

*Moving Forward Together:  
Platforms for New Growth*



*Moving Forward Together:  
Towards Happier Tomorrows*







*" We always think of our customers first,  
based on our commitment to integrity and trust."*

To Shinhan Bank, going together means more than just moving ahead with our customers; instead, it means working in harmony to create happier tomorrows for everybody. We are building a better future by collaborating and cooperating with our customers and shareholders and the larger society, constantly putting our customer-centered principles into practice.



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## PROFILE

Shinhan Bank (SHB), which began operations in 1982 with a capital stock of KRW 25 billion, 279 employees, and a mere three branches, has since grown into a highly-respected financial institution. It merged with the 109-year-old Chohung Bank in 2006. The bank has always been a leader in the development of advanced financial systems in Korea, including the introduction to the country of ATMs and Internet banking. Now it is positioning itself to become one of the nation's leading banks.

At the end of December 2010, Shinhan Bank boasted KRW 205 trillion in total assets, KRW 1.6 trillion in net income, 951 branches, and approximately 13,000 employees. The basis of its success is its belief in being truly customer-centered. All of its staff members are dedicated to providing financial services that always put their customers first.

SHB's management philosophy consists of its "mission" (i.e., its *raison d'être*), its "vision" (i.e., the future that it is heading towards), and a set of core values that must be followed to achieve them. Its mission is to harness the power of finance to benefit the whole world, providing values to its various stakeholders and contributing to the betterment of the larger society. Its vision is to be "THE Bank of Pride" and the very best financial institution in all of Korea. By doing so, the bank will make all its stakeholders--including its customers, employees, shareholders, and the larger society--proud of it. Its core values include being "customer-centered" and "mutually respectful," as well as "leading changes," "being the best," and "being ownership-oriented." The bank's management philosophy, which is called the "Shinhan Way," is embraced by all its employees, who know that they must rely on it to achieve their common goals.

SHB is also committed to overseas expansion that will allow it to vie with other global players in the world's financial markets. To this end, it will increase its volume of international operations and treat them as future growth engines. It will also strengthen its foundations for growth and increase the ability of its current global networks to achieve sustainable outcomes through a strategy of selection and concentration. These goals will be achieved through exhaustive risk management and by adding to the bank's global competitiveness, including a policy of localization and the cultivation of workers who are trained in international business practices.

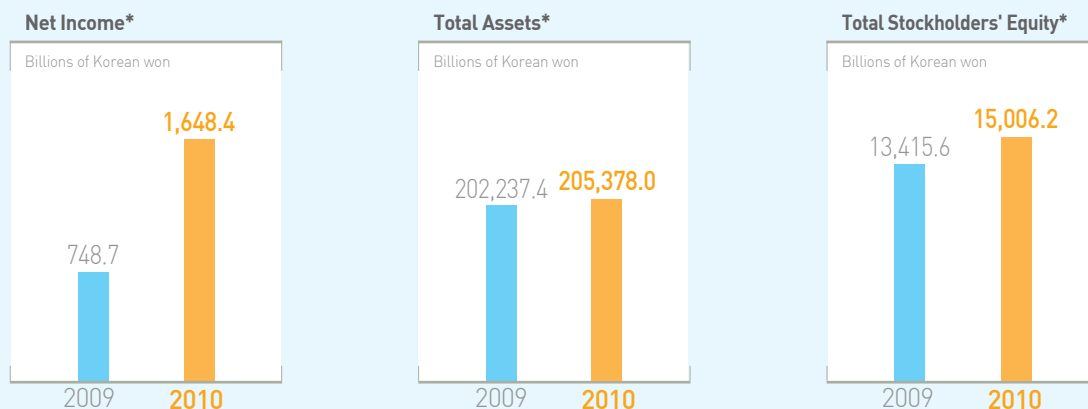




# FINANCIAL HIGHLIGHTS

	In billions of Korean won		In millions of US dollars*	
	2010	2009	2010	2009
<b>Bank Account</b>				
For the Year				
Operating Revenues	22,969.7	41,466.7	20,168.3	35,514.5
Operating Expenses	20,714.1	40,233.9	18,187.8	34,458.6
Operating Income	2,255.6	1,232.8	1,980.5	1,055.8
Ordinary Income	2,092.1	1,066.2	1,836.9	913.2
Net Income	1,648.4	748.7	1,447.4	641.2
At Year-End				
Total Assets	205,378.0	202,237.4	180,330.1	173,207.7
Total Loans	145,881.8	139,956.2	128,090.1	119,866.6
Total Securities	40,186.8	39,540.2	35,285.7	33,864.5
Total Deposits	139,666.5	135,285.0	122,632.8	115,865.8
Total Stockholders' Equity	15,006.2	13,415.6	13,176.0	11,489.9
<b>Trust Account</b>				
At Year-End				
Total Assets	33,239.9	32,537.3	29,186.0	27,866.8
Total Loans	527.1	623.2	462.8	533.8
Total Securities	6,274.1	7,207.5	5,508.9	6,172.9
Total Money Trusts	11,920.3	9,904.9	10,466.5	8,483.1
<b>Financial Ratios</b>				
Return on Average Assets	0.77	0.34		
Return on Average Equity	11.45	5.89		
Substandard & Below	1.31	1.00		
NPL Ratio by FSS	0.91	0.77		
Net Interest Margin	2.15	1.76		
BIS Capital Adequacy Ratio	15.93	15.13		
( Tier 1 Capital Ratio )	13.21	11.61		
( Tier 2 Capital Ratio )	2.72	3.52		

\* Translated into US dollars at the rates of KRW 1,167.60/USD 1 and KRW 1,138.90/USD 1 respectively--those prevailing on December 31, 2009 and December 31, 2010.



\* Bank accounts only



# 2010 AT A GLANCE

## March: Named "Best Retail Bank in South Korea" by *Asian Banker* for second consecutive year

SHB won the "Best Retail Bank in South Korea" award from *Asian Banker* as part of its evaluation of more than 120 banks and financial institutions from twenty-three countries across Asia Pacific, the Gulf, and Central Asia. The awards program is refereed by a group of well-respected bankers, consultants, and academics, who determine the winners and the rankings of retail banks in each area through a stringent and demanding evaluation process. Shinhan Bank was especially praised for its industry-leading levels of profitability and interest on loans, as well as its high-quality branding strategies and outstanding efforts to build customer trust and expand its customer base.



## April: Opened "Shinhan S Bank" on Android platform to gain early edge in smartphone banking market

### May: Opened "Shinhan S Bank for Windows Mobile" application to enhance presence in smartphone banking sector

SHB began offering "Shinhan S Bank" services, such as enquiries and transfers, through Android-equipped smartphones in April. A bank official said that, "in order to offer optimal banking services to Android-equipped smartphone users, we took great pains to guarantee both their level of security and their degree of optimization. We are also considering introducing financial services for iPads." In May, SHB opened its "Shinhan S Bank for Windows Mobile" app to owners of Windows Mobile 6.1 and 6.5 smartphones. This means that it now offers these services to iPhone, Android, and Windows mobile users. It registered 63,000 users in less than two months since its introduction, contributing immensely to the growing popularity of the smartphone banking sector and adding to its industry leadership in it.



## May: Won "Award for Excellence 2010 Best Bank in Korea" from *Euromoney*

SHB was named the best bank in Korea at the *Euromoney Awards for Excellence 2010*, repeating its wins in 2005, 2007, and 2008. The main reasons given for this honor were the bank's high-quality management indicators, its commitment to transparent management, and its healthy potential for growth. SHB enjoyed outstanding results in both quantitative and qualitative terms thanks to its continuing efforts to maintain its profitability and the growth rate of its assets, and its success in coping with the global financial crisis that began in 2008. In response to the *Euromoney* award, it stated that it "will continue to raise its profile as Korea's leading bank both at home and abroad, using the various awards it has won as a springboard to even greater efforts."



## August: Shinhan Vietnam Bank's Hanoi branch began operations

Shinhan Vietnam Bank, SHB's 100%-owned local subsidiary in Vietnam, opened a Hanoi branch in August. To celebrate the occasion, the bank donated desks and chairs to the "School of Love" in Nghe An province, which it has been supporting since March 2008. It also contributed funds to the Red Cross of Vietnam to assist children with heart problems. An SHB official said that "we established Shinhan Vietnam Bank in November 2009 to gain an early footprint in the market and grow into a leading foreign-based bank. The opening of the Hanoi Branch will enable us to continue with that strategy."



## September: Launched "Shinhan GLO-NET Service," a multi-language Internet banking service for non-Koreans

SHB launched "Shinhan GLO-NET Service," a multi-language Internet banking service for foreign residents living in Korea. A "first" for the local financial industry, it supports Chinese, English, Vietnamese, Thai, Japanese, Mongolia, Indonesian, and Filipino. By accessing it, non-Koreans can perform a wide range of banking operations, including account enquiries and transfers and overseas remittances, all on a 24/7 basis. In the past, foreign customers have had problems accessing financial services in Korea due to language barriers. Since there are now more than twelve million of them living in Korea, this move by SHB will go a long and welcome way towards ameliorating what had been a very stressful situation. The bank has also been offering non-Koreans a financial consulting service in English, Japanese, Chinese, Vietnamese, and Mongolian through its non-Koreans-only call center (at 1-577-8380) since August 2010.



## September: Named Best Domestic Commercial Bank in Korea by *Asiamoney*

SHB was named "The Best Domestic Commercial Bank in Korea" by *Asiamoney* for the sixth consecutive year since 2005. The award was given in recognition of the bank's excellent management indicators, its commitment to transparent management, and its outstanding risk management capabilities. Other factors included its ability to weather the financial crisis that began in the US in 2008, and the threat posed by ever-intensifying competition. SHB enjoyed outstanding results in both quantitative and qualitative terms, thanks to its continuing efforts to maintain its profitability and add to the growth rate of its assets.



## December: Launched Bellore Branch in India

SHB added a Bellore branch to its Indian network in December. In tandem with its outlets in Mumbai and Delhi, this gives the bank coverage of three major economic areas in the country, and enables it to provide a much wider range of financial services to Korean companies operating there. SHB was among the first Korean-based banks to enter India, opening its Mumbai branch in 1996 and the Delhi one in 2006. SHB used to have considerable difficulty offering its services in India's eastern coastal region due its long distance from Mumbai and Delhi, even though many Korean companies were setting up operations there. Opening up the Bellore branch enabled the bank to begin offering a broad range of services, such as consulting and advising on local financial systems. The bank expects that its expanded network in India will help it to consolidate its Asian financial network further by connecting that country with Vietnam, Singapore, Hong Kong, China, and Japan.



## December: New president & CEO Jin Won Suh took office

SHB appointed Jin Won Suh as its new president & CEO on December 30. In his inaugural speech, Mr. Suh emphasized that the bank must constantly take on new challenges to ensure its success in the future. He also stressed that although SHB has made concerted efforts to be a "true bank" and a "different bank," in the future it must be an "Only One Shinhan." He said that this goal will be reached by being proud and customer-centered, developing welcoming worksites and aiming for new growth, harnessing the dreams and aspirations of its employees, and doing things to make the world a better place.





## Awards received domestically

### February 2010:

- Received grand prize in banking category at the “Korea Financial Masterpiece Awards” for S-MORE Point Bankbook ([e-daily](#))
- Received grand prize at the Korea First Brand Awards for the sixth straight year ([Korea Economic Daily and Korean Consumer’s Forum](#))
- Ranked first in the banking category for the seventh consecutive year Won Korea’s most admired company award ([KMA Consulting](#))

### March 2010:

- Ranked first in Internet Banking Services for the sixth straight time ([Stockpia](#))
- Received the Korea Management Association’s Global Standard Management System Award for the fifth straight year.
- Won the KMA & KMA Global Standard Management Committee’s grand prize and the Minister of Knowledge Economy Award at the Korea Social Contributions Awards for the fourth straight year ([Korean Journalists’ Forum](#))
- Won grand prize in the PB category at the Korea Consulting Awards ([The Hankyung Business Weekly and the Kookmin Institute of Business Research](#))

### June 2010:

- Ranked first in Internet Banking Services for the seventh straight time ([Stockpia](#))
- Awarded Korea Service Grand Prix ([organized by the Korea Standards Association and supported by the Ministry of Knowledge Economy](#))
- Received Korea Luxury and Remarkable Index (The Proud) certificate for Shinhan PB ([KMA Consulting](#))
- Ranked first in PB category in the Korea Standard-Premium Brand Index (KS-PBI) survey for the third straight year ([Korea Standards Association, Seoul National University, and Chosun Ilbo](#))

### July 2010:

- Ranked fourth in banking category at “thirty best companies to work for” ([KMA Consulting](#))

### August 2010:

- Won grand prize (Financial Supervisory Service Governor’s Award) in corporations category at the third Asia PB Awards ([Asia Economy](#))

### September 2010:

- Ranked first in Internet Banking Services for the eighth time in a row ([Stockpia](#))

### October 2010:

- Received grand prize in banking category at Korea First Brand Awards for seventh straight year ([Korea Consumers’ Forum and Korea Economic Daily](#))
- Ranked first in the Korean Standard Service Quality Index (KS-SQI) survey for ninth straight year ([Korean Standards Association](#))

### December 2010:

- Listed in “best Korean companies to work for” for seventh straight year
- Received grand prize in financial services category for third consecutive year ([Fortune and GWP Korea](#))
- Ranked first in Internet Banking Services for the ninth time in a row ([Stockpia](#))
- Received grand prize in the financial category at Mobile Website Web Awards Korea ([Web Awards Korea](#))
- Received President’s Award for supporting job creation in 2010 (Ministry of Employment and Labor)

### January 2011:

- Received grand prize in banking category at 2011 Korea First Brand Awards for seventh straight year ([Korea Consumers’ Forum and Korea Economic Daily](#))
- Received grand prize at 2011 Korea Funds Awards ([Korea Economic Daily](#))

### February 2011:

- Ranked first in banking category at Korea’s Most Admired Company Awards for eighth straight year ([KMA Consulting](#))

## Awards received from overseas financial magazines and journals

- **March 2010:** Best Retail Bank in Korea ([Asian Banker](#)), Best E-commerce Bank in Korea ([The Asset](#))
- **May 2010:** Best Emerging Market Bank in Korea ([Global Finance](#))
- **June 2010:** Best Domestic Bank, Korea ([Asiamoney](#))
- **July 2010:** Best Bank – Korea ([FinanceAsia](#)), Best Bank in Korea ([Euromoney](#))



## MESSAGE FROM THE CEO



*Shinhan Bank intends to push ahead with its vision of becoming a leading bank in Korea under the motto of **“Differentiated Growth, Differentiated Competence.”***

Jin Won Suh  
President & Chief Executive Officer



Dear Customers:

First of all, I would like to extend my sincere appreciation for your continued support and encouragement.

Last year, the Korean economy showed signs that it was recovering from the economic maelstrom that resulted from the global financial crisis of 2008. In fact, the country weathered the crisis more successfully than any other OECD member, recording economic growth in excess of 6% thanks to its healthy export market.

Shinhan Bank refrained from engaging in imprudent competition for external growth following this improvement in the economic situation. Instead, we focused on adding to customer value through the same strategy of sound, qualitative growth that has always been a hallmark of our operations.

