ELS) issuance surged 89.5% to KRW 3.5 trillion. This figure was ranked third in the industry for 2011, up from seventh place a year earlier.

RP Balance & ELS Issuance

Unit: KRW in trillion



Shinhan Investment Corp. is one of Korea's top securities brokerage and investment banking firms, boasting industry-best global and derivatives product sales, in-depth research and solid product management. Our risk management system is highly sophisticated and our people are consummate professionals.

Review of 2011 Management Goals and Performance Results

Major global events such as the US sovereign rating downgrade and the Eurozone debt crisis struck a blow to our operations in 2011. The performance in principal investment was below expectation and the revenue growth in the investment banking (IB) segment was slower than anticipated after we switched over to a fee-based operation. Under this adverse market environment, our net profit dipped by 32.5% year on year to KRW 101.7 billion.

Retail Business Group – Diversified Revenue Structure thanks to the Rise in Non-Brokerage Revenues

In 2011, the net operating income of the Retail Business Group showed a 4.3% increase year on year to KRW 320.5 billion. Brokerage revenue also rose by 2% YoY to KRW 261.3 billion. On a positive note, non-brokerage revenue climbed by 5% YoY to KRW 77.4 billion. The share of the non-brokerage revenue in the total retail business portfolio has been on the rise over the past several years: 7.8% in 2009, 16.8% in 2010 and 18.5% in 2011. To generate a stable revenue stream amid a fast-changing market environment, Shinhan Investment Corp. continues to diversify revenue sources by increasing the asset management volume and reducing dependency on the brokerage fees.

Wholesale Business Group – Solidified Market Position in International Brokerage Market

In 2011, the position of the Wholesale Business Group was firmly established. The reorganized research capability helped boost corporate business performance, and corporate financial product sales ranked at the top in the industry. Our global equities and derivatives brokerage business, regarded as best in Korea, surged from the previous year, helping Shinhan Investment Corp. secure a firm domestic position for the overseas brokerage business. Also, the addition of major corporate accounts such as POSCO and KT in the fast-growing retirement pension business helped us rise to fourth place in the number of asset management contracts. Despite the continued losses at overseas subsidiaries, the overall revenue figure in the Wholesale Business Group posted a 9.8% increase from the previous year to KRW 49.5 billion.

IB Business Group – Well-performed Corporate Bonds Underwriting and Slower IPO

Corporate bond issuance rose 33% year on year to KRW 60 trillion in 2011. Our market share of corporate bond underwriting stood at 7.3%, similar to the level reached in 2010. On the other hand, our performance in the initial public offerings (IPO) segment decreased 58% YoY to KRW 4.3 trillion because of a sluggish domestic IPO market that lacked major deals. Our IPO underwriting market share fell to 4.8%, a 48% drop from 2010. Overall the Investment Banking Business Group posted KRW 41.2 billion in total revenues, similar to the level reported in 2010.

Sales & Trading Business Group – Stagnant Prop Trading and Leaped ELS Business

Fluctuating global stock markets were behind the weak performance in proprietary trading (for both equities and bonds). Thanks to our solid management, our outstanding RP balance posted a moderate 9.4% year-on-year increase to KRW 3.3 trillion, while the amount of the equity linked securities (ELS) issuance surged 89.5% to KRW 3.5 trillion. This figure was ranked third in the industry for 2011, up from seventh place a year earlier.

2012 Business Plans and Key Strategies

The coming year is the first since our strategic re-organization. Therefore, our goal for 2012 is to establish a robust business foundation for growth over the long-term. To that end, we set the following four strategic tasks under the theme of “value innovation from the inside out.”

Our first task is to significantly increase the key client base and assets.

As we transition to our new asset management business model, we will realign systems and operations as well as create a dedicated organization per customer group to expand our business foundation for the multi-channel market. The Wholesale RMs will also be reorganized to increase customer coverage and improve sales efficiency. We are going to strengthen our product supply capability in the sales and trading area to create a stable revenue model. At the same time, the overseas network will be reconstructed to enable us to identify business opportunities proactively.

Our second task is to get the new Group-level Wealth Management/CIB operation up to speed as early as possible.

The scheduled opening of new PWM Centers and early establishment of the IPS provision system will enable us to expand the PWM network steadily and obtain market-leading brand status in the wealth management segment. We also aim to secure big deals through a strong CIB collaboration system, which will accelerate our rise to market leadership. Along with that, we will consolidate our base for large-scale investment banking by restructuring the product design and coverage organization.

Our third task is to operate a solid business infrastructure.

Shinhan Investment Corp. will continue to reorganize the IT support system, increase synergy and establish an infrastructure for the risk adjusted performance measure (RAPM).

Our fourth task is to cultivate outstanding human resources by promoting the mindset of starting over.

We will focus on enhancing organizational solidarity by encouraging employees to think new and recreate the corporate culture. Our HR system will be revamped to improve our capabilities for attracting and nurturing competent and professional people, laying the foundation for the solid workforce structure. At the same time, we will continue to spread the spirit of Compassionate finance, the new motto of the Shinhan Financial Group

Financial planning that you can count on for your future

Diverse customer service channels, balanced quantitative growth, the industry's best operational efficiency, and industry-leading profitability are all made possible by Shinhan Life Insurance's efforts on your behalf.

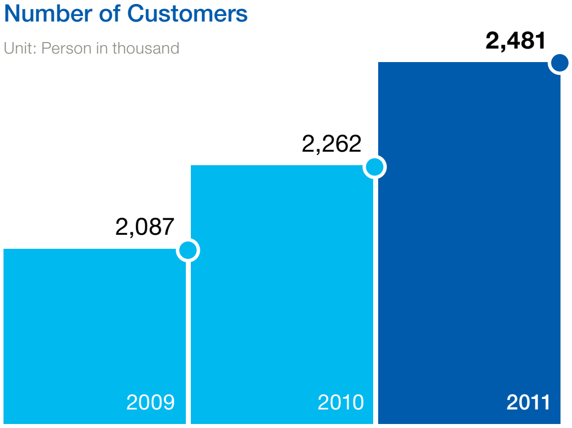
Monthly Initial Premiums

98.6 (KRW in billion)

In 2011, monthly initial premium payments surged 22.2% to KRW 98.6 billion with the net Income of KRW 236.9 billion, the largest since the foundation of the company. Shinhan life also maintained a solid No. 1 position in the performance of the direct sales channels.

Number of Customers

Unit: Person in thousand



Established in March 1990, Shinhan Life Insurance became a subsidiary of the Shinhan Financial Group in December 2005. As of December 2011, our workforce numbers 1,251 employees, with 200 branches across the nation and 9,151 sales organizations (including financial consultants and agencies). Our diversified sales channels encompass the Financial Consultants, direct sales (telemarketing and online), agency market (AM) and bancasurance platforms, providing a comprehensive range of offerings that cover both life and non-life insurance products and services plus pension (personal and retirement) products. Our wealth management channels provide insurance-backed loans, credit loans and secured loans, and manage stocks, bonds and derivatives investment products.

Review of 2011 Management Goals and Performance Results

Establish the Foundation for Rising to Industry Leadership

Shinhan Life achieved a stable growth in 2011 despite slow growth in new contracts and intensified competition, stemming in part from the continued trend of declining birth rates and steadily aging population. Most of the competitors maintained or even downsized their sales organizations because of the increasing struggle over FC(Financial Consultants) recruitment. Shinhan Life, on the other hand, achieved steady growth thanks to the 6.8% increase in the number of active FCs. Insurance premium income rose 13.9% YoY to KRW 4,061 billion. Monthly initial premium payments surged 22.2% to KRW 98.6 billion, while total assets were just under KRW 14 trillion. Net Income was KRW 236.9 billion won, the largest since the foundation of the company. Shinhan Life also maintained a solid No. 1 position in the performance of the direct sales channels and became one of the top performers in the AM channel as well.

Major goals in 2011 included not only quantitative and qualitative growth, but also higher sales efficiency and improved CS management in order to achieve sustainable operations and elevate brand value. The incomplete sales ratio, a key performance indicator, decreased by 5.7%p YoY to 8.2% and the 13-month retention ratio rose by 2.1%p to 80.7% from 2010 thanks to the introduction of a diverse range of systems and investments.

The RBC ratio, a financial soundness indicator, was 303.9%, which was among the top in the domestic life insurance industry. Shinhan Life also received the highest (AAA) rating in the insurance financial strength rating (IFSR) for the fourth consecutive year, boasting its profile as a top-class life insurer in Korea.

Shinhan Life Insurance's Mid-to Long-term Vision

Our strategic mid-term goal, dubbed "BIG SHINHAN 2015", is in line with our vision to become a new leader spearheading the new era in the life insurance industry. The corresponding strategies for reaching this goal will be implemented in phases. Our aim is to become a top player in the domestic life insurance market by 2015. To this end we will perform a gap analysis in every business area to define clear performance objectives and step-by-step strategies from the change management perspective. We have devised the three key strategies (Value Best, Marketing Innovation, and Good Growth) and twelve strategic tasks for achieving BIG SHINHAN 2015. The drive toward BIG SHINHAN 2015 began in 2011, and Shinhan Life concentrated on laying the groundwork for making the jump to the next level in all business areas. Success will allow Shinhan Life to join the ranks of the domestic life insurance market leaders both qualitatively and quantitatively.

Shinhan Life Insurance's 2012 Business Plan

Embarking on the second year towards the BIG SHINHAN 2015 goal, we declared "BIG SHINHAN, Different Growth 2012" as the strategic goal for 2012. Our aim is to accelerate differentiated growth momentum in all business areas and maximize competitiveness. This will generate a tangible outcome from the operational and system capabilities emphasized in 2011 by fully executing strategies that are differentiated from those employed by our competitors.
In this regard, we will continue carrying out tasks that support the three key strategies: strengthening customer-centered internal competencies (Value Best), innovating field- oriented marketing (Marketing innovation), and establishing a sustainable management system (Good Growth). The following five key business directions were decided on in support of our business plan:

Key Business Directions to Achieve the Strategic Goal for 2012

First, we aim to increase our market share.
We are going to develop a new formula for success by bolstering weaknesses and enhancing strengths (key task: raising competiveness in face-to-face channels). We will realize solid growth through a systematic support structure and nurture employee's passion and determination to raise the competitiveness of front office operations.

Second, we will lay the foundation for becoming No. 1 in customer service.
We will pursue service innovation that employs unconventional approaches, constantly promote the customer-first mindset, improve the corporate image by raising customer value, and engage strictly in ethical sales practices.

Third, we will establish a smart management structure.
We are establishing a sound risk management system to respond effectively to market uncertainties and reduce unnecessary costs to generate sources for future reinvestment. The promotion of the "Good Cost" mindset will support long-term growth based on the smart business management structure.

Fourth, we will establish solid teamwork through confident leadership.
Our leadership will instill a "can-do" spirit in employees, encouraging them to do whatever it takes to satisfy customers. To this end, the exact needs of customers will be identified, and internal communication among individuals, divisions and channels will be enhanced in order to build close-knit relationships. At the same time, a dynamic corporate culture will be fostered, based on mutual trust.

Fifth, our insurance business will be in line with SFG's "Compassionate finance" initiative.
Management understands that companies must seek to maximize customer and social benefits if they are to enjoy sustainable growth. Therefore, Shinhan Life will serve as a responsible corporate citizen committed to "bringing benefits to society through the power of insurance."

2011 KEY RESULTS

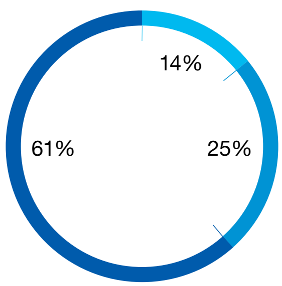
Unit: Persons, KRW in billion, %

		2011	2010	Growth Rate
No. of Offices		200	171	17.0%
No. of FCs		8,076	7,830	3.1%
Quantitative Measure	Premium Income	4,060.7	3,565.6	13.9%
	Monthly Initial Premium	98.6	80.7	22.2%
	Total Assets	13,976.7	11,974.5	16.7%
Net Income		236.9	213.4	11.0%
RBC		303.9%	397.9%	△ 94%

Core growth drivers that are maximizing customer value

The competencies of Shinhan Bank and Shinhan Investment Corp. are employed to provide you with one-stop banking and securities brokerage services.

(Bank) CIB Group Performance

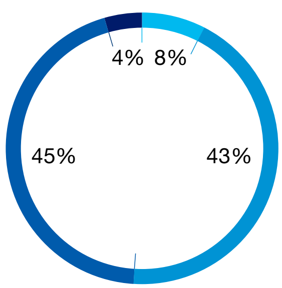


Pre-tax Income

Corporate Banking (Large corp)	228.9
IB	91.7
Merchant Banking	52.5
Total	**373.1**

KRW in billions

(Shinhan Investment) IB Group Performance



Pre-tax Income

IB	1.0
Real estate	11.7
IB corp banking	11.2
ECM	2.2
Total	**26.1**

KRW in billions

Korea's traditional corporate finance market has matured and stagnated, causing competition among financial institutions to intensify steadily. Thus, the importance of corporate investment banking has never been greater for SFG and CIB is essential for sustainable growth as the traditional corporate finance market reaches the saturation point, capital markets grow, and customer value must be maximized. Given this backdrop, the IB units at Shinhan Bank and Shinhan Investment Corp. were reorganized and co-located at the Shinhan Investment Corp. Headquarters on January 30, 2012.

Review of 2011 Management Goals and Performance Results

The Shinhan Bank CIB Group faced a challenging operational environment in 2011 with the European financial crisis and other factors inside and outside Korea. In response, the priority was put on managing risk and securing growth drivers for the long term. This effort resulted in KRW 373.1 billion in earnings before income taxes.

Various factors contributed to the drop in revenue year on year. In the large corporation segment, interest income fell because of the drop in average balance of export bills bought and the net interest margin. The merchant banking segment saw margins shrink due to lower market interest rates, and the IB unit earned fewer commissions as the number of new deals dwindled, while major losses were incurred because of the worsening real estate market and slump in shipping industry.

In 2012, the Shinhan CIB Group will take full advantage of the system of close cooperation among Group affiliates and develop hybrid products among various IB sectors to step up business development activities with well-performing corporate customers that have IB needs. Deal sourcing competencies will also be maximized.

The IPO market plummeted 42% year on year in 2011. Therefore, absolute return on commissions dropped despite our participation in major IPO deals and our earnings were lackluster. We obtained a 7.29% (5th place) share of Korea's corporate bond underwriting market, which was a relatively strong showing. The results of our real estate financing activities were also solid, thanks to thorough risk analysis and fees from consulting services. Stronger marketing capabilities proved necessary to raise the performance of the M&A and new business segments.

CIB Group AUM at the end of 2011

At the end of 2011, the Shinhan Bank CIB Group held assets of more than KRW 47.08 trillion (including KRW 32.45 trillion[*1] in the large corporation segment, KRW 7.15 trillion in the IB segment, and KRW 7.48 trillion[*2] in the merchant banking segment), up KRW 2.75 trillion (about 6.2%) from the previous year. A major contributor to this growth was increase (KRW 4.48 trillion)in large corporation assets, to include guarantees for new growth businesses such as energy and industrial plants as well as financial market stabilization loans by the FDIC.

Importantly, SFG worked hard to persuade well-performing large corporations to use Shinhan Bank as their main bank, and total credit to these corporations rose 22.6% to KRW 17.9 trillion. This represented an industry-leading 11.2% share of the market, up 1.42% from 2010. As such, a solid foundation was established for long-term growth.

New IB deals were few and far between, causing assets in the IB segment to drop by more than KRW 2.34 trillion.

IB Syndication Arrangement Performance in 2011

We have aggressively pursued the role of mandated lead arranger, and the Shinhan Bank CIB Group's share of the syndication market has grown steadily since 2009. At the end of December 2011, that market share stood at 12.9%, a 4.6%p increase from a year earlier and the second-highest total. Each year, we edge closer to the number one spot.

US$ in millions

	2011	2010	2009
Market	27,402	20,456	15,920
M/S (%)	4,057(12.9%)	1,859(8.3%)	962(5.7%)
Ranking	2	3	4

Source: Bloomberg 2010 Global Syndicated Loans League Tables

Major Plans for 2012 Group CIB Business (Shinhan Bank + Shinhan Investment Corp.)

The newly organized SFG CIB Group adopted the catchphrase "New Challenge, Great Partnering" for its first year of operation. The business strategy is to secure leadership in the large corporation and IB segments by building a highly successful business model. Achieving this goal is predicated on the synergy generated by close cooperation between Shinhan Bank and Shinhan Investment Corp.

To make this happen, both subsidiaries will move their operations into the Shinhan Investment Corp. Headquarters in Seoul's Yeoeuido District and build a physical system for joint operation. The project management function has been organically integrated, and the professionalism and best practices of each subsidiary are shared to build a system for offering a full CIB service package designed to maximize customer value.

In addition, the Duo-Relationship Manager program allows the Shinhan Bank and Shinhan Investment Corp. RMs to work together on core customer segments through Joint Account Planning. Plans call for expanding customer coverage and stimulating mutual introductions of new customers. At the same time, the core competencies of the Group CIB business will be enhanced; the future growth platform will be strengthened, and advanced infrastructure will be installed internally to elevate organizational effectiveness. Moreover, the IB project risk management processes will be improved.

In 2012 the SFG CIB Group will establish an omnidirectional IB operation, diversifying the revenue base and firming up the foundation for long-term growth. Every effort will be made to position this unit as a mainstay growth engine for the Group over the long term.

Note 1: Includes guarantees of KRW 11.34 trillion
Note 2: Includes bank account debt debentures exceeding KRW 1.43 trillion

Essential global asset management know-how from the BNP Paribas Group

Shinhan BNP Paribas Asset Management is growing into a market leader by leveraging the global asset management know-how of BNP Paribas Group in combination with the powerful sales network of SFG.

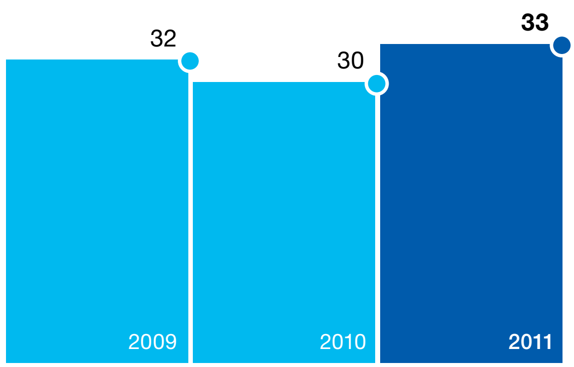
Asset Management Ranking

3rd

Shinhan BNP Paribas Asset Management's assets under management (AUM), including discretionary investment management assets, surpassed KRW 30 trillion in 2011. We rank third among the 78 Korean asset management firms in terms of AUM.

Asset Under Management

Unit: KRW in trillions



Shinhan BNP Paribas Asset Management, a joint venture between Shinhan Financial Group (65%) and BNP Paribas (35%), is the major player in SFG's asset management business.

Shinhan BNPP AM provides various global and domestic investment opportunities, including funds based on real estates, structured vehicles and other special asset products as well as the traditional stocks and bonds. Shinhan BNP Paribas Asset Management assets under management (AUM), including discretionary investment management assets, surpassed KRW 30 trillion in 2011. As of February 2012, we rank third among the 78 Korean asset management firms in terms of AUM.

Major Achievements in 2011

The Korean asset management industry faced uncertainty in 2011 from financial crises caused by European sovereign debt crisis and sluggish domestic economy. This caused investors to shun funds and sent major stock markets downward. Despite the considerable adversity, the effects of the looming financial crisis were avoided and growth was realized, principally in the domestic stock fund market.

Shinhan BNP Paribas Asset Management achieved KRW 35 billion in net profit despite the difficulties caused by increasing fund redemption in the face of the European sovereign debt crisis. Exceptional results continued to be realized in the domestic stock fund business, while a massive capital inflow was received from the National Pension Service (NPS), Ministry of Information-Communication and other major institutional investors, raising our total AUM 7.4% year on year to KRW 32.67 trillion.

We aim to establish leadership in the market for products targeting absolute rate of return, an area that is expected to grow fast going forward. Therefore, in 2011 we entered the so-called "Korean-style hedge fund market, which made its debut in 2011. Moreover, we received many awards from institutions inside and outside Korea, allowing us to solidify our brand as a leading asset management firm thanks to stronger competencies and synergy since our consolidation.

Our industry-leading in-house research team carries out in-depth analysis and research by using unique valuation models and by scrutinizing individual companies. Coupled with the outstanding operating skills of our fund managers, these analysis and research activities help ensure consistency and continuity in asset management practices at the subsidiary level and translate into robust performance. The BNP Paribas is transferring its competencies steadily, helping us to cultivate the very best personnel and elevate our operational know-how.

2012 Business Plans

The asset management business is facing stricter investor protection programs and financial group's stronger monitoring of sales by their subsidiaries. As such, fund sales by subsidiaries will be more tightly controlled, which will create some difficulties on the selling side. On the other hand, asset management firms are allowed to handle Korean-style hedge funds, while retirement funds, global beneficiary products, and other long-term investment products will attract greater investor interest, which means the market for products will expand.

Back in 2009, Shinhan BNP Paribas Asset Management announced the vision and goal of becoming the best asset management in Korea. Since consolidation, the internal organization and processes have been put in place; outstanding people have been hired, and asset management competencies have been reinforced. These various efforts have begun to bring tangible results. In 2012 we head into our fourth year since consolidation, and we have defined our strategic objective as "becoming a leading asset manager with differentiated competitiveness" as we work to solidify our leadership position in the industry still further.

To this end, we have decided on the following three priority tasks in the coming year: (1) bolster growth drivers by maintaining stable asset management results over the long term and strengthening product competitiveness, (2) differentiate customer services to expand the customer base, and (3) elevate brand recognition. In the process, core growth drivers will be secured and our position as an industry leader will be made still stronger.

Asset Management Awards Received in 2011

December 2011

- Received First Prize in the Fund Management category at the 2011 Market Leader awards by e-Today.
- SH BNPP Bonjour Southeast Asia Eq. Sub Fund(H) named "Best Overseas Stock Fund" at 2011 Money Today-Morning Star Fund Awards by Money Today.

November 2011

- Shinhan BNPP Goodmorning Fundamental Index Security Feeder Investment Trust No.1 named "Best Domestic Fund" and "Best Overseas Fund" at 2011 Korea Herald Business Fund Awards by Korea Herald Business newspaper.

October 2011

- Named "Korea's Asset Management Company of the Year" award at the 2011 Asset Triple A Awards by The Asset, a Hong Kong-based investment magazine.

March 2011

- Named the "Asia Asset Management's Best Institutional House in Korea for 2010" by Asia Asset Management, a renowned Hong Kong-based investment magazine.

February 2011

- Received the FSS Director's Prize and Grand Prize in the China Fund category for the Shinhan BNPP Bonjour China Opportunity Security Feeder Investment Trust at the 2011 Korea Fund Awards by e-Daily .
- Shinhan BNPP Bonjour Southeast Asia Fund won the Best Overseas Stock Fund category at the 2010 Korea Fund Awards by Maeil Business Newspaper.
- Shinhan BNPP Good Morning Hope Fund won the Best Fund award, the top prize in the Product category, at the 2011 Asia Fund Awards by Asia Economy.

January 2011

- Awarded in Best Stock Fund Manager category at 2011 Korea Fund Awards by Korea Economic Daily

Social Stewardship

From the beginning, the Shinhan Financial Group has recognized the importance of SRC and ethical management. Multifaceted efforts have been ongoing in this regard, and they have paid off with tangible results. In 2005 we became the first in Korea's banking industry to issue a social responsibility report and we joined the UN Global Compact in 2008. In 2011 we were ranked first among Korean banks for the third straight year on the Dow Jones Sustainability Index and were listed on the DJSI Asia-Pacific Index. Moreover, we are becoming even more aggressive in our ethical management program, that is tailored to the requirements of individual Group companies.

A Consistent CSR Program for Your Benefit

The Shinhan Financial Group has always been an industry leader in social contribution activities, for we remain passionate about serving all stakeholders.

The Shinhan Financial Group (SFG) has been actively engaged in social contribution activities since its foundation. Our CSR program has recently become differentiated from others by leveraging our Group strengths, focusing on three segments for CSR management: "Coexistence for Welfare," "Sympathy for Culture" and "Symbiosis for the Environment."

2011 Performance Review

• **Coexistence (Welfare)**

- Shinhan Smile Microcredit Bank (SSMB): SSMB provides microcredit services to enable low-income families with poor credit ratings to start and operate their own business. The Group has contributed a total of KRW 500 million since the founding of SSMB in late 2009, and plans to expand its contributions to KRW 700 million by 2013.

- Job SOS II Project: The purpose of the project is to promote employment in small and medium-sized enterprises (SMEs) and to mitigate youth unemployment by creating jobs. Under the program, job fairs are held to provide grants for new employees of SMEs and incentives to SMEs.

- 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 2011, the contributions stand at a total of KRW 800 million. Scholarships were offered to 583 students in 2011.

- "Love Sharing" Campaign: Employees and customers participated in CSR programs at the end of the year. Under the programs, coal briquettes (for home heating) and kimchi (traditional fermented Korean dish) were given away, all proceeds were donated from a bazaar where donated items from employees were sold and a concert was held for underprivileged children to perform.

- Arumin Library Project: The project aims to build small libraries at local children's centers with insufficient educational facilities and donate books. So far, 230 Arumin libraries have been established at local communities.

- **Volunteer Festival:** The annual volunteering festival, which has been held in April and May since 2008, is a large-scale CSR program where all SFG executives and employees participate. In 2011, various CSR activities were carried out, including cultural properties protection, plant (in planter box) give-away, seedling planting, harmful plant removal in Namsan and support for the Seoul Council on Social Welfare's Walking Competition.

• **Sympathy (Culture)**

- Traditional Culture Protection Initiative: Shinhan Bank signed a contract to support the restoration of Namdaemun, the historic gate in Seoul which was severely damaged by an arsonist, with the Cultural Heritage Administration. As part of this effort, the bank will provide a total of KRW 1.2 billion to build a kiln for traditional Korean roof tiles, and install new lighting for night-time viewing. In addition, the company encourages its customer service staff to take part in volunteer projects to maintain cultural properties.

- Shinhan Music Award: The 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 identifying talented aspiring classical musicians. Winners are awarded scholarship and training opportunities at renowned international music schools.

• **Symbiosis (Environment)**

- 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 donated to environmental groups since 2011.

- Recognized Environmentally-Friendly Management: In 2011, Shinhan Bank was awarded the Grand Prize (Prime Minister's Citation) at the 'Korea Environmentally-Friendly Management Awards' for the first time in the banking industry, for its efforts in green management by offering favorable interest rates and exempting various financial fees for eco-friendly energy businesses in new renewable energy, LED and secondary battery sectors.

- SFG also continues to make efforts to save energy by replacing conventional lighting fixtures and signs at its branches with LED lights that turn on and off automatically at sunrise and sunset.

Plan for 2012

- As part of our CSR initiatives as a financial institution, we will provide systematic and enhanced education in finance and economy by designating Financial & Economic Education as a theme of the group's CSR program.

- The Group will further promote local activities of the SFG Volunteer Team, founded in 2010 to increase contributions to local communities, and expand employee participation in volunteering activities.

- In order to build infrastructure for strengthening CSR initiatives at the Group level, SFG will establish a social contribution council and introduce an assessment system.

Our Transparent Ethical Management is a Pledge to You

The Shinhan Financial Group management philosophy makes ethical conduct the highest priority, and ethical management implementation programs have been established at each group company.

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, and is responsible for supervising the Group's ethical management as Group Compliance Officer. SFG will reinforce ethical management with the aim of becoming a leading financial group trusted by customers, shareholders and society as a whole.

Establishment and Implementation of a Code of Ethics

In June 2011 we implemented the SFG Code of Ethics to realize the Group ethical management vision in an integrated and consistent manner. In addition, we employ the SFG Staff Financial Code of Ethics to ensure transparent and precise accounting practices and reliable financial information. Each subsidiary also has put in place its own code of ethics to prevent 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(Community of practice) has been run 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 the programs every year.
The Group also requires all employees to sign a "pledge of ethical practice" at the subsidiary level each year. The pledge contains core parts of the code of ethics, and by signing it, employees confirm their commitment to ethical practices on their own. 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 to engaging in ethical practices through the Pledge of Shinhan Card Employees.

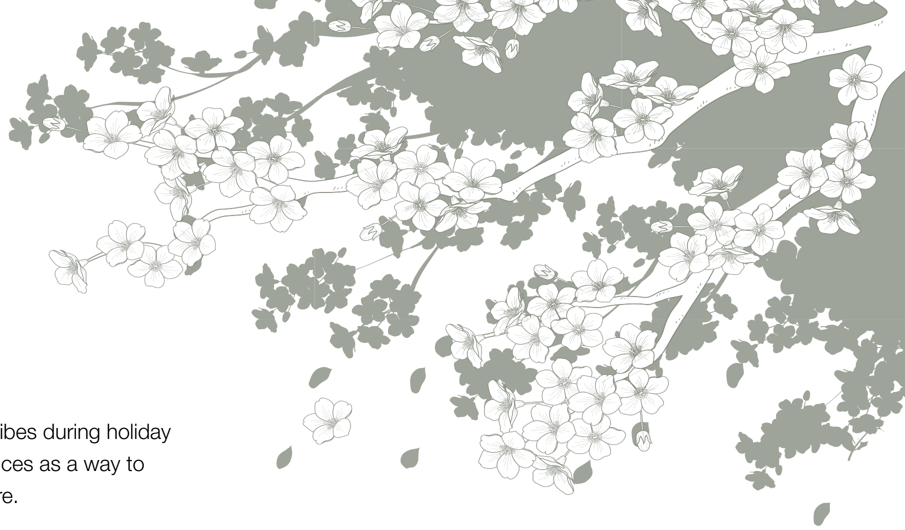
Moreover, SFG runs a financial transactions reporting system to prevent conflicts of interest with business partners and has introduced a voluntary compliance program for fair transactions to curb unfair competition. The program includes establishing a voluntary compliance system for fair transactions; publishing a manual; enacting the guidelines; and training and monitoring. As part of the scheme, Shinhan Bank conducted training sessions for transaction-responsible units once every six months in 2011 (A total of 107 trainees in 2011).

The Group has enacted the Guidelines for Internal Transactions and published a manual to prevent irregularities in capital, asset and human resource transactions between subsidiaries. In addition, 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.

Leading a Transparent Financial Culture

The Group is preparing for any possible financial incident in advance by implementing the Financial Irregularities Reporting System, through which customers can report a breach of laws and 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 such issues as a sound organizational culture, proper stock transactions, healthy



investment practices and prevention of bribes during holiday seasons. The Group also uses best practices as a way to cultivate an ethically sound Shinhan culture.

Ethical Management Training

The Group safeguards and strengthens the ethical standards and legal compliance of all its business activities through ongoing training programs. All employees are required to attend a management strategy meeting, rank-specific training or online training session at least once a year.

Shinhan Bank has made 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 a Compliance Letter covering recent financial incidents, new financial regulations and best practices. In addition, a mandatory Ethical Management and Legal Compliance course was opened online for all employees. The Bank also provides special training courses to newly hired employees and newly promoted employees.

At Shinhan Card, all employees must take part in an annual online training session called Guidelines for Shinhan Legal Compliance Practices. The program helps to raise awareness of legal compliance and prevent financial malfeasance.
In 2011, a total of 3,060 employees (including contract workers) completed the course and performed biannual self-compliance checks.

Shinhan Investment Corp. conducts an annual compliance awareness survey among employees to check their general level of understanding of ethical and legal compliance and put them on the right track. The company also provides training sessions on ethical compliance each year. In addition, the employee 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 regularly upgrades its education ethical and legal compliance training program by issuing the guidelines for ethical standards, a compliance monitoring manual, a casebook, and an ethics compliance protocol. Meanwhile, the insurer implements employee self-assessment via a monthly checklist at all departments.

External Assessment of Ethical Management

This concerted ethical management drive has earned SFG high acclaim from outside. Shinhan Bank was named an All Star for the sixth 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 eighth consecutive year, and won the Korea Social Contribution Grand Prize in CSR for the sixth straight year. Furthermore, Shinhan Bank became Korea's first bank to receive the Grand Prize (Prime Minister's Citation) at the 2011 Korea Environmentally-Friendly Management Awards, strengthening its reputation as an eco-friendly bank practicing green management.

Shinhan Card topped the 2011 Korea's Most Admired Companies list, for the fourth year in a row, and was first on the Korea Sustainability Index by the Korean Standards Association (KSA) in the Credit Card category. The company also won the Grand Prize of at the Korean Consumers' Most Trusted Companies awards.

In 2011, Shinhan Investment earned an award in the Stakeholder Satisfaction category for the sixth straight year at the 7th annual Korea Social Contribution Awards hosted by the Korean Press Forum.

Shinhan Life Insurance has been praised for its ethical management and various CSR activities, evidenced by its achievements in winning the Grand Prize in the Insurance category at the Korean Consumers' Most Trusted Companies awards and Korea Sustainable Management award in the Social Contributions category in 2011.

