



SHINHAN BANK AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

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Independent Auditor's Report

The Board of Directors and Stockholders
Shinhan Bank:

We have audited the accompanying consolidated statements of financial position of Shinhan Bank and its subsidiaries (the "Group") as of December 31, 2011, 2010 and January 1, 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2011, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010, in accordance with Korean International Financial Reporting Standards.

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

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

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 13, 2012

This report is effective as of March 13, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Financial Position

As of December 31, 2011, 2010 and January 1, 2010

(In millions of won)

	Note	December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Cash and due from banks	4,6,8,12,44	₩ 10,783,403	8,653,756	11,242,135
Trading assets	4,7,9	6,764,341	3,968,743	3,462,104
Financial assets designated at fair value through profit or loss	4,7,10	-	30,984	96,977
Derivative assets	4,11,45	2,229,510	3,722,090	4,513,236
Loans	4,6,7,12,19,45	163,637,977	153,777,371	145,794,334
Available-for-sale financial assets	4,7,13,19	26,725,683	24,582,589	25,264,425
Held-to-maturity financial assets	4,6,7,13,19	9,902,422	10,565,990	11,170,310
Property and equipment	6,14,19	2,166,087	2,162,978	2,237,923
Intangible assets	6,15	259,933	137,960	120,325
Investments in associate	16	171,945	204,012	171,247
Current tax assets	39	8,819	10,472	6,746
Deferred tax assets	39	6,855	23,280	-
Investment properties	17	553,312	532,819	512,698
Other assets	4,6,18,45	5,681,720	4,757,508	4,814,254
Assets held for sale		15,777	21,214	18,492
Total assets		₩ <u>228,907,784</u>	<u>213,151,766</u>	<u>209,425,206</u>
Liabilities				
Deposits	4,6,20,45	₩ 162,582,328	146,573,358	140,891,682
Trading liabilities	4,21	602,592	502,350	318,969
Derivative liabilities	4,11,45	1,802,404	3,346,913	4,281,064
Borrowings	4,6,22	13,416,653	11,955,354	12,131,201
Debt securities issued	4,23,45	19,054,607	20,217,228	23,018,028
Liability for defined benefit obligations	24	199,008	126,405	126,438
Provisions	6,25,43,45	440,324	421,008	337,000
Current tax liabilities	39	372,506	117,663	224,988
Deferred tax liabilities	39	187,591	363,320	349,015
Other liabilities	4,6,26,45	10,959,951	10,888,435	10,533,367
Total liabilities		<u>209,617,964</u>	<u>194,512,034</u>	<u>192,211,752</u>
Equity				
Capital stock	27	7,928,078	7,928,078	7,928,078
Other equity instruments	27,28	2,329,760	2,329,760	2,332,332
Capital surplus	27	403,164	404,964	404,903
Capital adjustments	27	1,034	(546)	(2)
Accumulated other comprehensive income	27	913,162	1,397,053	1,329,518
Retained earnings	27,29,41	7,711,930	6,576,262	5,212,062
Total equity attributable to equity holder of the Bank	27	19,287,128	18,635,571	17,206,891
Non-controlling interests	27	2,692	4,161	6,563
Total equity		<u>19,289,820</u>	<u>18,639,732</u>	<u>17,213,454</u>
Total liabilities and equity		₩ <u>228,907,784</u>	<u>213,151,766</u>	<u>209,425,206</u>

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2011 and 2010

<i>(In millions of won)</i>	<u>Note</u>	<u>2011</u>	<u>2010</u>
Interest income		₩ 10,349,629	9,729,790
Interest expense		<u>(5,378,519)</u>	<u>(5,139,738)</u>
Net interest income	4,7,30, 42,45	<u>4,971,110</u>	<u>4,590,052</u>
Fees and commission income		1,075,790	1,091,581
Fees and commission expense		<u>(190,187)</u>	<u>(209,322)</u>
Net fees and commission income	4,7,31, 42,45	<u>885,603</u>	<u>882,259</u>
Dividend income	32,42	108,695	107,846
Net trading income	33,42	116,324	186,955
Net foreign currencies transaction gain	42	61,384	46,090
Net gain (loss) on financial instruments designated at fair value through profit or loss	34,42	(357)	6,002
Net gain on sale of available-for-sale financial assets	13,42	642,724	624,185
Net gain on sale of investments in associate	6,16	43,773	-
Net impairment loss on financial assets	4,12,35, 42,45	(740,155)	(1,270,572)
General and administrative expenses	14,15,24, 36	(2,819,887)	(2,525,613)
Net other operating expenses	38,42,45	<u>(643,263)</u>	<u>(609,278)</u>
Operating income	6,7,42	<u>2,625,951</u>	<u>2,037,926</u>
Equity in income of investments in associate	7,16	28,995	12,508
Income before income taxes	7	<u>2,654,946</u>	<u>2,050,434</u>
Income tax expense	7,39	536,031	379,976
Net income for the year		<u>2,118,915</u>	<u>1,670,458</u>
Other comprehensive income (loss) for the year, net of income tax	27,39		
Foreign currency translation differences for foreign operations		13,818	(19,834)
Net change in fair value of available-for-sale financial assets		(498,231)	63,158
Equity in other comprehensive income of associates		1,093	21,399
		<u>(483,320)</u>	<u>64,723</u>
Total comprehensive income for the year		₩ <u>1,635,595</u>	<u>1,735,181</u>