As a result, our customer base grew dramatically, with the number of active retail customers increasing by 1 million from the year before and Composite Housing Subscription Savings accounts totaling three million. We also launched a number of new products, such as monthly Compound Interest Installment Savings and My Car Loans. Retirement pensions grew by KRW 1.6 trillion year-on-year, leading the market in terms of assets under management.

On the international front, we added new networks in Japan, Vietnam, China, Canada, and India, giving us a grand total of fifty-three networks in fourteen countries and helping us immeasurably in our advancement into a truly global player.

Although the global economy is forecast to be healthier in 2011, Europe still faces many problems, and the much-heralded recovery in the advanced nations appears to be stalling. There are still uncertainties in the domestic real estate market, and growing concerns about delinquent household loans due to interest rate hikes. In addition, competition among banks is expected to intensify.

Given these conditions, Shinhan Bank intends to push ahead with its vision of becoming a leading bank in Korea under the motto of “Differentiated Growth, Differentiated Competence.”

First, we will increase our customer base.

To this end, we will intensify our relationship with our current customers and continue taking steps to attract new ones. More specifically, we will continue to strengthen our position in the corporate investment banking (CIB)-based institutional banking sector,

build a business model for seniors and women, keep on with our efforts to improve customer values, and pursue preemptive “smart marketing” strategies.

Secondly, we will work to gain a competitive advantage in our core operating areas.

To this end, we will leverage our reputation for financial soundness and top-flight risk management to deal with an environment of growing financial uncertainty and meet the needs of the rapidly-expanding investment banking and global business sectors. In the area of retirement pensions, we will add to our competitiveness in both the qualitative and quantitative sense, so that we can take over first place in the entire Korean financial industry—not just the banking part of it. We will also endeavor to generate healthy results from our global businesses.

Thirdly, we will work to improve employee value and distinguish ourselves from other banks in terms of our corporate social responsibility (CSR) management and activities. In specific terms, this means that we will continue to create a great workplace by establishing a vision of ourselves that will add to our employees’ motivation and increase their pride in working for us. We will also construct a strategic CSR model that better reflects the needs and realities of our society. In order to better adhere to our mission of “benefiting the world,” we will continue supporting the financially underprivileged and creating jobs for small and medium-sized enterprises. We will also work to make our management system more flexible, primarily by strengthening communications between management and labor union.

Last year, thanks to our customers’ steadfast interest and support, Shinhan Bank generated results that met all the market’s expectations. This year, we will do everything in our power to grow with our customers and become one of Korea’s leading banks.

Thank you.

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

**Jin Won Suh**  
President & Chief Executive Officer



## *Moving Forward Together: Towards New Markets and Differentiated Growth*

*Shinhan Bank is justifiably proud of its unique, industry-leading capabilities and high rate of growth. It will realize its dream of being "THE bank of Korea" by following new ways of doing things and facing any and all challenges.*





## VISION & STRATEGY

In line with the Group's strategic goal of "Building a New Growth Platform (Shinhan 2.0)," we have established our strategic goal and slogan for 2011.

### Vision

The Shinhan Financial Group's (SFG) vision is to be a world-class financial group with a secure and stable earnings base achieved through a careful balancing of its banking and non-banking sectors. Shinhan Bank's mission is to be "THE Bank of Pride." It is carrying out this mission as follows.



Our unique culture and style, called "The Shinhan Way," is customer-centered, mutually respectful, committed to leading changes, focused on being the best, and ownership-oriented. We strive to achieve our vision and mission by following the "Ten Principles of the SHB Way."

### Management Goals and Strategies

In line with the Group's strategic goal of "Building a New Growth Platform (Shinhan 2.0)," we have established our strategic goal and slogan for 2011. They are "Differentiated Growth, Differentiated Capabilities." This reflects our determination to cope with a sluggish market environment by aiming for differentiated and qualitative growth and applying our unique, industry-leading capabilities.

Our key strategic directions will include overcoming a sluggish market environment (Breakthrough), securing competitive advantages in our core areas (Competitive), and promoting Shinhan soft power (Soft Power). Each direction is comprised of a number of key tasks.

In order to cope with market reorganization and overcome a stagnating market environment (Breakthrough), we will strengthen our corporate investment banking (CIB) sector, add to our number of senior and youth customers, make adjustments to our asset management portfolio, strengthen synergies within the Group, and enhance the efficiency of our channel coverage.

To ensure that we have a competitive advantage in our core areas, we will augment the quality and soundness of our assets and our risk management processes, and produce positive outcomes from our asset management and retirement pension sectors and our global operations. In addition, we will carry out stable net interest margin (NIM) management and build foundations for financing.

Lastly, we will promote our "soft power" by adding to the capabilities of our employees, reinforcing our corporate social responsibilities and our brand management systems, enhancing customer value, and developing a more flexible management structure.

A young boy in a white shirt and dark shorts is walking across a vast, green field. Two Dalmatian dogs are running alongside him, and a blue and yellow ball is visible in the distance. The background is a clear blue sky with light clouds. The overall scene is bright and cheerful, symbolizing a positive and forward-looking path.

## *Moving Forward Together: Towards a Win-Win Path of Sharing, Trusting, and Working Together*

*Shinhan Bank strives to harmonize its public and corporate interests by practicing social responsibilities management as a caring and concerned member of the larger society. We are committed to being a bank that is trusted and admired by everyone.*



# SOCIAL CONTRIBUTIONS

Shinhan Bank: a high-quality financial institution that always takes the needs of its customers and the larger society into consideration

## "Towards a Better Society"

As part of its CEO's philosophy that it must be an equitable and conscientious financial institution, Shinhan Bank always tries to put the needs of its customers and the larger society first. We are committed to returning a significant portion of our profits to society and sharing our values and accomplishments with the communities in which we operate. We do this by carrying out a wide array of social contribution programs. They include social services, education and science, volunteering, environmental protection and preservation, culture and the arts, promoting sports, and developing products that advance the public good. Our goal is to be a proud and estimable corporate citizen, sharing with our neighbors through the voluntary participation of our employees and customers.

Led by the Corporate Social Responsibility (CSR) Department, which is exclusively tasked with CSR programs management, we have established a number of strategic directions for our CSR efforts and projects. We do this by considering consumer needs and desires, global standards, changes in social thinking and trends, and the overall nature of the banking business. We are also taking the lead in the global standardization of CSR management activities. For example, we are a member of the UN Global Compact and the UN Environmental Program Finance Initiative (UNEP FI), and are a signatory to the Carbon Disclosure Project (CDP).

## Corporate Social Responsibilities Department

Tasked with being responsible for all the bank's CSR activities, the Department promotes sustainable management and works to improve the bank's brand value. It has enhanced communications with our stakeholders by establishing a wide range of social contributions strategies and carrying them out through the Shinhan Bank social services group.

In 2010, the bank participated in a number of CSR activities dealing with social and national problems. Some of its major projects were as follows.

We implemented a "Job SOS 4U" project with a budget of KRW 37 billion. This funding was raised by our employees, who made contributions from their salaries to support the underprivileged and help resolve the problems of youth unemployment and manpower shortages at small- and medium-sized enterprises (SMEs). Our work helped to create about 3,000 full-time workers at SMEs, and about 190 accounting positions at social enterprises. In addition, we implemented a "JOB SOS II" project that helped new employees at SMEs set up installment savings accounts. This helped provide more stable living conditions for over 5000 applicants and employees.

We also established the Shinhan Smile Microcredit Bank in December 2009 (a "first" for the domestic financial industry) by investing KRW 50 billion to help underprivileged people become financially independent. We made an additional contribution of KRW 20 billion at the end of 2010. The project was especially successful because it combined our financial expertise with much-welcomed advice from outside experts.

Our goals in 2011 are to execute our mid- to long-term strategies and improve communications with our stakeholders. In addition, the Department will retain its commitment to building a better society and happier tomorrows by being faithful to its main responsibilities. We will continue to systematize and strengthen our various CSR programs, while placing our top priority on sustainable management.







# ETHICAL MANAGEMENT



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

We are constantly revamping our ethical management systems. This task is led by our Compliance Officer, who is responsible for pursuing ethical management-related operations across the board. He is assisted by the bank's Compliance Department.

Every employee is required to sign a pledge for ethical practices every year, and we also carry out a monthly "ethics observance self-check program." In addition to building systems to ensure that all our workers are familiar with our Code of Ethics, we produce videos about ethical behavior and offer online and offline training courses in it.

## Ethical Management Programs and Systems

### Systems

**Reporting on and carrying out inspections of securities accounts and trading:** We observe all securities-related laws and regulations, and are committed to preventing illicit transactions, such as the use of undisclosed information. We limit the possibility of unfair transactions occurring by monitoring the securities accounts of certain employees and their trading practices on a regular basis.

**Integrity Pact:** We enhance the fairness and integrity of all our contracts by outlining the procedures that employees in charge of contracts must follow during the bidding process, when contracts are actually signed, and when their content is being delivered. This applies to such areas as construction, services, outsourcing, and purchasing. We also monitor the performance of every division at our head office on an annual basis.

**Customer Due Diligence:** Our customer due diligence system has been revamped to comply fully with the Korean government's revised Anti-Money Laundering (AML) Act. Other risks are reduced through training and periodic reports on and analyses of financial transactions.

### Programs

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

**Ethical Management:** We have a number of programs in place to increase our employees' awareness of the need for ethical behavior. They include a pledge for ethical practices, employee compliance checkups, and a securities transaction reporting system. In addition, we are installing a program called Law & Ethics (a legal advice system for ethical management) on our Intranet.

## Compliance Department

In 2010, the Compliance Department focused on operations that were targets for prequalification, as prescribed in the bank's compliance code. It helped to strengthen cooperation among divisions in matters related to internal controls, and enhanced their efficiency by holding internal control conferences. It also assisted employees in complying with the bank's rules and regulations by monitoring divisions at the head office, branches, and overseas branches.



## ETHICAL MANAGEMENT

In addition, the Department dealt with compliance risk through management activities at the head office. It also conducted monthly ethics training exercises to help employees comply with the bank's rules and regulations. In addition, it rewrote the banks' rules, regulations, and bylaws relating to the operation of its head office divisions.

The Department also enhanced the bank's system for reporting money laundering by making improvements to the Suspicious Transactions Report (STR) system. The number of reports of suspicious transactions increased sharply in 2010. This was due to two factors: improved employee awareness in the wake of our continuous training efforts, and strengthened reporting standards. Monitoring activities were also increased.

In addition, we reacted to an increased need for legal advice on the part of highly-sensitive departments by instituting a legal risk management system, enabling legal advice to be made available in a speedy and accurate manner. We also developed a legal advice system called Law & Ethics.

### Management Audit Department /Audit Department

The Management Audit Department and the Audit Department are in charge of reviewing the bank's operations, internal controls system, and management information systems. Their activities include training employees in the workings of the bank's internal controls system, preventing accidents, and conducting periodical risk-based audits of divisions at the head office and domestic and overseas branches.

In 2010, we developed a more efficient financial accidents prevention system by separating the Management Audit Department from the Audit Department. This allowed the first department to concentrate on head office divisions, overseas branches, and sanctions and decisions, while the latter one took over responsibility for internal controls at the branch level.

We also carried out benchmarking exercises on model companies and added compensation and PR and made revisions to our guidelines to encourage whistle blowing. These steps resulted in our being recognized as the financial industry's leading player in terms of whistle blowing by the Financial Supervisory Service.

For 2011, the Audit Department has established three strategic directions. They include preventing accidents proactively, making inspections that comply with supervisory directions, and strengthening the range of our audits. We will carry forward a series of core tasks based on these strategic directions.

Our strategic goal for 2011 is to monitor risks in advance to overcome a slow market environment. As a result, we will pursue the following core tasks: establish ground rules in the line of duty, conduct audits to reflect changes in financial regulations, and promote "soft power" in the audit sector.





# BOARD OF DIRECTORS

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

The BOD held 12 meetings in 2010, mainly dealing with the enactment of and/or revisions to major regulations, the establishment of the Compensation Committee, and capital increases for overseas local subsidiaries.

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

(As of March 31, 2011)

## Executive Director

### Jin Won Suh

President & Chief Executive Officer

## Director

### Woo Jong Won

Director & Standing Auditor

## Outside Director

### Kyu Min Lee

Director,  
Chairman,  
Korea Market Forum for  
Journalists

### Cheol Soon Park

Director,  
Professor,  
Seoul National University

### Hee Jin Lee

Director,  
Professor,  
Yonsei University

### Se Jin Park

Director,  
Professor,  
Dankook University

### Joon Kyung Kim

Director,  
Professor,  
KDI School of Public Policy and  
Management

### Hisamatsu Kenzo

Director,  
Chairman,  
Recto Co., Ltd.