Shinhan Financial Group will remain dedicated to being a sustainable financial group by implementing quality ethical management and fulfilling social responsibilities as a corporate citizen.

Financial Section

The Shinhan Financial Group is facing growing uncertainty inside and outside Korea with the global economic slowdown and sovereign debt crisis in the Eurozone. Moreover, Korean economic growth is also sluggish. Despite the adversity, asset soundness has been raised; the revenue structure has been improved, and business systems have been overhauled. These efforts allowed total assets to grow a solid 7.3% in 2011 and bad debt losses to fall 31% from the year before, resulting in net profit of KRW 3.1 trillion for the Group as a whole. This was the fourth straight year in which we have been the domestic finance industry's top performer, solidifying our position as Korea's leading financial group.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2011 REVIEW

In the year just past, the global economy experienced considerable difficulties as uncertainties increased because of the slowdown in global business activity and the Eurozone sovereign debt crisis

The Korean financial market also suffered some setbacks from the global economic downturn. Exports weakened and, together with lackluster domestic consumption, the economy grew less than expected. At the same time, tensions between North and South Korea intensified and various financial regulations governing banking and credit card transactions were toughened. Thus, the financial industry continued the restructuring effort began in 2009, conservatively managed asset quality, and increased capital against potential future defaults through profitability improvement to bolster financial fundamentals.

The financial sector in Korea proceeded with additional restructuring of construction companies distressed by real estate project financings hit by the persistent slump in the real estate market. The "Project Financing Normalization Fund" was jointly established to acquire non-performing assets from project financings and thereby bolster the ability to manage financial soundness.

The government launched a drive to reduce the financial burden on households, and the financial sector complied by lowering various fees associated with banking and credit card transactions as part of its bid to honor social responsibilities. In addition, the competition landscape within the Korean financial market is changing fast with mergers, acquisitions and the privatization of banks. Meanwhile, advances in technology and business convergence will spur a complete overhaul of the traditional business models used by banks and other financial institutions.

Amid growing uncertainties and market volatilities, the Shinhan Financial Group was the first domestic financial institution to bring profitability and financial soundness back to pre-crisis levels. Ongoing control of asset quality and implementation of a consistent mid- to long-term growth strategy enabled us to increase our assets, while lowering credit costs. As a result SFG managed to post the best performance for four consecutive years among all domestic financial holding companies, laying a solid foundation for sustainable profit generation.

On a consolidated basis, the Group's net income was KRW 3.1 trillion in 2011, up by 15.5% from 2.68 trillion recorded in 2010. The increase was due in part to better performance in the banking segment as well as to continued profit contribution by non-banking businesses.

The Group's major subsidiary Shinhan Bank recovered its net interest margin to the pre-crisis level and launched a carefully-planned growth drive by resuming loan extensions to individuals and institutions with good credit ratings. As a result, interest income increased by 8.3% over the 2010 figure. The restructuring in troubled industrial sectors and ailing businesses that started in 2009 began to wind down in terms of scale, resulting in a 42.3% year-on-year decrease in loan loss reserve, which then contributed to a solid performance of the banking business, with net income of KRW 2.12 trillion, up 26.8% from 2010.

The non-banking subsidiaries' combined net income stood at KRW 1.28 trillion, down by 10.0% from the previous year. However, when one-off events are not considered, the credit card and insurance business are generating solid profits. Thanks to the turnaround of the banking business, the non-banking subsidiaries, which include the credit card, securities, life insurance and asset management companies, are now contributing a solid 38% to the Group's total net income, while the continued profit contribution of credit card and life insurance businesses helped improve the Group's ROA. To break down the total by subsidiary, Shinhan Card posted KRW 875.9 billion in net income and Shinhan Life Insurance, a record KRW 236.9 billion, up by 11% year on year and playing a major role in increasing non-banking profits. Shinhan Investment Corporation's net income was KRW 101.7 billion; Shinhan Capital, KRW 51.1 billion; and Shinhan BNP Paribas Asset Management, KRW 22.8 billion.

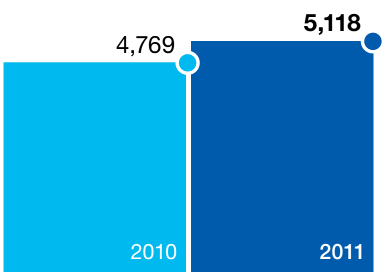
In 2011, Won-denominated loans to large corporations; small- and medium-sized enterprises, including SOHO businesses; and households, climbed by a comfortable 9%, with credit card assets rising 1.6% year on year. The increase in life insurance and financial investment business assets allowed the Group's total assets to rise by 4.2% from the previous year.

Shinhan Bank's deposits and loans increased by 11.4% and 9%, respectively, and the loan to deposit ratio (CDs excluded) stood at 98.9% at the end of 2011, maintaining less than 100% for two years in a row.

In the wake of the recent global financial crisis, the Shinhan Financial Group has implemented growth strategies centering on high-quality assets, mitigated credit risks more proactively and written off or sold a considerable amount of non-performing loans as part of a stringent risk management effort. As a result, the Group's NPL ratio was 1.25% at the end of 2011, which is relatively lower than that of our peers. The NPL ratios of Shinhan Bank and Shinhan Card estimated at the same period stood at a comfortable 1.09% and 1.72%, respectively. The NPL coverage ratio is higher than the industrial average at 166% in the Group, 166% in Shinhan Bank and 234% in Shinhan Card, providing a strong buffer against potential future defaults.

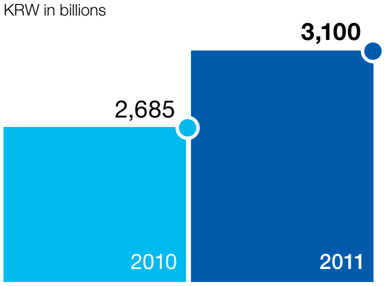
Pre-provision Income

KRW in billions



Net Income

KRW in billions



SUMMARY OF THE REPORTED INCOME STATEMENTS (Profitability and Market Position)

1. SHINHAN FINANCIAL GROUP

In 2011, the Shinhan Financial Group's net income was KRW 3.1 trillion on a consolidated basis, up by 15.5% (KRW 415.4 billion) from a year earlier. Most financial institutions were having difficulty in increasing profits in the aftermath of the global economic predicament triggered by financial crisis in major Eurozone countries and subsequent wave of restructuring. By contrast, the Group posted the highest net income among domestic financial groups for the fourth straight year, indicating a speedy business turnaround. This strong showing was possible thanks to proactive risk management along with NPL sales and write-offs in a group-wide effort to improve financial soundness. In addition, credit cost was brought down by an ongoing restructuring of companies in the construction, shipbuilding, shipping and real estate sectors that were troubled by excessive project financing. Combined with the recovery of the net interest margin and resumption in loan asset growth, the Bank's profits returned to the pre-crisis level. The performance is also due in part to non-banking subsidiaries, most notably the credit card and life insurance companies, which have continued to increase their contributions to Group profitability.

The Group was committed to solidifying the core competencies of each subsidiary by capitalizing on the nationwide distribution channels and strong customer base as well as a balanced business portfolio among the banking and non-banking subsidiaries. At the same time, the Group bolstered and revamped the wealth management (WM) and corporate & investment banking (CIB) businesses in the banking and securities investment segments, with more focus on customers to create a synergy effect. The banking business concentrated on recovering profitability, whereas the non-baking segment strove to broaden the profit base, centering on cash-generating areas like credit cards and life insurance. Overall, Shinhan Bank, Shinhan Life Insurance and Shinhan Capital recorded double-digit growth in net income, and Shinhan Card, when one-off gains are excluded, also exhibited fair profitability.

Breaking down operating income, interest income increased 9.4%, as the Group NIM rose by 8bps from the previous year, and the Bank's won-denominated loans grew by 9%. Non-interest income, on the other hand, fell by 0.6% year on year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

A large gain was realized from sales of investment securities, mostly Hyundai E&C shares, in 2011, but the Group also realized a major return from sales of Hynix shares and other investment securities in 2010. As a result, non-interest income declined slightly from a year earlier.

G&A expenses were up 7.5% mainly due to the salary increase and rising severance expenses incurred by the early retirement program (ERP) and the calculation of projected retirement benefit obligations.

The allowance for loan losses dropped by KRW 413.1 billion from the previous year, with credit cost ratio stabilizing at 47bp, in spite of additional loan loss provisioning to cover distressed PF loans and wider application of the individual allowance assessment method under the IFRS.

SFG Condensed Income Statements

KRW in billions

	2011	2010	Chg %
Total Operating Income	9,195.8	8,601.0	6.9%
Interest Income	7,080.0	6,472.6	9.4%
Non-interest Income	2,115.9	2,128.4	-0.6%
G&A Expenses	4,135.4	3,847.7	7.5%
Pre-provision Operating Income	5,060.5	4,753.3	6.5%
Gains on investment stock using equity method	57.8	15.3	277.2%
Pre-provision Income	5,118.3	4,768.6	7.3%
Provision for Credit Losses	925.7	1,338.8	-30.9%
Earnings before Income Tax	4,192.6	3,429.8	22.2%
Income Tax	919.9	570.4	61.3%
Consolidated Net Income	3,100.0	2,684.6	15.5%

Here is a breakdown of the Group performance by individual subsidiary: First, the banking subsidiary enjoyed a 26.9% increase in net income thanks to the recovery of NIM and reduced loan loss provisions. The non-banking segment, however, posted a 10.0% decrease in net income due in part to the elimination of one-off gains accrued in the previous year, even though non-banking subsidiaries like Shinhan Card and Shinhan Life Insurance continued to generate steady profits. Despite fiercer competition and stiffening regulations in the credit card sector, Shinhan Card recorded KRW 875.9 billion in net income by focusing on quality assets like credit purchases to maintain the appropriate profit margin, and by lowering funding costs. Gains from sales of BC Card shares contributed to the bottom line as well. Nonetheless, the one-off corporate tax rebate in 2010 did not recur in 2011, lowering net income by 11.6%. The net income of Shinhan Investment Corp. plunged by 32.5% year on year as the stock market declined in the aftermath of the fiscal crises in the Eurozone. Meanwhile, Shinhan Life Insurance maintained solid growth with an 11% year-on-year rise in profits thanks to a higher insurance margin, as the initial premium payment volume rose and the insurance retention rates remained stable.

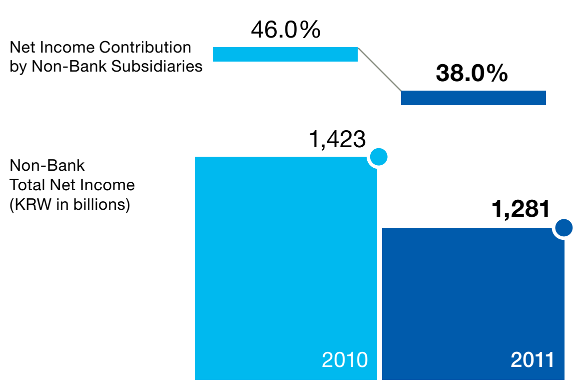
Subsidiary Income

KRW in billions

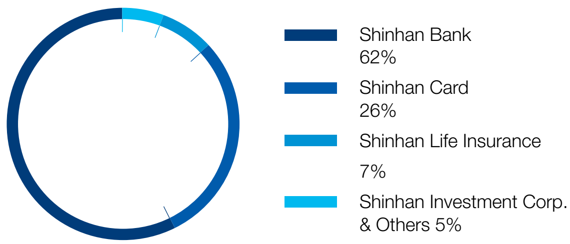
	2011	2010	Chg %
Bank (a)	2,133.9	1682.1	26.9%
Shinhan Bank	2,118.4	1670.0	26.8%
Jeju Bank	15.4	12.0	28.6%
Non-Bank (b)	1,281.1	1423.1	-10.0%
Shinhan Card	875.9	990.4	-11.6%
Shinhan Investment Corp.	101.7	150.7	-32.5%
Shinhan Life Insurance	236.9	213.4	11.0%
Shinhan Capital	51.1	40.1	27.4%
Shinhan BNPP AM	22.8	25.8	-11.8%
Shinhan Data System	1.1	0.6	72.6%
Shinhan Credit Information	-0.7	1.0	n.a.
Shinhan Private Equity	-7.6	1.3	n.a.
Other	-0.1	-0.3	n.a.
Total Income (a+b)	**3,414.9**	**3,105.1**	**10.0%**
Consolidated Net Income	**3,100.0**	**2,684.6**	**15.5%**

Note) after reflecting ownership by SFG

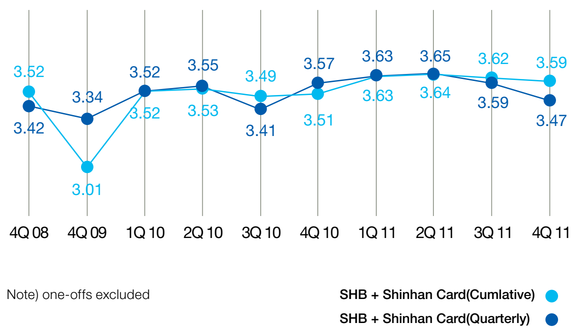
Net Income Contribution by Non-Bank Subsidiaries



Net Income Contribution by Subsidiaries



Group NIM %



Note) one-offs excluded

2. SHINHAN BANK

1) Overview

Shinhan Bank's 2011 net income stood at KRW 2.12 trillion, up by 26.8% (KRW 448.4 billion) from the previous year.

The Bank's interest income reached KRW 4.97 trillion, up 8.3% (KRW 381.1 billion) year on year thanks to a 4 bps increase in the annual net interest margin and 9% growth in KRW-denominated loans. Non-interest income fell by KRW 2 billion (-0.2%) to record KRW 1.16 trillion. Commissions from sales of bancassurance products and trust management as well as FX gain from valuation on equity method increased, and sizable gains were obtained from sales of investment securities such as Hyundai Engineering & Construction. However, these gains were less than those received in 2010 from sales of Hynix and Daewoo International shares, bringing down the total non-interest income by KRW 2 billion from a year earlier.

General and administrative expenses climbed by KRW 294.3 billion (11.7%) year on year because of an increase in salaries paid, severance payment for the ERP, and additional provision due to changes in actuarial assumptions in the severance and retirement benefits.

An additional allowance for loan losses was reserved against potential default by real-estate project finance loans and in accordance with a wider application of the individual assessment method for categorizing provision of loan loss reserves under the IFRS. However, the list of restructuring candidates shortened, meaning fewer companies for which allowance for loan losses must be reserved, and therefore the annualized allowance for possible loan losses tumbled by 42.3% year on year to stand at KRW 685.0 billion. Moreover, KRW 1.48 trillion worth of loans were either sold or written off, pulling down the annualized delinquency ratio to a manageable 0.39% for household loans and 1.04% for loans extended to small- and medium-sized enterprises. The NPL ratio stands at a fair 1.09% as well.

SHB Condensed Income Statements

KRW in billions

	2011	2010	Chg %
Total Operating Income	6,130.8	5,751.7	6.6%
Interest Income	4,971.1	4,590.0	8.3%
Non-interest Income	1,159.7	1,161.7	-0.2%
G&A Expenses	2,819.9	2,525.6	11.7%
Pre-provison Operating Income	3,310.9	3,226.1	2.6%
Gains on investment stock using equity method	29.0	12.5	131.8%
Pre-provision Income	3,339.9	3,238.6	3.1%
Provision for Credit Losses	685.0	1,188.2	-42.3%
Earnings before Income Tax	2,654.9	2,050.4	29.5%
Net Income	2,118.4	1,670.0	26.8%

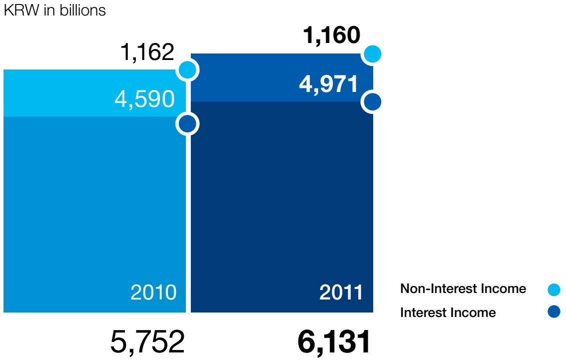
2) Interest Income and NIM

Shinhan Bank's interest income swelled by KRW 381.1 billion (8.3%) from the previous year to reach KRW 4.97 trillion as the loan asset balance and the net interest margin (NIM) expanded. The rise is due in part to a higher base rate than in 2010, which elevated loan profits, along with lower issuance of financial bonds and CDs and expanded deposits (mainly term and other low-cost deposits) to secure an appropriate level of net interest margin and ultimately to improve the financing structure. At the same time, KRW-denominated loan assets rose by an annualized rate of 9.0%.

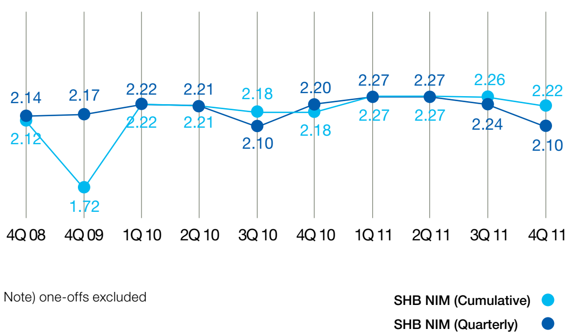
As of 2011, Shinhan Bank's accumulated NIM stood at 2.22%, up by 4bps from the 2.18% posted in 2010. The main reason for the NIM improvement can be attributed to both the funding and operation sides. As for the former, Shinhan Bank was able to curb the rise in funding cost by attracting low-cost deposits and retaining low interest-bearing time deposits. From the latter perspective, profits generated from operating loan products rose as a result of base rate hikes, and the interest asset balance grew as well, resulting in a small increase in total NIM from the previous year.

Interest Income, Non-Interest Income, and Total Operating Income

KRW in billions



Shinhan Bank NIM %



Note) one-offs excluded

3) Non-Interest Income

Shinhan Bank's non-interest income narrowed by KRW 2.0 billion (-0.2%) to reach KRW 1.16 trillion. Commissions from bancassurance sales, trust fees, valuation gain on foreign-currency-denominated securities under the equity method rose by 1.1%, 7.4% and 12.2%, respectively, and gains were obtained from selling Hyundai Engineering & Construction shares. However, gain on sales of available-for-sale securities, including Hynix and Daewoo International shares, which amounted to KRW 633.1 billion in 2010, was greater than the total in 2011, resulting in KRW 2 billion lower net interest income the following year.

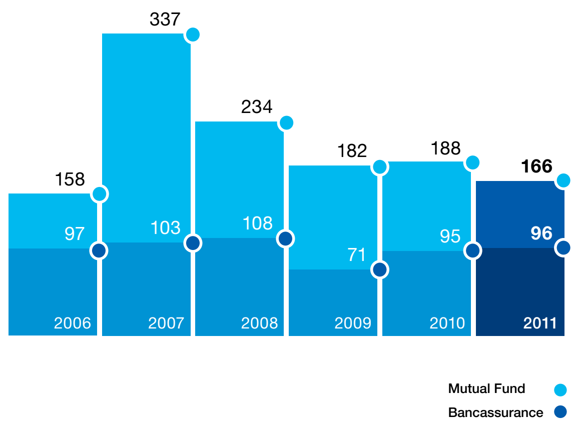
Non-Interest Income

KRW in billions

	2011	2010	Chg %
Non-Interest Income	1,159.7	1,161.7	-0.2%
Fees & Commission	885.6	881.1	0.5%
Fund	166.1	188.3	-11.8%
Bancassurance	95.7	94.7	1.1%
Trust Fees	62.2	58.0	7.4%
Securities related	614.9	633.1	-2.9%
FX Trading/Derivatives	219.4	195.4	12.2%
Others	-560.2	-547.9	n.a.

Fees and Commission from Fund / Bancassurance Sale

KRW in billions



4) General and Administrative Expenses

Overall G&A expenses were up by 11.7% (KRW 294.3 billion) from the previous year due to a payroll hike, costs incurred in an early retirement program (KRW 69.5 billion) and additional expense recognized by the change of actuarial assumptions for severance (KRW 111.1 billion) under the IFRS.

Shinhan Bank's cost-to-income ratio stood at 46.0%, up 2.1%p from the 43.9% recorded in 2010. Excluding one-off expenses, the figure is lowered to about 44%, a level similar to that posted in the previous year. Stabilization in cost-to-income ratios was made possible by ongoing efforts to control unnecessary expenses coupled with higher operating income.

G&A Expenses

KRW in billions

	2011	2010	Chg %
G&A Expenses	2,819.9	2,525.6	11.7%
Salary & Employee Benefits	1,270.0	1,001.4	26.8%
D & A	153.2	196.0	-21.8%
Other Expenses	1,396.6	1,328.2	5.2%

3. SHINHAN CARD

1) Overview

The year 2011 saw stiffening regulations in the Korean credit card industry as the local authorities sought to limit excessive competition in the market. However, such a drive failed to keep a tight rein on the aggressive marketing campaigns by the second tier credit card companies. Amid an unfavorable business environment, Shinhan Card managed to stay ahead of the competition and focused on quality growth, thereby maintaining a sound level of profitability and asset quality.

Shinhan Card, on the strength of economies of scale generated from 15.42 million active cardholders (21.93 million when debit card holders are included) and 2.67 million merchants in its network, posted a net income of KRW 875.9 billion in 2011.

As a bank-affiliated credit card company, Shinhan Card enjoys multiple advantages, including cross-selling of financial products using the Group's customer data and access to the broad franchise network such as the branches of Shinhan Bank. Facilitated by the Group's preemptive risk management system and steady financial support, Shinhan Card is cementing its top position in the domestic market (23.9% market share in terms of retail credit purchases as of 2011).

In 2011, Shinhan Card succeeded in reaching the plateau of 10 million effective cardholders earlier than planned by implementing differentiated business strategies catering to specific customer groups for the first time in the credit card industry. The global credit business was successfully launched in Shinhan Vietnam Bank, and Shinhan Card became the first domestic financial institution to exceed the 1 million mark in mobile application downloads.

Looking ahead, the credit card market growth is expected to slow down with further tightening of government regulations on credit card companies' business expansion and profit generation. Under the circumstances, many companies will launch aggressive marking campaigns, making it all the more difficult to secure growth and profitability in the industry overall. Therefore, Shinhan Card will refrain from aggressive competition over market share, focusing instead on steady profitability from achieving cost-effectiveness and reducing low-profit products, as well as improving the asset portfolio to maintain a proper level of financial soundness in order to mitigate external shocks.

2) Income Statement Analysis

Increased transaction volume and aggressive marketing served to boost operating revenue 6.1% year on year in 2011. Shinhan Card's total transaction volume totaled KRW 136 trillion, up 8.7% from the previous figure of KRW 125 trillion.

Interest expense paid in 2011 was 1.7% (KRW 13.0 billion) lower than a year earlier. The drop occurred despite a higher average asset balance because the interest expense ratio (interest paid divided by average operating assets) fell 0.3%p

Condensed Income Statements of Shinhan Card

KRW in billions

	2011	2010	Chg %
Operating Revenue	4,526.1	4,264.0	6.1%
Card Business	3,836.0	3,635.3	5.5%
Installment Finance	108.5	109.0	-0.5%
Lease	53.4	54.5	-2.1%
Others	528.3	465.1	13.6%
(Derivatives & FX)	94.9	122.7	-22.6%
Interest Expense	735.5	748.5	-1.7%
G&A Expenses	656.8	664.7	-1.2%
Commissions & Other Expenses	1,869.2	1,746.4	7.0%
(Derivatives & FX)	81.3	110.7	-26.6%
Pre-Provision Income	1,264.7	1,104.4	14.5%
Provision for Credit Losses	164.5	71.3	130.8%
Earnings before Income Tax	1,100.2	1,033.1	6.5%
Income Tax	224.2	42.7	425.0%
Net Income	875.9	990.4	-11.6%

from 4.0% in 2010 to 3.7% in 2011. The average balance of operational assets in 2011 stood at KRW 20.1 trillion, which was KRW 1.6 trillion higher than KRW 18.5 trillion posted a year earlier.

Sales, general and administrative expenses fell by 1.2% year on year because of lower advertising expenses and the elimination of early retirement program expenses incurred in the previous year.

A 7.0% increase in fee expenses and other operating expenses was mainly due to the higher transaction volume. Marketing expenses, cardholder recruitment commission expenses, and credit card transaction processing expenses rose across the board.

Shinhan Card's gain on recovery from written-off assets totaled KRW 318.9 billion, down KRW 48.2 billion from the KRW 367.1 billion recorded in 2010. Encouragingly, the recovery trend remains robust, even though the assets are aging. This is attributable to further improvements in the advanced recovery system and methods at Shinhan Card. The balance of Shinhan Card's written-off assets was KRW 6.4 trillion at the end of 2011. Although the recovery of written-off assets will lessen because the assets are aging, the recovered amount is expected to remain as the company's key source of income for the time being.

The lower recovery from written-off assets and rebound in delinquency ratio drove up the provision for loan losses by KRW 93.2 billion to stand at KRW 164.5 billion.

Pretax income was higher in 2011 than in the previous year. However, the same kind of one-time income tax refund of KRW 195.5 billion received at the end of previous year did not materialize in 2011, lowering the net income by 11.6% to KRW 875.9 billion. Excluding one-off gains, Shinhan Card is by and large posting a solid performance.

4. SHINHAN INVESTMENT CORP.

1) Overview

As the global financial environment deteriorated with the massive earthquake in Japan, US sovereign rating downgrade and fiscal crisis in the Eurozone, 2011 saw flight-to-quality deepening further with higher volatility in the securities market. Domestically, Korea's benchmark index KOSPI plunged to just above 1,600, and the bearish market lasted until year's end. Financial institutions are engaged in ever-intensifying competition for asset gathering, and aggressive movements have been detected among major institutions to become a large-scale investment bank with some other major changes amid the worsening business climate. Operating income for Shinhan Investment stood at KRW 122.9 billion in 2011, a 33.2% decrease from the previous year, while net income also went down by 32.5% year on year to reach KRW 101.7 billion.

Breaking down the operating revenue by category, commissions received were down by 0.4% as the company's offline market share dropped from 0.57% in 2010 to 0.52% a year later. As the portion of online transactions rose, the average fee amount was reduced, holding back profit growth despite a rise in transaction volume. As for financial products, individual investors continued to redeem their mutual fund investments throughout the year, causing commissions received on beneficiary certificate sales to drop 9.5% year on year to KRW 12.4 billion in 2011. By contrast, hybrid product sales commissions, wrap account fees and trust management commissions were much higher in 2011 than a year earlier. Meanwhile, IB-related commissions, including underwriting commissions and consulting fees, slid 24.3% from the KRW 40.4 billion posted in the previous year as the domestic IPO and real estate markets contracted.

Net trading gains include the net gains on sales and valuation of trading securities and derivatives. There was some gain on bond trades, but a considerable loss was incurred in equity trades, pulling down the total net trading gains from KRW 98.5 billion in 2010 to minus KRW 9.3 billion, a 109.4% decrease.

The major reason for increase in other operating income is due to the incremented interest income. Interest income was up 49.7% year on year to reach KRW 138.5 billion in 2011. The improved performance is attributable to increased interest income from loans to customers. Additionally, there was growth in interest income on margin deposits made at the Korea Securities Finance Corporation as well as interest income from ELS-related deposits.

Turning to operating expenses, SG&A expenses dropped 1.7% from KRW 357.6 billion in 2010 to KRW 351.4 billion in 2011 as a result of lower advertizing expenses and incentives payout. The provision for loan losses, which ballooned in the wake of the global financial crisis, went down due in part to reversal of provisions after liquidating Daewoo Engineering & Construction shares in 2010. In 2011 on the other hand, KRW 8.3 billion was reserved against distressed PF loans.

Condensed Income Statements of Shinhan Investment Corp.

KRW in billions

	CY2011	CY2010	Chg %
Operating Revenue	535.1	576.5	-7.2%
Fees & Commission	377.6	379.1	-0.4%
Proprietary Trading	-9.3	98.5	-109.4%
Other operating income	175.1	87.5	100.1%
Operating Expense	412.2	392.5	5.0%
G&A Expense	351.4	357.6	-1.7%
Commission Expense	52.5	46.3	13.4%
Provision for Credit Losses	8.3	-11.4	-172.8%
Operating Income	122.9	184.0	-33.2%
Net Income	101.7	150.7	-32.5%

Fees & Commission

KRW in billions

	CY2011	CY2010	Chg %
Fees & Commission	377.6	379.1	-0.4%
Brokerage Commissions	318.3	308.3	3.2%
Commission on BC/MF Sales	12.4	13.7	-9.5%
Wrap Account fees	5.1	2.9	75.9%
Commission on trust mgt. and RP sales	9.2	8.9	3.4%
IB related Commission [1]	30.6	40.4	-24.3%
Other commissions	2.0	4.8	-58.3%

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

G&A expenses

KRW in billions

	CY2011	CY2010	Chg %
G&A Expense	351.4	357.6	-1.7%
Salary & Employee Benefits	226.8	221.9	2.2%
D & A	12.8	12.9	-0.8%
Other expenses	111.8	122.8	-9.0%

2) Trading Volume & Market Share

The volume of stocks traded through Shinhan Investment Corp. reached KRW 239 trillion in 2011, down 0.9% from the previous year. These stocks represented 4.4% of the market, a 0.9%p decrease from a year earlier. Meanwhile, the company traded KRW 1.8 trillion worth of futures, an increase of 42.1% year on year, and subsequently the share of the futures market gained 1.0%p to 8.4%. Finally, the options trading volume amounted to KRW 52 trillion, up 8.3% from the year before, but the company's share of the options market actually declined 0.5%p to stand at 6.0%.

Market Share

	CY2011	CY 2010	Chg %p
Stocks	4.4%	5.4%	-1.0%p
Futures	8.4%	7.4%	1.0%p
Options	6.0%	6.5%	-0.5%p

Trading Volume

KRW in trillions

	CY2011	CY 2010	Chg %
Stocks	239	241	-0.9%
Futures	1,803	1,269	42.1%
Options	52	48	8.3%

5. Shinhan Life Insurance

The lingering instability of the financial market also curbed the growth of the individual insurance market with deepening competition in the insurance sector. Amid a tough business environment, Shinhan Life Insurance maintained premiums written at KRW 3.6 trillion, the fourth highest among 23 life insurance companies in Korea. Net income was estimated at KRW 236.9 billion, elevating the company by a notch to No.4 in the industry. Moreover, the company's market share continues to expand (7.1% in terms of initial monthly insurance premium) on the back of strong business growth.

Shinhan Life Insurance posted KRW 236.9 billion in net income for 2011, up 11.0% (KRW 23.5 billion) from the previous year. Premiums income rose by 14.3% thanks to an increase in new insurance policy sales. Additionally, interest income grew from an increase in assets, and gains were realized from bond trading as interest rates remained low. These resulted in a rise in investment income by 15.1% to improve total operating income by 22.3%. However, the provision of policy reserves increased by only 24.6%, allowing pretax income to rise 9.9%.

Out of net income, the insurance margin increased 25.4% year on year to reach KRW 1,549.8 billion on the back of higher premiums written. This rise was attributable to the increase in premiums resulting from an expanded sales network (8,178 sales representatives, up 4.4% year on year) and increase in initial monthly premiums (up 22.1% year on year at KRW 98.5 billion), which was greater than the rise in insurance payments and operating costs.

Investment income was 15.1% (KRW 78.7 billion) higher in 2011 than in the previous year. The growth is attributable to two major factors. First, interest income rose (up KRW 53.1 billion year on year) with the management of a stable asset portfolio weighted towards mid- to long-term bonds. Second, gains on sales of securities improved (up KRW 32.6 billion) with the realization of gains from bond trading in the fluctuating financial market.

Condensed Income Statements of Shinhan Life Insurance

KRW in billions

	CY2011	CY2010	Chg %
Insurance Margin	1,549.8	1,236.1	25.4%
Premiums income	3,555.1	3,110.6	14.3%
Insurance Claims Paid(-)	1,329.1	1,255.9	5.8%
Net reinsurance income	0.8	0.0	n.a.
Operating Expenses(-)	677.0	618.6	9.4%
Net investment Income	599.5	520.8	15.1%
Others	42.7	35.3	21.0%
Total Operating income	2,192.0	1,792.2	22.3%
Provision of Policy Reserve(-)	1,882.4	1,510.5	24.6%
Pretax Income	309.6	281.7	9.9%
Net Income	236.9	213.4	11.0%

BALANCE SHEET REVIEW & ASSET QUALITY

1. SHINHAN FINANCIAL GROUP

1) Total Assets

Total assets for the Shinhan Financial Group on a consolidated basis stood at KRW 288 trillion at the end of 2011, which was KRW 19.6 trillion (7.3%) higher than the figure recorded in 2010. By subsidiary, Shinhan Bank added KRW 11.4 trillion in its total assets; Shinhan Card, KRW 0.2 trillion; Shinhan Investment Corp., KRW 1.7 trillion; and Shinhan Life Insurance, KRW 2.0 trillion.