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (continued)

For the years ended December 31, 2011 and 2010

(In millions of won, except earning per share)

	<u>Note</u>	<u>2011</u>	<u>2010</u>
Net income attributable to:	7,28,40		
Equity holder of the Bank	₩	2,118,421	1,670,048
Non-controlling interests		494	410
	₩	<u>2,118,915</u>	<u>1,670,458</u>
Total comprehensive income (loss) attributable to:	7,28		
Equity holder of the Bank	₩	1,634,530	1,737,583
Non-controlling interests		1,065	(2,402)
	₩	<u>1,635,595</u>	<u>1,735,181</u>
Earnings per share:	40		
Basic earnings per share in won	₩	<u>1,238</u>	<u>955</u>
Diluted earnings per share in won	₩	<u>1,238</u>	<u>955</u>

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Changes in Equity

For the year ended December 31, 2010

Attributable to equity holder of the Bank										
(In millions of won)	Note	Capital stock	Other equity instruments	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2010		₩ 7,928,078	2,332,332	404,903	(2)	1,329,518	5,212,062	17,206,891	6,563	17,213,454
Net income for the year		-	-	-	-	-	1,670,048	1,670,048	410	1,670,458
Other comprehensive income for the year, net of income tax										
Foreign currency translation differences for the foreign operations	26	-	-	-	-	(17,022)	-	(17,022)	(2,812)	(19,834)
Net change in fair value of available-for-sale financial assets	26	-	-	-	-	63,158	-	63,158	-	63,158
Equity in other comprehensive income of associates	26	-	-	-	-	21,399	-	21,399	-	21,399
		-	-	-	-	67,535	-	67,535	(2,812)	64,723
Total comprehensive income for the year		-	-	-	-	67,535	1,670,048	1,737,583	(2,402)	1,735,181
Transactions with owners of the Bank										
Dividends to equity holders of the Bank	27	-	-	-	-	-	(149,733)	(149,733)	-	(149,733)
Appropriation of capital adjustments		-	-	-	2	-	(2)	-	-	-
Dividends to hybrid bond holders	27	-	-	-	-	-	(156,113)	(156,113)	-	(156,113)
Redemption of hybrid bond		-	(2,572)	-	-	-	-	(2,572)	-	(2,572)
Share-based payment		-	-	-	(546)	-	-	(546)	-	(546)
Change in non-controlling interests		-	-	61	-	-	-	61	-	61
		-	(2,572)	61	(544)	-	(305,848)	(308,903)	-	(308,903)
Balance at December 31, 2010		₩ 7,928,078	2,329,760	404,964	(546)	1,397,053	6,576,262	18,635,571	4,161	18,639,732

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES

Consolidated Statements of Changes in Equity (continued)