## Executive Officers

### Sung Rack Lee

Deputy President,  
Risk Management Group

### Jong Bok Moon

Deputy President,  
Wealth Management Group

### Shin Kee Lee

Executive Vice President,  
Institutional Banking Group

### Dong Dae Lee

Deputy President,  
Institutional Banking Group &  
Corporate Banking Group

### In Jong Joo

Executive Vice President, Credit  
Analysis & Assessment Group

### Young Pyo Kim

Executive Vice President,  
Marketing Support Group

### Se Il Oh

Deputy President,  
Investment Banking Group

### Young Oh Seol

Executive Vice President,  
Global Business Group

### Young Soo Choi

Executive Vice President,  
Business Improvement Group

### Yong Byoung Cho

Deputy President,  
Retail Business Unit & Retail  
Business Development Group

### Sang Ho Lee

Executive Vice President,  
Management Planning Group

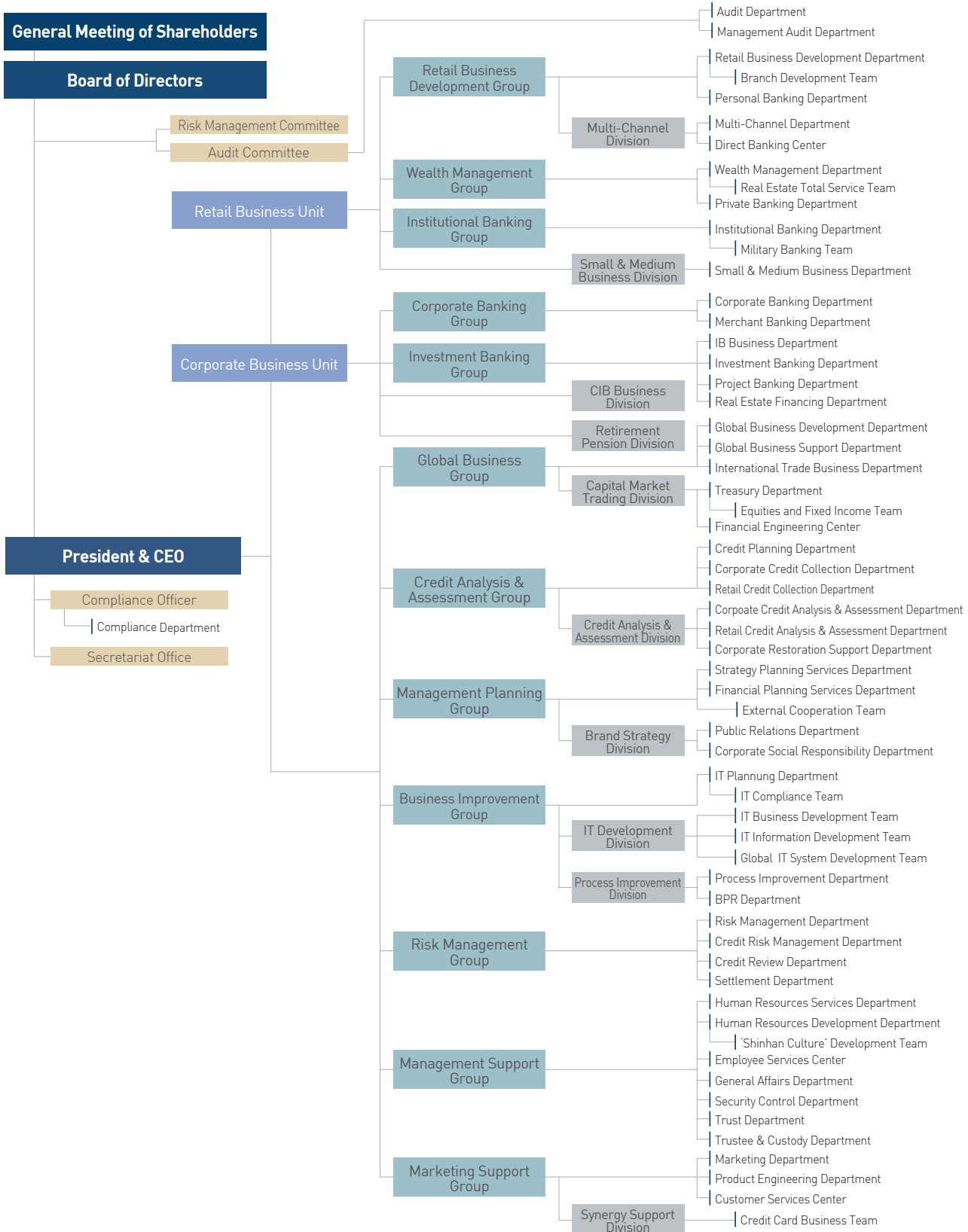
### Young Jin Lim

Executive Vice President,  
Management Support Group





# ORGANIZATION (As of December 31, 2010)



## *Moving Forward Together: Toward Enhancing Financial Soundness and Increasing Customer Value*

*Shinhan Bank will remain true to its commitment to sustainable growth as a means of increasing customer value. It will do this by building a new growth platform in the Asian "financial belt" connecting Korea with Japan, Vietnam, China, and India. To achieve this goal, we will add to our global capabilities and make substantial investments in high-quality operations that have a safe, sound, and secure asset base.*





## INSTITUTIONAL BANKING GROUP



### Institutional Banking Group

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

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

The key to our success lies in the fact that we have an extremely loyal and high-quality customer base in all our core constituencies. The experience that we have gained in this sector and the continuing loyalty of our customers make it very difficult for our competitors to enter it. In addition, we are creating a strong customer base for the future by opening branches in major institutions and carrying out extensive marketing activities, such as areal marketing.

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

In 2010, the Group carried out a wide range of activities to strengthen its relationships with its

customers and add to its presence in new markets. In addition to retaining our market leadership in the courts sector, we attracted new deposits from seven universities and hospitals.

We also renewed our contract for the depository in Incheon City. In addition, we won new depository businesses in various districts in Seoul, and added to our business areas to attract public organizations that are not our customers yet. Our strategy is to maintain our leading position in the institutional banking market by dealing with each segment within it as a separate entity.

In 2011, we plan to continue in our role as one of Shinhan Bank's core groups, with a strategic objective of increasing our share of the institutional banking market. To achieve this goal, we have set out three strategies: strengthening our foundations for sustainable growth, adding to our competitive advantages in the institutional banking market, and maximizing our organizational capabilities.

In order to strengthen our foundations for sustainable growth, we will continue with our programs for attracting new, high-quality organizations. In addition, we will increase our portion of the "customer share of wallet" (SOW). This refers to a method used in performance management that helps managers understand the amount of business their company gets from specific customers. Finally, we will add to our base of potential customers by targeting college students and members of the Korean armed forces.

In terms of enhancing our competitive advantages in the institutional banking market, we will retain our leadership in the area of court deposits, increase the volume of tuition fees paid at our various facilities by college and university students, and renew our contracts for depositories as their expiry dates approach. We will also continue to engage in "high touch marketing." This refers to a strategy and process that utilizes the most recent





## RETAIL BUSINESS DEVELOPMENT GROUP



advances in technology to simplify and automate marketing efforts and build long-term relationships with customers. In addition, we will develop a VIP customer management system for employees of organizations. We will also continue enhancing our computer linkages with institutions, and enhance our marketing processes. For example, we will upgrade our systems for issuing student ID and debit cards, make improvements to our computerized systems in our court and municipal and provincial depositories businesses, and develop specialized computer systems that will encourage new customers to choose us as their main bank.

In order to maximize our organizational capabilities, we will enhance our supports for institutional branches and outlets by realigning our sales-related systems and standards and adding to our employee training programs. We will also continue to make contributions to the communities in which we operate. This will include supporting the Child Development Account (CDA) program in collaboration with the Ministry of Health and Welfare.

The Korean financial services industry is facing intensifying competition both at home and abroad, making our operating environment increasingly difficult and complex. This means that our role within Shinhan Bank is more important than ever, since we boast both high-quality customers and a host of well-performing assets, such as low-cost deposits. In 2011, we will strive to achieve all our strategic objectives so that we will remain a cornerstone for the future sustainable growth of Shinhan Bank.

### Retail Business Development Group

The Retail Business Development Group is tasked with establishing mid- to long-term strategies and management plans for Shinhan Bank's retail sector, including Retail Mass, Wealth Management (WM), Private Banking (PB), and institutional and small- and medium-sized enterprises (SMEs). In order to carry out its strategies for these various channels, the Group sets goals for each branch of the bank that correspond to management indicators for that particular sector. In addition, it establishes and supports both direct and non-direct sales channels, develops strategies to boost sales within them, and creates new businesses and services for them to operate.

Comprising 95.5% of the bank's total sales channels and 65.5% of its employees, the Group plays a central role in providing a foundation for the bank's stable growth. Its ultimate strength lies in its field-type sales organization structure. Based on the belief that strong field resources make for a strong central organization, we classify all our branches by region. The managers and deputy managers of high-performing branches are named regional heads and senior retail pioneers (SRPs), respectively, serving as coaches and mentors for our front-line workers and liaison officers. In addition, outstanding employees at each branch are appointed as JUMP managers. This system results in smoother communications between the head office and its branches, ensuring that everyone works to achieve the same vision and goals.

At the end of 2010, the Group had 6.7 million customers, 1.8 million of whom were using SHB as their primary financial institution. Total loans and deposits amounted to KRW 94.1 trillion and KRW 121.6 trillion, respectively. Core deposits, operating revenue, and earnings before taxes (EBT) stood at



KRW 30.1 trillion, KRW 29.6 trillion, and KRW 1.1 trillion, respectively. Our delinquency ratio was 0.57%.

In 2010, the retail banking industry was faced with a number of difficult circumstances. They included a static job market, drops in real wages, an increase in non-performing household loans as the result of interest rate hikes, and ongoing uncertainties in the real estate and stock markets due to the central government's strategies to cope with the global financial crisis. Fortunately, many major economic indicators began to normalize in the wake of a rapid recovery in the Korean economy and thoroughgoing efforts by domestic financial institutions to increase their operational soundness. Our Group also profited immensely from its employees' dedication and hard work.

For our retail business, we devised a "3R" strategy to help us become an even stronger player. They included **retaining** our first-place position within the industry, **reinforcing** our core business domains, and **revamping** our methods of encouraging innovation. In addition, we carried out a number of tasks aimed at increasing our customer base. These included increasing the volume of low-cost deposits to expand the market share of our core businesses, attracting more Internet and mobile banking customers, and augmenting the productivity of all our channels.

Our key management slogan in 2010 was "Retail Revolution 3.0! Creative challenge toward first-class retail banking." As part of this program, we decided on four core tasks: growing our customer base, maximizing our profits, strengthening our business fundamentals, and innovating our services. Through the hard work and dedication of our employees, we managed to obtain outstanding results in each area.

Most of the bank's profitability indicators led the entire industry, and some of them even exceeded the levels we had achieved before the onset of the

global financial crisis. They included net income of 1.6 trillion, ROA of 0.77%, ROE of 11.45%, and NIM of 2.13%.

We succeeded in attracting 1 million new customers, far exceeding our original target of 700,000. We also attracted 740,000 new apartment application savings accounts, giving us more than 3 million of them in total. We also achieved sound asset growth, including delinquency ratios of only 0.56% and 1.29%, respectively, for household loans and individual business loans. Even more telling was the fact that this happened even though we ranked first among Korea's four leading domestic banks in terms of increases in household loans. Core deposits amounted to KRW 2.7 trillion, well above our original target of KRW 1 trillion.

SHB also garnered the lion's share of the extremely competitive retirement pension market. We strengthened our market dominance even more by introducing a wide range of innovative, customer-centered products, such as a monthly compound interest installment savings plan and "My Car" loans.

In 2011, we are forecasting that our operating environment will continue to be troublesome. We anticipate little to no growth in the real estate and stock markets due to slowdowns in the Korean and world economies, as well as deteriorating asset soundness due to ongoing interest rate rises. Both of these factors will impact negatively on our own growth.

The Korean banking industry is now structured into a "four major players" system, leading to enhanced opportunities as well as added challenges. Competition will inevitably increase, since those competitors that have been busily benchmarking our strategies for success will soon begin engaging in their own aggressive sales campaigns in the hope of gaining an early edge in the revamped market environment.

We will create an environment in which our frontline workers can concentrate exclusively on customer management. By taking all of these steps, we will help SHB evolve into a leader in Korea's retail banking sector.

To deal with this threat, the Group established a strategic goal of "building solid growth foundations through the execution of Retail Revolution 3.0." It includes a "3S" strategy of core tasks. They include upgrading our systems (**Superior**); instituting "smart asset" operations (**Smart**); and expanding our customer base and increasing the number of customers who use us as their main bank (**Strong**).

In order to improve our customer base and add to the number of customers who use Shinhan Bank as their primary financial institution, we will work hard to turn our active customers into major ones (what we call "TOPS customers"), and then try to upgrade them into "prime" customers. We will do this by growing the amount of business they do with us through enhanced customer management techniques and an intensified focus on cross-selling. We will also increase our number of senior citizen and youth customers, encourage all the SFG companies to share the Group's customer bases (including those for credit cards, life insurance, and securities), and enhance our non-direct channels, such as Internet and mobile banking.

In addition, we will begin a program of "smart asset" operations. Instead of encouraging unsustainable quantitative increases in asset growth, we will concentrate on acquiring sound and solid, high-quality assets that have a good potential for profitability. In order to add to our store of deposits that will comprise this type of growth, we will work to increase our volume of salary transfers, bill-collecting-type settlement accounts, and pension receiving accounts. In addition, we will develop innovative and specialized products and continue to grow our share of the retirement pension market.

Our third task will be to upgrade our systems to enhance the productivity of our sales channels and augment the quality of our customer management processes. We will do this by implementing our "Retail Revolution 3.0" channel innovation

strategies at each branch. In addition, we will take steps to reduce the workload at our direct channels by implementing a customer management team system in them and encouraging low-profit customers to switch their banking activities to non-direct channels.

In order to enhance our customer relationship management processes at our direct channels, we will strengthen the abilities of our employees through enhanced skills training. This will help us to enhance our customer satisfaction levels by improving our employees' job performances.

Finally, the Group will increase its understanding of its customers' needs through such programs as Voices of Customers and Voices of Frontline Workers. In addition, we will create an environment in which our frontline workers can concentrate exclusively on customer management. By taking all of these steps, we will help SHB evolve into a leader in Korea's retail banking sector.



## WEALTH MANAGEMENT (WM) GROUP



### Wealth Management (WM) Group

The bank's Wealth Management Group consists of the WM Department, the Real Estate Total Services Team, and the Private Banking (PB) Department.

It also manages "TOPS Premier" customers (termed WM customers hereinafter). This is our very highest class of customer, chosen according to their history of transactions with the bank. Some of the services that we offer them include advice on asset management, taxes, and real estate, and suggestions on upgrading their investments.

The Real Estate Total Services Team provides customers with a wide array of one-stop services, ranging from general real estate advice to brokerage and management. It also conducts market research.

The Private Banking (PB) Department manages the portfolios of high net worth customers (HNWIs) through a one-on-one customer management program with their very own private banker (PB). Its services include banking, securities, insurance, and investment trusts; taxation and legal advice and the management of wills and inheritances; and advice and information regarding health, travel, golf, and shopping.

The WM Group's customers are categorized as either WM customers or PB customers. In 2010, our WM customer sector posted the best results of any domestic bank in the "carriage trade" market. Some reasons for our success included cross-selling through the Premier Lounges that are located in all our branches; unique and enhanced, high-quality customer management practices; the sale of premier-customer-only products; and turning our credit card users into full-service customers.

Our number of WM customers grew by 8.8% over

the year, enabling us to consolidate our foundations for customer value creation through the provision of differentiated asset management services. Although these customers only make up 1.3% of our total retail banking customers, they account for 54% of our total deposits and 35% of our net income.

The PB Department added the Shinhan PB Mokdong Center to its roster in 2010, targeting customers in the Gangseo area of Seoul. The bank now boasts a nation-wide network of 20 PB centers.

In addition, we added to our customer satisfaction levels by developing financial products that minimize our risk and generate additional revenue, with a special focus on PB private equity funds. We also consolidated our position as the leader in Korea's PB market. Our net assets amounted to KRW 11 trillion, while our number of managed customers exceeded 4,100.

We were ranked first for the third straight year in the PB category of the Korea Standard-Premium Brand Index survey organized by the Korea Standards Association, Chosun Ilbo, and Seoul National University. We also received a Korea Luxury and Remarkable Index (The Proud) certificate from KMA Consulting, and won the grand prize at the third annual Asia PB Awards.

The Real Estate Total Service Team published a monthly report called "Review & Prospects." Although it was primarily designed to augment the real estate consulting abilities of our employees, it also posted the results of customer surveys on the outlook for various markets. In addition, we ran a new building manager (BM) program to encourage the rehiring of retired real estate managers.

The WM Department has set three core tasks for 2011. They include leading the WM customer market by attracting new customers and forestalling customer breakaways, enhancing our



Our number of WM customers grew by 8.8% over the year, enabling us to consolidate our foundations for customer value creation through the provision of differentiated asset management services.

asset management capabilities through the increased segmentation of our very best customers, and strengthening our WM customer values by making the Shinhan brand even more attractive.

We will attract new customers and forestall customer breakaways by promoting joint marketing among our business groups and attracting more potential patrons through collaborations with SFG's affiliates. In addition, we will carry out CRM-based marketing and strengthen our customer breakaway prevention activities.

In addition, we will enhance our asset management capabilities by categorizing our very best customers by segment and offering them services based on their rankings. We will also expand our range of premier-customers-only products and add more services for our WM customers. This will include a customer escort service, and advice on how to optimize their portfolios.