The Group's total deposits were 9.1% (KRW 13.6 trillion) higher than the figure posted a year earlier. Reliance on wholesale funding continued to be reduced while the percentage of retail funding from deposits was further increased in order to ensure stable liquidity for the Group. Shinhan Bank's low-cost deposits and time savings rose by 4.0% and 15.3%, respectively.

SFG Condensed Balance Sheets

KRW in billions

	2011	2010	Chg %
Cash and dues from banks	14,731	11,822	24.61%
Securities	57,955	51,393	12.77%
Loans	195,055	184,249	5.86%
(Loan loss allowances, etc)	(2,482)	(2,902)	-14.47%
Properties, premises and equipments	2,994	2,976	0.60%
Other assets	17,383	17,383	0.00%
Total assets	**288,118**	268,557	7.28%
Deposits	163,016	149,417	9.10%
Borrowings	20,033	18,085	10.77%
Debentures	39,737	40,286	-1.36%
Other liabilities	38,473	38,473	0.00%
Total liabilities	**261,259**	241,362	8.24%
Paid-in capital	2,645	2,590	2.12%
Other equity instruments	239	0	-
Capital surplus	9,887	8,835	11.91%
Capital Adjustment	(393)	(391)	0.51%
Accumulated other comprehensive income	1,189	1,629	-27.01%
Retained earnings	10,830	12,071	-10.28%
Non-controlling interest	2,462	2,461	0.04%
Total shareholders' equity	**26,859**	27,195	-1.24%
Total liabilities and shareholders' equity	**288,118**	268,557	7.28%

Asset Breakdown by Subsidiaries

KRW in billions

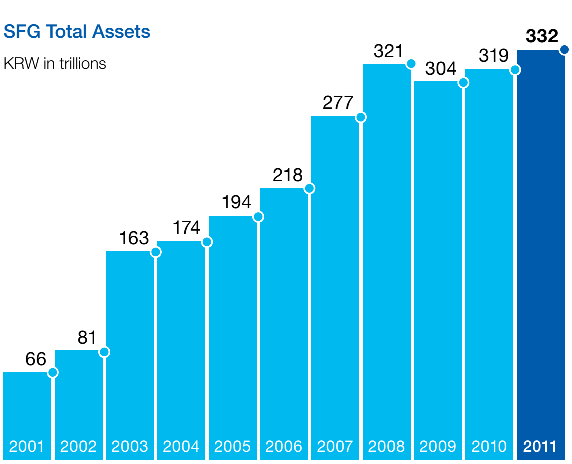
	2011	2010	Chg %
Banks	256,640	245,107	4.7%
Shinhan Bank	253,472	242,089	4.7%
Jeju Bank	3,168	3,018	5.0%
Non-Banks	72,295	70,285	2.9%
Shinhan Card	22,357	22,124	1.1%
Shinhan Investment Corp.	12,166	10,498	15.9%
Shinhan Life Insurance	13,977	11,974	16.7%
Shinhan Capital	3,518	3,735	-5.8%
Shinhan BNPP AM	19,766	21,456	-7.9%
Shinhan Data System	16	11	36.8%
Shinhan Credit Information	19	20	-3.7%
Shinhan PE	343	447	-23.2%
Other	134	19	615.7%
Total Assets [1]	332,276	318,778	4.2%

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

The Group's total assets, calculated by adding up bank trust accounts and the AUM of Shinhan BNPP Asset Management, came to KRW 332 trillion at the end of 2011, which was KRW 13.5 trillion (4.2%) higher than the figure at the end of 2010. The rise is due in part to the growth in assets held by Shinhan Bank, Shinhan Investment Corp. and Shinhan Life Insurance, despite the curtailment of Shinhan BNPP Asset Management's AUM resulting from a high redemption of mutual funds.

SFG Total Assets

KRW in trillions



2) Total Deposits

Group deposits totaled KRW 163 trillion at the end of 2011, an increase of KRW 13.6 trillion (9.1%) year on year, fueled by a KRW 16 trillion growth in deposits at Shinhan Bank. As in 2010, customers continued their flight to quality from other financial markets to time deposits at banks in search of safer assets in 2011. At the same time, the Bank has worked to expand the percentage of deposits in its portfolio to stabilize the loan-to-deposit ratio. These developments combined drove time deposits (foreign currency-denominated time deposits included) up KRW 15.3 trillion (12.9%) from 2010.

Total Deposits

KRW in billions

	2011	2010	Chg %
Total Deposits	163,016	149,417	9.10%
Shinhan Bank	162,583	146,573	10.92%
Demand Deposits	18,621	17,881	4.14%
Time Deposits	134,560	119,228	12.86%
CDs	2,888	3241	-10.89%
Deposits for Bills Issued	4,824	4,494	7.34%
CMA Deposits	1,618	1629	-0.68%
Trust Account	1	1	0.00%
Others	71	99	-28.28%
Shinhan Investment Corp.	970	926	4.75%
Jeju Bank	2,442	2,384	2.43%
Others	0	0	-
Intra Transaction (-)	2,979	466	539.27%

3) Total Loans

The Group's total loans were KRW 10.8 trillion (5.9%) higher at the end of 2011 than they were the year before, reaching KRW 195.1 trillion. Most of this increase was at Shinhan Bank, with growth of KRW 9.5 trillion, where home mortgage loans and loans to SOHO businesses and large corporations saw the greatest increases. In Shinhan Card, high risk assets of cash advances were reduced in order to improve asset soundness, and instead, a moderate asset growth was primarily in credit card purchases and card loans. Shinhan Life Insurance realized a 12.7% increase in assets through increase in loan assets.

Total Loans

KRW in billions

	2011	2010	Chg %
Total Loans	195,055	184,249	5.86%
SHB	165,151	155,617	6.13%
Bank accounts	165,151	155,617	6.13%
Shinhan Card	20,230	19,671	2.84%
Shinhan Investment	905	999	-9.41%
Shinhan Life	2,983	2,646	12.74%
Shinhan Capital	3,021	3,153	-4.19%
Jeju Bank	2,334	2,234	4.48%
Others	1,741	1,463	19.00%
Intra-transactions (-)	1,310	1,534	-14.60%

4) Asset Quality

As of the end of 2011, the Group's non-performing loan (NPL) ratio went down 21bps from the previous year to 1.25%. The decrease was due to lower NPL ratios at Shinhan Bank, Shinhan Card and Shinhan Investment Corp.

Except for temporary fluctuations, Group subsidiaries' asset quality ratios improved by and large at the end of 2011 compared to the figures posted a year earlier. Importantly, the NPL ratio of 1.09% at Shinhan Bank was relatively lower among Korean banks. Shinhan Financial Group has tightened its management of asset quality taking into consideration possible deterioration of macroeconomic indicators going forward.

The Group's NPL coverage ratio was 166% at the end of 2011, up 24%p from the year before, which means the reserves for bad debt, especially against a list of companies in the construction, shipbuilding, shipping and real estate sectors set to undergo restructuring, remain high. The ratio is the highest level in the domestic financial industry, indicating a strong buffer against potential default.

Although concerns remain high over the slumping real estate market, the asset quality of household loans remained stable in 2011. Meanwhile, the quality of loans in the credit card business was kept at a stable level. There is a lingering anxiety over the possibility of more deterioration in loans extended to small- and medium-sized enterprises, but the overall quality of Group's loans was maintained within a very comfortable range.

SFG Asset Quality

KRW in billions

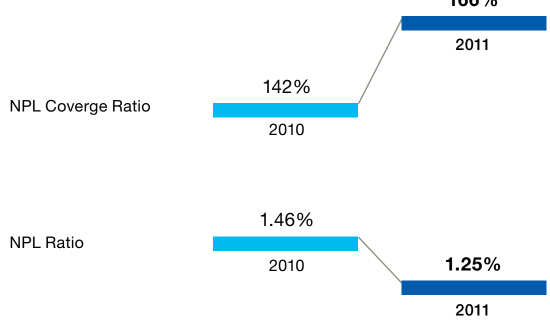
	2011	2010	Chg % (%p)
Total Loans [1]	195,495	183,750	6.4%
Normal	190,693	178,426	6.9%
Precautionary	2,356	2,651	-11.1%
Substandard	1,305	1,513	-13.8%
Doubtful	470	654	-28.2%
Estimated Loss	671	507	32.4%
Substandard & below	2,445.4	2,673.8	-8.5%
NPL Ratio	1.25%	1.46%	-0.21%p
Loan Loss Reserve [2]	4,058	3,793	7.0%
NPL Coverage Ratio	166%	142%	24%p
Reserve for credit losses [3]	1,610	1,055	53%

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

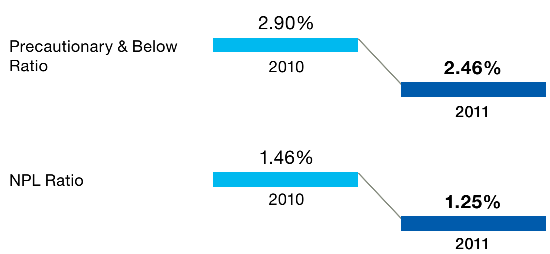
Note 2) Sum of IFRS standard LLA and reserves for credit losses, excluding those for contingent acceptances & guarantees and unused credit lines

Note 3) Excluding reserve for contingent acceptances & guarantees and unused credit lines

Group NPL Ratio & Coverage Ratio



Precautionary & Below Ratio/ NPL Ratio



2. SHINHAN BANK

1) Loans in Korean Won

Shinhan Bank's total loans in Korean Won increased 9% year on year in 2011, with most of the growth in mortgage loans to households and loans to SOHO businesses and large corporations. In the corporate sector, large companies in manufacturing and construction sectors exhibited strong demand both for new facility investment and working capital. Demand for SME loans, in particular credits for SOHO businesses, also rose throughout the year, mainly in funds for facility investment, while the increase was limited to 2% growth due to write-offs and sales. Household loans, including mortgages, climbed 7.2% from the previous year. Mortgage loans posted a stable 7.1% year-on-year growth driven by actual demand for housing despite regulations on the loan-to-value (LTV) ratio and debt-to-income (DTI) ratio regulations. The average loan-to-value ratio stood at a favorable 48.0% at year's end.

Loans in KRW

KRW in billions

	2011	2010	Chg %
Loans in KRW	139,082	127,632	9.0%
Retail	65,228	60,859	7.2%
Mortgage	45,571	42,535	7.1%
Others	19,657	18,323	7.3%
Corporate	73,855	66,774	10.6%
SME	52,268	51,266	2.0%
(SOHO)	22,774	19,984	14.0%
Large Corporation etc.	21,586	15,508	39.2%

2) Asset Quality

Shinhan Bank's NPL ratio was 1.09% at the end of 2011, maintaining the best asset quality among Korean banks. The NPL coverage ratio stood at 166%, a level regarded as very high according to international standards.

In addition, the total delinquency ratio at the end of 2011 was estimated at 0.60%, carrying over a stable level from the previous year. Household and SME loans posted delinquency ratios of 0.39% and 1.04%, respectively. The delinquency ratio in the SOHO segment, known to be the most vulnerable to economic fluctuations among SME loans, came to 0.43%, which is lower than that of the average delinquency ratio of SMEs. Overall, delinquency ratios are managed within a favorable range because NPLs among corporate loans were either written-off or sold in 2011, and credit risk management was strengthened resulting in stable levels of delinquency ratio not just for household debt but also for corporate loans.

The delinquency ratio of SME loans was relatively high because of some defaults in real estate project financing, especially for those projects located in Korea's provincial areas. As a result, the delinquency ratio in the real estate and leasing industries rose from 1.36% in 2010 to 1.86% in 2011, exhibiting a relatively higher jump than in other industries.

As for the manufacturing sector, the delinquency ratio posted a small increase from 0.63% to 0.70% year on year, and the figure for all SME loans combined also rose from 0.86% to 1.04%. For those sectors and companies that lack competitiveness or are highly sensitive to economic cycles, Shinhan Bank has reinforced monitoring for possible delinquencies. Although the overall delinquency ratio of SME loans remains relatively high, it is within a manageable level. Moreover, given the average collateralization ratio for SME loans of 62%, the expected loss will not be substantially high.

SHB Asset Quality

KRW in billions

	2011	2010	Chg % (%p)
Total Loans	166,433	155,005	7.4%
Normal	162,625	150,803	7.8%
Precautionary	1,992	2,169	-8.1%
Substandard	1,157	1,406	-17.7%
Doubtful	266	407	-34.7%
Estimated Loss	393	222	77.2%
Substandard & below	1,815.0	2,034.2	-10.8%
NPL Ratio	1.09%	1.31%	-0.22%p
Loan Loss Reserve [1]	3,015	2,768	8.9%
NPL Coverage Ratio	166%	136%	30%p
Reserve for Credit Losses [2]	1,473	989	48.9%

Note 1) Sum of IFRS standard LLA and reserves for credit losses, excluding those for contingent acceptances & guarantees and unused credit lines

Note 2) Excluding reserve for contingent acceptances & guarantees and unused credit lines

3. SHINHAN CARD

1) Cardholders

Thanks to Shinhan Card's active retention programs and new credit card issuance to high quality customers, the number of individual active credit cardholders was estimated to be 15.42 million at the end of 2011 (21.93 million when debit cardholders are included), commanding the largest customer base in the domestic credit card industry. The figure translates into more than 80% of prospective customers, excluding non-employed, day laborers and credit defaulters.

As a credit card subsidiary under the umbrella of a financial group, Shinhan Card pursued cross-sales using Group customer data, and tailored business strategies to specific customer groups in 2011. This has enabled the company to quickly respond to fast-changing customer needs with the swift launch of new products and services. Combined with marketing efforts focusing on customer value, in 2011, the number of effective cardholders surpassed the 10 million mark for the first time in the industry.

2) Earning Assets

In 2011, transaction volume posted a slight growth at Shinhan Card because of the slowdown in domestic economic growth and contraction in consumer spending. Except for the declining cash advance market, the whole spectrum of earning assets grew only slightly in 2011. In particular, credit purchases increased 1.6% year on year and card loans grew 2.5%, driven by engaging in an aggressive sales effort and maintaining a manageable risk portfolio.

Earning Asset Breakdown by Products

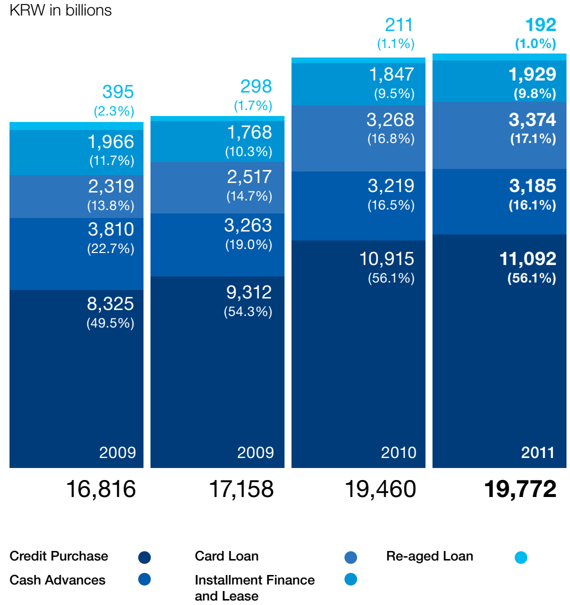
KRW in billions

	2011	2010	Chg %
Earning Assets (Managed)	19,772	19,460	1.6%
Credit Purchase	11,092	10,915	1.6%
Cash Advances	3,185	3,219	-1.1%
Card Loan	3,566	3,479	2.5%
(Re-aged Loan)	192	211	-9.2%
Installment Finance	1,226	1,159	5.8%
Lease etc.	703	688	2.1%

Starting from 2010, Shinhan Card's earning asset portfolio remained heavily weighted (56.1%) in favor of relatively low-risk credit purchase receivables, while the percentage of cash advance services, a high-risk asset category, continued to decline. Card loans in the portfolio remained at around 18%, a level similar to the previous year, and the balance of re-aged loans, another high-risk category, dropped 9.2% (KRW 19.4 billion), indicating a continued improvement in the quality of card loan assets.

Earning Asset Breakdown by Products

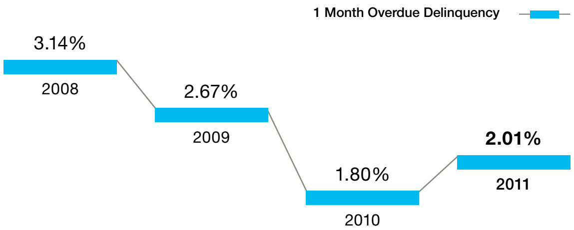
KRW in billions



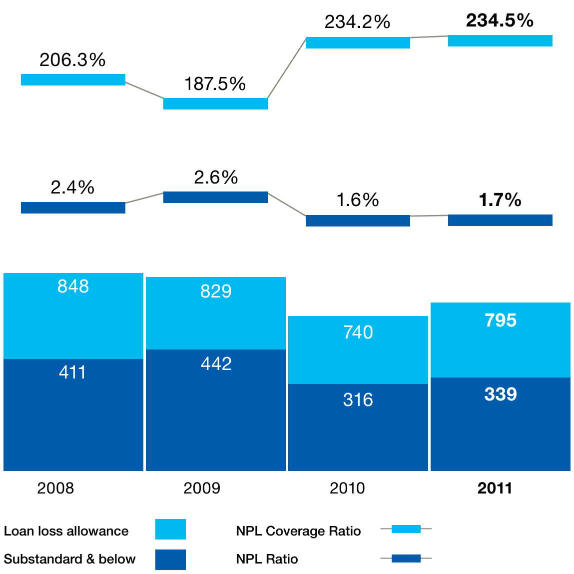
3) Asset Quality

As of the end of 2011, Shinhan Card's one-month overdue delinquency ratio stood at 2.01%, a 0.21%p rise from the record low of 1.80% posted at the end of 2010. The increase was natural and proportional to the increase in loan assets, and the delinquency ratio remained within a manageable range. The ratio of precautionary & below loans and substandard & below loans rose to 2.87% and 1.72%, up by 0.15%p and 0.10%p, respectively. The NPL coverage ratio also remained high and unchanged from the previous year's 234%, and the enhanced figures are attributable to asset quality improvement and conservative provisioning. The write-off of NPLs for 2011 amounted to KRW 466.2 billion, a small drop from the previous year's KRW 478.8 billion.

Delinquency Ratio

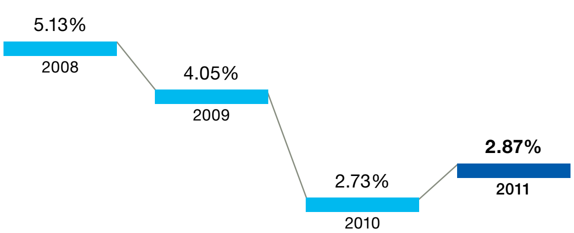


NPL Ratio & NPL Coverage Ratio



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

Precautionary Ratio



4. SHINHAN INVESTMENT CORP.

Shinhan Investment's total assets jumped 24.0% from the previous year to stand at KRW 12.16 trillion as of the end of 2011. Securities, including short-term trading securities, posted KRW 6.68 trillion, accounting for a 54.9% of the total assets. Cash and deposits amounted to KRW 3.20 trillion (26.3%) of the total.

Cash and deposits were 44.0% higher at the end of 2011 than the year before. Most of the growth came from the reserve for claims of customers' deposits as well as long-term deposits stemming from the increasing issuance of equity-linked securities. Securities also increased 14.6% year on year, boosted mainly by a surge in trading securities due to a rise in long-term assets such as RPs and retirement

Condensed Balance Sheets of Shinhan Investment Corp.

KRW in billions

	2011	2010	Chg %
Assets			
Cash and Deposit	3,202	2,223	44.0%
Securities	6,684	5,832	14.6%
(Trading securities)	4,699	5,101	-7.9%
Derivatives	71	106	-33.0%
Loans	798	859	-7.1%
(Broker's loans)	728	718	1.4%
Tangible fixed assets	144	142	1.4%
Other assets	1,267	649	95.2%
Total Assets	12,166	9,811	24.0%
Liabilities			
Deposits	985	948	3.9%
(Customers' deposits)	970	926	4.8%
Borrowings	7,769	6,442	20.6%
(Call money)	579	411	40.9%
(Borrowings)	83	68	22.1%
(Bonds sold under repurchase agreements)	3,466	3,271	6.0%
(Derivatives-combined securities sold)	3,306	2,132	55.1%
Other liabilities	1,294	393	229.3%
Total Liabilities	10,048	7,783	29.1%
Total Stockholder's equity	2,118	2,028	4.4%
Total Liabilities & Stockholder's equity	12,166	9,811	24.0%

pensions. Bonds accounted for 97% of the trading securities. Meanwhile, loans fell 7.1% to KRW 798.4 billion at the end of 2011 as the growth in broker's loans, including securities-backed loans, from KRW 718.0 billion at the end of 2010 to KRW 728.2 billion a year later, was offset by a reduction in real estate PF loans.

Total liabilities rose by 29.1% year on year to reach KRW 10.05 trillion at the end of 2011. 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 6.0%, from KRW 3.27 trillion recorded at the end of 2010 to KRW 3.47 trillion the following year, and the derivatives-combined securities sold rose by 55.1%, from KRW 2.13 trillion in 2010 to KRW 3.31 trillion a year later.

Total stockholders' equity increased by 4.4% year on year to reach KRW 2.12 trillion at the end of 2011.

FUNDING

1. SHINHAN BANK

Shinhan Bank's deposits in Korean Won (excluding CDs) increased by 11.4% (KRW 14.4 trillion) year on year in 2011. Over the past two years, the Bank has continued to focus on increasing deposits within the funding portfolio, and as a result, time savings rose 15.3% during the past year. Low-cost deposits were also up by 4.0%, all in all helping to ensure a stable funding source. In addition, certificates of deposits (CDs), which had maintained significant growth for several years until 2007, began to decline in volume from 2008, and in 2011 they fell a further 13.5% from the previous year.

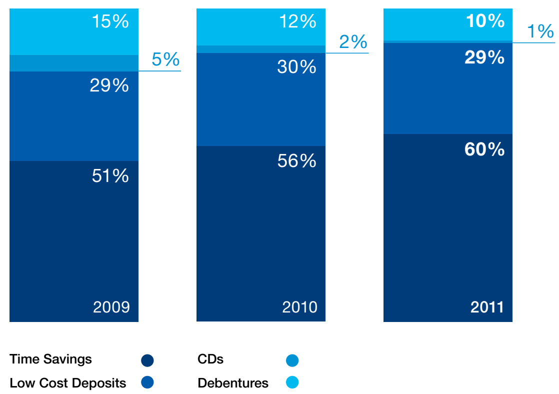
Thanks to the Bank's nationwide retail network and retention of public organizations' deposits, the percentage of low-cost deposits represented a solid portion of 29% of the total funding portfolio at Shinhan Bank. The portion of time savings in the mix grew to 60%, while bank debentures and CDs were down to 10% and 1% respectively.

Deposits and Debentures

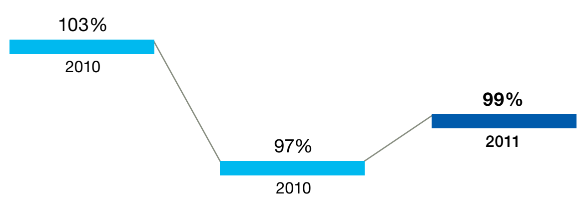
KRW in billions

	2011	2010	Chg %
Total Deposits In KRW	140,987	126,583	11.4%
Low Cost Deposits	45,774	44,022	4.0%
Demands	14,688	14,517	1.2%
Savings	31,086	29,504	5.4%
Time Savings	95,214	82,562	15.3%
Time Deposits	88,533	77,117	14.8%
Accumulative / Others	6,681	5,444	22.7%
Certificate Deposit	2,463	2,848	-13.5%
Debentures In KRW	15,722	17,501	-10.2%

Funding Composition



Loan-to-Deposit Ratio



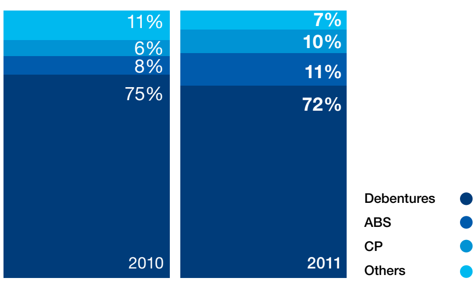
2. SHINHAN CARD

As a monoline credit card company in the past, the former LG Card depended heavily on wholesale funding as its main funding source. However its incorporation with the Shinhan Financial Group ensured stable funding sources for the company.

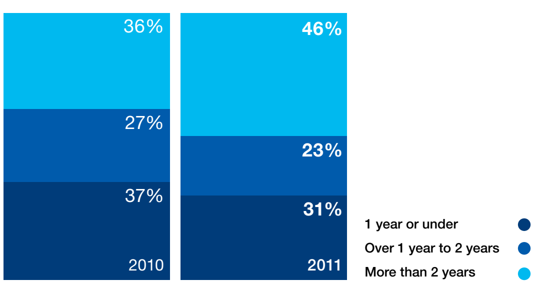
Shinhan Card raises its required funds through diverse channels, including corporate bonds, asset-backed securities and commercial paper. As of December 2011, the funding balance stood at KRW 13.9 trillion, up 2.5% from the previous year's KRW 13.6 trillion.

The table below summarizes the maturity and composition of Shinhan Card's funding portfolio. During 2011, abundant liquidity in the market and the revitalized bond market helped maintain the percentage of corporate bonds in the mix at around 72%. The funding portfolio has further diversified its funding sources from the improving primary market with increase in asset-backed securities and long-term CPs.

Funding Composition



Debt Maturity Profile



CAPITAL MANAGEMENT

1. SHINHAN FINANCIAL GROUP

As of the end of 2011, the Group's BIS ratio stood at 11.4%, down 1.0%p from the previous year. Given Shinhan Bank's BIS ratio of 15.3%, the figure is considered to be relatively low. Two main factors may be cited to explain this. First, goodwill amounting to KRW 3.1 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 Internal Ratings-Based (IRB) approach, while the Group adheres to the BIS Basel I criteria with higher risk weights applied to risk-weighted assets, resulting in the lower BIS ratio at Group level.

The 1.0%p decrease in the BIS ratio is attributable to a 36.5% reduction in Tier 2 capital which resulted from redemption of KRW 3.75 trillion in redeemable preference shares and convertible preferred shares. As profits grew in 2011, Tier 1 capital rose 11.7% year on year. Going forward, continued growth in profits is expected to enhance the Group's capital adequacy particularly the Tier 1 capital ratio.

Group BIS Ratio

KRW in billions

	2011	2010	Chg %(%p)
Risk-Weighted Assets	195,579	188,786	3.6%
Capital	22,315	23,370	-4.5%
Tier 1	17,317	15,503	11.7%
Tier 2	4,999	7,867	-36.5%
BIS Ratio	11.4%	12.4%	-1.0%p
Tier 1	8.9%	8.2%	0.7%p
Tier 2	2.6%	4.2%	-1.6%p

2. SHINHAN BANK

Shinhan Bank's BIS ratio dropped 0.2%p year on year to stand at 15.3% as of the end of 2011. The Bank's Tier 1 ratio was maintained at a very sound 12.4% during 2011. The BIS ratio was down slightly, despite a major increase in retained earnings from net income growth, because of a 3.5% rise in risk-weighted assets as well as in loan loss provisioning and dividends payable. All in all, however, Shinhan Bank is maintaining a favorable capital adequacy ratio.

For your reference, Shinhan Bank obtained approval from the Financial Supervisory Service to use the Basel II Internal Ratings-Based (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

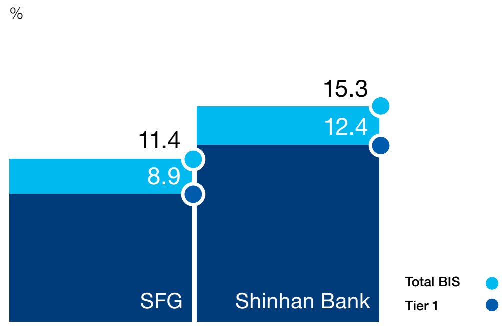
KRW in billions

	2011	2010	Chg %(%p)
Risk-Weighted Assets	123,385	119,228	3.5%
Capital	18,827	18,440	2.1%
Tier 1	15,343	14,746	4.0%
Tier 2	3,484	3,694	-5.7%
BIS Ratio	15.3%	15.5%	-0.2%p
Tier 1	12.4%	12.4%	0.0%p
Tier 2	2.8%	3.1%	-0.3%p

3. SHINHAN CARD

As of the end of December 2011, Shinhan Card's equity capital stood at KRW 5.2 trillion with a capital adequacy ratio (CAR) of 24.8%. The company has managed to maintain a CAR above 20% for five consecutive years on the back of excellent net income levels recorded for the past several years since the launch of an integrated Shinhan Card in 2007.