We will increase our WM customer value by enhancing the "Shinhan Power" WM asset management brand. In addition, we will foster the development of asset management specialists who are able to work independently, and continue to improve our training in WM consulting processes.

The Real Estate Total Service Team generates non-interest income by offering a wide range of real estate services and related products. To this end, it has devised a set of strategies that will increase its market share and add to its number of high-quality customers. They include strengthening our consultation capabilities, diversifying our management marketing channels and targets, upgrading our brokerage processes, and making our services more accessible to the bank's branches.

The PB Department's goal is to be a top-ranked

global player. To meet this end, we will pursue three strategies. They include developing new growth engines for the PB market, gaining competitive advantages in core PB areas, and fostering our "soft power."

In order to realize the first goal, we will continue to add to our range of PB channels in well-to-do areas where there are no Shinhan PB centers. We will follow the same strategy with our Gold PB centers, which offer more WM client services. In addition, we will add to our customer satisfaction levels by developing a dual portfolio management system consisting of the heads of our PB centers and the head office. We will also increase synergies among SFG's affiliates through collaborations and the creation of affiliated products.

To enhance our competitive advantages in core PB areas, we will develop themed products that accurately reflect customer needs, such as PB private equity funds and interest-paying funds. We will also offer our clients more IR sessions.

In order to foster Shinhan PB's "soft power," we will strive to win the PB award category in the KS-PBI survey for the fourth straight year, and help the bank repeat as the first-place player overall. We will also enhance people's awareness of the Shinhan PB brand through publicity in the media, and strengthen the abilities of our employees by upgrading our PB capabilities certification and evaluation system so that it can measure the abilities of our PB team leaders in a wider range of areas.



## CORPORATE BANKING GROUP



### Corporate Banking Group

The Corporate Banking Group provides corporate banking services to large corporations, small and medium-sized enterprises (SMEs), government-run companies, and financial institutions. It consists of two divisions and 144 branches.

Our responsibilities include corporate loans and deposits, foreign exchange products and services (including imports and exports), electronic settlements, funds management, and corporate Internet banking. Backed by our 377 relationship managers (RMs), who are the industry's leading specialists in the corporate banking sector, we provide optimal financial solutions to meet the increasingly diverse needs of our customers.

For 2010, the group decided that its strategic goal would be to strengthen its growth platforms to become Korea's corporate banking leader. We also focused on enhancing the quality of our core tasks by establishing three basic strategies. These included improving our customer base and our asset portfolios, developing a sounder platform for growth, and increasing our profit base.

#### **Improved customer base and asset portfolios**

We selected a number of market sectors and customer groups that we wanted to target. They included large corporations and well-established companies whose financial statements are audited by certified public accountants, as well as well-established companies whose financial statements are not audited. By doing this, we upped our market share among these customers by 1.1% from the year before. We increased our market share among well-established companies by the same amount by offering them new interest-supporting products and extending the maturity dates of their loans.

#### **Developed a sounder platform for growth**

In order to enhance our core capabilities, we selected our third batch of reserve RMs and added to the quality of our programs aimed at strengthening their abilities. In March, we launched a new integrated Cash Management Service product called "Inside Bank." As of the end of 2010, 23,722 companies were using it. In addition, we deployed target marketing to attract more retirement pensions, which we see as being long-term growth platform products. As a consequence, retirement pensions increased by KRW 51.6 billion (or 105%) over the year to reach KRW 1.8 trillion at year-end. Their total value was an industry-leading KRW 2.9 trillion.

#### **Increased profit base**

We realized a satisfactory level of pre-tax income in 2010, in spite of fierce competition to gain the patronage of well-established companies. In addition, we strengthened our deposit base to maintain a stable loan-to-deposit ratio (LDR). As a result, our average balance of usable deposits increased by KRW 410.3 billion from the year before. Our import and export market share rose by 2.6% to 16.7%, thanks to our strategy of concentrating on profitability-centered businesses.

In 2011, the Corporate Banking Group's strategic goals are to be a reliable partner and to concentrate on value-centered growth. We will meet them by carrying forward three strategies.

#### **"Smart" asset growth**

The Group will enhance its targeted marketing techniques to retain its market leadership in the corporate banking sector. It will do this by utilizing new products in each customer segment. It will also attract new customers by increasing its number of RM's. In addition, we will enhance our platforms for augmenting our long-term growth assets by promoting retirement pensions, "Inside Bank," and green finance marketing, and increase our emphasis on our large company operations.



## INVESTMENT BANKING (IB) GROUP



We will also strive to improve our earning power by expanding our policy of differentiated pricing based on customer ranking and raising our share of income from imports, exports, and electronic banking.

### **Managing for soundness**

We will enhance our evaluations systems to lower our delinquency and substandard-and-below loans ratios. This will include conducting regular loan reviews and increasing our visits to branches with large numbers of current and/or potential delinquencies. By doing so, we will identify businesses that have financial problems in a timely manner, allowing us to deal with them promptly and proactively. This in turn will help us to keep short-term delinquencies from evolving into longer-term ones.

### **Enhance the competitiveness of the corporate banking business**

We will strengthen the capabilities of our employees by enrolling them in enhanced training programs. In addition, we will make improvements to our Communication Manager (CM) system. We will also deal with sales-related issues in a proactive manner, and attempt to resolve any outstanding problems by holding informal meetings with relevant employees. In addition, we will add to the operations of our "Jump Team" internal consulting group, increase the utilization of our corporate CRM and our Sales Platform Upgrade to Reach the Top (SPURT) systems, and upgrade our other business processes, such as our accounting and computer systems.

## Investment Banking (IB) Group

The Investment Banking Group has become a leading player in Korea's IB market by offering its customers a wide range of financial solutions. They include ship and airplane financing, corporate facilities loans, infrastructure and real estate project financing (PF), overseas PF, asset securitization, equity investments, and loans for mergers and acquisitions.

Our Hong Kong IB Center, which began full-scale operations in 2007, successfully entered the local market by arranging financing and offering expert advice on overseas expansion to a large number of Korean companies. It has also made great strides in increasing its presence in mainland China and southeastern Asia.

In 2010, we established four strategies to help us build a mid- to long-term business model. They included maximizing our earnings; developing new-concept risk management systems; building advanced IB infrastructures, and increasing our volume of deal sourcing and strengthening our funding arrangements.

As a result of these efforts, the Group's financial results improved dramatically, including KRW 204.7 billion in operating income and KRW 137.7 billion in pre-tax income. Our delinquency rate for assets under management and our SLB ratio were 1.3% and 2.3%, respectively, reflecting the underlying soundness of our asset base.

In response to the bank's development of corporate investment banking (CIB) cooperation models in 2009, we established a "CIB One-Team" system in collaboration with various business groups. We also enhanced our communications channels, including IB Synergy meetings with other



SFG companies. In addition, we augmented the capabilities of our employees by increasing our number of reserve IB human resources and publishing IB operating manuals.

We also developed a wide array of risk management programs. They included a bank-wide "Prior IB Deal Review Council," due diligence examinations and analyses, and the SFG "Prior IB Deal Council." Some of our other activities included establishing standards for real estate PF operations and writing guidelines for the management of shipping finance operations.

In 2011, the IB Group set a strategic goal of building differentiated IB leadership. To attain it, we will carry forward three core tasks.

#### **Diversify IB operations**

- We will implement a wide range of differentiated operational strategies. These will include solution selling and joint marketing with SFG affiliates and other companies that need assistance with their investment banking efforts.
- We will advance into new business areas and increase our budget for entering global markets.
- We will strengthen our collaboration with SFG affiliates, including Shinhan Investment and Shinhan BNP Paribas Asset Management.

#### **Maximize earnings**

- We will increase the profitability of our sales operations by adding to our syndicate loan underwriting operations and developing an investors' network
- We will increase the quality of our assets by participating in more blue-chip deals managed by other banks and pursuing marketing opportunities in tandem with other financial industry players

#### **Upgrade IB human resources and enhance**

#### **infrastructure**

- We will hire more reserve IB human resources, enhance the quality of our training programs, and increase our level of hands-on training at our overseas IB outlets and the Hong Kong IB Center.
- We will establish management policies that accurately reflect the characteristics of new business areas and products. In addition, we will increase our product development capabilities by encouraging more collaboration among our divisions and teams.
- We will revise our guidelines for the handling of new products, and strengthen our due diligence processes for deals that are targets for intensive examination and management.

### **Corporate Investment Banking (CIB) Business Division**

**"A leader in corporate and green banking services and the development of new growth markets"**

The Corporate Investment Banking Business Division was created in July 2008 to answer the need for a comprehensive marketing organization that would combine the traditional demand for loans with consulting functions, such as offering advice on customers' assets. It consists of the RM Support Team, the Strategic Marketing Team, the CIB Business Team, and the Corporate Consulting Team.

The RM Support Team is involved with structured loans, including green growth industry loans, asset-backed loans (ABLs), and project-type facilities loans. The Strategic Marketing Team assists well-established enterprises that are audited by certified public accountants. The CIB Sales Team works with the Corporate Banking Group on investment banking deals, and engages



## The Investment Banking Group's financial results improved dramatically, including KRW 204.7 billion in operating income and KRW 137.7 billion in pre-tax income.

in marketing directed at large corporations and public enterprises. The Corporate Consulting Team provides optimal solutions for all operations at the bank's corporate banking branches by supporting their management and offering financial advice to businesses.

In 2010, our activities included developing structured loans and attracting high-quality customers, conducting direct marketing operations aimed at public enterprises and local governments, identifying and entering new growth markets, and building efficient and effective corporate management platforms. We contributed KRW 6.6 trillion worth of loans to the bank's branches, a rise of KRW 2.6 trillion from the previous year. The quality of our assets improved markedly, with 95.4% of our assets-based loans ranking "BB" or higher. This resulted from our policy of providing loans to the manufacturing sector (which now comprises 77.7% of our total assets) and moving away from more economically sensitive ones, such as real estate and shipping. We carried forward the following activities to strengthen our foundations in the corporate banking market.

### **Strengthened the capabilities of RMs**

We analyzed the results of our branches' marketing efforts by meeting with their relationship managers and senior relationship managers at all 12 of our divisions across the country. In addition, we strengthened the capabilities of our RMs by carrying out small group (SRM) training sessions and offering a Community of Practice (CoP) program for studying "best deals." We also enhanced our training systems and action plans to take our RMs' capabilities to the Project Manager (PM) level.

### **Targeted marketing**

We made loans worth KRW 103.5 billion to twelve companies in the low-carbon green growth and new and renewable energy sectors. We also played a leading role in the bank's efforts to assume a

leading position in the quality assets market. To do so, we developed plans to strengthen our competitiveness in industrial complexes. We also devised marketing policies to attract more guaranteed loans, using our KRW 90 billion contribution to the Korea Credit Guarantee Fund and the Korea Technology Finance Corporation as a springboard.

### **Improved customer loyalty through corporate consulting**

We bolstered our ties with second-generation executives by participating in the Shinhan Management Innovation Process (MIP) and offering them advice on problem-free business successions. In addition, we supported direct marketing efforts targeting business owners, and encouraged them to choose us as their primary financial institution. We also increased our volume of high-quality assets and added to the quality of our loan portfolio.

In 2011, we will carry out the following strategies.

### **Increase asset quality**

We aim for solid asset growth, with a focus on well-established companies. To this end, we will carry forward well-thought-out marketing campaigns to attract new customers, strengthen our support for healthy SFG affiliates and business partners, and assist in the development of new businesses to secure long-term growth engines.

### **Add new growth platforms**

We will pay more attention to previously-neglected markets and attract more high-quality customers. We will do this by providing information on the corporate banking sector, building a data platform to increase our number of quality assets, and reviewing our support agreements.

### **Boost capabilities and maximize competitiveness**

We will increase our number of full-service accounts and act as a key player in the development and dissemination of affiliated marketing tools and

In 2010, the total value of our retirement pension assets under management was KRW 2.9 trillion, making us the industry leader.

techniques. We will also foster PM specialists in each business sector and strengthen the capabilities of new S(RM)s.

#### **Provide more corporate consulting**

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

### **Retirement Pension Division**

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

The Division was created to help the bank cope with the implementation of the Korean retirement pension system in December 2009. It is also tasked with strengthening synergies with the bank's corporate banking channels. Consisting of the Planning Team, the Business Support Team, the Consulting Team, and the Consulting Center it is dedicated to meeting the ever-changing needs of our customers and improving our customer services in both quantitative and qualitative terms. By doing so, we will gain an early edge in the increasingly important retirement pensions market.

In 2010, the total value of our retirement pension assets under management was KRW 2.9 trillion, making us the industry leader. Some of the steps that we took to provide differentiated services for our retirement pension subscribers included

developing the financial industry's first equity-linked deposit (ELD) product for retirement pensions, and launching a retirement pension enquiry service that can be accessed through ATMs.

In 2011, the Division will deploy an extensive, high-touch marketing campaign targeting large corporations and public enterprises. The goal of this exercise will be to ensure that we remain the number one player in the retirement pensions sector. One of the programs that we will highlight will be converting retirement trusts into retirement pensions. In addition, we will add more Pension Marketing Advisors to our roster, tasking them with enhancing the business capabilities of our branches and supporting their marketing efforts.



## Global Business Group

The Global Business Group plans to carry forward global operations from a mid- to long-term perspective. Our goal is to become an "Asia Top 10 bank" and then a "world-class global player." We will do this by developing the foundations for future growth in our overseas operations. Our major results for 2010 are as follows.

### Strengthened global network

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

### Opened branches of local subsidiaries

- SBJ Bank: Yokohama branch (February 2010)
- Shinhan Vietnam Bank: Hanoi branch (August 2010), BinhDuong Branch (October 2010)
- Shinhan Bank (China): Beijing Shunyi Sub (September 2010)
- Shinhan Bank (Canada): Mississauga Branch (November 2010)

### Carried out global projects

We revamped our mid- to long-term strategies and our global business-related processes and roles to take advantage of the expertise of each member of our rapidly-growing global network. In addition, we dispatch specialists in each of our fields of expertise to our core countries to help develop local strategies. In addition, we help our local subsidiaries to establish mid- to long-term strategies.

We are also building a transaction banking business.

### Strengthened global capabilities and

### infrastructures

#### (1) Hired people with the ability to work internationally

Implemented programs in collaboration with the head office to outline our expectations of our local employees and develop high-quality human resources

- Instituted a Global Young Frontier program to enhance local employees' awareness of the "Shinhan Culture" and encourage them to feel they are part of a caring and sharing team
- Brought promising human resources to Korea for training

Instituted programs to strengthen the capabilities of local employees

- Sent local employees to our Hong Kong campus and offered Korean language courses

Opened new channels to recruit employees from the local population

- Recruitment of foreign students studying in Korea

#### (2) Risk management

Our global operations require effective risk management processes to cope with our lack of knowledge about the countries we intend to operate in. This includes their political, business, and cultural systems, as well as their legal and supervisory structures. To meet this challenge, we have upgraded our risk management structure so that we can identify such potential risk factors in advance and monitor them on a regular basis.

#### (3) Products and Marketing

We concentrated on developing products that meet the needs of our overseas customers. For example, accounts receivable loans, which assist in increasing the sales capacity of local corporations, are an excellent means of retaining them as our customers. These are counted as process loans, extending credit to local corporations based on the account receivables that they generate by supplying



products to Korean companies in their country.

#### (4) Global IT system

We began the process of converting from the OASIS system to Aither. Aither is a new system that overseas branches will use to bring their programs and processes into line with those back home. Shinhan China and SHBA began using it in the first half of 2010, and SBJ Bank and Shinhan Vietnam Bank are scheduled to do the same this year.

In 2011, the Global Business Group will enhance its global business operations by building platforms for targeted marketing and strengthening its capabilities in terms of target marketing.

#### Strengthening operational foundations by collaborating with bank affiliates

We will utilize the bank's networks and customer bases to take advantage of rapid changes in both the domestic and international financial environments. We will also strive to realize bank-wide synergies through joint marketing among branches both at home and abroad. This will allow us to make the best use of all the resources and capabilities among our domestic and overseas branches.

#### Optimize the quality and quantity of our networks

- We have built efficient and effective networks in all our key operating areas. In 2011, we will expand our overseas networks, with a focus on those in Japan, Vietnam, and China. In addition, we will achieve quality growth in our global channels by increasing our revenues. We will also ensure that our strongest business capabilities are fully adopted by our international operations.

#### Build foundations for local operations

- We will develop an effective, field-oriented, global business operating system. This will include introducing new products, establishing networks centering on local subsidiaries, developing financing and management business models that fit local conditions, and developing better

methods of connecting the head office with our overseas affiliates.

We will attract local customers by strengthening our international operating abilities and applying our core capabilities to our local operations. These include our differentiated customer management techniques, our marketing abilities, and our risk management processes. By doing so, we will become a key contributor to the bank's future growth.

### Treasury Department

The financial market in Korea appeared to be recovering its equilibrium in 2010, despite risk factors both at home and abroad--including North Korea and fiscal problems in several European countries. Market interest rates fell, led by yields on treasury bonds. Stock prices experienced an upturn, while the Korean won appreciated slightly. In addition, foreign currency borrowing conditions improved compared to the previous year.

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

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

In the won currency sector, we maintained a stable loan-to-deposit ratio by instituting a policy of



Our goal is to become an “Asia Top 10 bank” and then a “world-class global player.” We will do this by developing the foundations for future growth in our overseas operations.

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

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

In the foreign currency sector, we established annualized foreign currency ALM plans, developed optimal annualized target portfolios for each asset and business division, and monitored their performance on an ongoing basis. This allowed us to manage our foreign currency liquidity operations in a stable manner, even in the midst of the financial crisis in southern Europe. We secured mid- to long-term foreign currency funds in a timely manner and under very favorable conditions by floating USD 0.7 billion worth of global bonds in March 2010, before the previously-mentioned crisis erupted.

The bank is seeking to diversify its funding sources by utilizing the US and Euro CP programs. It will continue to maintain its foreign currency liquidity operations at a stable level by continuously strengthening its relationships with overseas financial institutions.

In 2011, we will have to guard against uncertainties triggered by the uprisings in Egypt and Libya, as well as continuing financial problems in the Euro zone. As a result, the Department will work to establish liquidity risk management systems that meet any and all international standards. We will also develop systematic and well-thought-out ALM strategies.

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

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

### International Trade Business Department

In 2010, the International Trade Business Department made improvements in the areas of imports and exports, foreign exchange, and remittances to secure stable revenue bases and add to its customer base. We also carried forward foreign exchange operations and invisible trade remittances (including imports and exports) in an attempt to regain customer trust and increase their earnings. As a result, we recorded USD 130 billion in the imports and exports sector, USD 3.5 billion in foreign exchange, and USD 23 billion in invisible trade remittances.

In the corporate banking area, we carried out an active program of foreign exchange marketing to win back corporate customers who had abandoned us due to our passive marketing activities while we were coping with the foreign exchange crisis of 2008. As a result, our growth in this sector ballooned by 40% from the year before.

Our global cash management service (CMS), which was developed to support more efficient corporate foreign currency funds management, attracted more than 2,300 corporate customers, an increase of 92% over the year. We also focused on encouraging these customers to choose us as their primary financial institution.

In the personal banking sector, we retained our number one position in terms of market share. This resulted from our endeavors to seek out new earnings sources. Our activities included developing niche markets in the foreign exchange sector and expanding our customer base through strategic alliances with mobile carriers and other enterprises.



## RISK MANAGEMENT GROUP



We bolstered our operational capabilities by adding to our employee training programs in foreign exchange operations. We also held an "Import & Export Academy" and various workshops to strengthen our ties with our corporate customers.

In 2011, we will strengthen our position in the imports and exports, foreign exchange, and overseas remittance markets, enhance our level of collaboration with the bank's overseas branches, and optimize our business processes.

With regard to imports and exports and overseas remittances, we will focus on qualitative internal growth and profit-oriented external growth.

In the area of foreign exchange, we will retain our market leadership and add to our competitiveness by boosting our brand image and enhancing our affiliated operations. In order to attract major customers through our global CMS, we will calibrate our management indicators to achieve qualitative growth.

We will also support our overseas branches so that they can expand their operating areas by developing more efficient and effective business models. In addition, we will optimize our operating processes by identifying and evaluating our strengths, weaknesses, opportunities, and threats (SWOT). This will be done by means of wide-ranging analyses, with a goal of enhancing our foreign exchange capabilities and competitiveness. Finally, we will develop enhanced customer relationship programs.

## Risk Management Group

We practice risk management to promote the bank's soundness and stability and to maximize shareholder value. Our guiding philosophy is that all our employees must find a balance between risk and profit for sustainable growth. Each business unit that is exposed to or is likely to generate risk is responsible for its own risk management practices. This includes having its own risk managers.

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

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

In order to ensure that our processes met all the requirements of the Basel II Accord, we obtained the approval of the FSS for the use of our internal model of market risk and the Foundation Internal Ratings Based Approach of credit risk, which are used to manage internal capital adequacy and BIS ratios. We also utilize a system that quantifies credit, market, interest rate, and liquidity risk to ensure that they remain at appropriate levels.

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

### Credit Risk Management

We double-check for credit risk in terms of both corporate and individual loans. Business loans are

# The goal of risk management is to promote the bank's soundness and stability by maximizing shareholder value and controlling for risk.

limited by both country and industry to prevent an over-concentration in specific sectors. Loans to individuals take the borrower's credit ratings and repayment history into account.

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

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

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

## **Market Risk Management**

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

The Risk Management Department is tasked with ensuring that these limits are adhered to, although the limits themselves are established by the ALM Committee. In addition, the Department evaluates the degree of risk associated with new products or deals

within each business sector prior to their launch.

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

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

## **Middle Office**

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

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

## **Asset & Liability Management (ALM)**

### **Interest Rate Risk Management**

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

The goal of interest rate risk management is to ensure stable earnings and maintain net asset



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

value by forecasting changes in interest rate risk related to the bank's net interest income and net asset value and then managing them within allowable ranges.

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

Interest rate gap and VaR limits are established at the beginning of the year with the approval of the Risk Management Committee or the ALM Committee. Their management is reported to the head office. We also conduct quarterly "stress tests" to calculate potential losses in the event of market crises. The results are reported to the ALM Committee.

### Liquidity Risk Management

Liquidity risk refers to the potential inability to fulfill contractual payment obligations on time, being forced to raise capital at higher-than market prices, or maintaining operating funds at lower-than-market rates. It includes funding liquidity risk and market liquidity risk.

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

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

The bank also establishes limit control indicators. Their management is reported to the Risk Management Committee and the ALM Committee

on a regular basis. The results of liquidity stress tests are also presented to management to lessen the possibility of liquidity risk.

### Operational Risk Management

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

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

Our own operational risk management system includes six modules: Risk and Control Self-Assessments (RCSA's), Key Risk Indicators (KRI's), Loss Data Collections (LDC's), Operational Risk Measurements, Scenario Analyses, and Operational Risk Culture. They meet all the quantitative and qualitative requirements for operational risk management laid out by the Basel Committee and the Financial Supervisory Service (FSS).

### Risk Model Validation

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

In 2010, we carried out validation tests on our corporate, retail, and SOHO credit assessment systems, the PD/LGD/CCF estimation system, the market risk management system, and the risk-weighted asset (RWA) calculation system. We also expanded the range of validation, and conducted validation tests on our early warning system for



## CREDIT ANALYSIS & ASSESSMENT GROUP



loans and our collection source management system. The results were presented to management and the Risk Management Committee. Operating divisions are notified about areas that need improving.

### **Global Network Risk Management**

We support stable growth at our overseas branches by strengthening their risk management abilities. This includes ensuring that the bank and its overseas branches share a consistent risk management structure and helping them to establish credit risk models and a major risk indicator monitoring system.

We also help local subsidiaries by establishing their total risk limits, monitoring their risk management capabilities, and helping them to make improvements to their shortcomings. In addition, we assist them in building risk management platforms so that they can carry out their own risk management programs and processes. This includes establishing credit risk models, risk data marts, and systems for calculating market risk.

### **Information Quality Management**

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

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

## Credit Analysis & Assessment Group

The Credit Analysis & Assessment Group manages the bank's overall loans-related systems and processes, including credit approvals and assessments and the management of delinquent loans. It is comprised of the Credit Analysis & Assessment Division, the Credit Planning Department, the Corporate Credit Collections Department, the Retail Credit Collections Department, the Retail Credit Analysis & Assessment Department, the Corporate Credit Analysis & Assessment Department, the Retail Credit Analysis & Assessment Department, and the Corporate Restoration Support Department.

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

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

The Corporate Restoration Support Division was established in December 2008 to support smaller companies that were experiencing liquidity problems in the wake of the global financial crisis of 2008. Its responsibilities include corporate workouts in the construction, shipbuilding, and shipping sectors. It was incorporated into the Credit Analysis & Assessment Division after changing its name to the Corporate Restoration Support Department.

The Corporate Credit Collection Department and the Retail Credit Collection Department are tasked with minimizing credit-related losses by undertaking

Our goal is to lead the domestic banking industry through differentiated and qualitative growth and by maintaining the soundness of our assets.

legal procedures involving bad loans and individual and corporate restructurings and resuscitation programs.

The total value of the bank's loans in 2010 was KRW 155 trillion, an increase of KRW 4.8 trillion from the year before. This included healthy growth in both household loans and loans to relatively healthy large corporations, despite continuing uncertainties in the economy as a whole. The bank also boasted a superior level of asset soundness compared to its competitors. For example, its delinquency ratio was a mere 0.55%, while its ratio of non-performing loans to total loans was only 1.31%.

We anticipate that a number of factors will have a negative impact on the bank's soundness indicators in 2011. These include slowing growth in the aftermath of the global financial crisis, intensifying competition following the reorganization of the banking market, and increasing household debt in the wake of interest rate hikes. Our goal is to lead the domestic banking industry through differentiated and qualitative growth and by maintaining the soundness of our assets. Our strategies for achieving these goals are as follows.

#### **Increase quality of assets to improve growth engines**

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

#### **Continue to manage delinquencies and asset soundness**

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

#### **Promote Shinhan "Soft Power" to Spread a "Shinhan Credit Culture"**

We will take steps to ensure that we adhere to our loan management principles and enhance our communications with front-line operations. In order to ensure strong front-line operations, we will help them to upgrade their loan policies and processes and strengthen the capabilities of their employees in deciding whether or not to extend credit to customers.



## BUSINESS IMPROVEMENT GROUP



### Business Improvement Group

The Business Improvement Group serves as the bank's business innovation organization. Its goal is to provide our employees with a "speedy and smart" workplace to improve the bank's productivity and value. To achieve it, the Group has established three strategic goals and nine core tasks.

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

The Group is composed of the IT Planning Department, which is tasked with planning and researching new services to improve bank-wide businesses and customer services; the IT Compliance Team, which develops service quality controls and carries out inspections; the IT Development Division, which develops and operates IT services; and the Process Improvement Division, which is tasked with enhancing the efficiencies of the various business transactions that take place at the bank's branches and head office divisions.

#### IT

In 2010, the bank's IT strategic goal was to lead innovations in how we work and secure the best IT competencies. To achieve this, we chose four strategic tasks. They included building a "speedy and smart" working environment; enhancing our global IT service competitiveness; supporting the bank's business groups in a timely manner; and increasing the efficiency of the bank's organizations and infrastructures.

We increased the bank's efficiency and productivity by automating many employee processes and enhancing the competencies of its workers. This included building a Business Intelligence (BI) system and a mobile office environment. We also carried out a wide range of innovations to our work methods. This included developing agendas to increase our efficiencies and benchmarking innovations by other financial institutions.

We also restructured our global IT systems to better reflect the bank's strategies for global expansion. They were then applied to our local subsidiaries in the US, China, and other parts of the world, leading to increased efficiencies in terms of both the development and operation of the bank's IT systems. It also enhanced our customer service and satisfaction levels, since it was deliberately designed to conform to local business conditions.

We also assisted the bank with its goal of becoming a world-class financial institution. This included enhancing its CRM capabilities, implementing the second stage of its retirement pension business system, upgrading its risk management system (including TE/RWA), improving its systems for institutional customers (including municipal and provincial depositories and courts), restructuring its corporate CMS, and stabilizing its IFRS systems.

In addition, we established a competencies enhancement roadmap to help us cope with business changes and strengthen our competitiveness in the future. We also enhanced our failure management and prevention processes and our service quality control system. This was done to stabilize our services.

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

We have established three strategies to help us achieve this goal. They include providing services to help our business groups achieve their strategies;





adding to the bank's organizational and process innovations to make it more competitive; and providing efficient and effective services through a zero-defect policy. The details are as follows.

First, we will increase the competitiveness of our non-direct channels by developing new services using smartphones and enhancing our support systems for external marketing (including solution selling). We will also continue with our "speedy and smart" activities and apply our global systems to our local subsidiaries, including those in Japan and Vietnam.

Secondly, we will reorganize our organizational structure to ensure that it is more customer-centered and improve its functions. In addition, we will strengthen our outsourcing operations and management systems, carry out training programs to foster IT specialists, and apply global-standard IT development processes to our operations.

Finally, we will develop an automated testing system and an integrated monitoring system, with a focus on customers and services. In addition, we will strengthen our quality control systems (including peer reviews) and revamp the data center.

## Business Process Reengineering (BPR)

### Promoted BPR in branches

Business Process Reengineering (BPR) is a process-oriented management innovation technique that improves management performance by combining business process redesigns with information technology. SHB has deployed it to maximize its branches' marketing capabilities. This was done by transferring their back office operations to the bank's call center, dramatically reducing their workload.

We launched the first-phase BPR project in 2006, targeting all branch operations, including slips, forms, logistics, IPS operations, household loans,

deposits, and our foreign exchange services. In 2010, we introduced ID scanners to branches across the country, helping to improve their business efficiencies and strengthen their internal controls.

In 2011, we will position ourselves as an innovation leader for the bank, adding creative business innovations based on BPR infrastructures and the expertise we have accumulated thus far.

To achieve this goal, we have established three key strategic tasks. They include supporting the bank's differentiated growth, expanding into new BPR businesses, and enhancing the bank's business innovations and efficiencies.