BIS Ratio



INDEPENDENT AUDITORS' REPORT

KPMG SAMJONG Accounting Corp.
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Gangnam Finance Center, 10th Fl.,737 Yeoksam-dong,
Gangnam-gu, Seoul 135-984, Republic of Korea
Tel 82-2-2112-0100 / Fax 82-2-2112-0101
www.kr.kpmg.com

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

We have audited the accompanying consolidated statements of financial position of Shinhan Financial Group Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2011, 2010 and January 1, 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010. 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, 2011, 2010 and January 1, 2010 and the results of its operations and its cash flows for the years ended December 31, 2011 and 2010, 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.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 20, 2012

This report is effective as of March 20, 2012, 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, 2011, 2010 and January 1, 2010

In millions of won

	Note	December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Cash and due from banks	4,8,20	₩ 14,730,932	11,821,607	13,371,641
Trading assets	4,9,20	11,954,266	9,412,050	7,883,195
Financial assets designated at fair value through profit or loss	4,10,20	1,800,846	2,208,284	1,695,923
Derivative assets	4,11	2,395,270	4,106,196	4,986,565
Loans	4,12,20	192,572,571	181,347,105	170,852,950
Available-for-sale financial assets	4,13,20	34,105,747	29,451,909	29,050,106
Held-to-maturity financial assets	4,13,20	11,894,664	12,528,902	12,795,490
Property and equipment	14,20	2,993,860	2,976,407	3,003,150
Intangible assets	15	4,203,460	4,072,901	4,065,899
Investments in associates	16	248,848	299,812	246,224
Current tax assets		9,022	10,656	9,626
Deferred tax assets	41	29,202	65,359	310,429
Investment properties	17	275,123	285,956	330,340
Other assets	4,18	10,887,878	9,949,034	9,894,444
Assets held for sale		15,792	21,229	18,507
Total assets		**₩ 288,117,481**	**268,557,407**	**258,514,489**
Liabilities				
Deposits	4,21	₩ 163,015,732	149,416,662	143,721,212
Trading liabilities	22	704,418	822,977	346,935
Financial liabilities designated at fair value through profit or loss	4,23	3,298,409	1,953,519	1,086,680
Derivative liabilities	4,11	2,047,882	3,535,174	4,321,119
Borrowings	4,24	20,033,246	18,085,459	17,673,005
Debt securities issued	4,25	39,736,958	40,286,268	41,362,758
Liability for defined benefit obligations	26	274,661	170,052	146,366
Provisions	27	869,592	859,357	781,634
Current tax liabilities		568,074	251,274	456,439
Deferred tax liabilities	41	282	183,500	366,884
Liabilities under insurance contracts	28	10,867,254	8,986,380	7,469,130
Other liabilities	4,29	19,842,168	16,811,560	16,039,934
Total liabilities		**₩ 261,258,676**	**241,362,182**	**233,772,096**
Equity	30			
Capital stock		₩ 2,645,053	2,589,553	2,589,553
Other equity instrument		238,582	-	-
Capital surplus		9,886,849	8,834,971	8,834,971
Capital adjustments		(392,654)	(390,853)	(390,866)
Accumulated other comprehensive income		1,188,948	1,629,495	1,437,048
Retained earnings		10,829,723	12,071,221	9,806,764
Total equity attributable to equity holders of Shinhan Financial Group Co.,Ltd.		24,396,501	24,734,387	22,277,470
Non-controlling interests	30	2,462,304	2,460,838	2,464,923
Total equity		**26,858,805**	**27,195,225**	**24,742,393**
Total liabilities and equity		**₩ 288,117,481**	**268,557,407**	**258,514,489**

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2011 and 2010

In millions of won, except earning per share

	Note	2011	2010
Interest income		₩ 13,780,714	12,908,734
Interest expense		(6,700,743)	(6,436,118)
Net interest income	32	**7,079,971**	6,472,616
Fees and commission income		3,557,132	3,397,247
Fees and commission expense		(1,797,961)	(1,639,409)
Net fees and commission income	33	**1,759,171**	1,757,838
Net insurance loss	28	(119,201)	(75,569)
Dividend income	34	208,860	217,451
Net trading income (loss)	35	(131,848)	332,536
Net foreign currency transaction gain		13,874	117,417
Net gain (loss) on financial instruments designated at fair value through profit or loss	36	171,911	(124,757)
Net gain on sale of available-for-sale financial assets	13	846,345	652,188
Impairment loss on financial assets	37	(987,309)	(1,416,047)
General and administrative expenses	38	(4,135,357)	(3,847,674)
Net other operating expenses	40	(571,645)	(671,516)
Operating income	43	**4,134,772**	3,414,483
Equity in income of associates	16	57,790	15,322
Income before income taxes		**4,192,562**	3,429,805
Income tax expense	41	919,929	570,375
Net income for the year		**3,272,633**	2,859,430
Other comprehensive income (loss) for the year, net of income tax			
Foreign currency translation adjustments for foreign operations		16,120	(18,010)
Valuation gain (loss) on available-for-sale financial assets		(460,437)	175,213
Equity in other comprehensive income of associates		2,717	20,762
Net gain on cash flow hedges		1,429	13,486
Other comprehensive income (loss) of separate account		(579)	1,703
	30	(440,750)	193,154
Total comprehensive income for the year		**₩ 2,831,883**	3,052,584
Net income attributable to			
Equity holders of Shinhan Financial Group Co., Ltd.	42	₩ 3,100,011	2,684,589
Non-controlling interest		172,622	174,841
		₩ 3,272,633	2,859,430
Total comprehensive income attributable to			
Equity holders of Shinhan Financial Group Co., Ltd.		₩ 2,659,464	2,877,036
Non-controlling interest		172,419	175,548
		₩ 2,831,883	3,052,584
Earnings per share	30,42		
Basic earnings per share in won		₩ 5,954	5,175
Diluted earnings per share in won		**₩ 5,832**	5,076

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2011 and 2010

In millions of won

	Capital stock	Other equity instruments	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Non-controlling interest	Total
Balance at January 1, 2010	₩ 2,589,553	-	8,834,971	(390,866)	1,437,048	9,806,764	2,464,923	24,742,393
Net income for the year	-	-	-	-	-	2,684,589	174,841	2,859,430
Other comprehensive income, net of income tax								
Foreign currency translation adjustments	-	-	-	-	(17,927)	-	(83)	(18,010)
Valuation gain on available-for-sale financial assets	-	-	-	-	174,423	-	790	175,213
Equity in other comprehensive income of associates	-	-	-	-	20,762	-	-	20,762
Net gain on cash flow hedges	-	-	-	-	13,486	-	-	13,486
Other comprehensive income of separate account	-	-	-	-	1,703	-	-	1,703
	-	-	-	-	192,447	-	707	193,154
Total comprehensive income for the year	-	-	-	-	192,447	2,684,589	175,548	3,052,584
Transactions with owners, etc								
Dividends	-	-	-	-	-	(420,266)	-	(420,266)
Change in other capital adjustments	-	-	-	13	-	-	-	13
Change in retained earnings of subsidiaries	-	-	-	-	-	134	-	134
Change in other non-controlling interests	-	-	-	-	-	-	(179,633)	(179,633)
	-	-	-	13	-	(420,132)	(179,633)	(599,752)
Balance at December 31, 2010	₩ 2,589,553	-	8,834,971	(390,853)	1,629,495	12,071,221	2,460,838	27,195,225
Balance at January 1, 2011	₩ 2,589,553	-	8,834,971	(390,853)	1,629,495	12,071,221	2,460,838	27,195,225
Net income for the year	-	-	-	-	-	3,100,011	172,622	3,272,633
Other comprehensive loss, net of income tax								
Foreign currency translation adjustment	-	-	-	-	16,086	-	34	16,120
Valuation loss on available-for-sale financial assets	-	-	-	-	(460,200)	-	(237)	(460,437)
Equity in other comprehensive income of associates	-	-	-	-	2,717	-	-	2,717
Net gain on cash flow hedges	-	-	-	-	1,429	-	-	1,429
Other comprehensive loss of separate account	-	-	-	-	(579)	-	-	(579)
	-	-	-	-	(440,547)	-	(203)	(440,750)
Total comprehensive income for the year	-	-	-	-	(440,547)	3,100,011	172,419	2,831,883
Transactions with owners, etc.								
Dividends	-	-	-	-	-	(586,236)	-	(586,236)
Dividend to hybrid bond	-	-	-	-	-	(2,594)	-	(2,594)
Issuance of preferred stock	55,500	-	1,050,664	-	-	-	-	1,106,164
Issuance of hybrid bond	-	238,582	-	-	-	-	-	238,582
Redemption of preferred stock	-	-	-	-	-	(3,752,679)	-	(3,752,679)
Change in other capital surplus	-	-	1,214	-	-	-	-	1,214
Change in other capital adjustments	-	-	-	(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)	(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	2,462,304	26,858,805

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2011 and 2010

In millions of won

	Note	2011	2010
Cash flows from operating activities			
Income before income taxes		₩ 4,192,562	3,429,805
Adjustments for			
Net interest income	32	(7,079,971)	(6,472,616)
Dividend income	34	(208,860)	(217,451)
Net fees and commission expense		182,169	186,778
Insurance expense	28	2,297,723	1,879,071
Net trading loss (income)		17,876	(934,637)
Net foreign currency transaction loss (gain)		11,293	(33,715)
Net loss (gain) on financial assets designated at fair value through profit or loss		(167,961)	126,003
Gain on disposal of available-for-sale financial assets	13	(846,345)	(652,188)
Provision for allowance	12	896,006	1,270,327
Impairment loss on other financial assets		91,303	145,720
Salaries expense		217,739	207,364
Depreciation and amortization	38	287,734	304,398
Other operating income		(586,604)	(327,534)
Equity in income of associates	16	(57,790)	(15,322)
		(4,945,688)	(4,533,802)
Changes in assets and liabilities:			
Due from banks		(3,540,709)	2,267,760
Trading assets		(2,723,770)	(661,376)
Financial instruments designated at fair value through profit or loss		1,821,807	198,709
Derivative assets		195,134	878,527
Loans		(11,397,231)	(11,765,921)
Other assets		(1,081,796)	(645,520)
Deposits		12,941,911	4,984,857
Liability for defined benefit obligations	26	(115,687)	(153,659)
Provision		(19,564)	(126,058)
Liabilities under insurance contracts		48	1,756
Other liabilities		(321,389)	1,727,005
		(4,241,246)	(3,293,920)
Income taxes paid		(651,914)	(635,480)
Interest received		13,273,499	12,447,767
Interest paid		(6,492,566)	(6,400,867)
Dividends received		208,860	217,451
Net cash provided by operating activities		**₩ 1,343,507**	1,230,954

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW (continued)

For the years ended December 31, 2011 and 2010

In millions of won

	Note	2011	2010
Cash flows from investing activities			
Proceeds from disposition of financial assets designated at fair value through profit or loss		₩ 98,472	29,765
Proceeds from disposition of available-for-sale financial assets		43,335,156	41,339,784
Acquisition of available-for-sale financial assets		(47,704,240)	(40,911,086)
Proceeds from disposition of held-to-maturity financial assets		4,499,462	2,438,571
Acquisition of held-to-maturity financial assets		(3,828,684)	(2,150,234)
Proceeds from disposition of property and equipment	14,40	69,347	117,401
Acquisition of property and equipment	14	(302,111)	(373,515)
Proceeds from disposition of intangible assets	15,40	12,676	7,907
Acquisition of intangible assets	15	(168,132)	(64,568)
Proceeds from disposition of investments in associates		71,827	17,597
Acquisition of investments in associates		(27,661)	(117,763)
Proceeds from disposition of investment property	17,40	23,037	193
Acquisition of investment property	17	(17)	-
Proceeds from disposition of assets held for sale		2,047	-
Decrease (increase) in other assets		(45,868)	95,009
Acquisition of subsidiaries	45	(103,859)	-
Net cash provided by (used in) investing activities		**(4,068,548)**	429,061
Cash flows from financing activities			
Issuance of preferred stock		1,107,278	-
Issuance of hybrid bond		238,682	-
Proceeds from borrowings		21,300,793	18,588,342
Repayments of borrowings		(19,397,747)	(18,324,239)
Proceeds from debt securities issued		13,056,571	14,071,906
Repayments of debt securities issued		(13,760,022)	(15,327,621)
Dividends paid		(585,557)	(427,571)
Cash inflows from cash flow hedges		75,887	174,772
Decrease in non-controlling interest		(173,559)	(168,556)
Net cash provided by (used in) financing activities		**1,862,326**	(1,412,967)
Effect of exchange rate fluctuations on cash and cash equivalents held		**(1,088)**	(31,489)
Increase (decrease) in cash and cash equivalents		**(863,803)**	215,559
Cash and cash equivalent at beginning of year	45	**4,833,145**	4,617,586
Cash and cash equivalent at end of year	45	**₩ 3,969,342**	4,833,145

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended december 31, 2011 and 2010

1. Reporting entity

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

(a) Controlling company

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

(b) Ownership of Shinhan Financial Group and its major consolidated subsidiaries as of December 31, 2011, 2010 and January 1, 2010 are as follows:

Ownership (%)

Investor	Investee (*)	Location	Reporting date	2011	2010	2009
Shinhan Financial Group	Shinhan Bank	Korea	December 31	100.0	100.0	100.0
〃	Shinhan Card Co., Ltd.	〃	〃	100.0	100.0	100.0
〃	Shinhan Investment Corp.	〃	March 31	100.0	100.0	100.0
〃	Shinhan Life Insurance Co., Ltd	〃	〃	100.0	100.0	100.0
〃	Shinhan Capital Co., Ltd.	〃	December 31	100.0	100.0	100.0
〃	Jeju Bank	〃	〃	68.9	68.9	68.9
〃	Shinhan Credit Information Co., Ltd.	〃	〃	100.0	100.0	100.0
〃	Shinhan Private Equity Investment management	〃	〃	100.0	100.0	100.0
〃	Shinhan BNP Paribas AMC	〃	March 31	65.0	65.0	65.0
〃	SHC Management Co., Ltd.	〃	December 31	100.0	100.0	100.0
〃	Shinhan Data system	〃	〃	100.0	100.0	100.0
〃	Shinhan Savings Bank	〃	June 30	100.0	-	-
Shinhan Bank	Shinhan Asia Limited	Hong Kong	December 31	99.9	99.9	99.9
〃	Shinhan Bank America	USA	〃	100.0	100.0	100.0
〃	Shinhan Europe GmbH	Germany	〃	100.0	100.0	100.0
〃	Shinhan Khmer Bank	Cambodia	〃	90.0	90.0	80.1
〃	Shinhan Kazakhstan Bank	Kazakhstan	〃	100.0	100.0	100.0
〃	Shinhan Canada Bank	Canada	〃	100.0	100.0	100.0
〃	Shinhan China Limited	China	〃	100.0	100.0	100.0
〃	Shinhan Aitas Co., Ltd.	Korea	〃	89.6	89.6	89.6
〃	SBJ Bank	Japan	March 31	100.0	100.0	100.0
〃	Shinhan Bank Vietnam	Vietnam	December 31	100.0	100.0	100.0
Shinhan Investment Corp	Shinhan Investment Corp. Europe Ltd.	UK	March 31	100.0	100.0	100.0
〃	Shinhan Investment Corp. America Inc.	USA	December 31	100.0	100.0	100.0
〃	Shinhan Investment Corp. Asia Ltd.	Hong Kong	〃	100.0	100.0	100.0
Shinhan Private Equity Investment management	Symphony Energy Co., Ltd.	Korea	〃	77.6	77.6	77.6
〃	HKC&T Co., Ltd.	〃	〃	100.0	100.0	-
Shinhan BNP Paribas AMC	Shinhan BNP Asset Mgt HK Ltd.	Hong Kong	〃	100.0	-	-

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

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.*

These are the Group's first consolidated financial statements prepared in accordance with K-IFRS and K-IFRS No. 1101 *First-time Adoption of Korean International Financial Reporting Standards ("K-IFRS No. 1101")* has been applied. The Group's date of transition to K-IFRS is January 1, 2010, and the effect of the transition from Korean Generally Accepted Accounting Principles ("K-GAAP") to K-IFRS on the Group's reported financial position and financial performance is explained in note 49.

(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.

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 and in preparing the opening K-IFRS statement of financial position at January 1, 2010 for the purpose of the transition to K-IFRS, 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 in accordance with special provisions
- 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 is 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.
As part of its transition to K-IFRS, the Group elected to restate only those business combinations which occurred on or after January 1, 2010 in accordance with K-IFRS. In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP, K-GAAP.

(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 on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and are used by the Group in management of its short-term commitments. Generally equity investments are excluded from cash and cash equivalents. However, redeemable preference shares, for which the period from the acquisition to redemption is short, are classified as cash and cash equivalents.

(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 host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (b) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

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.

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.

In addition, in the preparation of the opening K-IFRS consolidated statement of financial position on the date of transition to K-IFRS, the Group measures land and buildings at fair value at the date of transition, which is deemed cost, in accordance with K-IFRS No. 1101.

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.

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, is 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.

(l) Leased assets

i) Classification of a lease

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the lessee assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

ii) Lessee

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

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

iii) Lessor

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

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

(m) Assets held for sale

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

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with 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) Other equity instrument

The Group classifies any financial instrument issued, or its component parts, as a financial liability or an equity instrument depending on the substance of the contractual arrangement of such financial instrument. A hybrid bond where the Group has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation is classified as an equity instrument and presented in equity.

iii) Capital adjustments

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

(r) Employee benefits

i) Short-term employee benefits

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

ii) Other long-term employee benefits

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

iii) Retirement benefits: defined contribution plans

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

iv) Retirement benefits: defined benefit plans

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

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.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

(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 recognized at fair value and are amortized over the life of the contract. After initial recognition, financial guarantee contracts are 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

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:

<u>Premium reserve</u>

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

<u>Guarantee reserve</u>

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.

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.

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 amount allocated to the points is estimated by reference to the fair value of the monetary and non-monetary benefits for which they could be redeemed, since the fair value of the points themselves is not directly observable. 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 accrued income and 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, 2011, and the Group has not early adopted them.

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

The amendments require disclosing the nature of the transferred assets, their carrying amount, and the description of risks and rewards for each class of transferred financial assets that are not derecognized in their entirety. If the Group derecognizes transferred financial assets but still has their specific risks and rewards, the amendments require additional disclosures on their effect of risks. The amendments will be applied prospectively for the Group's annual periods beginning on or after July 1, 2011. Management believes the impacts of the amendments on the Group's consolidated financial statements will not be significant.

ii) Amendments to K-IFRS No. 1012 *Income Tax*

Deferred tax assets or deferred tax liabilities on investment properties measured at fair value, unless any contrary evidence exists, will be measured by reflecting the tax effect from selling the investment properties. The amendments will be prospectively applied for the Group's annual periods beginning on or after January 1, 2012. Management believes the impacts of the amendments on the Group's consolidated financial statements will not be significant.

iii) 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. Management believes the impacts of the amendments on the Group's consolidated financial statements will be significant.

iv) 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 believes the impacts of the amendments on the Group's consolidated financial statements will not be significant.

4. Financial risk management

(a) Overview

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

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

i) Risk management principles

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

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

ii) Risk management organization

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

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

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

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

iii) Risk management framework

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

Risk capital management – Risk capital refers to capital necessary to compensate for losses in case of a potential risk being realized, and risk capital management refers to the process of asset management based on considerations of risk exposure and risk appetite among total assets so that the Group can maintain an appropriate level of risk capital. As part of the Group's risk capital management, the Group has adopted and maintains various risk planning processes and reflect such risk planning in the Group's business and financial planning. The Group also have adopted and maintain 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 a crisis detection and response system which is applied consistently groupwide, and upon the happening of any contingency at a subsidiary level, the Group directly take charge of the situation so that the Group manage it on a concerted groupwide basis.

(b) Credit risk

i) Credit risk management

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

Credit Risk Management of Shinhan Bank

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

Shinhan Bank complies with credit risk management procedures pursuant to internal guidelines and regulations and continually monitors and improves these guidelines and regulations. Its credit risk management procedures include:
· credit evaluation and approval;
· credit review and monitoring; and
· credit risk assessment and control.

Each of Shinhan Bank's borrowers is assigned a credit rating, which is based on a comprehensive internal credit evaluation system that considers a variety of criteria. For retail borrowers, the credit rating takes into 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, 2011, 2010 and January 1, 2010 was as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Due from banks and loans (*1)(*6)	₩ 205,171,862	190,627,077	182,450,223
Banks	10,213,726	7,765,635	7,072,354
Retail	77,111,426	71,868,011	69,320,001
Mortgage lending	40,638,218	35,785,813	33,675,398
Other	36,473,208	36,082,198	35,644,603
Government	9,199,551	6,405,297	8,201,101
Corporate	91,490,418	87,674,151	83,249,650
Large company	33,711,216	32,242,274	27,100,074
Small business	48,607,634	45,673,714	45,292,321
Special finance	8,342,974	9,159,916	10,157,263
Other	828,594	598,247	699,992
Card receivable	17,156,741	16,913,983	14,607,117
Trading assets	9,966,220	8,490,200	6,990,689
Debt securities	9,624,786	8,336,743	6,734,445
Gold deposits	341,434	153,457	256,244
Financial assets designated at FVTPL(*3)	748,356	794,096	620,113
Debt and other securities	748,356	794,096	620,113
AFS financial assets(*4)	29,110,542	22,247,767	21,627,845
Debt securities	29,110,542	22,247,767	21,627,845
HTM financial assets(*5)	11,894,664	12,528,902	12,795,490
Debt securities	11,894,664	12,528,902	12,795,490
Derivative assets	2,395,270	4,106,196	4,986,565
Other financial assets (*1),(*2)	7,520,769	6,766,664	7,032,114
Financial guarantee contracts	2,766,331	3,526,654	4,734,969
Loan commitments and other liabilities for credit	67,130,382	63,487,552	59,333,217
	₩ 336,704,396	312,575,108	300,571,225

(*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).

In millions of won

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

Due from banks and loans as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011					
	Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	₩ 10,255,903	76,603,830	9,201,687	91,023,364	16,779,871	203,864,655
Past due but not impaired	-	520,407	-	332,535	606,942	1,459,884
Impaired	-	288,064	-	1,723,100	445,448	2,456,612
	10,255,903	77,412,301	9,201,687	93,078,999	17,832,261	207,781,151
Less : allowance	(42,177)	(300,875)	(2,136)	(1,588,581)	(675,520)	(2,609,289)
	₩ 10,213,726	77,111,426	9,199,551	91,490,418	17,156,741	205,171,862

	December 31, 2010					
	Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	₩ 7,809,214	71,523,929	6,401,198	86,944,559	16,683,922	189,362,822
Past due but not impaired	-	417,590	35	516,369	439,752	1,373,746
Impaired	-	204,680	4,985	2,086,052	461,056	2,756,773
	7,809,214	72,146,199	6,406,218	89,546,980	17,584,730	193,493,341
Less : allowance	(43,579)	(278,188)	(921)	(1,872,829)	(670,747)	(2,866,264)
	₩ 7,765,635	71,868,011	6,405,297	87,674,151	16,913,983	190,627,077

	January 1, 2010					
	Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	₩ 7,084,002	69,005,150	8,200,526	82,514,625	14,296,570	181,100,873
Past due but not impaired	-	376,778	845	633,773	417,546	1,428,942
Impaired	-	259,281	466	2,147,136	636,218	3,043,101
	7,084,002	69,641,209	8,201,837	85,295,534	15,350,334	185,572,916
Less : allowance	(11,648)	(321,208)	(736)	(2,045,884)	(743,217)	(3,122,693)
	₩ 7,072,354	69,320,001	8,201,101	83,249,650	14,607,117	182,450,223

Credit quality of due from banks and loans, net of allowance, that are neither past due nor impaired as of December 31, 2011, 2010 and January 1, 2010 were as follows:

						December 31, 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**

						December 31, 2010
	Banks	Retail	Government	Corporate	Card	Total
Grade 1 (*1)	₩ 7,789,462	68,750,852	6,393,827	49,210,073	15,095,346	147,239,560
Grade 2 (*1)	19,752	2,773,077	7,371	37,734,486	1,588,576	42,123,262
	7,809,214	71,523,929	6,401,198	86,944,559	16,683,922	189,362,822
Less : allowance	(43,579)	(151,237)	(465)	(876,782)	(342,690)	(1,414,753)
	₩ 7,765,635	71,372,692	6,400,733	86,067,777	16,341,232	187,948,069
Mitigation of credit risk due to collateral (*2)	**₩ 83,289**	**47,499,617**	**330**	**37,881,820**	**6,539**	**85,471,595**

						January 1, 2010
	Banks	Retail	Government	Corporate	Card	Total
Grade 1 (*1)	₩ 7,058,382	66,201,569	8,190,925	43,191,372	12,845,198	137,487,446
Grade 2 (*1)	25,620	2,803,581	9,601	39,323,253	1,451,372	43,613,427
	7,084,002	69,005,150	8,200,526	82,514,625	14,296,570	181,100,873
Less : allowance	(11,648)	(153,295)	(365)	(912,612)	(324,778)	(1,402,698)
	₩ 7,072,354	68,851,855	8,200,161	81,602,013	13,971,792	179,698,175
Mitigation of credit risk due to collateral (*2)	**₩ 7,987**	**45,732,117**	**-**	**37,459,865**	**7,077**	**83,207,046**

(*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.

In millions of won

Aging analyses of due from banks and loans, net of allowance, that are past due but not impaired as of December 31, 2011, 2010 and January 1, 2010 were as follows:

						December 31, 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**

						December 31, 2010
	Banks	Retail	Government	Corporate	Card	Total
Less than 30 days	₩ -	302,622	35	334,891	358,937	996,485
31~60 days	-	42,353	-	95,978	52,801	191,132
61~90 days	-	69,641	-	50,980	28,014	148,635
More than 90 days	-	2,974	-	34,520	-	37,494
	-	417,590	35	516,369	439,752	1,373,746
Less : allowance	-	(15,144)	-	(33,576)	(60,721)	(109,441)
	₩ -	402,446	35	482,793	379,031	1,264,305
Mitigation of credit risk due to collateral (*)	**₩ -**	**213,154**	**-**	**182,537**	**17**	**395,708**

						January 1, 2010
	Banks	Retail	Government	Corporate	Card	Total
Less than 30 days	₩ -	312,431	732	495,116	357,332	1,165,611
31~60 days	-	36,184	113	75,606	41,432	153,335
61~90 days	-	25,309	-	28,076	18,782	72,167
More than 90 days	-	2,854	-	34,975	-	37,829
	-	376,778	845	633,773	417,546	1,428,942
Less : allowance	-	(14,043)	(4)	(29,380)	(50,887)	(94,314)
	₩ -	362,735	841	604,393	366,659	1,334,628
Mitigation of credit risk due to collateral (*)	**₩ -**	**207,895**	**-**	**264,556**	**238**	**472,689**

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

Mitigation of credit risk due to the collateral of impaired due from banks and loans, net of allowance, as of December 31, 2011, 2010 and January 1, 2010 was as follows:

						December 31, 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**

						December 31, 2010
	Banks	Retail	Government	Corporate	Card	Total
Impaired loans	₩ -	204,680	4,985	2,086,052	461,056	2,756,773
Less : allowance	-	(111,807)	(456)	(962,471)	(267,336)	(1,342,070)
	₩ -	92,873	4,529	1,123,581	193,720	1,414,703
Mitigation of credit risk due to collateral (*)	**₩ -**	**60,758**	**-**	**847,784**	**9**	**908,551**

						January 1, 2010
	Banks	Retail	Government	Corporate	Card	Total
Impaired loans	₩ -	259,281	466	2,147,136	636,218	3,043,101
Less : allowance	-	(153,870)	(367)	(1,103,892)	(367,552)	(1,625,681)
	₩ -	105,411	99	1,043,244	268,666	1,417,420
Mitigation of credit risk due to collateral (*)	**₩ -**	**69,197**	**-**	**549,331**	**126**	**618,654**

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

iv) Credit rating

Credit rating of debt securities as of December 31, 2011, 2010 and January 1, 2010 were as follows:

					December 31, 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
Lower than A-	695,356	174,572	1,199,560	40,119	2,109,607
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**

In millions of won

					December 31, 2010
	Trading assets	Financial assets designated at fair value through profit or loss	Available–for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩ 2,450,261	189,485	13,050,959	9,303,161	24,993,866
AA- to AA+	3,525,921	131,109	5,360,211	2,545,576	11,562,817
A- to A+	1,512,844	262,299	1,909,649	483,219	4,168,011
Lower than A-	358,051	159,987	882,424	44,238	1,444,700
Unrated	489,666	51,216	1,044,524	152,708	1,738,114
	₩ 8,336,743	794,096	22,247,767	12,528,902	43,907,508

					January 1, 2010
	Trading assets	Financial assets designated at fair value through profit or loss	Available–for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩ 3,086,113	111,842	18,450,781	12,307,415	33,956,151
AA- to AA+	1,779,665	84,846	419,167	228,345	2,512,023
A- to A+	1,308,660	239,410	929,159	100,376	2,577,605
Lower than A-	207,002	71,431	844,138	49,377	1,171,948
Unrated	353,005	112,584	984,600	109,977	1,560,166
	₩ 6,734,445	620,113	21,627,845	12,795,490	41,777,893

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
Lower than A-	Lower than AA-	Lower than AA-	Lower than A-	Lower than A-	Lower than A3
Unrate	Unrated	Unrated	Unrated	Unrated	Unrated

(*1) KIS : Korea Investors Service
(*2) KR : Korea Ratings

Credit status of debt securities as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Neither past due nor impaired	₩ 51,348,868	43,871,259	41,747,657
Impaired	29,480	36,249	30,236
	₩ 51,378,348	43,907,508	41,777,893

Assets acquired through foreclosures amounting to W14,876 million were classified as assets held for sale as of December 31, 2011. There were no foreclosed assets as of December 31, 2010 and, January 1, 2010

v) Concentration by geographic location

An analysis of concentration by geographic location for due from financial instrument, net of allowance, as of December 31, 2011, 2010 and January 1, 2010 is as follows:

								December 31, 2011
		Korea	USA	Japan	Vietnam	China	Other	Total
Due from banks and loans	Banks	₩ 7,307,389	283,602	55,841	264,492	1,124,431	1,177,971	10,213,726
	Retail	76,655,578	258,329	23,991	4,011	8,549	160,968	77,111,426
	Government	8,904,636	176,171	42,452	28,843	3,460	43,989	9,199,551
	Corporate	85,613,216	1,212,055	1,213,332	369,601	965,277	2,116,937	91,490,418
	Card	17,145,287	5,002	1,669	20	1,385	3,378	17,156,741
		195,626,106	1,935,159	1,337,285	666,967	2,103,102	3,503,243	205,171,862
Trading assets		9,624,786	-	-	-	-	341,434	9,966,220
Financial assets designated at FVTPL(*1)		748,356	-	-	-	-	-	748,356
AFS financial assets(*2)		28,626,932	292,717	-	-	-	190,893	29,110,542
HTM financial assets(*3)		11,758,431	1,922	37,172	7,412	-	89,727	11,894,664
		₩ 246,384,611	2,229,798	1,374,457	674,379	2,103,102	4,125,297	256,891,644

								December 31, 2010
		Korea	USA	Japan	Vietnam	China	Other	Total
Due from banks and loans	Banks	₩ 6,538,363	158,427	42,471	120,624	458,674	447,076	7,765,635
	Retail	71,381,781	215,401	15,916	850	124,224	129,839	71,868,011
	Government	6,306,997	-	62,618	5,024	-	30,658	6,405,297
	Corporate	82,260,782	1,244,361	783,623	169,298	1,040,814	2,175,273	87,674,151
	Card	16,905,088	4,327	1,339	13	873	2,343	16,913,983
		183,393,011	1,622,516	905,967	295,809	1,624,585	2,785,189	190,627,077
Trading assets		8,336,743	-	-	-	-	153,457	8,490,200
Financial assets designated at FVTPL(*1)		763,113	-	-	-	-	30,983	794,096
AFS financial assets(*2)		21,801,641	215,685	28,406	-	-	202,035	22,247,767
HTM financial assets(*3)		12,248,733	3,054	240,225	-	-	36,890	12,528,902
		₩ 226,543,241	1,841,255	1,174,598	295,809	1,624,585	3,208,554	234,688,042

								January 1, 2010
		Korea	USA	Japan	Vietnam	China	Other	Total
Due from banks and loans	Banks	₩ 5,360,641	547,173	34,968	21,556	383,416	724,600	7,072,354
	Retail	69,060,565	137,545	14,198	740	4,999	101,954	69,320,001
	Government	7,772,245	85,647	242,284	5,412	9,728	85,785	8,201,101
	Corporate	78,478,904	1,307,317	476,997	155,523	696,896	2,134,013	83,249,650
	Card	14,603,604	1,432	894	2	253	932	14,607,117
		175,275,959	2,079,114	769,341	183,233	1,095,292	3,047,284	182,450,223
Trading assets		6,734,445	-	-	-	-	256,244	6,990,689
Financial assets designated at FVTPL(*1)		523,136	-	-	-	-	96,977	620,113
AFS financial assets(*2)		20,992,328	226,752	59,684	-	-	349,081	21,627,845
HTM financial assets(*3)		12,668,072	4,933	75,736	-	-	46,749	12,795,490
		₩ 216,193,940	2,310,799	904,761	183,233	1,095,292	3,796,335	224,484,360

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

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

In millions of won

vi) Concentration by industry sector

An analysis of concentration by industry sector of due from banks and loans, net of allowance, as of December 31, 2011, 2010 and January 1, 2010 is as follows:

								December 31, 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	8,571,342	5,805	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	47,986,984	93,153,544	256,891,644

								December 31, 2010
		Finance and insurance	Manu-facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans	Banks	₩ 5,771,275	19,996	-	1,015,665	958,699	-	7,765,635
	Retail	-	-	-	-	-	71,868,011	71,868,011
	Government	6,094,699	-	-	2,491	308,107	-	6,405,297
	Corporate	4,420,650	30,767,607	10,702,127	14,812,743	26,971,024	-	87,674,151
	Card	48,265	129,699	110,052	24,189	711,225	15,890,553	16,913,983
		16,334,889	30,917,302	10,812,179	15,855,088	28,949,055	87,758,564	190,627,077
Trading assets		5,426,392	401,815	113,976	840,446	1,707,571	-	8,490,200
Financial assets designated at FVTPL(*1)		544,990	20,412	-	128,241	100,453	-	794,096
AFS financial assets(*2)		11,307,148	750,368	152,624	1,147,276	8,890,351	-	22,247,767
HTM financial assets(*3)		3,946,670	19,988	-	532,941	8,029,303	-	12,528,902
		₩ 37,560,089	32,109,885	11,078,779	18,503,992	47,676,733	87,758,564	234,688,042

								January 1, 2010
		Finance and insurance	Manu-facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans	Banks	₩ 4,882,332	19,996	9,998	1,425,500	734,528	-	7,072,354
	Retail	-	-	-	-	-	69,320,001	69,320,001
	Government	7,306,839	125	6,235	3,622	884,280	-	8,201,101
	Corporate	4,757,929	27,590,184	9,655,710	14,937,055	26,308,772	-	83,249,650
	Card	55,869	115,197	76,375	21,696	677,713	13,660,267	14,607,117
		17,002,969	27,725,502	9,748,318	16,387,873	28,605,293	82,980,268	182,450,223
Trading assets		4,658,799	240,088	44,762	173,806	1,873,234	-	6,990,689
Financial assets designated at FVTPL(*1)		325,280	20,547	-	34,603	239,683	-	620,113
AFS financial assets(*2)		12,179,507	608,707	145,942	577,953	8,109,175	6,561	21,627,845
HTM financial assets(*3)		5,183,749	19,978	-	434,490	7,157,273	-	12,795,490
		₩ 39,350,304	28,614,822	9,939,022	17,608,725	45,984,658	82,986,829	224,484,360

(*1) FVTPL : fair value through profit or loss
(*2) AFS : available-for-sale
(*3) HTM : held-to-maturity

(c) Market risk

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

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

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

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

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

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

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.

In order to streamline such differences and use a consistent VaR among operating subsidiaries, the Group currently plans to adopt starting in 2012 a unified group-wide market risk measurement methodology, which will use the ten-day 99.9% confidence level for calculating the VaR.
An analysis of the Group's requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2011 and 2010, based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, was as follows:

In millions of won

				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

				2010
	Average	Maximum	Minimum	At December 31
Interest rate	₩ 183,467	238,752	149,042	149,042
Equities	55,725	83,637	27,193	75,952
Foreign exchange	67,608	101,667	16,867	101,667
Option volatility	8,260	12,142	6,240	7,974
	₩ 315,060	436,198	199,342	334,635

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

An analysis of market risk for trading positions of the major subsidiaries as of and for the years ended December 31, 2011 and 2010 was as follows:

i-1) Shinhan Bank

An analysis of the ten-day 99% confidence level-based VaR for managing market risk for trading positions of Shinhan Bank as of and for the years ended December 31, 2011 and 2010 was as follows:

				December 31, 2011
	Average	Maximum	Minimum	At December 31
Interest rate	₩ 24,791	37,239	19,646	23,275
Equities	14,566	24,581	6,433	16,534
Foreign exchange	44,582	77,103	10,370	66,920
Option volatility	370	850	70	237
Portfolio diversification	(41,847)	(73,845)	(6,202)	(43,999)
	₩ 42,462	65,928	30,317	62,967

				December 31, 2010
	Average	Maximum	Minimum	At December 31
Interest rate	₩ 26,503	44,391	13,305	33,572
Equities	9,709	16,658	6,607	11,430
Foreign exchange	66,697	121,427	45,815	46,136
Option volatility	458	781	212	497
Portfolio diversification	(38,899)	(75,645)	(25,712)	(51,408)
	₩ 64,468	107,612	40,227	40,227

(*) 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, 2011 and 2010, based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, was as follows:

				December 31, 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

				December 31, 2010
	Average	Maximum	Minimum	At December 31
Interest rate	₩ 1,454	2,701	750	1,000
Foreign exchange	26,052	30,456	23,542	24,097
	₩ 27,506	33,157	24,292	25,097

i-3) Shinhan Investment

An analysis of the ten-day 99% confidence level-based VaR for managing market risk for trading positions of Shinhan Investment as of and for the years ended December 31, 2011 and 2010 was as follows:

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

				December 31, 2010
	Average	Maximum	Minimum	At December 31
Interest rate	₩ 7,362	17,648	2,714	4,362
Equities	5,538	11,226	2,463	2,685
Foreign exchange	1,782	9,256	10	759
Option volatility	1,371	3,854	4	759
Portfolio diversification	(5,990)	(11,512)	(2,178)	(3,308)
	₩ 10,063	30,472	3,013	5,257

i-4) Shinhan Life Insurance

An analysis of the ten-day 99% confidence level-based VaR for managing market risk for trading positions of Shinhan Life Insurance as of and for the years ended December 31, 2011 and 2010 was as follows:

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

In millions of won

				December 31, 2010
	Average	Maximum	Minimum	At December 31
Interest rate	₩ 761	1,038	623	692
Equities	5,789	8,683	4,100	4,824
Foreign exchange	461	550	449	458
	₩ 7,011	10,271	5,172	5,974

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, 2011, 2010 and January 1, 2010 were as follows:

ii-1) Shinhan Bank

	December 31, 2011	December 31, 2010	January 1, 2010
VaR	₩ 561,088	475,925	454,872
EaR	262,405	300,789	281,608

ii-2) Shinhan Card

	December 31, 2011	December 31, 2010	January 1, 2010
VaR	₩ 324,331	260,783	161,510
EaR	45,233	54,079	40,246

ii-3) Shinhan Investment

	December 31, 2011	December 31, 2010	January 1, 2010
VaR	₩ 33,040	9,727	4,501
EaR	69,589	12,218	9,907

ii-1) Shinhan Life Insurance

	December 31, 2011	December 31, 2010	January 1, 2010
VaR	₩ 195,201	125,957	228,484
EaR	28,097	58,502	34,418

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, 2011, 2010 and January 1, 2010 were as follows:

						December 31, 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended december 31, 2011 and 2010

In millions of won

						December 31, 2010
	USD	JPY	EUR	CNY	Other	Total
Assets						
Cash and due from banks	₩ 1,184,308	608,041	120,488	382,686	485,517	2,781,040
Loans	11,394,301	4,638,485	1,053,247	1,418,446	1,308,845	19,813,324
Trading assets	8,109	-	-	-	163,735	171,844
Derivative assets	237,551	2,714	7,401	-	318	247,984
Financial assets designated at fair value through profit or loss	30,984	-	-	-	-	30,984
Available-for-sale financial assets	1,497,000	70,301	138	-	50,961	1,618,400
Held-to-maturity financial assets	3,054	240,225	9,108	-	27,277	279,664
Other financial assets	499,466	177,272	63,716	21,475	105,923	867,852
	₩ 14,854,773	5,737,038	1,254,098	1,822,607	2,142,576	25,811,092
Liabilities						
Deposits	₩ 4,051,080	5,206,823	333,308	1,129,741	587,530	11,308,482
Trading liabilities	-	-	-	-	198,619	198,619
Derivative liabilities	253,459	1,673	3,122	-	283	258,537
Borrowings	5,890,122	1,006,262	1,000,633	103,168	128,174	8,128,359
Debt securities issued	5,069,944	223,533	151,057	-	390,323	5,834,857
Other financial liabilities	1,018,226	159,113	66,509	130,376	67,572	1,441,796
	₩ 16,282,831	6,597,404	1,554,629	1,363,285	1,372,501	27,170,650
Net assets (liabilities)	₩ (1,428,058)	(860,366)	(300,531)	459,322	770,075	(1,359,558)
Off-balance derivative exposure	2,792,706	578,372	252,166	-	(426,428)	3,196,816
Net position	₩ 1,364,648	(281,994)	(48,365)	459,322	343,647	1,837,258

						January 1, 2010
	USD	JPY	EUR	CNY	Other	Total
Assets						
Cash and due from banks	₩ 1,611,844	589,121	207,572	423,282	291,681	3,123,500
Loans	10,546,534	3,641,058	754,997	1,016,686	1,043,731	17,003,006
Trading assets	29,464	3,231	4,545	-	260,361	297,601
Derivative assets	163,196	4	13,551	-	125	176,876
Financial assets designated at fair value through profit or loss	96,977	-	-	-	-	96,977
Available-for-sale financial assets	1,819,690	126,847	-	-	38,822	1,985,359
Held-to-maturity financial assets	4,966	75,736	27,361	-	19,388	127,451
Other financial assets	1,130,912	110,960	15,540	7,147	41,474	1,306,033
	₩ 15,403,583	4,546,957	1,023,566	1,447,115	1,695,582	24,116,803
Liabilities						
Deposits	₩ 5,217,891	4,377,192	290,224	931,398	471,392	11,288,097
Trading liabilities	-	-	-	-	318,969	318,969
Derivative liabilities	448,586	8,420	10,200	-	113	467,319
Borrowings	4,534,299	1,226,210	448,873	38,545	123,222	6,371,149
Debt securities issued	5,690,071	202,051	334,856	-	575,742	6,802,720
Other financial liabilities	971,202	274,935	46,077	9,363	33,291	1,334,868
	₩ 16,862,049	6,088,808	1,130,230	979,306	1,522,729	26,583,122
Net assets (liabilities)	₩ (1,458,466)	(1,541,851)	(106,664)	467,809	172,853	(2,466,319)
Off-balance derivative exposure	3,361,642	1,498,285	129,225	-	169,659	5,158,811
Net position	₩ 1,903,176	(43,566)	22,561	467,809	342,512	2,692,492

(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.

In millions of won

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

Contractual maturities for financial instruments including cash flows of principal and interest and off balance as of December 31, 2011, 2010 and January 1, 2010 were as follows:

							December 31, 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 (*1)	₩ 73,121,781	15,291,478	14,541,814	54,516,187	10,631,904	1,777,738	169,880,902
Trading liabilities (*2)	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	₩ 2,194,648	460,627	538,092	304,329	2,620,766	1,180,302	7,298,764
Cash outflow	1,949,156	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

							December 31, 2010
	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	₩ 9,774,069	672,963	549,457	594,714	138,143	318,142	12,047,488
Loans	26,919,195	29,397,162	29,913,106	42,192,049	45,119,704	33,889,495	207,430,711
Trading assets (*2)	9,412,050	-	-	-	-	-	9,412,050
Financial assets designated at fair value through profit or loss	1,554,169	16,343	24,029	93,032	624,090	-	2,311,663
Available-for-sale financial assets (*2)	25,959,843	8	10,124	77,318	35,246	3,369,795	29,452,334
Held-to-maturity financial assets	109,918	284,636	398,010	1,377,999	9,530,473	3,814,723	15,515,759
Other financial assets	3,922,098	334,218	114,788	30,909	2,514,855	77,191	6,994,059
	₩ 77,651,342	30,705,330	31,009,514	44,366,021	57,962,511	41,469,346	283,164,064
Liabilities							
Deposits (*1)	₩ 68,373,555	12,309,529	12,416,102	51,818,294	7,943,980	1,136,231	153,997,691
Trading liabilities (*2)	822,977	-	-	-	-	-	822,977
Borrowings	7,625,230	2,367,187	2,745,515	2,068,842	2,574,262	1,340,700	18,721,736
Debt securities issued	916,770	2,725,635	2,914,810	8,147,548	27,255,896	3,856,545	45,817,204
Financial liabilities designated at fair value through profit or loss	48,867	120,234	82,310	317,592	1,354,591	29,924	1,953,518
Other financial liabilities	13,476,676	59,301	48,821	59,200	383,781	93,528	14,121,307
	₩ 91,264,075	17,581,886	18,207,558	62,411,476	39,512,510	6,456,928	235,434,433
Off balance							
Finance guarantee contracts	₩ 3,526,654	-	-	-	-	-	3,526,654
Loan commitments and other	63,487,552	-	-	-	-	-	63,487,552
	₩ 67,014,206	-	-	-	-	-	67,014,206
Derivatives:							
Cash inflow	₩ 4,037,637	511,085	93,009	391,818	2,310,188	785,986	8,129,723
Cash outflow	3,611,776	391,274	67,758	366,191	1,487,151	403,860	6,328,010
	₩ 425,861	119,811	25,251	25,627	823,037	382,126	1,801,713

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended december 31, 2011 and 2010

In millions of won

January 1, 2010

	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	₩ 11,931,769	421,209	623,473	193,224	154,691	137,929	13,462,295
Loans	22,981,070	28,197,137	27,922,477	40,454,946	44,227,172	32,494,974	196,277,776
Trading assets (*2)	7,883,195	-	-			-	7,883,195
Financial assets designated at fair value through profit or loss	1,098,677	2,727	51,299	113,445	431,034	605	1,697,787
Available-for-sale financial assets (*2)	24,614,945	9,183	840	25,333	141,047	4,263,979	29,055,327
Held-to-maturity financial assets	122,217	531,502	604,626	1,682,137	9,189,693	3,760,870	15,891,045
Other financial assets	4,806,346	316,301	19,215	103,011	2,179,050	99,601	7,523,524
	₩ 73,438,219	29,478,059	29,221,930	42,572,096	56,322,687	40,757,958	271,790,949
Liabilities							
Deposits (*1)	₩ 60,948,483	10,377,009	13,276,485	54,416,641	8,689,979	781,294	148,489,891
Trading liabilities (*2)	346,935	-	-	-	-	-	346,935
Borrowings	7,715,917	2,003,594	2,679,400	1,691,807	3,551,816	649,638	18,292,172
Debt securities issued	2,552,548	3,039,761	4,029,658	6,466,749	26,414,328	5,649,102	48,152,146
Financial liabilities designated at fair value through profit or loss	8,549	40,143	210,758	300,873	506,187	20,171	1,086,681
Other financial liabilities	13,231,922	68,310	28,647	34,295	362,628	57,611	13,783,413
	₩ 84,804,354	15,528,817	20,224,948	62,910,365	39,524,938	7,157,816	230,151,238
Off balance							
Finance guarantee contracts	₩ 4,734,969	-	-	-	-	-	4,734,969
Loan commitments and other	59,333,217	-	-	-	-	-	59,333,217
	₩ 64,068,186	-	-	-	-	-	64,068,186
Derivatives:							
Cash inflow	₩ 4,672,497	555,644	430,285	1,233,889	2,733,533	982,434	10,608,282
Cash outflow	4,288,191	377,769	351,508	1,011,695	1,724,123	496,209	8,249,495
	₩ 384,306	177,875	78,777	222,194	1,009,410	486,225	2,358,787

(*1) Demand deposits are included in the 'Less than 1 month'.

(*2) Trading assets, trading liabilities and available-for-sale financial assets measured at quoted prices from active markets are included in the 'Less than 1 month'. Available-for-sale financial assets restricted for sale for certain periods and held-to-maturity financial assets are categorized by contractual maturity of financial instruments.

(f) Measurement of fair value

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.

In millions of won

The book value and the fair value of financial instruments measured at amortized cost as of December 31, 2011, 2010 and January 1, 2010 were as follows:

					December 31, 2011
	Book value				
	Balance	Unamortized balance	Allowance	Total	Fair value
Assets					
Cash and due from banks					
Cash and cash equivalent	₩ 2,131,642	-	-	2,131,642	2,131,642
Due from Banks	12,631,457	-	(32,167)	12,599,290	12,600,166
Loans					
Household loans	69,450,520	130,449	(221,192)	69,359,777	69,746,678
Corporate loans	100,238,573	11,196	(1,648,265)	98,601,504	100,484,038
Public and other	4,929,661	403	(19,147)	4,910,917	4,944,862
Loans to bank	2,556,629	-	(12,998)	2,543,631	2,565,594
Card receivables	17,879,640	(47,378)	(675,520)	17,156,742	17,372,172
Held-to-maturity financial assets					
Government bonds	5,869,832	-	-	5,869,832	6,165,461
Financial institutions bonds	2,064,369	-	-	2,064,369	2,161,896
Corporate bonds and others	3,960,463	-	-	3,960,463	4,052,373
Other financial assets	7,740,012	(99,403)	(119,840)	7,520,769	7,621,858
	₩ 229,452,798	(4,733)	(2,729,129)	226,718,936	229,846,740
Liabilities					
Deposits					
Demand deposits	₩ 49,861,856	-	-	49,861,856	49,861,856
Time deposits	102,902,575	-	-	102,902,575	102,879,778
Negotiable certificates of deposits	2,967,419	-	-	2,967,419	3,035,910
Note discount deposits	4,623,801	-	-	4,623,801	4,623,359
CMA	1,614,377	-	-	1,614,377	1,614,377
Others	1,045,704	-	-	1,045,704	1,045,874
Borrowings					
Call money	1,309,137	-	-	1,309,137	1,309,137
Bill sold	105,697	-	-	105,697	104,933
Bonds sold under repurchase agreements	3,890,665	-	-	3,890,665	3,890,665
Borrowings	14,499,504	(4,129)	-	14,495,375	14,491,372
Due to Bank of Korea in foreign currency	232,372	-	-	232,372	232,557
Debt securities issued					
Debt securities issued in won	33,732,495	(58,320)	-	33,674,175	33,644,730
Debt securities issued in foreign currency	6,084,640	(21,867)	-	6,062,773	5,895,247
Other financial liabilities	17,336,081	(29,568)	-	17,306,513	17,291,615
	₩ 240,206,323	(113,884)	-	240,092,439	239,921,410

					December 31, 2010
				Book value	
	Balance	Unamortized balance	Allowance	Total	Fair value
Assets					
Cash and due from banks					
Cash and cash equivalent	₩ 2,541,635	-	-	2,541,635	2,541,635
Due from Banks	9,294,290	-	(14,318)	9,279,972	9,279,964
Loans					
Household loans	64,974,079	66,184	(194,004)	64,846,259	64,924,225
Corporate loans	97,389,989	(54,017)	(1,939,988)	95,395,984	96,695,581
Public and other	2,771,304	56	(15,056)	2,756,304	2,768,639
Loans to bank	1,466,726	-	(32,151)	1,434,575	1,444,525
Card receivables	17,646,617	(61,887)	(670,747)	16,913,983	17,386,347
Held-to-maturity financial assets					
Government bonds	6,217,725	-	-	6,217,725	6,443,960
Financial institutions bonds	2,327,290	-	-	2,327,290	2,395,749
Corporate bonds and others	3,983,887	-	-	3,983,887	4,101,267
Other financial assets	7,013,351	(118,035)	(128,652)	6,766,664	6,877,792
	₩ 215,626,893	(167,699)	(2,994,916)	212,464,278	214,859,684
Liabilities					
Deposits					
Demand deposits	₩ 47,798,778	-	-	47,798,778	47,798,778
Time deposits	91,002,529	-	-	91,002,529	91,368,221
Negotiable certificates of deposits	3,461,483	-	-	3,461,483	3,648,297
Note discount deposits	4,494,294	-	-	4,494,294	4,493,977
CMA	1,628,543	-	-	1,628,543	1,628,543
Others	1,031,035	-	-	1,031,035	1,031,648
Borrowings					
Call money	1,333,619	-	-	1,333,619	1,333,618
Bill sold	49,140	-	-	49,140	48,911
Bonds sold under repurchase agreements	3,660,325	-	-	3,660,325	3,660,328
Borrowings	12,827,766	(3,982)	-	12,823,784	12,865,495
Due to Bank of Korea in foreign currency	218,591	-	-	218,591	218,516
Debt securities issued					
Debt securities issued in won	34,499,916	(35,821)	-	34,464,095	34,525,956
Debt securities issued in foreign currency	5,834,857	(12,684)	-	5,822,173	5,823,828
Other financial liabilities	14,198,517	(29,424)	-	14,169,093	14,155,404
	₩ 222,039,393	(81,911)	-	221,957,482	222,601,520

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended december 31, 2011 and 2010

In millions of won

					January 1, 2010
	Book value				
	Balance	Unamortized balance	Allowance	Total	Fair value
Assets					
Cash and due from banks					
Cash and cash equivalent	₩ 1,774,367	-	-	1,774,367	1,774,367
Due from Banks	11,605,884	-	(8,610)	11,597,274	11,596,780
Loans					
Household loans	62,888,594	33,188	(193,166)	62,728,616	62,842,758
Corporate loans	92,470,205	(102,909)	(2,153,673)	90,213,623	90,992,606
Public and other	2,240,248	7	(15,981)	2,224,274	2,235,583
Loans to bank	1,087,366	-	(8,046)	1,079,320	1,060,165
Card receivables	15,429,877	(79,543)	(743,217)	14,607,117	14,841,984
Held-to-maturity financial assets					
Government bonds	5,752,408	-	-	5,752,408	5,875,466
Financial institutions bonds	4,060,308	-	-	4,060,308	4,108,830
Corporate bonds and others	2,982,774	-	-	2,982,774	3,033,961
Other financial assets	7,361,321	(123,003)	(206,204)	7,032,114	7,094,578
	₩ 207,653,352	(272,260)	(3,328,897)	204,052,195	205,457,078
Liabilities					
Deposits					
Demand deposits	₩ 45,286,831	-	-	45,286,831	45,286,831
Time deposits	82,962,243	-	-	82,962,243	83,150,559
Negotiable certificates of deposits	7,761,281	-	-	7,761,281	8,212,314
Note discount deposits	5,324,541	-	-	5,324,541	5,324,197
CMA	1,311,767	-	-	1,311,767	1,311,767
Others	1,074,549	-	-	1,074,549	1,075,422
Borrowings					
Call money	2,440,357	-	-	2,440,357	2,440,357
Bill sold	68,659	-	-	68,659	68,376
Bonds sold under repurchase agreements	3,358,104	-	-	3,358,104	3,358,331
Borrowings	11,439,922	(4,490)	-	11,435,432	11,501,359
Due to Bank of Korea in foreign currency	197,584	-	-	197,584	197,684
Redeemable preferred stock	178,503	(5,634)	-	172,869	177,859
Debt securities issued					
Debt securities issued in won	34,613,058	(42,233)	-	34,570,825	34,288,922
Debt securities issued in foreign currency	6,802,720	(10,787)	-	6,791,933	6,952,637
Other financial liabilities	13,816,718	(30,905)	-	13,785,813	13,758,913
	₩ 216,636,837	(94,049)	-	216,542,788	217,105,528

ii) Financial instruments measured at the fair value

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

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

The table below analyzes financial instruments measured at the fair value as of December 31, 2011, 2010 and January 1, 2010 by the level in the fair value hierarchy into which the fair value measurement is categorized:

				December 31, 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	1,717,251	324,848	2,047,571
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	34,980,559	2,986,849	50,256,129
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	1,613,798	298,586	1,919,760
Hedging	-	61,055	67,067	128,122
	₩ 711,794	1,674,853	3,664,062	6,050,709

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				December 31, 2010
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
Debt securities	₩ 1,945,717	6,382,516	8,510	8,336,743
Equity securities	266,108	655,742	-	921,850
Gold deposits	153,457	-	-	153,457
Financial assets designated at fair value through profit or loss				
Debt securities and others	201,488	213,694	378,914	794,096
Equity securities	374,342	1,039,846	-	1,414,188
Derivative assets				
Trading	17,119	3,357,793	389,055	3,763,967
Hedging	-	282,736	59,493	342,229
Available-for-sale financial assets				
Debt securities	7,393,756	14,848, 654	5,357	22,247,767
Equity securities	2,691,021	2,126,833	2,386,288	7,204,142
	₩ 13,043,008	28, 907,814	3,227,617	45,178,439
Liabilities				
Trading liabilities				
Debt securities	₩ 594,181	30,177	-	624,358
Gold deposits	198,619	-	-	198,619
Borrowings	-	340,173	1,613,346	1,953,519
Derivative liabilities				
Trading	25,406	3,158,834	214,162	3,398,402
Hedging	-	85,130	51,642	136,772
	₩ 818,206	3,614,314	1,879,150	6,311,670

				January 1, 2010
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
Debt securities	₩ 1,100,608	5,633,837	-	6,734,445
Equity securities	236,207	656,299	-	892,506
Gold deposits	256,244	-	-	256,244
Financial assets designated at fair value through profit or loss				
Debt securities and others	118,291	136,990	364,832	620,113
Equity securities	371,274	704,536	-	1,075,810
Derivative assets				
Trading	5,492	4,200,356	204,492	4,410,340
Hedging	-	563,781	12,444	576,225
Available-for-sale financial assets				
Debt securities	7,348,577	14,270,993	8,275	21,627,845
Equity securities	2,765,406	1,996,428	2,660,427	7,422,261
	₩ 12,202,099	28,163,220	3,250,470	43,615,789
Liabilities				
Trading liabilities				
Debt securities	₩ 27,966	-	-	27,966
Gold deposits	318,969	-	-	318,969
Borrowings	-	267,298	819,382	1,086,680
Derivative liabilities				
Trading	11,185	3,923,805	170,580	4,105,570
Hedging	-	102,140	113,409	215,549
	₩ 358,120	4,293,243	1,103,371	5,754,734

iii) Changes in level 3 of the fair value hierarchy for the years ended December 31, 2011 and 2010 are as follows:

					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

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					2010
	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	₩ -	364,832	2,668,702	(67,053)	819,382
Comprehensive income					
Profit or loss	(72)	10,890	42,717	165,532	(92,500)
Other comprehensive income	-	-	(256,647)	281	-
	(72)	10,890	(213,930)	165,813	(92,500)
Purchases	8,582	-	130,040	41,719	-
Issuances	-	-	-	-	886,464
Settlements	-	3,192	(193,414)	12,811	-
Transfers into (out of) level 3	-	-	247	29,454	-
Ending balance	₩ 8,510	378,914	2,391,645	182,744	1,613,346

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, 2011 and 2010, were as follows:

	2011	2010
Beginning balance	(1,292)	(9,647)
Deferral on new transactions	₩ (5,042)	5,922
Recognized in the income statement during the period	3,237	2,433
Ending balance	₩ (3,097)	(1,292)

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 (3).

The carrying amounts of each category of financial assets and financial liabilities as of December 31, 2011, 2010 and January 1, 2010 were as follows:

							December 31, 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	2,047,571	-	-	-	-	347,699	**2,395,270**
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**
	₩ 14,001,837	1,800,846	34,105,747	11,894,664	214,824,272	347,699	**276,975,065**

					December 31, 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	1,919,760	-	-	128,122	2,047,882
Borrowings	-	-	20,033,246	-	20,033,246
Debt securities issued	-	-	39,736,958	-	39,736,958
Other	-	-	17,306,513	-	17,306,513
	₩ 2,624,178	3,298,409	240,092,449	128,122	246,143,158

(*1) FVTPL : Fair value through profit of loss
(*2) AFS : Available-for-sale
(*3) HTM : Held-to-maturity

							December 31, 2010
	Trading	FVTPL assets(*1)	AFS(*2)	HTM(*3)	Loans and receivable	Derivatives held for hedging	Total
Assets							
Cash and due from banks	₩ -	-	-	-	11,821,607	-	11,821,607
Trading assets	9,412,050	-	-	-	-	-	9,412,050
Financial assets designated at FVTPL (*1)	-	2,208,284	-	-	-	-	2,208,284
Derivatives	3,763,967	-	-	-	-	342,229	4,106,196
Loans	-	-	-	-	181,347,105	-	181,347,105
AFS financial assets(*2)	-	-	29,451,909	-	-	-	29,451,909
HTM financial assets(*3)	-	-	-	12,528,902	-	-	12,528,902
Other	-	-	-	-	6,766,664	-	6,766,664
	₩ 13,176,017	2,208,284	29,451,909	12,528,902	199,935,376	342,229	257,642,717

					December 31, 2010
	Trading	FVTPL liabilities(*1)	Amortized cost	Derivatives held for hedging	Total
Liabilities					
Deposits	₩ -	-	149,416,662	-	149,416,662
Trading liabilities	822,977	-	-	-	822,977
Financial liabilities designated at FVTPL (*1)	-	1,953,519	-	-	1,953,519
Derivatives	3,398,402	-	-	136,772	3,535,174
Borrowings	-	-	18,085,459	-	18,085,459
Debt securities issued	-	-	40,286,268	-	40,286,268
Other	-	-	14,169,093	-	14,169,093
	₩ 4,221,379	1,953,519	221,957,482	136,772	228,269,152

(*1) FVTPL : Fair value through profit of loss
(*2) AFS : Available-for-sale
(*3) HTM : Held-to-maturity

In millions of won

							January 1, 2010
	Trading	FVTPL assets(*1)	AFS(*2)	HTM(*3)	Loans and receivable	Derivatives held for hedging	Total
Assets							
Cash and due from banks	₩ -	-	-	-	13,371,641	-	13,371,641
Trading assets	7,883,195	-	-	-	-	-	7,883,195
Financial assets designated at FVTPL (*1)	-	1,695,923	-	-	-	-	1,695,923
Derivatives	4,410,340	-	-	-	-	576,225	4,986,565
Loans	-	-	-	-	170,852,950	-	170,852,950
AFS financial assets(*2)	-	-	29,050,106	-	-	-	29,050,106
HTM financial assets(*3)	-	-	-	12,795,490	-	-	12,795,490
Other	-	-	-	-	7,032,114	-	7,032,114
	₩ 12,293,535	1,695,923	29,050,106	12,795,490	191,256,705	576,225	247,667,984

					January 1, 2010
	Trading	FVTPL liabilities(*1)	Amortized cost	Derivatives held for hedging	Total
Liabilities					
Deposits	₩ -	-	143,721,212	-	143,721,212
Trading liabilities	346,935	-	-	-	346,935
Financial liabilities designated at FVTPL (*1)	-	1,086,680	-	-	1,086,680
Derivatives	4,105,570	-	-	215,549	4,321,119
Borrowings	-	-	17,673,005	-	17,673,005
Debt securities issued	-	-	41,362,758	-	41,362,758
Other	-	-	13,785,813	-	13,785,813
	₩ 4,452,505	1,086,680	216,542,788	215,549	222,297,522

(*1) FVTPL : Fair value through profit of loss
(*2) AFS : Available-for-sale
(*3) HTM : Held-to-maturity

(g) Derecognition of financial assets

There are no transferred financial assets which were transferred in such a way that all of the financial assets do not qualify for derecognition and of the associated liabilities as of December 31, 2011 and 2010.

(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, 2011 and 2010 were as follows:

	December 31, 2011	December 31, 2010
Capital (A)	₩ 22,315,419	23,711,758
Risk-weighted assets (B)	195,579,399	185,694,642
BIS ratio (A/B)	11.41%	12.77%

At December 31, 2011 and 2010, 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 use 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" Additionally, when the fair value declines over 30% from the original cost, it is considered as a possible indication of impairment and the Group recognizes impairment loss as necessary considering other facts and circumstance.

(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.*

In millions of won

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 were 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 was as follows:

	Amount
Cash paid	₩ 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.

Changes in the capital stock of Shinhan Savings Bank were as follows:

	Establishment date	Acquisition date	Total
Number of Shares issued	800,000	2,400,000	3,200,000
Value per share (won)	₩ 5,000	5,000	5,000
Common stock (in millions of won)	₩ 4,000	12,000	16,000
Ownership (%)	100	100	100
Issuance price per share (won)	₩ 5,000	48,334	

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

	Amount
Loans	₩ 533,164
Deposits	1,549,023

7. Operating segments

(a) Segment information

The general descriptions by operating segments as of December 31, 2011, 2010 and January 1, 2010 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

In millions of won

(b) The following table provides an information of income for each operating segment for the years ended December 31, 2011 and 2010.

				2011
				Banking
	Retail	Corporate	International	Other
Net interest income	₩ 2,656,405	2,059,495	281,537	57,627
Net fees and commission Income	635,363	209,637	45,274	8,454
Net other income (expense)	(2,275,716)	(692,296)	(161,334)	(168,641)
Operating income	1,016,052	1,576,836	165,477	(102,560)
Equity method income	-	-	-	28,995
Income tax expense	(205,111)	(318,028)	(34,235)	13,902
Income for the year	810,941	1,258,808	131,242	(59,663)
Controlling interest	810,941	1,258,808	131,242	(60,158)
Non-controlling interest	₩ -	-	-	495

(continued)

	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income	₩ 1,359,734	230,747	523,663	(96,275)	7,038	**7,079,971**
Net fees and commission Income	319,845	319,115	27,533	219,555	(25,605)	**1,759,171**
Net other income (expense)	(579,422)	(417,114)	(241,605)	1,642,228	(1,810,470)	**(4,704,370)**
Operating income	1,100,157	132,748	309,591	1,765,508	(1,829,037)	**4,134,772**
Equity method income	-	8,170	-	15,748	4,877	**57,790**
Income tax expense	(224,227)	(39,208)	(72,664)	(32,923)	(7,435)	**(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**

				2010
				Banking
	Retail	Corporate	International	Other
Net interest income	₩ 2,319,734	2,080,547	231,249	39,697
Net fees and commission Income	646,765	239,523	41,544	(32,002)
Net other income (expense)	(2,083,005)	(784,626)	(215,750)	(422,244)
Operating income	883,494	1,535,444	57,043	(414,549)
Equity method income	-	-	-	12,508
Income tax expense	(177,446)	(301,413)	(17,013)	109,825
Income for the year	706,048	1,234,031	40,030	(292,216)
Controlling interest	706,048	1,234,031	40,030	(292,626)
Non-controlling interest	₩ -	-	-	410

(continued)

	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income	₩ 1,256,363	155,098	468,310	(79,661)	1,279	**6,472,616**
Net fees and commission Income	349,888	326,703	24,062	229,236	(67,881)	**1,757,838**
Net other income (expense)	(572,896)	(283,944)	(210,183)	569,000	(812,323)	**(4,815,971)**
Operating income	1,033,355	197,857	282,189	718,575	(878,925)	**3,414,483**
Equity method income	(254)	(973)	-	2,536	1,505	**15,322**
Income tax expense	(42,708)	(46,122)	(68,375)	(22,253)	(4,870)	**(570,375)**
Income for the year	990,393	150,762	213,814	698,858	(882,290)	**2,859,430**
Controlling interest	990,393	150,714	213,410	700,107	(1,057,518)	**2,684,589**
Non-controlling interest	₩ -	48	404	(1,249)	175,228	**174,841**

(c) The following table provides information of assets for each operating segment as of December 31, 2011 and 2010.

	2011			
	Banking			
	Retail	Corporate	International	Other
Trading assets	₩ -	7,810,959	-	(1,046,618)
Loans	97,862,421	59,008,600	8,052,825	1,029,554
Available-for-sale financial assets	523,931	23,609,648	726,981	2,389,054
Held-to-maturity financial assets	-	9,447,411	454,979	32
	₩ 98,386,352	99,876,618	9,234,785	2,372,022

(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

	2010			
	Banking			
	Retail	Corporate	International	Other
Trading assets	₩ 40,477	5,492,153	-	(1,523,410)
Loans	89,182,682	57,932,018	6,467,695	2,394,261
Available-for-sale financial assets	493,542	21,224,111	827,765	2,530,713
Held-to-maturity financial assets	-	10,285,788	280,170	32
	₩ 89,716,701	94,934,070	7,575,630	3,401,596

(continued)

	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Trading assets	200,046	4,628,695	345,983	261,142	(33,036)	9,412,050
Loans	18,910,797	859,214	2,613,237	4,516,335	(1,529,134)	181,347,105
Available-for-sale financial assets	381,216	220,255	3,589,477	331,597	(146,767)	29,451,909
Held-to-maturity financial assets	-	-	2,012,860	5,051	(54,999)	12,528,902
	₩ 19,492,059	5,708,164	8,561,557	5,114,125	(1,763,936)	232,739,966

(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, 2011 and 2010.

	Operating revenue		Operating expense		Net income	
	2011	2010	2011	2010	2011	2010
Domestic	₩ 30,506,382	30,938,794	26,515,938	27,563,657	3,990,444	3,375,137
Overseas	973,905	876,861	829,577	837,515	144,328	39,346
	₩ 31,480,287	31,815,655	27,345,515	28,401,172	4,134,772	3,414,483

In millions of won

The following table provides information of non-current assets by geographical area as of December 31, 2011 and 2010.