The first task will primarily involve loans up-sale marketing and building up our customer base by issuing ID and debit cards to students, all of whom will all be potential customers in the future.

The second task will be to assume responsibility for operations that our branches find difficult to handle. The third one will be to enhance the efficiencies of our branches and our own internal operations by conducting in-depth business process analyses.

### Enhanced business efficiencies in head office divisions

We enhanced our business efficiencies in three main areas. First, we opened a business consultation center that is in exclusive charge of telephone enquiries from branch employees needing help in understanding the bank's rules and regulations. It is staffed by knowledgeable advisors who can respond to their requests in a speedy and accurate manner. This led to a reduction in the workload of employees at the bank's business groups and divisions, helping them to provide customers with better advice faster.

The second improvement was the consolidation of our operations. This involved transferring routine and repetitive operations that had formerly been



## MANAGEMENT SUPPORT GROUP



carried out at the divisional level to the back office. The third one was the consolidation of our reporting operations. Our data utilization specialists are now tasked with preparing reports required by outside organizations, freeing group division employees to perform other duties.

These various improvements enable the bank's business groups to utilize their employees in a more flexible manner, and ensure that they receive speedy and accurate support in the performance of their duties. They also enhance the efficiency and effectiveness of the bank's operations, resulting in optimized business processes.

In 2011, we will finish enhancing the business efficiencies of the Group's divisions. We will also build a paperless environment and begin making improvements to the bank's operating processes.

## Management Support Group

### Trustee & Custody Department

The Trustee & Custody Department is responsible for the trusteeship and custody of institutional investment assets, as per regulations contained in the Financial Investment Services and Capital Markets Act (FSCMA). At the end of 2010, we had KRW 70 trillion in assets from 90 institutional customers under custody.

In addition to providing trustee services, we engage in overseas investment asset management activities in conjunction with a number of other financial institutions, including Citibank, JP Morgan, HSBC, Brown Brothers Harriman, Euroclear, State Street Bank, and Clearstream. In 2010, Shinhan Bank once again ranked first among domestic banks in terms of the trusteeship of the national pension fund.

Our goal for 2011 is to retain the bank's position as the leading custodial bank in Korea. To do so, we will enhance our synergies with our affiliates, including Shinhan Investment and Shinhan BNP Paribas Asset Management. This will be done by leveraging SFG's vast organizational network. In addition, we will increase our share of the domestic market through marketing efforts targeting institutional customers, emphasizing our experience and expertise as a custodial bank for the national pension fund. We will also promote both qualitative and quantitative growth through the diversification of our revenue sources. We will do this by securing new growth engines, including the equities lending business and inbound custody. In addition, we will upgrade our overseas systems and enhance their operational capabilities to build a global custodial banking system.

In 2011, our strategic goal in the trust business is to broaden our market share in terms of money trusts.

We are also developing new systems to enhance the management of information regarding overseas investment assets. In addition, we will foster the development of specialists in our field by offering them a wide variety of training programs in collaboration with custodial banks from around the world.

We will also assist in the development of the Korean capital market and the protection of investors. Another of our goals is to provide platforms for the bank's sustainable growth and development.

### Trust Department

In 2010, the Trust Department took a number of steps to enhance the stability and profitability of its operations. This included identifying potential risk factors, revamping our internal business processes, and augmenting our financial results in terms of core products, such as special money trusts and pension trusts.

As a result, we were able to retain our frontrunner position in the Korean banking industry in terms of money trusts and assets under management (AUM), led by increases in special money trusts and pension-type trusts. We also strengthened our foundations for future growth by enhancing our internal control systems.

In 2011, our strategic goal in the trust business is to broaden our market share in terms of money trusts. To do so, we will attempt to grow our customer base by direct our marketing efforts toward high-quality customers. In the area of pension-type trusts, we will achieve market-leading results by reorganizing our portfolios. In the asset trust sector, we will add to our earnings by introducing new products and strengthening our network.

Our trust business's fully computerized system, which is scheduled to be fully operational by this

coming July, will aid us tremendously in meeting customers' needs. It will also help us to lay the groundwork for entering the comprehensive asset management-type trust business this year.



# MARKETING SUPPORT GROUP



## Marketing Support Group

The Marketing Support Group was established in January 2011, following changes to the bank's organizational structure and its business group operation policies. It is comprised of the Marketing Department, the Product Engineering Department, the Synergy Support Division (including the Credit Card Business Team), and the Customer Services Center. We carry out a wide range of marketing support activities to help the bank develop stronger front-line operations.

### Marketing Department

The Marketing Department consists of the planning, CRM, and strategic market teams. It is tasked with devising and implementing bank-wide marketing strategies; enhancing the bank's marketing efforts among working people, women, and senior citizens; developing and carrying out customer management strategies, and developing state-of-the-art marketing tools. In 2010, the Department carried out the following key tasks.

- Established marketing strategies: suggested marketing directions through marketing issue analyses and identified problems and issues through studies of customers
- Enhanced the bank's competitiveness in core markets: conducted customer analyses involving four core markets (working people, women, senior citizens, and college students), established marketing policies, made suggestions regarding the bank's products and services, devised and implemented promotional strategies targeting customers, provided feedback on goals and outcomes
- Established systems to strengthen the bank's CRM capabilities: built systems for events-based integrated campaign management, business opportunity management, optimal product

recommendations, and channel-wide customer management

- Brand management: pursued brand-centered organizational management and branding communication strategies, carried out bank-wide branding strategies
- Enhanced image and brand awareness: Implemented image and product advertisements to improve bank's image and distinctiveness, increased the efficiency of the bank's advertising in conjunction with advertising agencies

The Department's brand and advertising-related operations were incorporated into the bank's Brand Strategy Group during its reorganization in 2011, meaning that the range of its marketing supports became bank-wide. Its major goals for 2011 are as follows.

- Develop a system for holding marketing conferences to enhance bank-wide marketing supports
- Provide insights on customers through monthly reports
- Carry out strategic marketing targeting working people, women, and senior citizens
- Enhance CRM and marketing by branches through the "Retail Shinhan Way"
- Maximize the use of the MIDAS2.0 customer management system by branch employees
- Provide bank-wide marketing supports

### Product Engineering Department

The Department is tasked with developing new products and services for all the bank's business groups. They include loans, deposits, foreign exchange, gold banking, derivatives, and hybrid financial instruments linked with SFG companies or other industries. It also carries out market



We carry out a wide range of marketing support activities to help the bank develop stronger front-line operations.

surveys, analyses, and studies related to gold banking and new product development, suggests ways to enhance the competitiveness of new products, and conducts research in such areas as the success of product sales.

In 2010, we strengthened our customer bases, contributed to the promotion of sales, and introducing a wide range of innovative and market-leading products, such as monthly compound interest products, the "My Car" loan series, and equity-linked deposits (ELDs). We developed a total of thirty-six products during the year. Some of our other achievements were as follows.

- Increased customer base by developing anchor products that reflected customer needs, such as monthly compound interest products
- Launched loan products designed to increase the value of assets of healthy SME's
- Diversified range of financial instruments and opened up new markets by developing innovative convergence products and products for prospective customers
- Contributed to the bank's long-term brand value by launching Shinhan Bank Gold Bar

Received first prize at the "Korea Financial Masterpiece Awards" for the Shinhan S-MORE Point Bankbook, a savings deposit, from edaily

- Completed business model (BM) patent application for six products, including the Gold Gift Service and "My Car" Loans

In 2011, we will add to the bank's customer base and brand value through the introduction of high-quality, custom-tailored products. Some of our other plans are as follows.

- Lead market by developing new installment savings, deposit, and liquid products, and expand our service areas by developing loans with varying interest rate, redemption, and maturity

structures.

- Develop convergence products in cooperation with other industries
- Enhance cross-selling by developing customized products for women, senior citizens, and potential customers
- Develop high-quality assets by increasing number of new and well-established SME customers
- Improve marketing for and brand value of gold banking by launching the 10g Shinhan Gold Bar
- Develop social contribution products that reflect the importance of green finance and Korea's low birth rate

### Synergy Support Division

The Synergy Support Division is in charge of synergy operations (including funds, bancassurance, credit and debit cards, securities, and IB). It is also tasked with the overall management of financial investment tools and conducting research related to investment products.

In 2010, the Division recorded a profit of KRW 444.7 billion, an increase of KRW 38.8 billion over the year. This included its largest-ever gains in the bancassurance sector, up KRW 23.4 billion year-on-year. It also contributed to growing the bank's customer base, attracting 618,000 new customers who had already been using the Shinhan Card.

The fund sector's earnings base deteriorated due to an increase in redemptions and a fall in commissions. It posted KRW 4.5 trillion in new sales and KRW 188.3 billion in gains on funds. It did this by providing equity-linked funds (ELF's) and customized products.

The bancassurance business realized its largest-ever results by pursuing a "1.5 Times Level-Up" campaign. The card business exceeded its targets for credit and debit cards, thanks to process



improvements and enhanced marketing support at the bank's branches. We also promoted transparency in the bank's operations by seeking synergy operations that take a serious view of customer value. These efforts included pledges for full selling and role playing training for branches.

In 2011, the Division will continue to enhance its customer value-oriented synergy operations. We have three strategies for achieving a strong rate of growth. They include our front-line operations and customer-centered, "Fun Management"; encouraging SFG customers to become full-service banking customers; and growth in our synergy revenues.

The funds business will add to its customer base by introducing customized products and carrying out more marketing campaigns. The bancassurance business will launch a new slate of customer value-oriented products while also strengthening the bank's observance of principled and transparent operations. The card business will promote front line-centered operations by improving its business processes. In addition, the business will expand the bank's customer base by attracting customers of Shinhan Life Insurance, Shinhan Investment, and Shinhan Card to the bank as full-service clients.

### Customer Service Center

The Customer Service Center supports the bank's customer satisfaction management activities by practicing its core value of being customer-centered. It creates enhanced customer values by providing top-of-the-line financial products and offering unparalleled customer service.

Our major tasks include carrying out bank-wide customer service (CS) strategies, coaching employees in the use of the Service Capability Level (SCALE), establishing policies for dealing with outside evaluation organizations, and developing a CS culture and "boom-up" programs. We also develop coaching programs to instruct employees

in bank-wide service quality controls, deal with disgruntled customers and analyze their complaints and grievances, and attempt to mediate between the parties when disputes arise.

As a result of supporting programs to shorten the bank's hours of operation and enhance its external competitiveness, we ranked first in the Korean Standard Service Quality Index (KS-SQI) survey for the ninth straight year. We also won the Korea Service Grand Prix for the seventh consecutive year, ranked first in the Global Brand Competency Index (GBCI) survey conducted by JMA consulting for the third year in a row, and received the Global Management Award for the sixth straight year. We also ranked first in the "least customer grievances" survey conducted by the FSS.

The Center set 2011 as the first year for changes to its CS programs in a bid to provide the bank's customers with better and more differentiated services. Its core tasks will include realigning the basic service systems at the bank's branches, introducing SCALE to strengthen its business capabilities, and innovating the systems and structures of all the Group's divisions so they will be more customer-centered.

*Management Discussion  
& Analysis*



## Financial Highlights

	In billions of Korean won		In millions of US dollars*	
	2010	2009	2010	2009
<b>Bank Account</b>				
Operating Revenues	22,969.7	41,466.7	20,168.3	35,514.5
Operating Expenses	20,714.1	40,233.9	18,187.8	34,458.6
Operating Income	2,255.6	1,232.8	1,980.5	1,055.8
Ordinary Income	2,092.1	1,066.2	1,836.9	913.2
Net Income	1,648.4	748.7	1,447.4	641.2
At Year-End				
Total Assets	205,378.0	202,237.4	180,330.1	173,207.7
Total Loans	145,881.8	139,956.2	128,090.1	119,866.6
Total Securities	40,186.8	39,540.2	35,285.7	33,864.5
Total Deposits	139,666.5	135,285.0	122,632.8	115,865.8
Total Stockholders' Equity	15,006.2	13,415.6	13,176.0	11,489.9
<b>Trust Account</b>				
At Year-End				
Total Assets	33,239.9	32,537.3	29,186.0	27,866.8
Total Loans	527.1	623.2	462.8	533.8
Total Securities	6,274.1	7,207.5	5,508.9	6,172.9
Total Money Trusts	11,920.3	9,904.9	10,466.5	8,483.1
<b>Financial Ratios</b>				
Return on Average Assets	0.77	0.34		
Return on Average Equity	11.45	5.89		
Substandard & Below	1.31	1.00		
NPL Ratio by FSS	0.91	0.77		
Net Interest Margin	2.15	1.76		
BIS Capital Adequacy Ratio	15.93	15.13		
( Tier 1 Capital Ratio )	13.21	11.61		
( Tier 2 Capital Ratio )	2.72	3.52		

\* Translated into US dollars at the rates of KRW 1,167.60/USD 1 and KRW 1,138.90/USD 1 respectively--those prevailing on December 31, 2009 and December 31, 2010.

## Net Income Summary

( In billions of Korean won, % )

	FY2008	FY2009	FY2010	YoY
<b>Operating Revenues</b>	49,507.3	41,466.7	22,969.7	-44.6%
Interest Income	11,399.4	9,472.4	9,392.3	-0.8%
Commission Income	990.1	944.5	1,000.1	5.9%
Other Operating Income	37,117.9	31,049.9	12,577.3	-59.5%
<b>Operating Expenses</b>	47,601.5	40,233.9	20,714.1	-48.5%
Interest Expenses	7,328.0	5,858.2	5,077.4	-13.3%
Commission Expenses	214.1	227.3	230.5	1.4%
Other Operating Expenses	37,942.8	31,922.1	13,159.1	-58.8%
(Provision for Credit Losses)	928.8	1,207.0	960.5	-20.4%
Selling and Administrative Expenses	2,116.6	2,226.3	2,247.0	0.9%
<b>Operating Income</b>	1,905.8	1,232.8	2,255.6	83.0%
Non-Operating Income	235.3	109.8	97.8	-10.9%
Non-Operating Expenses	237.9	276.4	261.3	-5.4%
<b>Ordinary Income</b>	1,903.1	1,066.2	2,092.1	96.2%
Extraordinary Gains	-	-	-	-
<b>Income before Income Taxes Expense</b>	1,903.1	1,066.2	2,092.1	96.2%
Income Tax Expenses	456.4	317.5	443.7	39.7%
<b>Net Income for the Year</b>	1,446.7	748.7	1,648.4	120.2%



Shinhan Bank's operating revenue and expenses decreased by 44.6% and 48.5%, respectively, year-on-year to reach KRW 23.0 trillion and KRW 20.7 trillion at the end of 2010. Operating income and net income soared by 83.0% and 120.2% to KRW 2.2 trillion and KRW 1.6 trillion.

### Net Interest Income (including debt expenses)

[ In billions of Korean won, % ]

	FY2008	FY2009	FY2010	Increase	YoY
Fees & Commissions	776.0	717.2	769.5	52.4	7.3
[ Credit Card ]	(121.9)	(151.8)	(160.4)	8.6	5.7
Fees on Trust Accounts	75.2	67.3	62.4	-4.9	-7.3
Securities-related Income	275.5	314.8	689.5	374.7	119.0
Gain on Foreign Currency Transactions	482.0	610.3	-511.7	-1,121.9	-183.8
Gain Related to Derivatives	-386.4	-265.3	696.9	962.2	-362.7
Other Income	-1,271.3	-1,599.2	-1,518.8	80.4	-5.0
<b>Total</b>	<b>-49.0</b>	<b>-155.0</b>	<b>187.8</b>	<b>342.8</b>	<b>-221.1</b>

Non-interest income surged by 221.1% to KRW 187.8 billion. Commission income rose by 7.3% to KRW 769.5 billion, while revenue from trust operations declined by 7.3%, to KRW 62.4 billion. Gains on the sale and valuation of securities were up a healthy 119.0%, to KRW 689.5 billion. Derivatives-related gains ballooned by 362.7% to KRW 696.9 billion.

### Sales and Administrative Expenses

[ In billions of Korean won, % ]

	FY2008	FY2009	FY2010	Increase	YoY
Salaries	742.1	934.7	803.5	-131.2	-14.03
Retirement Allowance	88.4	79.7	89.1	9.4	11.81
Other Employee Benefits	372.8	254.6	462.4	207.8	81.62
Rent	140.3	141.1	148.5	7.5	5.28
Entertainment	13.5	12.7	17.9	5.2	40.61
Depreciation	236.1	195.4	160.4	-34.9	-17.88
Taxes and Dues	98.7	80.3	76.3	-3.9	-4.89
Advertising	45.8	32.8	48.9	16.1	49.07
Other Expenses	378.8	495.2	440.0	-55.2	-11.15
<b>Total S&amp;A Expenses</b>	<b>2,116.6</b>	<b>2,226.3</b>	<b>2,247.0</b>	<b>20.7</b>	<b>0.93</b>

Sales and administrative (S&A) expenses grew by 0.93% to KRW 2.2 trillion. Salaries and retirement allowances increased by 14.03% and 11.81%, respectively, to KRW 803.5 billion and KRW 89.1 billion. Other employee benefits, entertainment expenses, and advertising expenses amounted to KRW 4,62.4 billion, 17.9 billion, and KRW 48.9 billion, respectively, marking increases of 81.62%, 40.61%, and 49.07 from a year ago. Depreciation costs and other expenses fell by 17.88% and 11.15%, respectively.

## Balance Summary

### Total Loans

[ In billions of Korean won, % ]

	FY2008	FY2009	FY2010	Increase	YoY
Loans in Won					
Retails	56,131.2	58,552.8	60,858.6	2,305.8	3.9
Mortgage	34,509.6	38,173.6	42,535.0	4,361.3	11.4
Others	21,621.6	20,379.2	18,323.6	-2,055.6	-10.1
SMEs	52,416.5	52,848.0	51,300.3	-1,547.7	-2.9
Large Corp.	8,894.8	7,866.3	12,159.9	4,293.5	54.6
Public & Others	2,354.4	2,329.2	3,313.6	984.5	42.3
<b>Total</b>	<b>119,797.0</b>	<b>121,596.3</b>	<b>127,632.4</b>	<b>6,036.1</b>	<b>5.0</b>
Loans in FC	7,647.8	4,731.9	4,976.7	244.8	5.2
Credit Card Accounts	-	-	-	-	-
Bills Bought in FC	3,107.0	3,388.0	4,786.2	1,398.1	41.3
Call Loans, RPs	2,737.6	961.9	1,581.7	619.8	64.4
Others	9,893.3	7,994.0	8,062.9	68.9	0.9
(Loan Loss Allowance)	(2,620.7)	(2,608.7)	(2,821.9)	213.2	8.2
(Present Value Discount)	(94.7)	(90.6)	(65.7)	-24.8	-27.4
<b>Total</b>	<b>140,467.4</b>	<b>135,972.8</b>	<b>144,152.2</b>	<b>8,179.4</b>	<b>6.0</b>

\* Bank accounts only

Total loans in the bank account grew by KRW 8.2 trillion over the year to KRW 144.2 trillion. Household loans increased by KRW 2.3 trillion to KRW 60.9 trillion. Loans to SMEs decreased by KRW 1.5 trillion to KRW 51.3 trillion, while those to large corporations rose by KRW 4.3 trillion to KRW 12.2 trillion. Public and other loans went up by KRW 984.5 billion to reach KRW 3.3 trillion at year-end.

### Total Securities

[ In billions of Korean won, % ]

	FY2008	FY2009	FY2010	Increase	YoY
Stocks	4,149.3	5,531.6	5,417.6	-114.0	-2.1
Government Bonds	5,499.1	10,148.1	10,506.7	358.6	3.5
Finance Debentures	18,076.4	14,043.3	11,320.8	-2,722.5	-19.4
Corporate Bonds	3,026.7	3,861.3	5,929.7	2,068.4	53.6
Beneficiary Certificates	2,325.2	2,010.1	1,170.2	-839.9	-41.8
Securities Denominated in Foreign Currencies	1,646.7	1,476.4	1,153.5	-322.9	-21.9
Others	337.6	302.1	281.1	-21.0	-7.0
<b>Total</b>	<b>35,061.2</b>	<b>37,372.9</b>	<b>35,779.6</b>	<b>-1,593.3</b>	<b>-4.3</b>

\* Bank accounts only

Securities in the bank account were worth KRW 35.8 trillion, a drop of KRW 1.6 trillion from a year earlier. Government and municipal bonds rose a slight 3.5% to KRW 10.5 trillion, while financial bonds were down by 19.4% to KRW 320.8 billion. Corporate bonds grew by 53.6% to KRW 5.9 trillion, while beneficiary securities contracted by 41.8% to KRW 1.2 trillion.

### Total Deposits

[ In billions of Korean won, % ]

	FY2008	FY2009	FY2010	Increase	YoY
Low-Cost Deposits	36,002.4	42,184.4	44,021.6	1,837.2	4.4
Demand	11,725.0	13,379.6	14,517.3	1,137.6	8.5
Low-Cost Saving*	24,277.4	28,804.7	29,504.3	699.6	2.4
Time Deposits	55,895.6	73,625.7	82,462.3	8,836.6	12.0
Installment Deposits	225.5	144.3	99.4	-44.9	-31.1
CDs	13,123.6	7,357.0	2,848.4	-4,508.6	-61.3
RPs, Bills Sold	3,186.9	681.3	389.1	-292.2	-42.9
Deposits in Won	108,434.1	123,992.7	129,820.8	5,828.1	4.7
Deposits in FC	7,106.8	5,337.2	4,111.9	-1,225.3	-23.0
<b>Total</b>	<b>115,540.8</b>	<b>129,330.0</b>	<b>133,932.7</b>	<b>4,602.8</b>	<b>3.6</b>

\* Bank accounts only

Deposits in the bank account totaled KRW 133.9 trillion, an increase of 3.6% from the year before. Low-cost deposits rose by 4.4%, or KRW 1.8 trillion, to KRW 44.0 trillion. Time deposits were up by 12.0%, or KRW 8.8 trillion, to KRW 82.5 trillion. Certificates of deposit (CDs) fell by 61.3% to KRW 2.8 trillion, while repurchase agreements (RPs) and bills sold declined by 42.9% to KRW 389.1 billion.

### Asset Quality

[ In billions of Korean won, % ]

	FY2008	FY2009	FY2010	Increase	YoY
Normal	150,627.2	146,504.1	150,802.7	4,298.6	2.9%
Precautionary	1,693.2	2,172.1	2,168.5	-3.6	-0.2%
Substandard	743.4	1,039.0	1,406.2	367.2	35.3%
Doubtful	302.0	257.7	406.5	148.8	57.7%
Estimated Losses	485.7	202.1	221.5	19.4	9.6%
<b>Total</b>	<b>153,851.5</b>	<b>150,175.0</b>	<b>155,005.4</b>	<b>4,830.4</b>	<b>3.2%</b>
Doubtful & Below Ratio	0.51%	0.31%	0.41%	0.10%p	32.3%
Substandard & Below Ratio	1.00%	1.00%	1.31%	0.31%p	31.5%
Precautionary & Below Ratio	2.10%	2.44%	2.71%	0.27%p	10.9%
Provisions <sup>1)</sup>	2,509.2	2,467.8	2,707.6	239.8	9.7%
Coverage Ratio Against					
Doubtful & Below	318.5%	536.7%	431.1%	-105.5%p	
Substandard & Below	163.9%	164.6%	133.1%	-31.5%p	
Precautionary & Below	77.8%	67.2%	64.4%	-2.8%p	

1) Based on loans that are targets for the calculation of non-performing loans (including banking, merchant banking, and trusts)

The ratio of substandard-and-below loans to total loans rose by 31.5% over the year to 1.31%. Among non-performing loans, substandard loans and doubtful loans grew by 35.5% and 57.7%, respectively, to KRW 1.4 trillion and KRW 406.5 billion. Estimated losses increased by 9.6% to KRW 221.5 billion.

### Provisions

[ In billions of Korean won, % ]

	FY2008	FY2009	FY2010	Increase	YoY
<b>Bank Accounts <sup>1)</sup></b>					
LLR at the Start of the Period	1,991.5	2,661.4	2,641.9	-19.5	-0.7%
Provisions During Period	928.9	1,207.0	960.5	-246.5	-20.4%
Write-offs	340.9	1,006.9	710.2	-296.7	-29.5%
Other Adjustments	82.0	-219.5	-56.4	163.2	74.3%
LLR at the End of Period	2,661.4	2,641.9	2,835.8	193.9	7.3%
<b>Trust Accounts</b>					
LLR at the Start of the Period	9.6	8.2	7.6	-0.5	-6.7%
Provisions During Period	-3.4	-2.6	-1.6	1.0	38.9%
Write-off	0.2	0.3	6.8	6.4	1905.9%
Other Adjustments	2.1	2.3	1.7	-0.7	-27.9%
LLR at the End of Period	8.2	7.6	1.0	-6.6	-87.1%
<b>Total</b>					
LLR at the Start of the Period	2,001.1	2,669.6	2,649.5	-20.1	-0.8%
Provisions During Period	925.5	1,204.4	958.9	-245.5	-20.4%
Write-off	341.2	1,007.3	717.0	-290.3	-28.8%
Other Adjustments	84.2	-217.2	-54.7	162.5	74.8%
LLR at the End of Period	2,669.6	2,649.5	2,836.7	187.2	7.1%

1) Bank account provisions refer to the balance of loan loss provisions (excluding allowances for acceptances and guarantees losses).

The loan loss reserve (LLR) grew by KRW 187.2 billion to KRW 2.8 trillion. LLR in the bank account rose by KRW 193.9 billion to KRW 2.8 trillion. Loan loss provisions in the bank account declined by 20.4%, or KRW 246.5 billion, to KRW 960.5 trillion. Write-offs in the bank account decreased by KRW 296.7 billion to KRW 710.2 billion.

### Delinquency Ratios

[ In billions of Korean won, % ]

	December 2008			December 2009			December 2010		
	Total	Overdue	Ratio	Total	Overdue	Ratio	Total	Overdue	Ratio
Overall	145,578	1,193	0.82%	141,722	739	0.52%	146,439	812	0.55%
Corporate*	61,421	822	1.34%	60,806	553	0.91%	63,513	525	0.83%
Consumer*	56,747	195	0.34%	59,048	144	0.24%	61,274	188	0.31%

\* Based on arrearage in principal payments of more than one day

The bank's overall delinquency ratios decreased by 0.30% to 0.55% at the end of 2010. Corporate loans fell by 0.08% to 0.83%, while household loans increased by 0.07% to 0.31%.

### Capital Adequacy

[ In billions of Korean won, % ]

	FY2008	FY2009	FY2010	Chg in Amount	YoY
Total Capital	17,889.1	18,322.7	18,677.5	354.8	1.9%
Risk-weighted Assets	133,140.1	121,132.0	117,262.7	-3,869.3	-3.2%
Credit Risk-weighted Assets	122,803.9	109,371.4	106,549.1	-2,822.3	-2.6%
Market Risk-weighted Assets	1,895.4	2,972.5	1,279.7	-1,692.8	-56.9%
BIS Capital Adequacy Ratio	13.44%	15.13%	15.93%	0.80%p	
Tier 1 Ratio	9.30%	11.61%	13.21%	1.60%p	
Tier 2 Ratio	4.13%	3.52%	2.72%	-0.80%p	

\* Bank accounts only

The bank's BIS capital adequacy ratio grew by 0.80% to 15.93%, while its Tier 1 ratio rose by 1.60% to 13.21%. Credit risk-weighted assets fell by 2.6% to KRW 106.5 trillion.

## Trust Account

### Income

[ In billions of Korean won, % ]

	FY2008	FY2009	FY2010	Increase	YoY
Fees and Commissions from T/A	75.2	67.3	62.4	-4.9	-7.3%
Subsidies for T/A	-	-	-	-	-
Net Income from T/A	75.2	67.3	62.4	-4.9	-7.3%

### Outstanding

[ In billions of Korean won, % ]

	FY2008	FY2009	FY2010	Increase	YoY
Total Asset	37,122.6	32,537.3	33,239.9	702.6	2.2%
Money in Trust	12,822.5	9,904.9	11,920.3	2,015.4	20.3%
Property in Trust	23,909.3	22,259.0	20,909.5	-1,349.4	-6.1%

Total assets in the trust account edged up by 2.2% to KRW 33.2 trillion. Money trusts rose by 20.3%, while property trusts decreased by 6.1%. As a result, net income from the trust account was KRW 62.4 billion, down 7.3% from the previous year.