	December 31, 2011	December 31, 2010
Domestic	₩ 7,391,966	7,276,570
Overseas	80,477	58,694
	₩ 7,472,443	7,335,264

(*) Non-current assets as of December 31, 2011 and 2010 include property and equipment, intangible assets, investment properties.

8. Cash and due from banks

(a) Cash and due from banks as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	₩ 2,131,642	2,541,635	1,774,367
Deposits in won			
Reserve deposits	3,391,601	3,659,332	6,205,781
Time deposits	3,641,613	1,137,398	731,965
Certificate of deposits	19,760	-	39,539
Other	2,116,900	2,057,269	1,763,679
	9,169,874	6,853,999	8,740,964
Deposits in foreign currency			
Deposits	1,433,884	960,463	1,257,872
Time deposits	1,669,938	1,238,097	951,778
Other	357,761	241,731	655,270
	3,461,583	2,440,291	2,864,920
Provisions	(32,167)	(14,318)	(8,610)
	₩ 14,730,932	11,821,607	13,371,641

(b) Restricted due from banks as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Deposits in won			
Reserve deposits	₩ 3,391,601	3,659,332	6,205,781
Other (*)	1,298,609	261,047	383,349
	4,690,210	3,920,379	6,589,130
Deposits in foreign currency	855,025	717,956	825,619
	₩ 5,545,235	4,638,335	7,414,749

(*) 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, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Debt securities			
Governments	₩ 698,192	680,250	1,021,583
Financial institutions	2,993,836	3,219,525	3,069,445
Corporations	1,441,253	1,498,160	877,192
Bills bought	3,566,763	2,589,522	1,419,179
CMA(*)	911,728	329,570	273,704
Others	13,014	19,716	73,342
	9,624,786	8,336,743	6,734,445
Equity securities			
Stocks	135,139	218,219	224,099
Beneficiary certificates	1,822,901	673,931	648,416
Others	30,006	29,700	19,991
	1,988,046	921,850	892,506
Other			
Gold deposits	341,434	153,457	256,244
	₩ 11,954,266	9,412,050	7,883,195

(*) CMA: Cash management account deposits

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

Financial asset designated at fair value through profit or loss as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Debt securities	₩ 440,327	446,167	352,258
Equity securities	1,052,490	1,414,188	1,075,810
Others	308,029	347,929	267,855
	₩ 1,800,846	2,208,284	1,695,923

In millions of won

11. Derivatives

(a) The notional amounts of derivatives as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Foreign currency related			
Over the counter			
Currency forwards	₩ 41,915,985	43,943,575	60,004,032
Currency swaps	12,416,078	15,858,075	24,109,249
Currency options	1,707,857	1,674,698	4,091,342
	56,039,920	61,476,348	88,204,623
Exchange traded			
Currency futures	118,382	4,936	151,827
	56,158,302	61,481,284	88,356,450
Interest rates related			
Over the counter			
Interest rate swaps	97,090,640	165,593,231	132,221,784
Interest rate options	8,803,485	9,359,103	11,346,344
	105,894,125	174,952,334	143,568,128
Exchange traded			
Interest rate futures	41,860	154,066	43,448
	105,935,985	175,106,400	143,611,576
Credit related			
Over the counter			
Credit swaps	89,186	87,742	174,918
Equity related			
Over the counter			
Equity swap and forwards	2,087,186	929,064	1,737,542
Equity options	6,727,624	15,170,328	3,548,371
	8,814,810	16,099,392	5,285,913
Exchange traded			
Equity futures	6,323	7,261	47,726
Equity options	3,031,229	6,799,014	1,721,815
	3,037,552	6,806,275	1,769,541
	11,852,362	22,905,667	7,055,454
Commodity related			
Over the counter			
Swaps and forwards	38,045	20,154	22,523
Equity options	130,463	124,533	80,926
	168,508	144,687	103,449
Exchange traded			
Equity options	17,989	1,968	-
	186,497	146,655	103,449
Hedge			
Currency forwards	4,455	6,694	18,797
Currency swaps	1,918,435	1,539,234	3,277,336
Interest rate swaps	9,137,426	9,967,369	10,542,964
	11,060,316	11,513,297	13,839,097
	₩ 185,282,648	271,241,045	253,140,944

(b) Fair values of derivative instruments as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Foreign currency related						
Over the counter						
Currency forwards	₩ 628,214	439,086	806,149	436,182	1,728,848	714,903
Currency swaps	450,092	526,878	722,591	887,874	1,302,322	2,001,812
Currency options	115,118	7,798	150,148	11,568	352,143	75,527
	1,193,424	973,762	1,678,888	1,335,624	3,383,313	2,792,242
Interest rates related						
Over the counter						
Interest rate swaps	670,831	576,866	757,677	795,412	650,726	947,121
Interest rate options	32,998	36,611	43,766	44,799	55,769	53,219
	703,829	613,477	801,443	840,211	706,495	1,000,340
Credit related						
Over the counter						
Credit swaps	-	1,734	350	397	2,554	23,843
Equity related						
Over the counter						
Equity swap and forwards	11,581	222,017	36,036	2,164	117,858	149,719
Equity options	127,777	98,394	1,224,591	1,044,626	192,695	125,276
	139,358	320,411	1,260,627	1,046,790	310,553	274,995
Exchange traded						
Equity options	5,109	6,948	17,118	170,166	5,492	11,185
	144,467	327,359	1,277,745	1,216,956	316,045	286,180
Commodity related						
Over the counter						
Swaps and forwards	1,625	1,835	1,417	3,153	-	1,787
Equity options	3,863	1,165	4,124	1,837	1,933	1,178
	5,488	3,000	5,541	4,990	1,933	2,965
Exchange traded						
Commodity futures	363	428	-	224	-	-
	5,851	3,428	5,541	5,214	1,933	2,965
Hedge						
Currency forwards	-	358	131	121	94	5,216
Currency swaps	80,405	11,052	121,224	30,973	393,155	15,716
Interest rate swaps	267,294	116,712	220,874	105,678	182,976	194,617
	347,699	128,122	342,229	136,772	576,225	215,549
	₩ 2,395,270	2,047,882	4,106,196	3,535,174	4,986,565	4,321,119

In millions of won

(c) Gain or loss on valuation of derivatives for the years ended December 31, 2011 and 2010 was as follows:

	2011		2010	
	Gain	Loss	Gain	Loss
Foreign currency related				
Over the counter				
Currency forwards	₩ 565,473	388,827	389,105	459,102
Currency swaps	148,819	243,184	367,376	289,949
Currency options	8,413	3,296	2,129	23,151
	722,705	635,307	758,610	772,202
Exchange traded				
Currency futures	132	16	2,409	6,896
	722,837	635,323	761,019	779,098
Interest rates related				
Over the counter				
Interest rate swaps	383,474	340,543	585,904	529,435
Interest rate options	20,077	23,578	20,720	27,307
	403,551	364,121	606,624	556,742
Exchange traded				
Interest rate futures	192	809	2,512	-
	403,743	364,930	609,136	556,742
Credit related				
Over the counter				
Credit swaps	130	541	-	1,867
Equity related				
Over the counter				
Equity swap and forwards	16,569	217,497	68,344	-
Equity options	112,879	188,209	1,086,749	1,016,729
	129,448	405,706	1,155,093	1,016,729
Exchange traded				
Equity futures	1,616	867	3,334	9,551
Equity options	62,606	35	45,011	105,823
	64,222	902	48,345	115,374
	193,670	406,608	1,203,438	1,132,103
Commodity related				
Over the counter				
Swaps and forwards	1,460	1,890	1,468	5,202
Commodity options	878	6,933	3,144	2,811
	2,338	8,823	4,612	8,013
Exchange traded				
Commodity futures	441	337	126	372
	2,779	9,160	4,738	8,385

(continued)

	2011		2010	
	Gain	Loss	Gain	Loss
Hedge				
Currency forwards	-	358	1,093	32,649
Currency swaps	53,839	23,774	28,802	36,884
Interest rate swaps	135,805	90,724	296,748	96,521
	189,644	**114,856**	326,643	166,054
	₩ 1,512,803	**1,531,418**	2,904,974	2,644,249

(d) Gain or loss on fair value hedges for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Hedged item	₩ (51,205)	(213,797)
Hedging instruments	29,467	206,565
	₩ (21,738)	(7,232)

(e) Hedge of net investment in foreign operations

The Group uses borrowings in foreign currency to hedge the foreign currency translation risk on its net investment in foreign operations. The ₩4,790 million of the effective portion among gain or loss on valuation of borrowings in foreign currency was recognized as foreign currency translation adjustments for foreign operations.

12. Loans

(a) Loans as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Household loans	₩ 69,450,520	64,974,079	62,888,594
Corporate loans	100,238,573	97,389,989	92,470,205
Public and other	4,929,661	2,771,304	2,240,248
Loans to banks	2,556,629	1,466,726	1,087,366
Card receivables	17,879,640	17,646,617	15,429,877
	195,055,023	184,248,715	174,116,290
Present value discount	(44,263)	(52,392)	(54,406)
Deferred loan origination costs and fees	138,933	2,728	(94,851)
	195,149,693	184,199,051	173,967,033
Allowance for impairment	(2,577,122)	(2,851,946)	(3,114,083)
	₩ 192,572,571	181,347,105	170,852,950

In millions of won

(b) Changes in the allowance for impairment for the years ended December 31, 2011 and 2010 were as follows:

							2011
					Loans	Other (*2)	Total
	Household	Corporate	Credit Card	Other	Subtotal		
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

							2010
					Loans	Other (*2)	Total
Beginning balance	Household	Corporate	Credit Card	Other	Subtotal		
Provision for (reversal of) allowance	₩ 193,166	2,153,673	743,217	24,027	3,114,083	214,814	3,328,897
Write-offs	48,517	1,200,765	27,607	23,910	1,300,799	(30,472)	1,270,327
Effect of discounting	(86,202)	(713,491)	(428,027)	-	(1,227,720)	(60,835)	(1,288,555)
Allowance related to loans transferred	(237)	(55,231)	(2,689)	-	(58,157)	-	(58,157)
Recoveries	(14,815)	(614,621)	(1,376)	(730)	(631,542)	(18,301)	(649,843)
Others (*1)	53,575	84,293	326,992	-	464,860	442	465,302
Ending balance	-	(115,400)	5,023	-	(110,377)	37,323	(73,054)
	₩ 194,004	1,939,988	670,747	47,207	2,851,946	142,971	2,994,917

(*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, 2011 and 2010 were as follows:

	2011	2010
Beginning balance	₩ 2,728	(94,851)
Loan originations	85,200	(39,175)
Amortization	51,005	136,754
Ending balance	₩ 138,933	2,728

13. Available-for-sale financial assets and held-to-maturity financial assets

(a) Available-for-sale financial assets and held-to-maturity financial assets as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Available-for-sale financial assets			
Debt securities (*1)			
Government bonds	₩ 4,829,146	6,113,548	5,701,465
Financial institutions bonds	13,689,821	8,996,378	10,122,275
Corporate bonds and others	10,591,575	7,137,841	5,804,105
	29,110,542	22,247,767	21,627,845
Equity securities (*2)			
Stock	3,989,752	4,500,876	4,878,834
Equity investments	525,175	459,888	456,068
Beneficiary certificates	415,508	2,161,484	2,028,421
Others	64,770	81,894	58,938
	4,995,205	7,204,142	7,422,261
	34,105,747	29,451,909	29,050,106
Held-to-maturity financial assets			
Debt securities			
Government bonds	5,869,832	6,217,725	5,752,408
Financial institutions bonds	2,064,369	2,327,290	4,060,308
Corporate bonds and others	3,960,463	3,983,887	2,982,774
	11,894,664	12,528,902	12,795,490
	₩ 46,000,411	41,980,811	41,845,596

(*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 amounting ₩203,911 million as of December 31, 2011.

(b) Securities loaned as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010	Lender
Government bonds	₩ 272,411	1,060,943	1,427,274	Korea Securities Finance Corp., Mitsui Sumitomo and others
Financial institutions bonds	60,267	-	29,857	Korea Securities Finance Corp.
	₩ 332,678	1,060,943	1,457,131	

(c) Gain or loss on sale of available-for-sale financial assets for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Gain on sale of available-for-sale financial assets	₩ 866,138	681,740
Loss on sale of available-for-sale financial assets	(19,793)	(29,552)
	₩ 846,345	652,188

In millions of won

14. Property and equipment

(a) Property and equipment as of December 31, 2011, 2010 and January 1, 2010 were as follows:

			December 31, 2011
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 1,751,634	-	1,751,634
Buildings	924,103	(62,094)	862,009
Other	1,969,988	(1,589,771)	380,217
	₩ 4,645,725	(1,651,865)	2,993,860

			December 31, 2010
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 1,781,408	-	1,781,408
Buildings	882,814	(31,421)	851,393
Other	1,861,566	(1,517,960)	343,606
	₩ 4,525,788	(1,549,381)	2,976,407

			January 1, 2010 (*)
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 1,678,940	-	1,678,940
Buildings	856,413	(1,381)	855,032
Other	1,921,425	(1,452,247)	469,178
	₩ 4,456,778	(1,453,628)	3,003,150

(*) In the preparation of the opening K-IFRS consolidated statement of financial position on the date of transition to K-IFRS, the Group measured land and buildings at fair value at the date of transition, which is deemed cost, in accordance with K-IFRS No. 1101. Land and buildings were revalued on January 1, 2010 by an independent valuation service provider. Valuation was based on the recent arm's length market transactions between knowledgeable and willing parties.

(b) Changes in property and equipment for the years ended December 31, 2011 and 2010 were as follows:

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

(*) ₩ 13,546 million of construction-in-progress was transferred.

				2010
	Land	Buildings	Other	Total
Beginning balance	₩ 1,678,940	855,032	469,178	3,003,150
Acquisitions(*)	61,869	37,690	206,068	305,627
Disposals	(2,738)	(3,441)	(110,218)	(116,397)
Depreciation	-	(30,399)	(221,758)	(252,157)
Amounts transferred from (to) investment property	43,316	(7,477)	-	35,839
Amounts transferred to assets held for sale	-	(8)	-	(8)
Effects of foreign currency movements	21	(4)	336	353
Ending balance	₩ 1,781,408	851,393	343,606	2,976,407

(*) ₩67,888 million of construction-in-progress was transferred.

(c) Insured assets as of December 31, 2011 are as follows:

Type of insurance	Assets insured	Amount covered	Insurance company
Comprehensive insurance for financial institution	Cash and cash equivalent	20,182	Samsung Fire & Marine Insurance Co.,Ltd and 7 other entities
Package insurance	Land and buildings	1,168,507	Samsung Fire & Marine Insurance Co.,Ltd and 5 other entities
Fire insurance	Equipment	14,604	American Home Assurance Company Korea
Directors' and Officers' Liability and Company Reimbursement Insurance	-	100,066	Samsung Fire & Marine Insurance Co.,Ltd
Other	Cash and cash equivalent, securities	52,278	MERITZ Fire & Marine Insurance Co.,Ltd and 3 other entities
		1,355,637	

(*) 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 those property and equipment and their fair value.

15. Intangible assets

(a) Intangible assets as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Goodwill	₩ 3,854,524	3,810,684	3,810,684
Software	75,164	68,862	71,787
Development cost	99,529	77,331	79,913
Other	174,243	116,024	103,515
	₩ 4,203,460	4,072,901	4,065,899

In millions of won

(b) Changes in intangible assets for the years ended December 31, 2011 and 2010 were as follows:

					2011
	Goodwill	Development cost	Software	Other	Total
Beginning balance	₩ 3,810,684	68,862	77,331	116,024	4,072,901
Acquisitions	-	31,623	53,270	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)	-	(25,321)	(27,652)	(22,990)	(75,963)
Effects of foreign currency movements	-	-	-	124	124
Ending balance	₩ 3,854,524	75,164	99,529	174,243	4,203,460

					2010
	Goodwill	Development cost	Software	Other	Total
Beginning balance	₩ 3,810,684	71,787	79,913	103,515	4,065,899
Acquisitions	-	18,434	21,759	24,375	64,568
Disposals	-	(37)	(130)	(5,193)	(5,360)
Amortization (*1)	-	(21,322)	(24,211)	(6,708)	(52,241)
Effects of foreign currency movements	-	-	-	35	35
Ending balance	₩ 3,810,684	68,862	77,331	116,024	4,072,901

(*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, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Banking			
Retail	₩ 652,344	652,344	652,344
Corporate and investment	107,856	107,856	107,856
International	43,840	-	-
Other	82,060	82,060	82,060
Credit card	2,685,389	2,685,389	2,685,389
Life insurance	275,370	275,370	275,370
Others	7,665	7,665	7,665
	₩ 3,854,524	3,810,684	3,810,684

ii) The changes in goodwill for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Beginning balance	₩ 3,810,684	3,810,684
Acquisition of subsidiaries	75,383	-
Impairment (*)	(31,543)	-
Ending balance	₩ 3,854,524	3,810,684

(*) The impairment losses was recognized in treasury and international CGU of Shinhan Bank.

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 has been determined using cash flow estimates which cover a 5.25 year period (October 1, 2011 through December 31, 2016) from the date of valuation, which is September 30, 2011, 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 were as follows:

	Discount rates	Terminal growth rate
Banking		
Retail	12.8%	2.3%
Corporate and investment	12.8%	2.3%
International	12.8%	2.3%
Other	12.8%, 13.2%	2.3%
Credit card	12.1%	2.3%
Life insurance	12.0%	-
Other	12.8%, 22.18%	2.3%, 0%

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

	2011	2012	2013	2014	2015 and thereafter
CPI growth	4.00%	2.10%	2.20%	1.60%	2.30%
Real retail sales growth	3.00%	3.50%	5.30%	4.00%	2.90%
Real GDP growth	3.60%	3.90%	4.20%	3.60%	4.20%

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

	Key assumptions
Return on investment	5.15%
Risk-based solvency margin ratio	304.10%

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

	Amount
Total recoverable amount	₩ 33,520,926
Total book value	29,820,139
	₩ 3,700,787

In millions of won

16. Investments in associates

(a) Investments in associates as of December 31, 2011, 2010 and January 1, 2010 were as follows:

Investees	Country	Reporting date	Ownership (%) (*1) December 31, 2011	December 31, 2010	January 1, 2010
Cardif Life Insurance (*2,4)	Korea	September 30	14.99	14.99	14.99
Aju Capital Co., Ltd. (*2,3)	〃	〃	12.93	12.93	12.93
Macquarie Shinhan Infrastructure Management (*1,2)	〃	〃	50.00	50.00	50.00
Shinhan Vina Bank (*9)	Vietnam	December 31	-	50.00	50.00
Pohang TechnoPark 2PFV (*3)	Korea	〃	14.90	-	-
Shinhan KT Mobile Card (*10)	〃	〃	50.00	50.00	50.00
Shinhan Corporate Restructuring Fund 5th	〃	〃	50.00	50.00	45.00
Shinhan Corporate Restructuring Fund 8th	〃	〃	-	25.82	25.82
DCC Corporate Restructuring Fund 1st	〃	〃	24.14	24.14	24.14
KTB Corporate Restructuring Fund 18th	〃	〃	47.17	47.17	47.17
High Technology Investment, Ltd. (*8)	〃	September 30	-	-	28.89
HTIC Corporate Restructuring Fund 2nd (*8)	〃	December 31	-	-	20.00
PT Clemont Finance Indonesia (*2)	Indonesia	September 30	30.00	30.00	30.00
Haejin Shipping Co. Ltd.	Hongkong	December 31	24.00	24.00	24.00
APC Fund	〃	〃	25.20	25.20	25.20
Westend Corporate Restructuring Fund (*2,8)	Korea	September 30	-	27.59	27.59
TSYoon 2nd Corporate Restructuring Fund	〃	December 31	23.26	23.26	23.26
SHC-IMM New Growth Fund (*7)	〃	〃	64.52	64.52	64.52
SHC-AJU 1st Investment Fund (*6)	〃	〃	-	19.23	19.23
Now IB Fund 6 th	〃	〃	25.00	25.00	-
QCP New Technology Fund 20th	〃	〃	47.17	47.17	-
UAMCO., Ltd. (*5)	〃	〃	17.50	17.50	17.50
Miraeasset 3rd Investment Fund	〃	〃	50.00	50.00	-
Now IB Fund 8th	〃	〃	38.46	38.46	38.46
SHC-AJU 2nd Investment Fund	〃	〃	-	25.00	-
Aju-Shinhan 1st Investment Fund (*7)	〃	〃	60.00	60.00	-
Aju-Shinhan 2nd Investment Fund	〃	〃	33.33	-	-
Aju 3rd Investment Fund (*7)	〃	〃	60.00	-	-
Stonebridge New growth Investment Fund	〃	〃	23.33	23.33	-
Aju M&A1st Investment Fund (*8)	〃	〃	-	40.00	-
Petra Private Equity Fund (*8)	〃	〃	-	23.81	23.81
Medici 2nd Investment Fund (*7)	〃	〃	54.67	-	-

(*1) Considered common share ratio except preferred shares
(*2) Financial statements as of September 30, 2011 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 and prior period.
(*9) Shinhan Vina Bank is merged by Shinhan Vietnam Bank for the current period.
(*10) The Group cease to apply the equity method as investor's share of losses of an associate exceeds its interest in the associate

(b) Changes in investments in associates for the years ended December 31, 2011 and 2010 were as follows:

						December 31, 2011
Investees	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
Cardif Life Insurance	₩ 13,826	9,750	3,157	(1,705)	-	25,028
Aju Capital Co., Ltd. (*1)	34,904	(692)	4,577	(494)	(4,351)	33,944
Macquarie Shinhan Infrastructure Management	4,282	(4,714)	4,433	575	-	4,576
Shinhan Vina Bank	57,833	(61,696)	928	2,935	-	-
Pohang TechnoPark 2PFV	-	4,470	(751)	(22)	-	3,697
Shinhan Corporate Restructuring Fund 5th	1,212	-	(833)	290	-	669
Shinhan Corporate Restructuring Fund 8th	25,407	(30,027)	4,620	-	-	-
DCC Corporate Restructuring Fund 1st	2,023	(1,207)	29	-	-	845
KTB Corporate Restructuring Fund 18th	10	-	-	-	-	10
PT Clemont Finance Indonesia	6,286	-	794	266	-	7,346
Haejin Shipping Co. Ltd.	996	-	167	1	-	1,164
APC Fund	19,998	7,233	9,585	1,584	-	38,400
Westend Corporate Restructuring Fund	8,210	(9,466)	1,256	-	-	-
TSYoon 2nd Corporate Restructuring Fund	4,153	(1,767)	257	(171)	-	2,472
SHC-IMM New Growth Fund	2,731	4,300	(215)	-	-	6,816
SHC-AJU 1st Investment Fund	2,626	(4,862)	2,236	-	-	-
Now IB Fund 6th	2,669	(1,175)	(20)	-	-	1,474
QCP New Technology Fund 20th	1,164	-	(1,043)	-	-	121
UAMCO., Ltd.	86,480	-	17,785	(25)	-	104,240
Miraeasset 3rd Investment Fund	4,512	(1,500)	1,676	-	-	4,688
Now IB Fund 8th	1,036	-	360	(62)	-	1,334
SHC-AJU 2nd Investment Fund	1,984	(2,116)	132	-	-	-
Aju-Shinhan 1st Investment Fund	3,162	(59)	267	-	-	3,370
Aju-Shinhan 2nd Investment Fund	-	1,930	106	-	-	2,036
Aju 3rd Investment Fund	-	3,000	(211)	-	-	2,789
Stonebridge New Growth Investment Fund	701	-	(137)	-	-	564
Aju M&A1st Investment Fund	3,994	(4,256)	262	-	-	-
Petra Private Equity Fund	9,613	(18,001)	8,388	-	-	-
Medici 2nd Investment Fund	-	3,280	(15)	-	-	3,265
	₩ 299,812	(107,575)	57,790	3,172	(4,351)	248,848

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

In millions of won

						December 31, 2010
Investees	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
Cardif Life Insurance	₩ 4,400	6,000	321	3,105	-	13,826
Aju Capital Co., Ltd. (*1)	86,876	-	745	27,216	(79,933)	34,904
Macquarie Shinhan Infrastructure Management	4,406	(5,748)	5,624	-	-	4,282
Shinhan Vina Bank	53,184	-	5,956	(1,307)	-	57,833
Shinhan KT Mobile Card	248	-	(248)	-	-	-
Shinhan Corporate Restructuring Fund 5th	5,364	(374)	(3,325)	(453)	-	1,212
Shinhan Corporate Restructuring Fund 8th	24,193	-	1,214	-	-	25,407
DCC Corporate Restructuring Fund 1st	1,549	(724)	1,032	166	-	2,023
KTB Corporate Restructuring Fund 18th	407	(176)	(221)	-	-	10
High Technology Investment, Ltd.	142	(56)	(5)	(81)	-	-
HTIC Corporate Restructuring Fund 2nd	3,891	(5,209)	1,318	-	-	-
PT Clemont Finance Indonesia	4,906	-	1,208	172	-	6,286
Haejin Shipping Co. Ltd.	876	-	95	25	-	996
APC Fund	14,396	7,092	(1,124)	(366)	-	19,998
Westend Corporate Restructuring Fund	7,942	(552)	820	-	-	8,210
TSYoon 2nd Corporate Restructuring Fund	5,001	(671)	85	(262)	-	4,153
SHC-IMM New Growth Fund	2,954	-	(223)	-	-	2,731
SHC-AJU 1st Investment Fund	2,499	-	127	-	-	2,626
Now IB Fund 6 th	-	2,500	169	-	-	2,669
QCP New Technology Fund 20th	-	2,500	(1,336)	-	-	1,164
UAMCO., Ltd.	11,992	72,800	1,688	-	-	86,480
Miraeasset 3rd Investment Fund	-	4,560	(48)	-	-	4,512
Now IB Fund 8th	-	1,000	36	-	-	1,036
SHC-AJU 2nd Investment Fund	-	2,000	(16)	-	-	1,984
Aju-Shinhan 1st Investment Fund	-	3,000	162	-	-	3,162
Stonebridge New Growth Investment Fund	-	700	1	-	-	701
Aju M&A1st Investment Fund	-	4,000	(6)	-	-	3,994
Petra Private Equity Fund	9,998	(357)	(28)	-	-	9,613
CKD Starbio Venture Fund	1,000	(2,301)	1,301	-	-	-
	₩ 246,224	89,984	15,322	28,215	(79,933)	299,812

(*1) The market value of investments was ₩34,904 million as of December 31, 2010 based on the quoted market price at that date.

(c) Condensed financial statements of associates as of and for the years ended December 31, 2011 and 2010 and as of January 1, 2010 were as follows:

Investees	December 31, 2011		December 31, 2010		January 1, 2010	
	Asset	Liability	Asset	Liability	Asset	Liability
Cardif Life Insurance	₩ 2,361,638	2,180,638	2,250,981	2,128,304	1,675,937	1,619,758
Aju Capital Co., Ltd.	5,200,373	4,523,282	3,700,175	3,013,088	3,772,145	3,100,163
Macquarie Shinhan Infrastructure Management	17,294	6,559	17,335	7,187	17,884	7,488
Shinhan Vina Bank (*)	426,868	308,057	552,991	437,325	387,710	281,341
Pohang TechnoPark 2PFV	35,415	10,603	-	-	-	-
Shinhan KT Mobile Card	53	1	54	63	595	98
Shinhan Corporate Restructuring Fund 5th	1,823	337	3,084	391	12,142	222
Shinhan Corporate Restructuring Fund 8th	-	-	102,311	3,927	94,597	914
DCC Corporate Restructuring Fund 1st	3,553	53	8,475	96	6,783	367
KTB Corporate Restructuring Fund 18th	21	-	21	-	877	14
High Technology Investment, Ltd.	-	-	-	-	491	1
HTIC Corporate Restructuring Fund 2nd	-	-	-	-	20,272	816
PT Clemont Finance Indonesia	93,130	68,642	82,925	62,169	78,384	61,444
Haejin Shipping Co. Ltd.	2,614	-	141,199	139,291	177,360	175,944
APC Fund	152,557	177	79,358	78	57,094	46
Westend Corporate Restructuring Fund	-	-	29,760	-	28,790	-
TSYoon 2nd Corporate Restructuring Fund	10,741	110	17,974	111	21,506	-
SHC-IMM New Growth Fund	10,664	100	4,237	3	4,578	-
SHC-AJU 1st Investment Fund	-	-	13,720	66	13,000	7
Now IB Fund 6th	5,944	46	10,752	76	-	-
QCP New Technology Fund 20th	256	-	2,467	-	-	-
UAMCO., Ltd.	3,738,326	3,146,227	1,786,464	1,293,766	68,710	185
Miraeasset 3rd Investment Fund	9,438	61	9,120	96	-	-
Now IB Fund 8th	3,503	36	2,704	10	-	-
SHC-AJU 2nd Investment Fund	-	-	7,955	20	-	-
Aju-Shinhan 1st Investment Fund	5,679	61	5,281	11	-	-
Aju-Shinhan 2nd Investment Fund	6,121	13	-	-	-	-
Aju-Shinhan 3rd Investment Fund	4,651	3	-	-	-	-
Stonebridge New growth Investment Fund	2,417	-	3,004	-	-	-
Aju M&A1st Investment Fund	-	-	10,000	15	-	-
Petra Private Equity Fund	-	-	40,378	4	41,990	-
CKD Starbio Venture Fund	-	-	-	-	3,201	1
Medici 2nd Investment Fund	5,974	2	-	-	-	-
	₩ 12,099,053	10,245,008	8,882,725	7,086,097	6,484,046	5,248,809

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended december 31, 2011 and 2010

In millions of won

Investees	2011		2010	
	Operating revenue	Net income	Operating revenue	Net income
Cardif Life Insurance	₩ 646,812	4,915	789,636	5,935
Aju Capital Co., Ltd.	730,272	35,423	747,093	5,762
Macquarie Shinhan Infrastructure Management	16,797	8,865	23,203	11,248
Shinhan Vina Bank (*)	48,534	1,857	37,440	11,913
Pohang TechnoPark 2PFV	-	(5,038)	-	-
Shinhan KT Mobile Card	-	60	102	(505)
Shinhan Corporate Restructuring Fund 5th	292	252	489	401
Shinhan Corporate Restructuring Fund 8th	16,513	-	41	(1,305)
DCC Corporate Restructuring Fund 1st	202	121	5,009	4,959
KTB Corporate Restructuring Fund 18th	-	-	10	(469)
HTIC Corpoorate Restructuring Fund 2nd	-	-	6,954	6,590
PT Clemont Finance Indonesia	7,705	59	9,206	3,343
Haejin Shipping Co. Ltd.	29,778	696	55,539	421
APC Fund	41,635	37,968	-	(4,441)
Westend Corporate Restructuring Fund	-	939	-	2,971
TSYoon 2nd Corporate Restructuring Fund	1,220	1,105	467	351
SHC-IMM New Growth Fund	65	(334)	73	(343)
SHC-AJU 1st Investment Fund	9,425	9,161	922	661
Now IB Fund 6th	580	(79)	753	676
QCP New Technology Fund 20th	1	(2,211)	1	(2,833)
UAMCO., Ltd.	468,220	101,624	32,607	9,649
Miraeasset 3rd Investment Fund	3,611	3,353	-	(96)
Now IB Fund 8th	961	933	105	94
SHC-AJU 2nd Investment Fund	-	-	163	(65)
Aju-Shinhan 1st Investment Fund	479	(37)	281	270
Aju-Shinhan 2nd Investment Fund	659	318	-	-
Aju-Shinhan 3rd Investment Fund	161	(352)	-	-
Stonebridge New growth Investment Fund	46	(518)	4	(65)
Aju M&A1st Investment Fund	-	-	-	(14)
Petra Private Equity Fund	31,398	25,724	728	(343)
CKD Starbio Venture Fund	-	-	-	(27)
Medici 2nd Investment Fund	25	(27)	-	-
	₩ 2,055,391	224,777	1,710,826	54,738

(*) Deemed acquisition date is November 28, 2011

17. Investment properties

(a) Investment properties as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Acquisition cost	₩ 292,956	294,827	330,340
Accumulated depreciation	(17,833)	(8,871)	-
Book value	₩ 275,123	285,956	330,340

(*) In the preparation of the opening K-IFRS consolidated statement of financial position on the date of transition to K-IFRS, the Group measured land and buildings at fair value at the date of transition, which is deemed cost, in accordance with K-IFRS No. 1101. Land and buildings were revalued on January 1, 2010 by an independent valuation service provider. Valuation was based on the recent arm's length market transactions between knowledgeable and willing parties.

(b) Changes in investment properties for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Beginning balance	₩ 285,956	330,340
Acquisitions	17	-
Disposals	(23,032)	(193)
Depreciation	(9,245)	(8,352)
Amounts transferred from investment property	21,415	(35,839)
Foreign currency adjustment	12	-
Ending balance	**₩ 275,123**	**285,956**

(c) Income and expenses on investment property for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Rental Income	₩ 26,955	21,269
Direct operating expenses for investment properties that generated rental income	8,299	8,075

(d) The fair value of investment property as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Land and buildings	₩ 254,607	262,620	330,340

In millions of won

18. Other assets

Other assets as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts receivable	₩ 2,790,826	3,026,007	3,710,030
Domestic exchange settlement debit	1,876,400	1,242,426	946,093
Guarantee deposits	1,329,141	1,293,835	1,251,327
Accrued income	1,557,307	1,295,290	1,256,988
Prepaid expense	197,433	167,926	194,525
Suspense payments	122,700	114,671	174,052
Sundry assets	109,088	73,090	65,780
Separate account assets	1,657,639	1,734,239	1,548,136
Advance payments	255,430	282,160	173,470
Unamortized deferred acquisition cost	1,098,230	891,318	789,338
Other	112,927	74,759	113,912
Present value discount	(99,403)	(118,035)	(123,003)
Allowances for impairment	(119,840)	(128,652)	(206,204)
	₩ 10,887,878	9,949,034	9,894,444

19. Lease

(a) Finance lease receivables of the Group as lessor as of December 31, 2011, 2010 and January 1, 2010 were as follows:

				December 31, 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

				December 31, 2010
	Gross investment	Unearned finance income	Present value of minimum lease payment	Unguaranteed residual value
Not later than 1 year	₩ 703,559	78,660	624,899	-
1 ~ 5 years	960,364	79,265	870,173	10,926
Later than 5 years	54,696	5,582	49,114	-
	₩ 1,718,619	163,507	1,544,186	10,926

				January 1, 2010
	Gross investment	Unearned finance income	Present value of minimum lease payment	Unguaranteed residual value
Not later than 1 year	₩ 654,231	67,967	586,264	-
1 ~ 5 years	1,023,196	100,403	904,365	18,427
Later than 5 years	72,645	15,884	56,761	-
	₩ 1,750,072	184,254	1,547,390	18,427

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

i) Finance leases

	December 31, 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

	2011
	Minimum lease payment
Not later than 1 year	₩ 6,281
1 ~ 5 years	7,078
Later than 5 years	-
	₩ 13,359

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

	2011
	Minimum lease payment
Not later than 1 year	₩ 70,712
1 ~ 5 years	81,945
Later than 5 years	1,289
	₩ 153,946

20. Pledged assets

(a) Assets pledged as collateral as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Loans	₩ 154,425	147,301	187,931
Securities			
Trading assets	3,644,128	4,021,168	2,950,298
Available-for-sale financial assets	1,953,753	1,579,223	1,927,152
Held-to-maturity financial assets	5,541,627	4,761,563	5,109,747
Financial assets designated at fair value through profit or loss	263,578	240,428	77,599
	11,403,086	10,602,382	10,064,796
Deposits	-	475	1,103
Real estate	108,928	144,890	142,783
	₩ 11,666,439	10,895,048	10,396,613

(*) The carrying amounts of asset pledged that the pledgees have the right to sell or repledge regardless of the Group's default as of December 31, 2011, 2010 and January 1, 2010 were ₩4,919,709 million, ₩4,620,882 and ₩4,918,323 million, respectively.

In millions of won

(b) The fair value of collateral held that the Group has the right to sell or repledge regardless of pledger's default as of December 31, 2011, 2010 and January 1, 2010 was as follows:

		December 31, 2011
	Collateral held	Collateral sold or repledged
Securities	₩ 781,902	-

		December 31, 2010
	Collateral held	Collateral sold or repledged
Securities	₩ 1,200,129	-

		January 1, 2010
	Collateral held	Collateral sold or repledged
Securities	₩ 439,700	-

21. Deposits

Deposits as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Demand deposits	₩ 49,861,856	47,798,778	45,286,831
Time deposits	102,902,575	91,002,529	82,962,243
Negotiable certificates of deposits	2,967,419	3,461,483	7,761,281
Note discount deposits	4,623,801	4,494,294	5,324,541
CMA (*)	1,614,377	1,628,543	1,311,767
Others	1,045,704	1,031,035	1,074,549
	₩ 163,015,732	149,416,662	143,721,212

(*) CMA: Cash management account deposits

22. Trading liabilities

Trading liabilities as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Securities sold			
Equity	₩ 49,401	1,368	20,572
Debt	240,930	622,990	7,394
Gold deposits	414,087	198,619	318,969
	₩ 704,418	822,977	346,935

23. Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Equity-linked securities sold	₩ 2,927,046	1,510,148	746,819
Derivatives-combined securities sold	371,363	443,371	339,861
	₩ 3,298,409	1,953,519	1,086,680

24. Borrowings

(a) Borrowings as of December 31, 2011, 2010 and January 1, 2010 were as follows:

		December 31, 2011
	Interest rate (%)	Amount
Borrowings in won		
Borrowings from Bank of Korea	1.50%	₩ 796,164
Others	0.00%~6.78%	5,423,558
		6,219,722
Borrowings in foreign currency		
Overdraft due to banks	0.89%~2.98%	1,021,187
Borrowings from banks	0.60%~9.26%	3,958,648
Others	0.70%~5.90%	3,299,947
		8,279,782
Call money	0.14%~3.55%	1,309,137
Bill sold	1.70%~6.08%	105,697
Bonds sold under repurchase agreements	0.10%~8.90%	3,890,665
Due to Bank of Korea in foreign currency	0.10%	232,372
Present value discounts		(4,129)
		₩ 20,033,246

		December 31, 2010
	Interest rate (%)	Amount
Borrowings in won		
Borrowings from Bank of Korea	1.00%~1.25%	₩ 777,407
Others	0.00%~9.32%	4,909,411
		5,686,818
Borrowings in foreign currency		
Overdraft due to banks	0.10%~5.77%	1,191,963
Borrowings from banks	0.57%~5.97%	2,970,828
Others	1.08%~5.90%	2,978,157
		7,140,948
Call money	0.15%~2.80%	1,333,619
Bill sold	1.70%~4.40%	49,140
Bonds sold under repurchase agreements	0.10%~8.84%	3,660,325
Due to Bank of Korea in foreign currency	0.10%	218,591
Present value discounts		(3,982)
		₩ 18,085,459

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For the years ended december 31, 2011 and 2010

In millions of won

		January 1, 2010
	Interest rate (%)	Amount
Borrowings in won		
Borrowings from Bank of Korea	1.25%	₩ 1,236,146
Others	0.00%~12.00%	4,911,055
		6,147,201
Borrowings in foreign currency		
Overdraft due to banks	5.40%	583,851
Borrowings from banks	0.15%~7.58%	2,427,352
Others	1.15%~5.90%	2,281,518
		5,292,721
Call money	0.60%~2.10%	2,440,357
Bill sold	1.50%~6.08%	68,659
Bonds sold under repurchase agreements	0.10%~7.80%	3,358,104
Due to Bank of Korea in foreign currency	0.10%	197,584
Redeemable preferred stock	4.04~7.86%	178,503
Present value discounts		(10,124)
		₩ 17,673,005

25. Debt securities issued

Debt securities issued as of December 31, 2011, 2010 and January 1, 2010 were as follows:

		December 31, 2011
	Interest rate (%)	Amount
Debt securities issued in won		
Debt securities issued	0.00%~11.95%	₩ 29,661,054
Subordinated debt securities issued	4.25%~14.45%	3,983,785
Loss on fair value hedges		87,656
Discount		(58,320)
		33,674,175
Debt securities issued in foreign currency		
Debt securities issued	1.05%~8.13%	5,983,933
Loss on fair value hedges		100,717
Discount		(21,867)
		6,062,783
		₩ 39,736,958

		December 31, 2010
	Interest rate (%)	Amount
Debt securities issued in won		
Debt securities issued	2.34%~10.00%	₩ 30,904,238
Subordinated debt securities issued	4.56%~8.00%	3,485,824
Loss on fair value hedges		109,854
Discount		(35,821)
		34,464,095
Debt securities issued in foreign currency		
Debt securities issued	1.30%~8.13%	5,451,143
Subordinated debt securities issued	5.13%~5.75%	341,670
Loss on fair value hedges		42,044
Discount		(12,684)
		5,822,173
		₩ 40,286,268

		January 1, 2010
	Interest rate (%)	Amount
Debt securities issued in won		
Debt securities issued	0.00%~9.00%	₩ 31,034,611
Subordinated debt securities issued	4.56%~8.00%	3,663,544
Loss on fair value hedges		(85,097)
Discount		(42,240)
Premium		7
		34,570,825
Debt securities issued in foreign currency		
Debt securities issued	0.86%~8.13%	6,010,481
Subordinated debt securities issued	5.13%~5.75%	758,940
Loss on fair value hedges		33,299
Discount		(10,787)
		6,791,933
		₩ 41,362,758

26. Employee benefits

(a) Defined benefit plan assets and liabilities

Defined benefit plan assets and liabilities as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Present value of defined benefit obligation	₩ 877,037	618,911	461,113
Fair value of plan assets	(602,376)	(448,859)	(314,747)
Recognized liabilities for defined benefit obligation	₩ 274,661	170,052	146,366

In millions of won

(b) Changes in the present value of defined benefit obligation for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Beginning balance	₩ 618,911	461,113
Current service cost	102,252	86,289
Interest expense	37,680	32,313
Actuarial losses (gains)	140,811	74,927
Foreign exchange adjustments	64	65
Benefit paid by the plan	(22,681)	(35,796)
Ending balance	**₩ 877,037**	**618,911**

(c) Changes in the fair value of plan assets for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Beginning balance	₩ (448,859)	(314,747)
Expected return on plan assets	(20,640)	(16,339)
Actuarial losses (gains)	131	90
Contributions paid into the plan	(151,142)	(127,943)
Benefit paid by the plan	18,134	10,080
Ending balance	**₩ (602,376)**	**(448,859)**

(d) Expense recognized in profit or loss for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Current service costs	₩ 102,252	86,289
Interest expense	37,680	32,313
Expected return on plan assets	(20,640)	(16,339)
Actuarial gains (losses)	140,680	74,837
	₩ 259,972	177,100

(e) Historical information of defined benefit plan assets and liabilities as of December 31, 2011, 2010 and January 1, 2010 was as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Present value of defined benefit obligation	₩ 877,037	618,911	461,113
Fair value of plan assets	(602,376)	(448,859)	(314,747)
	274,661	170,052	146,366
Adjustments to defined benefit obligation	140,811	74,927	-
Adjustments to plan assets	131	90	-

(f) Plan assets as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Plan assets			
Equity securities	₩ 28,230	21,424	23,318
Debt securities	518,647	6	-
Due from banks	49,025	423,570	287,026
Other	6,474	3,859	4,403
	₩ 602,376	448,859	314,747

(g) Actuarial assumptions as of December 31, 2011, 2010 and January 1, 2010 were as follows:

		December 31, 2011
	Assumptions	Descriptions
Discount rate	5.02% ~ 5.37%	AA Corporate bond yields
Expected return on plan assets	3.26% ~ 4.38%	Weighted average yield for the past
Future salary increasing rate	2.00% ~ 4.06% + Upgrade rate	Average for 5 years

		December 31, 2010
	Assumptions	Descriptions
Discount rate	5.89% ~ 6.23%	AA Corporate bond yields
Expected return on plan assets	3.30% ~ 4.38%	Weighted average yield for the past
Future salary increasing rate	2.00% ~ 4.06% + Upgrade rate	Average for 5 years

		January 1, 2010
	Assumptions	Descriptions
Discount rate	5.37% ~ 7.09%	AA Corporate bond yields
Expected return on plan assets	4.38% ~ 6.47%	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, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Asset retirement obligation	₩ 35,727	33,693	31,818
Expected loss related to litigation	215,808	101,132	109,223
Unused credit commitments	444,770	462,478	464,980
Bonus card points program	24,439	25,203	27,407
Financial guarantee contracts issued	85,778	170,982	106,068
Others	63,070	65,869	42,138
	₩ 869,592	859,357	781,634

In millions of won

(b) Changes in provisions for the years ended December 31, 2011 and 2010 were as follows:

							2011
	Asset retirement	Litigation	Unused credit	Card point	Guarantee	Other	Total
Beginning balance	₩ 33,693	101,132	462,477	25,203	170,983	65,870	859,358
Provision / reversal	297	124,551	(18,570)	17,265	(70,860)	(1,407)	51,276
Provision used	(526)	(9,875)	-	(18,029)	-	(4,751)	(33,181)
Foreign exchange translation	-	-	863	-	1,227	-	2,090
Others	2,263	-	-	-	(15,572)	3,358	(9,951)
Ending balance	₩ 35,727	215,808	444,770	24,439	85,778	63,070	869,592

							2010
	Asset retirement	Litigation	Unused credit	Card point	Guarantee	Other	Total
Beginning balance	₩ 31,818	109,223	464,980	27,407	106,068	42,138	781,634
Provision / reversal	257	6,756	(3,153)	19,395	41,023	34,551	98,829
Provision used	(282)	(14,847)	-	(21,599)	-	(11,049)	(47,777)
Foreign exchange translation	-	-	651	-	(821)	-	(170)
Others	1,900	-	-	-	24,712	229	26,841
Ending balance	₩ 33,693	101,132	462,478	25,203	170,982	65,869	859,357

(*) Provisions for card point were classified as fees and commission expense

(c) Asset retirement obligation liabilities represent the estimated cost to restore the existing leased properties which is discounted to the present value using the appropriate discount rate at the end of the reporting period. Disbursements of such costs are expected to incur at the end of lease contract. Such costs are reasonably estimated using the average lease year and the average restoration expenses. The average lease year is calculated based on the past ten-year historical data of the expired leases. The average restoration expense is calculated based on the actual costs incurred for the past three years using the three-year average inflation rate.

(d) Allowance for guarantees and acceptances as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Guarantees and acceptances outstanding	₩ 10,174,850	8,604,676	8,643,747
Contingent guarantees and acceptances	6,882,438	7,114,238	6,936,162
ABS and ABCP purchase commitments	1,605,269	2,688,977	3,706,044
Endorsed bill	9,748	12,119	51,652
	₩ 18,672,305	18,420,010	19,337,605
Allowance for loss on guarantees and acceptances	₩ 85,778	170,982	106,068
Ratio	0.46%	0.93%	0.55%

28. Liability under insurance contracts

(a) Insurance liabilities as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Policy reserve	₩ 10,861,243	8,978,760	7,467,830
Policyholder's equity adjustment	6,011	7,620	1,300
	₩ 10,867,254	8,986,380	7,469,130

(b) Policy reserve of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Insurance policy reserve			
Interest rate linked	₩ 6,055,822	4,608,499	3,416,176
Fixed interest rate	4,486,193	4,120,643	3,859,467
	10,542,015	8,729,142	7,275,643
Investment contract including discretionary participation feature			
Interest rate linked	319,228	249,618	192,187
	₩ 10,861,243	8,978,760	7,467,830

(c) The details of policy reserves as of December 31, 2011 2010 and 2009 were as follows:

				December 31, 2011
				Individual insurance
	Pure endowment	Death	Endowment	Subtotal
Premium reserve	₩ 2,411,566	5,065,110	2,715,919	10,192,595
Guarantee reserve	7,857	2,664	186	10,707
Unearned premium reserve	6	750	1	757
Reserve for outstanding claims	43,705	432,549	60,705	536,959
Interest rate difference guarantee reserve	2,650	275	22	2,947
Mortality gains reserve	8,318	8,741	444	17,503
Interest gains reserve	5,024	385	31	5,440
Long term duration dividend reserve	77	17	2	96
Reserve for policyholder's profit dividend	7,053	-	-	7,053
	₩ 2,486,256	5,510,491	2,777,310	10,774,057

				Group insurance
	Pure protection	Savings	Subtotal	**Totall**
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**

In millions of won

				December 31, 2010
				Individual insurance
	Pure endowment	Death	Endowment	Subtotal
Premium reserve	₩ 2,120,412	4,487,431	1,780,827	8,388,670
Guarantee reserve	12,217	10	561	12,788
Unearned premium reserve	13	772	1	786
Reserve for outstanding claims	34,993	375,553	39,347	449,893
Interest rate difference guarantee reserve	2,760	294	23	3,077
Mortality gains reserve	8,716	9,463	501	18,680
Interest gains reserve	2,010	406	33	2,449
Long term duration dividend reserve	81	18	2	101
Reserve for policyholder's profit dividend	6,355	-	-	6,355
	₩ 2,187,557	4,873,947	1,821,295	8,882,799

				Group insurance
	Pure protection	Savings	Subtotal	Total
Premium reserve	₩ 57,410	451	57,861	8,446,531
Guarantee reserve	-	-	-	12,788
Unearned premium reserve	439	-	439	1,225
Reserve for outstanding claims	37,656	-	37,656	487,549
Interest rate difference guarantee reserve	-	-	-	3,077
Mortality gains reserve	5	-	5	18,685
Interest gains reserve	-	-	-	2,449
Long term duration dividend reserve	-	-	-	101
Reserve for policyholder's profit dividend	-	-	-	6,355
	₩ 95,510	451	95,961	8,978,760

				January 1, 2010
				Individual insurance
	Pure endowment	Death	Endowment	Subtotal
Premium reserve	₩ 1,850,986	4,055,728	1,055,534	6,962,248
Guarantee reserve	6,522	731	328	7,581
Unearned premium reserve	13	866	3	882
Reserve for outstanding claims	31,488	322,897	19,768	374,153
Interest rate difference guarantee reserve	2,864	312	26	3,202
Mortality gains reserve	8,531	9,149	525	18,205
Interest gains reserve	775	424	37	1,236
Long term duration dividend reserve	84	20	2	106
Reserve for policyholder's profit dividend	3,450	-	-	3,450
	₩ 1,904,713	4,390,127	1,076,223	7,371,063

(continued)

				January 1, 2010
				Group insurance
	Pure protection	Savings	Subtotal	Total
Premium reserve	₩ 57,723	438	58,161	7,020,409
Guarantee reserve	-	-	-	7,581
Unearned premium reserve	1,620	-	1,620	2,502
Reserve for outstanding claims	36,981	-	36,981	411,134
Interest rate difference guarantee reserve	-	-	-	3,202
Mortality gains reserve	5	-	5	18,210
Interest gains reserve	-	-	-	1,236
Long term duration dividend reserve	-	-	-	106
Reserve for policyholder's profit dividend	-	-	-	3,450
	₩ 96,329	438	96,767	7,467,830

(d) Reinsurance credit risk as of December 31, 2011, 2010 and January 1, 2010 were as follows:

		December 31, 2011
	Reinsurance assets	Reinsurance account receivable
AA- to AA+	₩ 295	-
A- to A+	1,094	-
	₩ 1,389	-

		December 31, 2010
	Reinsurance assets	Reinsurance account receivable
AA- to AA+	₩ 199	1,119
A- to A+	1,142	24,046
	₩ 1,341	25,165

		January 1, 2010
	Reinsurance assets	Reinsurance account receivable
AA- to AA+	₩ 249	86
A- to A+	1,344	29,123
	₩ 1,593	29,209

In millions of won

(e) Income or expenses on insurance for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Insurance income		
Premium income	₩ 3,553,537	3,109,610
Reinsurance income	7,528	99,329
Separate account income	22,008	69,888
	3,583,073	3,278,827
Insurance expenses		
Claims paid	1,329,067	1,255,901
Reinsurance premium expenses	6,733	99,451
Provision for policy reserves	1,882,436	1,510,472
Separate account expenses	22,008	69,888
Discount charge	332	361
Acquisition costs	656,236	508,805
Collection expenses	12,373	11,498
Deferred acquisition costs (-)	(622,198)	(470,579)
Amortization of deferred acquisition costs	415,287	368,599
	3,702,274	3,354,396
Net loss on insurance	**₩ (119,201)**	(75,569)

(f) Maturity of premium reserve as of December 31, 2011, 2010 and January 1, 2010 was as follows:

December 31, 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**

December 31, 2010	Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	Total
Interest rate linked	₩ 16,291	12,444	168,213	499,830	240,197	3,554,145	**4,491,120**
Fixed interest rate	11,496	82,176	114,493	325,936	1,187,025	1,993,938	**3,715,064**
Others	153	1,179	47,466	32,185	90,759	68,605	**240,347**
Ending balance	**₩ 27,940**	**95,799**	**330,172**	**857,951**	**1,517,981**	**5,616,688**	**8,446,531**

January 1, 2010	Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	Total
Interest rate linked	₩ 56,175	24,579	177,134	132,092	196,904	2,765,169	**3,352,053**
Fixed interest rate	9,966	42,116	141,144	213,971	1,251,301	1,822,732	**3,481,230**
Others	183	373	921	284	1,376	183,989	**187,126**
Ending balance	**₩ 66,324**	**67,068**	**319,199**	**346,347**	**1,449,581**	**4,771,890**	**7,020,409**

(g) Liability adequacy test, LAT

Liability adequacy tests were performed on the premium reserve, unearned premium reserve and guarantee reserve as of March 31, 2011 of contract held at December 31, 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, 2011 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:

		December 31, 2011
	Assumption	Measurement basis
Discount rate	4.96% ~ 5.41%	Future rate of return on invested asset based on the rate scenario suggested by FSS.
Mortality rate	15% ~ 155%	Rate of premium paid on risk premium based on experience-based rate by classes of sales channel, product and transition period of last 5 years.
Operating expense rate	Acquisition cost - The first time : 131.6% ~ 378.7% - From the second time : 0% ~ 34.5% 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	0.3% ~ 46.1%	Surrender ratio by classes of sales channel, product and transition period of last 5 years.

Sensitivity analysis as of December 31, 2010 is as follows:

	LAT fluctuation
Discount rate increased by 0.5%	(534,215)
Discount rate decreased by 0.5%	593,771
Operating expense increased by 10%	154,445
Mortality rate increased by 10%	309,112
Mortality rate increased by 5%	154,556
Surrender ratio increased by 10%	110,635

Sensitivity analysis as of December 31, 2011 was not performed since there have not been any significant changes in the estimation, compared with the previous period. Meanwhile, sensitivity analysis as above, as increase in LAT does not exceed present LAT surplus, profit or loss and equity are not affected.

In millions of won

29. Other liabilities

Other liabilities as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable	₩ 7,537,921	3,662,701	4,332,379
Accrued expenses	3,403,326	3,143,429	3,029,404
Dividend payable	25,987	23,721	3,754
Advance receipts	86,651	125,109	86,905
Unearned income (*)	335,845	291,964	286,764
Withholding value-added tax and other taxes	261,811	356,341	241,509
Securities deposit received	720,594	722,470	588,379
Foreign exchange remittances pending	202,365	170,762	246,906
Domestic exchange remittances pending	2,129,833	2,438,815	2,376,854
Borrowing from trust account	1,474,568	1,841,227	1,475,801
Due to agencies	394,206	434,044	398,519
Deposits for subscription	45,444	14,961	11,853
Other	3,253,185	3,615,440	2,991,812
Present value discount account	(29,568)	(29,424)	(30,905)
	₩ 19,842,168	16,811,560	16,039,934

(*) Changes in deferred (unearned) point income for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Beginning balance	₩ 138,940	115,674
Deferred income	171,061	146,013
Recognized income	159,824	122,747
Ending balance	**₩ 150,177**	138,940

30. Equity

(a) Equity as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Capital stock			
Common stock	₩ 2,370,998	2,370,998	2,370,998
Preferred stock	274,055	218,555	218,555
	2,645,053	2,589,553	2,589,553
Hybrid bond	238,582	-	-
Capital surplus			
Share premium	9,494,769	8,444,105	8,444,105
Others	392,080	390,866	390,866
	9,886,849	8,834,971	8,834,971
Capital adjustments	(392,654)	(390,853)	(390,866)
Accumulated other comprehensive income, net of tax			
Valuation gain (loss) on available-for-sale financial assets	1,208,744	1,668,944	1,494,521
Equity in other comprehensive income of associates	1,404	(1,313)	(22,075)
Foreign currency translation adjustments for foreign operations	(1,841)	(17,927)	-
Net loss from cash flow hedges	(20,501)	(21,930)	(35,416)
Other comprehensive income of separate account	1,142	1,721	18
	1,188,948	1,629,495	1,437,048
Retained earnings			
Legal reserve (*)	1,390,625	1,152,507	1,021,878
Retained earnings	9,439,098	10,918,714	8,784,886
	10,829,723	12,071,221	9,806,764
Non-controlling interest	2,462,304	2,460,838	2,464,923
	₩ 26,858,805	27,195,225	24,742,393

(*) 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.

In millions of won

(b) Capital stock

i) Capital stock of the Group as of December 31, 2011 and 2010 was as follows:

Number of authorized shares	1,000,000,000
Par value per share in won	₩ 5,000
Number of issued common stocks outstanding	474,199,587
Number of issued preferred stocks outstanding	
- As of December 31, 2011	54,811,000
- As of December 31, 2010	43,711,000

ii) Preferred stocks issued by the Group as of December 31, 2011 were as follows:

	Number of shares	Predetermined dividend rate (%) (*1)	Redeemable period
Redeemable preferred stock:			
Series 10 (*2)	28,990,000	7.00%	January 25, 2012 - January 25, 2027
Convertible redeemable preferred stock:			
Series 11 (*3)	14,721,000	3.25%	January 25, 2012 - January 25, 2027
Redeemable preferred stock:			
Series 12 (*2)	11,100,000	5.58%	April 21, 2016 - April 21, 2031
	54,811,000		

(*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. If the preferred shares are not redeemed by the end of the redeemable year, those rights will lapse.
(*3) Details with respect to the conversion right of the Group are as follows:
Conversion year : January 26, 2008 - January 25, 2012
Conversion ratio : One common stock per one preferred stock
Conversion price in won : ₩57,806

The following redeemable preferred stocks classified as financial liabilities were redeemed as of December 31, 2011. As a result, the amount of capital stock in accordance with the Commercial Law differs from the total par value of the outstanding capital stock.

Redemption year	Redeemable preferred stock	Number of shares redeemed	Par value
2010	Series 5	9,316,793	₩ 46,584
	Series 8	66,666	333
2009	Series 4	9,316,792	46,584
2008	Series 3	9,316,792	46,584
	Series 7	2,433,334	12,167
2007	Series 2	9,316,792	46,584
2006	Series 1	9,316,792	46,584
	Series 6	3,500,000	17,500
Preferred stock classified as financial liabilities		52,583,961	₩ 262,920
Preferred stock classified as an equity instrument			₩ 274,055
Commercial Law capital			₩ 536,975

(c) Hybrid bond

Hybrid bond classified as other equity as of December 31, 2011 is as follows:

	Issue date	Maturity date	Amount	Interest rate (%)
Hybrid bond	₩ October 24, 2011	October 24, 2041	238,582	5.8%

Hybrid bond could be redeemed early by the Group from 2017 or 5 years after issue date and the maturity could be extended at maturity date on the same terms. In addition, interests are not paid when there are no dividends on common stockholders.

(d) Capital adjustments

Changes in capital adjustments for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Beginning balance	₩ (390,853)	(390,866)
Changes in a parent's ownership interest in a subsidiary	(1,801)	62
Other transactions with owners	-	(49)
Ending balance	**₩ (392,654)**	(390,853)

(e) Accumulated other comprehensive income

i) Changes in accumulated other comprehensive income for the years ended December 31, 2011 and 2010 were as follows:

						2011
	Valuation gain (loss) on available-for-sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other Comprehensive income of separate account	**Total**
Beginning balance	₩ 1,668,944	(1,313)	(17,927)	(21,930)	1,721	**1,629,495**
Fair value evaluation	424,365	3,172	-	-	(681)	**426,856**
Reclassification	(956,829)	-	-	(37,345)	-	**(994,174)**
Hedging	(8,318)	-	(4,790)	38,569	-	**25,461**
Effects from exchange rate fluctuations	17	-	16,201	-	-	**16,218**
Deferred income taxes	80,329	(455)	4,709	205	102	**84,890**
Non-controlling interest	236	-	(34)	-	-	**202**
Ending balance	₩ 1,208,744	1,404	(1,841)	(20,501)	1,142	**1,188,948**

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For the years ended december 31, 2011 and 2010

In millions of won, except per share data

						2010
	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	₩ 1,494,521	(22,075)	-	(35,416)	18	1,437,048
Fair value evaluation	956,273	26,586	-	-	2,078	984,937
Reclassification	(742,694)	-	-	75,054	-	(667,640)
Hedging	26,012	-	(16,941)	(58,347)	-	(49,276)
Effects from exchange rate fluctuations	(3,385)	-	(988)	-	-	(4,373)
Deferred income taxes	(60,993)	(5,824)	(81)	(3,221)	(375)	(70,494)
Non-controlling interest	(790)	-	83	-	-	(707)
Ending balance	₩ 1,668,944	(1,313)	(17,927)	(21,930)	1,721	1,629,495

(f) Appropriation of retained earnings

Consolidated statements of appropriation of retained earnings for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Unappropriated retained earnings		
Balance at beginning of year	₩ 7,744,070	7,950,799
Repayment of preferred stock	(3,752,679)	-
Interest on hybrid bond	(2,594)	-
Net income	1,672,908	617,625
	5,661,705	8,568,424
Appropriation of retained earnings		
Legal reserve	167,291	238,118
Regulatory reserve for loan loss	18,687	-
Dividends		
Dividends on common stock	355,650	355,650
Dividends on preferred stock paid	273,858	230,586
	629,508	586,236
	815,486	824,354
Unappropriated retained earnings to be carried over to subsequent year	₩ 4,846,219	7,744,070

(*) 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, 2011 were as follows:

	2011
Beginning balance	₩ 1,430,793
Provision for regulatory reserve for loan loss	545,632
Ending balance	**₩ 1,976,425**

ii) Income for the year and earnings per share after adjusted for regulatory reserve for loan loss for the year ended December 31, 2011 were as follows:

	2011
Income for the year	₩ 3,100,011
Provision for regulatory reserve for loan loss	(542,266)
Income adjusted for regulatory reserve	**₩ 2,557,745**
Basic earnings per share adjusted for regulatory reserve in won	₩ 4,811
Diluted earnings per share adjusted for regulatory reserve in won	₩ 4,723

31. Dividends

(a) Details of dividends recognized as distributions to common stockholders for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Total number of shares issued and outstanding	₩ 474,199,587	474,199,587
Par value per share in won	5,000	5,000
Dividend per share in won	750	750
Dividends	**₩ 355,650**	355,650
Dividend rate per share (%)	15%	15%

(b) Details of dividends recognized as distributions to preferred stockholders for the years ended December 31, 2011 and 2010 are as follows:

					2011
	Total shares outstanding	Dividend per share in won	Total dividend	Issue price per share in won	Dividend rate per issue price
Redeemable preferred stock Series 10	28,990,000	₩ 7,000	202,930	100,000	7.00%
Convertible redeemable preferred stock Series 11	14,721,000	1,879	27,656	57,806	3.25%
Convertible redeemable preferred stock series 12	11,100,000	3,898	43,272	100,000	5.58%
	54,811,000	₩	273,858		

(*) Dividend has been calculated from the date of issue, 255 days from April 21, 2011 and regarding dividend rate is annualized.

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					2010
	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%
	54,811,000	₩	230,586		

(c) The calculation of dividend for hybrid bond is as follows:

	December 31, 2011
Amount of hybrid bond	₩ 240,000
Interest rate	5.8%
Dividend (*)	₩ 2,594

(*) Dividend has been calculated from the date of issue, 69 days from October 24, 2011 and regarding dividend rate is annualized.

(d) There is no unrecognized dividend on cumulative preferred stocks as of December 31, 2011 and 2010.

32. Net interest income

Net interest income for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Interest income		
Cash and due from banks	₩ 248,571	168,530
Trading assets	394,296	346,387
Financial assets designated at fair value through profit or loss	19,743	11,943
Available-for-sale financial assets	1,025,523	961,865
Held-to-maturity financial assets	642,931	687,373
Loans	11,281,606	10,570,658
Others	168,044	161,978
	13,780,714	12,908,734
Interest expense		
Deposits	4,181,049	3,935,630
Borrowings	485,253	390,271
Debt securities issued	1,942,850	2,041,212
Others	91,591	69,005
	6,700,743	6,436,118
Net interest income	₩ 7,079,971	6,472,616

Accrued interest recognized on impaired financial assets for the years ended December 31, 2011 and 2010 were ₩86,853 and ₩82,220, respectively.