# GLOBAL NETWORK

## Head Office

120, Taeyung-Ro 2-Ga, Jung-Gu, Seoul, 100-724, Korea Mailing Address: C.P.O. Box 6999, Seoul, 100-669, Korea  
email: [corres@shinhan.com](mailto:corres@shinhan.com) Homepage: [www.shinhan.com](http://www.shinhan.com)

## Overseas

### JAPAN

#### SBJ BANK

9th Fl., Shiroyama Trust Tower, 3-1  
Toranomon 4-chome, Minato-ku, Tokyo, Japan  
Tel. 81-3-6403-0505  
Fax. 81-3-6403-0510  
SWIFT: SHBKJPJXXX

#### TOKYO BRANCH

9th Fl. Shiroyama Trust Tower, 3-1  
Toranomon 4-chome, Minato-ku, Tokyo, Japan  
Tel. 81-3-3578-9321  
Fax. 81-3-3578-9355  
SWIFT: SHBKJPJXTOK

#### UENO BRANCH

8th Fl., Nomura Bldg., 1-14-4, Higashiueno,  
Taito-ki, Tokyo, Japan  
Tel. 81-3-5812-0505  
Fax. 81-3-5812-0510  
SWIFT: SHBKJPJXXX

#### OSAKA BRANCH

3rd Fl., Resona Semba Bldg. 4-21, Minami-  
Semba, 4-Chome, Chuo-ku, Osaka, Japan  
Tel. 81-6-6243-2341  
Fax. 81-6-6243-2346  
SWIFT: SHBKJPJXOSK

#### UEHONMACHI BRANCH

Ueroke F Bldg. 6F, 3-5, Uehonmachinich  
5-Chome, Chuo-ku, Osaka, Japan  
Tel. 81-6-6767-0506  
Fax. 81-6-6767-0525  
SWIFT: SHBKJPJXXX

#### FUKUOKA BRANCH

8th Fl., Tenjin Mitsui Bldg. 14-13, Tenjin  
2-chome, Chuo-ku, Fukuoka, Japan  
Tel. 81-92-724-7004  
Fax. 81-92-724-7003  
SWIFT: SHBKJPJXFUK

#### YOKOHAMA BRANCH

JN Bldg. 12F, 3-56-1 Aioi-cho, Naka-ku,  
Yokohama, Kanagawa, Japan  
Tel. 81-45-680-5560  
Fax. 81-45-680-5561  
SWIFT: SHBKJPJXXX

### SOUTHEAST ASIA

#### SINGAPORE BRANCH

1 George St. #15-03, Singapore 049145  
Tel. 65-6536-1144  
Fax. 65-6533-1244  
SWIFT: SHBKSGSG

#### MUMBAI BRANCH

42, Jolly Maker Chambers II, 4th Fl., 225,  
Nariman Point, Mumbai, 400-021, India  
Tel. 91-22-2282-2200  
Fax. 91-22-2288-4277  
SWIFT: SHBKINBB

#### NEWDELHI BRANCH

Upper Ground Floor, Mercantile House, 15

Kasturba Gandhi Marg, New Delhi 110-001, India  
Tel. 91-11-2411-5564  
Fax. 91-11-2651-1088  
SWIFT: SHBKINBB

#### VELLORE BRANCH

No.8,Thirumalai Mudali Street, Walajapet 632-  
513 Vellore District, Tamil Nadu State, India  
Tel. 91-99-6229-9571  
Fax. 91-41-7223-2378  
SWIFT: SHBKINBB

#### HONGKONG BRANCH

Unit 7703, International Commerce Centre,  
1 Austin Road West, Kowloon, Hong Kong.  
Tel. 852-2877-3121  
Fax. 852-2877-2460  
SWIFT: SHBKHKHX

#### SHINHAN VIETNAM BANK LTD.

11th Fl., Centec Tower, 72-74 Nguyen Thi Minh  
Khai St., District 3, HCMC, Vietnam  
Tel. 84-8-823-0012  
Fax. 84-8-823-0009  
SWIFT: SHBKVNXX

#### HOCHIMINH BRANCH

11th Fl., Centec Tower, 72-74 Nguyen Thi Minh  
Khai St., District 3, HCMC, Vietnam  
Tel. 84-8-823-0012  
Fax. 84-8-823-0009  
SWIFT: SHBKVNXX

#### HANOI BRANCH

19th Floor Charmvit Grand Plaza 117 Tran Duy  
Hung Street, Cau Giay District, Hanoi, Vietnam  
Tel. 84-4-3553-8400  
Fax. 84-4-3553-0505  
SWIFT: SHBKVNXX

#### BINH DUONG BRANCH

1F, Minh Sang Plaza, 888 Binh Duong Blvd., Thuan  
Giao, Thuan An, Binh Duong Province, Vietnam  
Tel. 84-650-3721-100  
Fax. 84-650-3721-144  
SWIFT: SHBKVNXX

#### SHINHAN KHMER BANK

No.277 Norodom Blvd Sangkat Tonle Bassac  
Khan Chamkarmon Phnom, Cambodia  
Tel. 855-23-727-380  
Fax. 855-23-727-383  
SWIFT: SHBKKHPP

#### SHINHAN ASIA LIMITED

Units 7704, International Commerce Centre, 1  
Austin Road West, Kowloon, Hong Kong  
Tel. 852-3717-0700  
Fax. 852-2877-2460  
SWIFT: SHBKHKHH

#### SHINHANVINA BANK

100 Nguyen Thi Minh Khai Street, Ward 6,  
District 3, Hochiminh City, Vietnam  
Tel. 84-8-3829-1581  
Fax. 84-8-3821-3923  
SWIFT: SHBKVNVN

#### HOCHIMINH BRANCH

100 Nguyen Thi Minh Khai Street, Ward 6,  
District 3, Hochiminh City, Vietnam  
Tel. 84-8-3829-1581  
Fax. 84-8-3821-3923  
SWIFT: SHBKVNVN

#### HANOI BRANCH

2nd floor, Daeha Business Center, 360 Kim  
Ma St. BaDinh, Hanoi, Vietnam  
Tel. 84-4-3831-5205  
Fax. 84-4-3831-5134  
SWIFT: SHBKVNHNAN

#### BINH DUONG BRANCH

No.1, Truong Son Highway, An Binh Commune,  
Di An District, Binh Duong Province, Vietnam  
Tel. 84-8-3724-2791  
Fax. 84-8-3724-2795  
SWIFT: SHBKVNVN

#### DONGNAI BRANCH

9,10,11 Lot 4 Road 51 Quater 1 Long Binh tan  
Ward Bien Hoa City Dong Nai Province, Vietnam  
Tel. 84-61-883-0511  
Fax. 84-61-883-0523  
SWIFT: SHBKVNVN

### CENTRAL ASIA

#### SHINHAN BANK KAZAKHSTAN

123/7 Dostyk ave. Medeu District, Almaty,  
Republic of Kazakhstan  
Tel. 7-727-385-9600  
Fax. 7-727-264-0999

#### SHINHAN BANK UZBEKISTAN REPRESENTATIVE OFFICE

Neworld Bldg. 3rd Fl., Oybek Str. 22 Tashkent,  
Uzbekistan 100015  
Tel. 998-71-150-1184  
Fax. 998-71-252-3605

### CHINA

#### SHINHAN BANK (CHINA) LTD.

12th Fl. Zhongyu Plaza No.6, Workers' Stadium  
Road N.,Chaoyang District, Beijing 100027, China  
Tel. 86-10-8529-0088  
Fax. 86-10-8529-0188  
SWIFT: SHBKCNBJ

#### BEIJING BRANCH

1st Fl. Zhongyu Plaza No.6, Workers' Stadium  
Road N.,Chaoyang District, Beijing 100027, China  
Tel. 86-10-8523-5555  
Fax. 86-10-8523-5696  
SWIFT: SHBKCNBJBJG

#### BEIJING SHUNYI SUB-BRANCH

1st Floor Shunxin International Business Center  
No. 3, Zhanqian West Road, Shunyi District,  
Beijing 101300, China  
Tel. 86-10-6040-6008  
Fax. 86-10-6040-6123  
SWIFT: SHBKCNBJBJG

#### SHANGHAI BRANCH

1st Floor, Huaneng Unite Mansion, 958 Lujiuzui Ring Road, Pudong New Area, Shanghai, China  
Tel. 86-21-6886-5566  
Fax. 86-21-6886-5840  
SWIFT: SHBKCNBJSHA

#### SHANGHAI PUXI SUB-BRANCH

1st Floor, Hyunyoon International Building, block 5, 1100 Wuzhong Road, Min Hang district, Shanghai, China  
Tel. 86-21-6241-0066  
Fax. 86-21-6465-2300  
SWIFT: SHBKCNBJSHA

#### SHANGHAI HONGQIAO SUB-BRANCH

Oriental C.C Bldg., 345, Xian Xia Road, Changning Area, Shanghai, 200336, China  
Tel. 86-21-6241-0066  
Fax. 86-21-6273-2178  
SWIFT: SHBKCNBJSHA

#### TIANJIN BRANCH

Room 1901/6, Tianjin International Building, 75 Nanjing Road, Tianjin, 300050 P.R. China  
Tel. 86-22-2339-4070  
Fax. 86-22-2339-4043  
SWIFT: SHBKCNBJTJN

#### TIANJIN BINHAI SUB-BRANCH

Unit 27, Fortune Plaza 21, The 3rd Street, TEDA Tianjin 300457, China  
Tel. 86-22-6628-1234  
Fax. 86-22-6628-1235  
SWIFT: SHBKCNBJTJN

#### TIANJIN AOCHENG SUB-BRANCH

No. 1-03 Ao-cheng Commercial Plaza Binshuixi Street, Nankai District, Tianjin 300381 P.R. CHINA  
Tel. 86-22-5885-0088  
Fax. 86-22-5885-0090  
SWIFT: SHBKCNBJTJN

#### QINGDAO BRANCH

4th FL., CITIC WT Securities Co., Ltd, Bldg. No.28 Donghai West Road, Qingdao 266071, CHINA  
Tel. 86-532-8502-5500  
Fax. 86-532-8502-5566  
SWIFT: SHBKCNBJQDO

#### QINGDAO CHENGYANG SUB-BRANCH

No.151, Zhengyang Road, Chengyang District, Qingdao, 266109, P.R. China  
Tel. 86-532-6696-0505  
Fax. 86-532-6696-0215  
SWIFT: SHBKCNBJQDO

#### WUXI BRANCH

2nd Floor No.5 Changjiang North Road, Changjiang Club, Wuxi, Jiangsu 214028, China  
Tel. 86-0510-8181-3068  
Fax. 86-0510-8181-3058  
SWIFT: SHBKCNBJWXI

### EUROPE

#### LONDON BRANCH

3rd Fl. 51-55 Gresham Street, London EC2V 7HB, United Kingdom  
Tel. 44-207-600-0606  
Fax. 44-207-600-1826  
SWIFT: SHBKGB2L

#### SHINHAN BANK EUROPE GmbH

Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany  
Tel. 49-69-975-7130  
Fax. 49-69-741-0506  
SWIFT: SHBKDEFF

### AMERICA

#### NEWYORK BRANCH

600 3rd Ave, 17th Floor, New York, NY10016, U.S.A.  
Tel. 1-212-371-8000  
Fax. 1-212-371-8875  
SWIFT: SHBKUS33

#### SHINHAN BANK AMERICA

330 5th Avenue 4th Floor New York, NY 10001 U.S.A.  
Tel. 1-646-843-7300  
Fax. 1-212-447-7477  
SWIFT: SHBKUS6LNYX

#### MANHATTAN BRANCH

313 5th Ave., New York, NY 10016, U.S.A.  
Tel. 1-646-843-7333  
Fax. 1-212-447-9169  
SWIFT: SHBKUS6LNYX

#### FLUSHING BRANCH

136-17 39th Ave., Ground Fl., Flushing, NY 11354, U.S.A.  
Tel. 1-718-799-7001  
Fax. 1-718-886-9157  
SWIFT: SHBKUS6LNYX

#### NORTHERN 150 BRANCH

150-29 Northern Blvd., Flushing, NY 11354, U.S.A.  
Tel. 1-718-799-7100  
Fax. 1-718-888-9696  
SWIFT: SHBKUS6LNYX

#### BAYSIDE BRANCH

211-11 Northern Blvd., Bayside, NY 11354, U.S.A.  
Tel. 1-718-799-7090  
Fax. 1-718-224-5764  
SWIFT: SHBKUS6LNYX

#### FORTLEE BRANCH

222 Main St., Fort Lee, NJ 07024, U.S.A.  
Tel. 1-202-363-9009  
Fax. 1-201-363-9049

#### PALISADEPARK BRANCH

21 Grand Ave. Palisades Park, New Jersey, 07650, U.S.A.  
Tel. 1-201-303-1009  
Fax. 1-201-313-9688  
SWIFT: SHBKUS6LNYX

#### LITTLENECK BRANCH

252-20 Northern Blvd. Little Neck, NY, 11362, U.S.A.  
Tel. 1-718-281-7888  
Fax. 1-718-886-9157  
SWIFT: SHBKUS6LNYX

#### NORTH ATLANTA BANK

10500 Old Alabama Road Connector Alpharetta, GA30022, U.S.A.  
Tel. 1-678-277-8426  
Fax. 1-678-277-8440  
SWIFT: SHBKUS6LNYX

#### DULUTH BRANCH

2170 Pleasant Hill Road, Duluth, GA 30096, U.S.A.  
Tel. 1-678-512-8200  
Fax. 1-678-957-9974  
SWIFT: SHBKUS6LNYX

#### DALLAS BRANCH

2240 Royal Lane Suite 303, Dallas, TX 75229, U.S.A.  
Tel. 1-972-406-3540  
Fax. 1-972-406-3546  
SWIFT: SHBKUS6LNYX

#### SHINHAN BANK AMERICA

3000 West Olympic Blvd., Los Angeles, CA 90006, U.S.A.  
Tel. 1-213-380-8300  
Fax. 1-213-386-7208  
SWIFT: SHBKUS6LCAH

#### OLYMPIC BRANCH

3000 West Olympic Blvd., Los Angeles, CA 90006, U.S.A.  
Tel. 1-213-380-8300  
Fax. 1-213-386-2170  
SWIFT: SHBKUS6LCAH

#### BUENA PARK BRANCH

6771 Beach Blvd., Buena Park, CA 90621, U.S.A.  
Tel. 1-714-443-6400  
Fax. 1-714-443-5960  
SWIFT: SHBKUS6LCAH

#### DOWNTOWN BRANCH

738 East Pico Blvd., #234, Los Angeles, CA 90021, U.S.A.  
Tel. 1-213-251-3090  
Fax. 1-213-748-9422  
SWIFT: SHBKUS6LCAH

#### IRVINE BRANCH

2730 Alton Parkway, Suite 111, Irvine, CA92606, U.S.A.  
Tel. 1-949-660-0505  
Fax. 1-949-660-0503  
SWIFT: SHBKUS6LCAH

#### SHINHAN BANK CANADA

5140 Yonge Street Suite 2300 Toronto, Ontario, M2N6L7, Canada  
Tel. 1-416-250-3500  
Fax. 1-416-250-3507  
SWIFT: SHBKCATT

#### SHINHAN BANK CANADA MAIN BRANCH

5095 Yonge St. Unit B2, Toronto, Ontario M2N 6Z4, Canada  
Tel. 1-416-250-3550  
Fax. 1-416-250-3557  
SWIFT: SHBKCATT

#### SHINHANBANK MEXICO REPRESENTATIVE OFFICE

Piso 12 Torre Summa, 213 Hamburgo Col. Juárez, Mexico D.F  
Tel. 52-55-5525-7787/8  
Fax. 52-55-5525-7787



## CORPORATE DATA (As of December 31, 2010)

- **Date of Establishment** Shinhan Bank (established in 1982) and Chohung Bank (established in 1897) merged to form the new Shinhan Bank on April 1, 2006
- **Major Shareholder** Shinhan Financial Group (100%)
- **Business Network** Domestic: 951 branches and offices  
Overseas: 7 overseas branches, 10 local subsidiaries,  
40 local subsidiaries' branches, 2 representative offices
- **Number of Customers** 16,790,000
- **Number of Employees** 10,752 (regular permanent employees only)
- **Members of Shinhan Financial Group**
  - Shinhan Bank (100%)
  - Shinhan Card (100%)
  - Shinhan Investment Corp. (100%)
  - Shinhan Life Insurance (100%)
  - Shinhan Capital (100%)
  - Jeju Bank (68.9%)
  - Shinhan BNP Paribas Asset Management (65%)
  - Shinhan Data System (100%)
  - Shinhan Credit Information (100%)
  - Shinhan Private Equity (100%)
  - SHC Management (100%)

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







SHINHAN BANK

120, Taepyeong-ro 2-ga, Jung-gu,  
Seoul, Korea 100-724

Tel: 82-2-756-0505

Fax: 82-2-774-7013

Website: [www.shinhan.com](http://www.shinhan.com)