33. Net fees and commission income

Net fees and commission income for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Fees and commission income		
Credit placement fees	₩ 50,440	48,226
Commission received as electronic charge receipt	145,449	141,767
Brokerage fees	495,082	510,115
Commission received as agency	114,970	111,951
Investment banking fees	68,856	84,475
Commission received in foreign exchange activities	161,887	158,345
Asset management fees	68,289	68,396
Credit card fees	2,020,010	1,894,986
Others	432,149	378,986
	3,557,132	3,397,247
Fees and commission expense		
Credit-related fee	25,148	13,591
Credit card fees	1,544,291	1,387,506
Others	228,522	238,312
	1,797,961	1,639,409
Net fees and commission income	**₩ 1,759,171**	1,757,838

34. Dividend income

Dividend income for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Trading assets	₩ 2,290	2,701
Available-for-sale financial assets	206,570	214,750
	₩ 208,860	217,451

In millions of won

35. Net trading income

Net trading income (loss) for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Trading assets		
Gain on valuation of debt securities	₩ 1,731	50,523
Gain on sale of debt securities	4,603	27,954
Gain (loss) on valuation of equity securities	(3,304)	24,385
Gain (loss) on sale of equity securities	(36,315)	52,345
Gain on valuation of other trading assets	23,939	54,010
	(9,346)	209,217
Trading liabilities		
Gain (loss) on valuation of securities sold	(251)	325
Loss on disposition of securities sold	(22,284)	(19,911)
Loss on valuation of other trading liabilities	(29,670)	(67,261)
Gain (loss) on disposition of other trading liabilities	5,308	(117)
	(46,897)	(86,964)
Derivatives		
Gain (loss) on valuation of derivatives	(93,403)	100,136
Gain on transaction of derivatives	17,798	110,147
	(75,605)	210,283
	₩ (131,848)	332,536

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, 2011 and 2010 were as follows:

	2011	2010
Assets		
Cash and due from banks		
Gain on valuation	₩ 32,731	43,193
Debt securities		
Gain (loss) on valuation	(20,684)	15,846
Gain on sale and redemption	12,206	18,973
	(8,478)	34,819
Equity securities		
Dividend income	1,405	1,248
Loss on valuation	(27,596)	(35,050)
Gain on sale	18,864	14,522
	(7,327)	(19,280)
Liabilities		
Borrowings		
Gain (loss) on valuation	239,011	(96,630)
Loss on disposal and redemption	(84,026)	(86,859)
	154,985	(183,489)
	₩ 171,911	(124,757)

37. Net impairment loss on financial assets

Net impairment loss on financial assets for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Impairment loss		
Loans	₩ 864,060	1,300,799
Available-for-sale financial assets	110,481	90,506
Other	31,946	-
Investments in associates	4,351	79,933
	1,010,838	1,471,238
Reversal of impairment loss		
Available-for-sale financial assets	23,529	24,719
Others	-	30,472
	23,529	55,191
	₩ 987,309	1,416,047

38. General and administrative expenses

General and administrative expenses for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Employee benefits	₩ 1,866,161	1,626,658
Salaries	1,508,474	1,433,002
Severance benefits	278,545	193,057
Defined contribution	18,573	15,957
Defined benefit	259,972	177,100
Termination benefits	79,142	599
Other employee benefits	623,755	614,762
Rent	294,178	278,757
Entertainment	35,321	30,282
Depreciation	211,771	252,157
Amortization	75,963	52,241
Taxes and dues	145,685	130,357
Advertising	230,633	228,544
Research	10,819	10,924
Others	641,071	622,992
	₩ 4,135,357	3,847,674

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended december 31, 2011 and 2010

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39. Share-based payments

(a) Stock options granted as of December 31, 2011 were 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, 2011	1,582,484	2,526,903	1,082,469	661,804
Exercised or canceled	(915,592)	(491,767)	(56,613)	(42,026)
Balance at December 31, 2011	666,892	2,035,136	1,025,856	619,778
Assumptions used to determine the fair value of options:				
Risk-free interest rate	3.34%	3.34%	3.34%	3.33%
Expected exercise year	2 months	8 months	1 year 2 months	1 year 8 months
Expected stock price volatility	34.85%	36.56%	32.42%	30.01%
Expected dividend yield	1.41%	1.41%	1.41%	1.41%
Weighted average fair value per share	₩ 11,792	₩ 5,115	₩ 1,644	₩ 3,313

The weighted average exercise price for ₩4,347,662 options outstanding as of December 31, 2011 is ₩42,338.

(b) Performance shares granted as of December 31, 2011 were 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, 2011	436,894
Fair value per share in won	₩ 39,750

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, 2011 and 2010 were as follows:

			2011
	Shinhan Financial Group	Employee of Subsidiaries	Total
Stock options granted			
4th	₩ (2,615)	(10,105)	(12,720)
5th	(3,656)	(19,130)	(22,786)
6th (*)	(1,073)	(4,784)	(5,857)
7th (*)	(1,642)	(5,854)	(7,496)
Performance share (*)	296	6,330	6,626
	₩ (8,690)	(33,543)	(42,233)

(*) Includes ₩1,474 million of reversal of share-based compensation costs.

			2010
	Shinhan Financial Group	Employee of Subsidiaries	Total
Stock options granted			
4th	₩ 2,379	9,652	12,031
5th	934	4,240	5,174
6th	(110)	(1,027)	(1,137)
7th	758	2,697	3,455
Performance share	1,618	9,123	10,741
	₩ 5,579	24,685	30,264

(d) Accrued expenses and the intrinsic value as of December 31, 2011, 2010 and January 1, 2010 were as follows:

			December 31, 2011
	Shinhan Financial Group	Employee of Subsidiaries	Total
Stock options granted			
4th	₩ 1,299	6,565	7,864
5th	1,562	8,847	10,409
6th	209	1,478	1,687
7th	327	1,726	2,053
Performance share	1,914	15,453	17,367
	₩ 5,311	34,069	39,380

The intrinsic value of share-based payments is ₩27,073 million based on the quoted market price ₩39,750 per share for stock options and performance share.

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			December 31, 2010
		Employee of	
	Shinhan Financial Group	Subsidiaries	Total
Stock options granted			
4th	₩ 7,862	31,714	39,576
5th	6,455	32,065	38,520
6th	1,282	6,262	7,544
7th	1,968	7,581	9,549
Performance share	1,618	9,123	10,741
	₩ 19,185	86,745	105,930

The intrinsic value of share-based payments is ₩88,237 million based on the quoted market price ₩52,900 per share for stock options and performance share.

			January 1, 2010
		Employee of	
	Shinhan Financial Group	Subsidiaries	Total
Stock options granted			
4th	₩ 5,670	25,136	30,806
5th	5,595	28,612	34,207
6th	1,392	7,250	8,642
7th	1,210	4,827	6,037
	₩ 13,867	65,825	79,692

The intrinsic value of share-based payments is ₩38,421 million based on the quoted market price ₩43,200 per share for stock options and performance share.

40. Net other operating expenses

Other operating income and other operating expense for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Other operating income		
Gain on sale of assets		
Loans	₩ 95,926	33,226
Property and equipment	925	1,004
Investment property	5	-
Non-current assets held-for-sale	1	-
Others	776	-
	97,633	34,230
Others		
Gain on hedge activity	321,444	469,814
Reversal of allowance for acceptances and guarantee	70,860	-
Gain on trust account	1,025	3,004
Rental income on investment property	26,955	21,269
Others	269,235	291,708
	689,519	785,795
	787,152	820,025
Other operating expense		
Loss on sale of assets		
Loans	57,806	46,047
Property and equipment	1,910	7,867
Investment property	-	5
Non-current assets held-for-sale	1,531	-
Others	107	256
	61,354	54,175
Others		
Loss on hedge activity	276,088	541,781
Loss on allowance for	-	41,023
acceptances and guarantee		27,454
Loss on other allowance	100,589	
Contribution to fund	239,841	229,908
Donations	117,887	126,643
Depreciation of investment properties	9,245	8,352
Impairment loss on Intangible asset	39,674	-
Others	514,119	462,205
	1,297,443	1,437,366
	1,358,797	1,491,541
Net other operating expenses	₩ (571,645)	(671,516)

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In millions of won

41. Income tax expense

(a) Income tax expense for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Current income tax expense	₩ 1,013,109	799,551
Adjustment for prior periods	(30,798)	(220,967)
Origination and reversal of temporary differences	(147,061)	61,686
Income tax recognized in other comprehensive income	84,679	(69,895)
Income tax expenses	₩ 919,929	570,375

(b) Income tax expense (benefit) is calculated by multiplying net income before tax with the tax rate for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Income before income taxes	₩ 4,192,562	3,429,805
Income taxes at statutory tax rates	1,014,476	829,814
Adjustments		
Non-taxable income	(49,363)	(45,672)
Non-deductible expense	8,312	9,027
Tax credit	(9,228)	(9,152)
Other	(13,470)	7,325
Refund due to adjustments of prior year tax returns	(30,798)	(220,967)
Income tax expense	₩ 919,929	570,375
Effective tax rate (%)	21.94%	16.63%

(c) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2011 and 2010 are as follows:

				December 31, 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)
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	14,376	(48,788)	4,709	(29,703)
	₩ (118,141)	62,382	84,679	28,920

				December 31, 2010
Unearned income	₩ (13,311)	(80,180)	-	(93,491)
Account receivable	26,986	(50,906)	-	(23,920)
Trading assets	(1,106)	(3,044)	-	(4,150)
Available-for-sale	(63,921)	(28,213)	(60,769)	(152,903)
Investment in subsidiaries	4,073	7,344	(5,824)	5,593
Valuation and depreciation of property and equipment	(206,274)	58,353	-	(147,921)
Derivative asset (liability)	45,313	84,580	(3,221)	126,672
Deposits	19,063	7,358	-	26,421
Accrued expenses	21,663	28,483	-	50,146
Defined benefit obligation	61,752	36,611	-	98,363
Plan assets	(49,956)	(25,718)	-	(75,674)
Other provisions	158,892	78,138	-	237,030
Allowance for acceptances and guarantees	13,921	32,071	-	45,992
Allowance related to asset revaluation	(45,098)	-	-	(45,098)
Deemed dividend	5,179	4,632	-	9,811
Accrued contributions	20,193	(9,482)	-	10,711
Financial assets designated at fair value through profit of loss	(2,475)	(24,706)	-	(27,181)
Allowances	(226,070)	49,257	-	(176,813)
Fictitious dividend	14	1,067	-	1,081
Liability under insurance contracts	1,835	979	-	2,814
Other	172,872	(158,415)	(81)	14,376
	₩ (56,455)	8,209	(69,895)	(118,141)

In millions of won, except per share data

(d) Deferred tax assets and liabilities that were directly charged or credited to equity for the years ended December 31, 2011 and 2010 were as follows:

	December 31, 2010		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)

	January 1, 2010		Changes		December 31, 2010	
	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect
Valuation gain (loss) on available-for-sale financial assets	₩ 1,899,208	(404,687)	235,192	(60,769)	2,134,400	(465,456)
Foreign currency translation adjustments for foreign operations	-	-	(17,846)	(81)	(17,846)	(81)
Gain (loss) on cash flow hedge	(44,977)	9,561	16,707	(3,221)	(28,270)	6,340
Equity in other comprehensive income of associates	(28,238)	6,163	26,586	(5,824)	(1,652)	339
The accumulated other comprehensive income in separate account	22	(4)	2,078	(375)	2,100	(379)
Income tax charged or credited directly to equity	₩ 1,826,015	(388,967)	262,717	(70,270)	2,088,732	(459,237)

(*) 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, 2011, 2010 and January 1, 2010 are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Tax loss carry forward (*)	₩ 121,280	320,275	385,407
Other accumulated temporary differences	-	-	57,417
	₩ 121,280	320,275	442,824

(*) 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	₩ 21,831	-	-	99,449

(f) The amount of deferred tax liabilities regarding investment in subsidiaries which are not recognized as of December 31, 2011, 2010 and January 1, 2010 are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Investment in subsidiaries	₩ (1,076)	(129)	(345)
Investment in associates	(18,873)	(11,664)	(10,363)
	₩ (19,949)	(11,793)	(10,708)

(g) The Group set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets and liabilities presented on a gross basis prior to any offsetting as of December 31, 2011, 2010 and January 1, 2010 are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets	₩ 288,303	243,654	310,429
Deferred tax liabilities	(259,383)	(361,795)	(366,884)

42. Earnings per share

(a) Basic earnings per share

Basic earnings per share for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Net income for the year	₩ 3,100,011	2,684,589
Less : dividends on preferred stock and hybrid bond	276,452	230,586
Net income available for common stock	2,823,559	2,454,003
Weighted average number of common shares outstanding	474,199,587	474,199,587
Earnings per share in won	₩ 5,954	5,175

In millions of won, except per share data

(b) Diluted earnings per share

Diluted earnings per share due to dilutive effect for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Net income available for common stock	₩ 2,823,559	2,454,003
Add: dividends on redeemable convertible preferred stock	27,657	27,656
Diluted net earnings	2,851,216	2,481,659
Weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares (*)	488,920,587	488,920,587
Diluted earnings per share in won	₩ 5,832	5,076

(*) Weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Weighted average number of common shares	474,199,587	474,199,587
Effect of conversion of convertible redeemable preferred stock	14,721,000	14,721,000
Weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares	488,920,587	488,920,587

(c) Instrument that could potentially dilute basic earnings per share in the future, but was not included in the calculation of diluted earnings per share because it is anti-dilutive for the year ended December 31, 2010 was as follows

	Exercisable period	Number of shares exercisable
7th Stock option	March 20, 2011~March 19, 2015	661,804

43. Operating income

Reconciliations of operating income reported under previous K-GAAP to K-IFRS for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Previous K-GAAP	₩ 4,213,336	3,472,720
Add : rental income	26,955	21,269
gains on assets contributed	5,900	15,707
others	130,266	126,513
Less : donations	(117,887)	(126,643)
Impairment loss on intangible asset	(39,674)	-
others	(84,124)	(95,083)
K-IFRS	₩ 4,134,772	3,414,483

44. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Guarantees			
Guarantee outstanding	₩ 10,174,850	8,604,676	8,643,747
Contingent guarantees	6,882,438	7,114,238	6,936,162
	17,057,288	15,718,914	15,579,909
Commitments to extend credit			
Loan commitments in won	46,447,266	45,556,125	39,536,716
Loan commitments in foreign currency	19,374,617	17,066,134	18,740,460
ABS and ABCP Commitments	1,605,269	2,688,977	3,706,044
Others	1,232,896	900,731	1,059,582
	68,660,048	66,211,967	63,042,802
Endorsed bills			
Secured endorsed bills	9,748	12,119	51,652
Unsecured endorsed bills	8,773,124	12,322,165	11,681,946
	8,782,872	12,334,284	11,733,598
Loans sold with recourse	2,099	2,207	2,207
	₩ 94,502,307	94,267,372	90,358,516

(b) Guaranteed principal money trust

As of December 31, 2011, 2010 and January 1, 2010, the Group guaranteed the return of the principal amount invested under management in the amount of ₩3,404,468, ₩3,570,641 and ₩3,639,674 million, respectively. Additional losses may be recorded based on future performance of these guaranteed principal money trust accounts.

(c) Legal contingencies

As of December 31, 2011, the Group was involved in 270 pending lawsuits as a defendant (total claim amount: ₩780,803 million) and recorded a provision of ₩215,808 million and reserve of ₩1,318 million with respect to these lawsuits, in other liabilities.

45. Statement of cash flows

(a) Cash and cash equivalents in the consolidated statements of cash flows for as of December 31, 2011 and 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Cash and due from banks	₩ 14,730,932	11,821,607	13,371,641
Due from financial institutions with a maturity over three months from date of acquisition	(5,545,235)	(4,638,335)	(7,414,749)
Restricted due from banks	(5,216,355)	(2,350,127)	(1,339,306)
	₩ 3,969,342	4,833,145	4,617,586

(b) Significant non-cash activities for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Increase in dividend payable due to hybrid capital instruments	₩ 2,593	-
Increase in available-for-sale financial assets from debt-equity swap	72,219	5,572

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(c) 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, 2011 and December 31, 2010 were as follows:

Related party	Account	December 31, 2011	December 31, 2010	January 1, 2010
Investments in associates				
Aju Capital co., Ltd	Loans and receivables	₩ 50,000	110,000	150,000
	Allowances	254	558	426
	Provisions	11	675	381
UAMCO., Ltd	Loans and receivables	38,723	40,257	-
	Allowances	52	29	-
Pohang TechnoPark2PFV	Loans and receivables	658	-	-
	Allowances	3	-	-
	Provisions	286	-	-
Shinhan Corporate Restructuring Fund 5th	Account Receivable	27	27	221
Shinhan Corporate Restructuring Fund 8th	〃	-	900	900
SHC-AJU 1st Investment Fund	〃	-	33	-
SHC-AJU 2nd Investment Fund	〃	-	5	-
Key management personnel and their immediate relatives				
Loans and receivables		2,056	1,679	740
		₩ 92,070	154,163	152,668

(b) Significant transactions with the related parties for the years ended December 31, 2011 and 2010 were as follows:

Related party	Account	2011	2010
Investments in associates			
Shinhan Corporate Restructuring Fund 8th	Fees and commission income	₩ 824	900
SHC-AJU 1st Investment Fund	〃	97	134
Petra Private Equity Fund	〃	365	412
SHC-AJU 2nd Investment Fund	〃	11	10
Key management personnel and their immediate relatives			
Interest income		80	84
		₩ 1,377	1,540

(c) Key management personnel compensation

Key management personnel compensation for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Short-term employee benefits	₩ 21,310	24,620
Severance benefits	585	538
Share-based payment transactions	3,279	5,804
	₩ 25,174	30,962

(d) Guarantees provided between the related parties as of December 31, 2011, 2010 and January 1, 2010 were as follows:

Guarantor	Guaranteed Parts	Amount of guarantees			Account
		December 31, 2011	December 31, 2010	January 1, 2010	
Shinhan Bank	Aju Capital Co., Ltd.	₩ -	103,090	109,270	Debt securities issued
〃	〃	-	-	2,554	Letter of credit
〃	〃	-	20,000	-	Loan commitment
		₩ -	123,090	111,824	

In millions of won

47. Investment in subsidiaries

(a) Condensed financial information for the Group's subsidiaries.

i) Condensed financial position for the Group's subsidiaries as of December 31, 2011, 2010 and January 1, 2010 are as follows:

	December 31, 2011			December 31, 2010		
	Total assets	Total liabilities	Total equities	Total assets	Total liabilities	Total equities
Shinhan financial group (Separate)	₩ 30,844,250	11,413,443	19,430,807	27,660,596	6,907,637	20,752,959
Shinhan Bank	228,907,784	209,617,964	19,289,820	213,151,766	194,511,733	18,640,033
Shinhan Card Co., Ltd.	22,356,885	17,126,623	5,230,262	22,124,029	16,930,410	5,193,619
Shinhan Investment Corp.	12,166,106	10,046,342	2,119,764	10,498,130	8,470,691	2,027,439
Shinhan Life Insurance Co., Ltd	13,976,735	12,788,663	1,188,072	11,974,489	10,954,363	1,020,126
Shinhan Capital Co., Ltd.	3,518,266	3,037,927	480,339	3,734,744	3,288,288	446,456
Jeju Bank	3,168,168	2,920,296	247,872	3,018,161	2,791,309	226,852
Shinhan Credit Information Co., Ltd.	19,495	5,993	13,502	20,237	4,828	15,409
Shinhan Private Equity Investment management	343,231	334,599	8,632	447,199	429,169	18,030
Shinhan BNP Paribas AMC	170,665	24,369	146,296	172,095	25,033	147,062
SHC Management Co., Ltd.	8,620	355	8,265	8,394	95	8,299
Shinhan Data system	15,540	8,804	6,736	11,363	5,704	5,659
Shinhan Savings Bank	3,992	79	3,913	-	-	-
	₩ 315,499,737	267,325,457	48,174,280	292,821,203	244,319,260	48,501,943

(continued)

	January 1, 2010		
	Total assets	Total liabilities	Total equities
Shinhan financial group (Separate)	₩ 27,143,128	6,590,102	20,553,026
Shinhan Bank	209,425,206	192,211,752	17,213,454
Shinhan Card Co., Ltd.	19,737,816	14,928,799	4,809,017
Shinhan Investment Corp.	8,769,287	6,884,569	1,884,718
Shinhan Life Insurance Co., Ltd	10,077,864	9,287,734	790,130
Shinhan Capital Co., Ltd.	3,654,402	3,260,144	394,258
Jeju Bank	2,949,894	2,743,306	206,588
Shinhan Credit Information Co., Ltd.	20,551	4,952	15,599
Shinhan Private Equity Investment management	451,485	433,525	17,960
Shinhan BNP Paribas AMC	167,978	27,235	140,743
SHC Management Co., Ltd.	8,736	98	8,638
Shinhan Data system	-	-	-
Shinhan Savings Bank	-	-	-
	₩ 282,406,347	236,372,216	46,034,131

ii) Condensed comprehensive income statement for the Group's subsidiaries for the years ended December 31, 2011 and 2010 are as follows:

	2011			2010		
	Operating income	Net income	Total comprehensive income	Operating income	Net income	Total comprehensive income
Shinhan financial group (separate))	₩ 2,147,005	1,672,908	1,674,610	1,065,807	617,625	620,200
Shinhan Bank	19,993,620	2,118,421	1,634,530	21,252,143	1,670,049	1,737,584
Shinhan Card Co., Ltd.	4,548,376	875,930	936,096	4,264,436	990,393	984,872
Shinhan Investment Corp.	2,089,581	101,710	113,316	1,733,263	150,714	158,079
Shinhan Life Insurance Co., Ltd	4,342,771	236,927	217,586	4,103,185	213,410	266,413
Shinhan Capital Co., Ltd.	365,991	51,109	48,729	403,408	40,111	52,264
Jeju Bank	194,066	22,412	22,275	191,193	17,434	20,303
Shinhan Credit Information Co., Ltd.	32,291	(746)	(746)	33,986	1,026	1,026
Shinhan Private Equity Investment management.	85,014	(7,624)	(7,624)	93,739	1,331	1,331
Shinhan BNP Paribas AMC	109,826	35,040	34,961	119,251	39,741	39,182
SHC Management Co., Ltd.	259	(34)	(34)	251	(339)	(339)
Shinhan Data system	50,132	1,056	1,056	40,600	612	612
Shinhan Savings Bank Co., Ltd.	-	(87)	(87)	-	-	-
	₩ 33,958,932	5,107,022	4,674,668	33,301,262	3,742,107	3,881,527

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

(b) 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, 2011, 2010 and January 1 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Borrowings from trust account	₩ 2,011,569	1,841,227	1,475,801

(b) Transactions with trust business for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Trust management fees	₩ 62,305	62,541
Commission income	46	34
Interest on borrowings from trust account	61,976	37,388

In millions of won

49. Explanation of transition of K-IFRS

As stated in note 2 (a), these are the Group's first consolidated financial statements prepared in accordance with K-IFRS.

The accounting policies set out in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening K-IFRS statement of financial position at January 1, 2010 (the Group's date of transition).

(a) Significant differences in accounting policies

K-IFRS No. 1101 permits those companies adopting K-IFRS for the first time certain exemptions from the full requirements of K-IFRS in the transition period. The Group has taken the following key exemptions.

i) First time adoption of K-IFRS

- Business combinations:
  Business combinations prior to the date of transition are not restated.
- Deemed cost to fair value or the revaluation amount:
  The Group elected to measure land and buildings at fair value at the date of transition and use those fair values as their deemed costs.
- Cumulative translation differences:
  The cumulative translation difference of foreign operations as of the date of transition was regarded as nil.
- Derecognition of financial assets and financial liabilities:
  The derecognition requirements in K-IFRS 1039 Financial Instruments: Recognition and Measurement were applied prospectively for transactions which occurred on or before the date of transition.
- Financial asset designated as available for sale or financial instrument designated as a financial asset or financial liability at fair value through profit or loss:
  Although K-IFRS 1039 Financial Instruments: Recognition and Measurement permits a financial asset to be designated on initial recognition as available for sale or a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss, those designations are permitted at the date of transition. The Group elected to use these exemptions.
- Share-based payment transactions:
  K-IFRS 1102 Share-based Payment was applied retrospectively to equity instruments that were granted on or before the date of transition.
- Decommissioning liabilities included in the cost of property and equipment:
  The amount that would have been included in the cost of the related asset when the liability first arose is estimated by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening year.
- Leases:
  K-IFRS 1017 Leases was applied retrospectively to leases occurring prior to the date of transition.
- Investments in subsidiaries, jointly controlled entities and associates:
  The deemed costs for investments in subsidiaries, jointly controlled entities and associates at cost is the previous K-GAAP carrying amounts at the date of transition.

ii) Significant differences between K-GAAP and K-IFRS

Significant differences	K-IFRS	Previous K-GAAP
Basis of financial statement preparation	Consolidated financial statements	Individual financial statements
Goodwill	Goodwill acquired in a business combination is not amortized and is allocated to cash-generating units "CGUs" or groups of CGUs and tested for impairment annually whenever there is any indication that they may be impaired.	Goodwill acquired in a business combination is amortized on a straight-line basis over its estimated useful life not to exceed 20 years.

(continued)

Significant differences	K-IFRS	Previous K-GAAP
Allowance for loan losses	Allowance for loan losses that has been incurred but not yet identified are estimated at a specific asset and collective level using the historical experience.	Allowance for loan losses is estimated at the greater of the amount resulting from the expected loss method reasonably estimated using the historical experience and the amount estimated based on the asset classification guidelines of the Financial Services Commission in accordance with the Regulations for the Supervision of Financial Institutions.
Revenue recognition	All fees associated with origination of loans are deferred and recognized over the expected life of the loan using the effective interest method as an adjustment to the loan balance and interest income.	Fees directly associated with origination of loans are deferred and recognized over the maturity of the loan using the effective interest method as an adjustment to the loan balance and interest income.
Financial instrument: measurement	The appropriate fair value for an asset held or liability to be issued is usually the current bid price and, for an asset to be acquired or liability held, the asking price. Bid-ask adjustment is applied when measuring financial instrument at fair value. The fair value is measured reflecting credit risk.	Bid price and asking price are not reflected in the fair value of financial instruments. Credit risk is not required to be considered in measuring fair value. In accordance with Best *practice for business process of derivative transactions* provided by Financial Supervisory Service, counterparty's credit risk is considered in measuring fair value of OTC derivatives.
Derecognition of financial instruments	Dependent on the extent to which it retains the risks and rewards of ownership of the financial asset, the transferred asset continues to be recognized, is derecognized or continues to be recognized to the extent of its continuing involvement in the financial asset.	Dependent on whether or not the Group retains control over the financial assets, the transferred asset continues to be recognized or derecognized.
Change in depreciation method	The depreciation method applied to an asset shall be evaluated at least at each fiscal year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate.	The depreciation method shall be applied consistently from year to year unless there are justifiable reasons. The depreciation method for the same kind of property and equipment is applied to newly acquired assets.

(continued)

Significant differences	K-IFRS	Previous K-GAAP
Employee benefits	Under the Projected Unit Credit Method, the Group recognizes a defined benefit obligation calculated using an actuarial technique and a discount rate based on the present value of the projected benefit obligation.	The Group establishes an allowance for severance liability equal to the amount which would be payable if all employees left at the end of the reporting year.
Customer loyalty program	The Group allocates some of the consideration received or receivable from the sales transaction to the award credits and defers the recognition of revenue.	The Group recognizes as provision or accounts payable.
Classification of investment property	A property that is held to earn rentals or for capital appreciation or both is classified as investment property.	A property that is held to earn rentals or for capital appreciation or both is classified as property, plant and equipment.
Valuation method of property, plant and equipment and investment property	An entity shall choose either the cost model or the revaluation model and shall apply that policy to an entire class of property, plant and equipment. The Group chooses the cost model.	An entity shall choose either the cost model or the revaluation model as its accounting policy. The Group chooses the cost model.
Trade-settle receivables/payables	The Group recognizes the payables and receivables for brokerage which is related with client or Korea Exchange, respectively.	The Group offsets the payables and receivables for brokerage which is related with client or Korea Exchange.
Presentation of liabilities and equity	The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.	Classified under Commercial Law

(b) Summary of the effects of the adoption of K-IFRS on the Group's financial position and the results of its operation

i) The effects on the Group's financial position due to the adoption of K-IFRS as of the date of transition to K-IFRS, January 1, 2010 are as follows:

	Total assets	Total liabilities	Total equity
Previous K-GAAP	₩ 255,018,087	233,895,061	21,123,026
Adjustment for			
Changes in the consolidated entities	1,093,597	1,145,679	(52,082)
Allowance for loan losses	1,177,796	-	1,177,796
Allowance for unused loan commitments	-	(292,341)	292,341
Effective interest	(83,596)	(70,413)	(13,183)
Fair value of financial guarantee contract and allowance for loss on guarantees and acceptances	61,307	23,889	37,418
Impairment of securities	(50,923)	-	(50,923)
Goodwill	(264,026)	-	(264,026)
Convertible preferred stock	-	180,464	(180,464)
Hybrid bond	-	(2,529,787)	2,529,787
Deemed cost for land and buildings	628,740	-	628,740
Defined benefit obligation (Actuarial valuation)	-	57,994	(57,994)
Fair value of share based payment	-	17,435	(17,435)
Trade-settle receivables/payables	1,057,987	1,057,987	-
Other	21,042	(67,811)	88,853
Tax effect on adjustments	(145,522)	353,939	(499,461)
Total adjustment	3,496,402	(122,965)	3,619,367
K-IFRS	**₩ 258,514,489**	**233,772,096**	**24,742,393**

In millions of won

ii) The effects on the Group's financial position due to the adoption of K-IFRS as of December 31, 2010 and results of its operations for the year end of December 31, 2010 are as follows:

	Total assets	Total liabilities	Total equity	Net Income (*)	Total Comprehensive income (*)
Previous K-GAAP	266,031,752	242,833,716	23,198,036	2,383,936	2,583,369
Adjustment for					
Changes in the consolidated entities	(122,862)	95,874	(218,736)	(56,170)	168,788
Allowance for loan losses	984,211	-	984,211	(192,918)	(193,504)
Allowance for unused loan commitments	-	(330,423)	330,423	38,184	38,268
Effective interest	(51,663)	(54,351)	2,688	16,802	16,802
Fair value of financial guarantee contract and allowance for loss on guarantees and acceptances	102,002	72,079	29,923	(7,651)	(7,494)
Impairment of securities	(37,079)	-	(37,079)	(10,586)	7,940
Goodwill	314,105	-	314,105	566,904	566,904
Convertible preferred stock	-	-	-	(9,924)	(9,924)
Hybrid bond	13,476	(2,523,379)	2,536,855	9,340	9,340
Deemed cost for land and buildings	620,522	-	620,522	(7,919)	(7,919)
Defined benefit obligation (actuarial valuation)	-	110,345	(110,345)	(52,141)	(52,141)
Fair value of share based payment	-	15,663	(15,663)	1,773	1,773
Trade-settle receivables/payables	686,655	686,655	-	-	-
Other	78,938	50,334	28,604	(23,452)	(278,751)
Tax effect on adjustments	(62,650)	405,669	(468,319)	28,411	33,585
Total adjustme nt	2,525,655	(1,471,534)	3,997,189	300,653	293,667
K-IFRS	₩ 268,557,407	241,362,182	27,195,225	2,684,589	2,877,036

(*) Attributable to equity holders of the controlling company

(c) Cash flows from deposits that had been previously classified as cash flows from financing activities under K-GAAP have been classified as cash flows from operating activities under K-IFRS. Cash flows from acquisition of equity or debt securities that had been previously classified as operating activities under K-GAAP have been classified as cash flows from investing activities under K-IFRS. There are no major differences between statements of cash flows under K-GAAP and K-IFRS except for the items mentioned above.

(d) Changes in subsidiaries

Changes in subsidiaries due to the implementation of K-IFRS are as follows:

i) Included in consolidation by implementing K-IFRS

Parents	Subsidiaries	Reason
Shinhan Finance Group	Shinhan Data system SHC management Corstone Delta Company Limited	Under Art. 1-3 par. 2 of the Presidential Decree enacting the Act on External Audit of Stock Companies, Shinhan Data System, SHC management and Corstone Delta Company Limited were excluded from consolidation, however under K-IFRS it is a consolidated subsidiary.
Shinhan Capital Co., Ltd.	Shinhan Corporate Restructuring Fund 7th SHC 1st New Technology Fund	Funds are unincorporated enterprises which were excluded from consolidation under previous K-GAAP, but in accordance with K-IFRS, funds are consolidated when the substance of the relationship between the Group and the entity indicates control.
Shinhan Bank Shinhan Card Shinhan Investment Corp Shinhan Life Insurance Shinhan Capital Co., Ltd.	30 SPEs 7 SPEs 18 SPEs 40 SPEs 3 SPEs	SPEs were excluded from consolidation under previous K-GAAP, but in accordance with K-IFRS, SPEs are consolidated.
Corstone Delta Company Limited Sebang Consulting Co.,Ltd	Sebang Consulting Co.,Ltd. Beijing Sale Co.,Ltd.	Corstone Delta Company Limited, a SPE, was excluded from consolidation under previous K-GAAP, however under K-IFRS 2012 (Consolidation Special Purpose Entities) it is a consolidated subsidiary.

ii) Excluded from consolidation by implementing K-IFRS

Parents	Subsidiaries	Reason
Shinhan Bank Jeju Bank	Guaranteed principal money trusts	Under previous K-GAAP, trust accounts where there is repayment guarantee of principal and minimum interest earnings are subject to consolidation scope in accordance with Detailed Regulation on Supervision of Banking Business. Under K-IFRS, however, guaranteed principal money trusts are excluded from the consolidation scope since the Bank does not have control.
Shinhan Capital Co., Ltd.	Petra Private Equity Fund	Revision of Act on External Audit of Stock Companies and Enforcement Decree of the Act, Not included in the consolidation

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Forward-Looking Statements

Shinhan Financial Group's 2011 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 forwardlooking 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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Shinhan Financial Group
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