For the year ended December 31, 2011

		Attributable to equity holder of the Bank								
			Other equity instruments	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total	Non- controlling interest	Total equity
Note	Capital stock									
Balance at January 1, 2011	₩ 7,928,078	2,329,760	404,964	(546)	1,397,053	6,576,262	18,635,571	4,161	18,639,732	
Net income for the year	-	-	-	-	-	2,118,421	2,118,421	494	2,118,915	
Other comprehensive income, net of income tax										
Foreign currency translation differences for foreign operations	26	-	-	-	-	13,247	-	13,247	571	13,818
Net change in fair value of available-for-sale financial assets	26	-	-	-	-	(498,231)	-	(498,231)	-	(498,231)
Equity in other comprehensive income of associates	26	-	-	-	-	1,093	-	1,093	-	1,093
		-	-	-	-	(483,891)	-	(483,891)	571	(483,320)
Total comprehensive income for the year		-	-	-	-	(483,891)	2,118,421	1,634,530	1,065	1,635,595
Transactions with owners of the Bank										
Dividends to equity holder of the Bank	27	-	-	-	-	-	(478,033)	(478,033)	-	(478,033)
Interim dividends	27	-	-	-	-	-	(350,000)	(350,000)	-	(350,000)
Dividends to hybrid bond holders	27	-	-	-	-	-	(154,720)	(154,720)	-	(154,720)
Share-based payment		-	-	-	1,580	-	1,580	-	1,580	
Changes in non-controlling interests		-	-	(1,800)	-	-	(1,800)	(2,534)	(4,334)	
		-	-	(1,800)	1,580	-	(982,753)	(982,973)	(2,534)	(985,507)
Balance at December 31, 2011	₩ 7,928,078	2,329,760	403,164	1,034	913,162	7,711,930	19,287,128	2,692	19,289,820	

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2011 and 2010

(In millions of won)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Income before income taxes	₩ 2,654,946	2,050,434
Adjustments for:		
Net interest income	(4,971,110)	(4,590,052)
Dividend income	(108,695)	(107,846)
Net trading income	(111,670)	(57,427)
Net foreign currencies transaction gain	(61,384)	(46,090)
Net loss (gain) on financial assets designated at fair value through profit or loss	357	(6,002)
Net gain on sale of available-for-sale financial assets	(642,724)	(624,185)
Net impairment loss on financial assets	740,155	1,270,572
Non-cash salary expenses	181,392	138,602
Depreciation and amortization	193,704	214,907
Non-cash other operating expenses, net	90,350	180,405
Equity in income of investments in associate	(28,995)	(12,508)
Net gain on sale of investments in associate	(43,773)	-
	<u>(4,762,393)</u>	<u>(3,639,624)</u>
Changes in assets and liabilities:		
Trading assets	(2,724,061)	(286,221)
Derivative assets	2,689,635	3,115,866
Due from banks and loans	(11,853,905)	(6,182,036)
Other assets	(665,353)	154,582
Deposits	15,333,825	5,302,365
Trading liabilities	70,418	113,430
Derivative liabilities	(2,617,418)	(3,145,612)
Liability for defined benefit obligations	(127,133)	(118,187)
Provisions	821	(91,371)
Other liabilities	(149,038)	177,778
	<u>(42,209)</u>	<u>(959,406)</u>
Income taxes paid	(333,026)	(512,906)
Interest received	10,047,411	9,676,271
Interest paid	(5,115,186)	(5,138,671)
Dividends received	113,898	113,025
	<u>113,898</u>	<u>113,025</u>
Net cash provided by operating activities	<u>₩ 2,563,441</u>	<u>1,589,123</u>

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES
Consolidated Statements of Cash Flows (continued)
For the years ended December 31, 2011 and 2010

(In millions of won)

	<u>Note</u>	<u>2011</u>	<u>2010</u>
Cash flows from investing activities			
Proceeds from sale of financial assets designated at fair value through profit or loss	₩	29,312	72,038
Proceeds from sale of available-for-sale financial assets		37,229,586	37,960,011
Proceeds from sale of held-to-maturity financial assets		4,385,756	2,416,688
Proceeds from sale of property and equipment		25,212	35,757
Proceeds from sale of intangible assets		-	1,477
Proceeds from retrieve of investments in associate		4,655	2,445
Proceeds from sale of investment properties		2,306	156
Proceeds from sale of assets held for sale		2,047	-
Acquisition of available-for-sale financial assets		(39,365,971)	(36,638,498)
Acquisition of held-to-maturity financial assets		(3,689,364)	(1,791,229)
Acquisition of property and equipment		(207,061)	(186,844)
Acquisition of intangible assets		(101,560)	(39,104)
Acquisition of investments in associate		(14,220)	(78,800)
Increase in other assets		(15,472)	(47,166)
Increase (decrease) in other liabilities		(13,164)	153,599
Acquisition of subsidiaries, net of cash acquired		(103,859)	-
Net cash provided by (used in) investing activities		<u>(1,831,797)</u>	<u>1,860,530</u>
Cash flows from financing activities			
Proceeds from borrowings		16,774,837	14,739,683
Repayment of borrowings		(15,362,221)	(14,878,384)
Proceeds from issue of debt securities		6,065,201	5,597,845
Repayment of debt securities		(7,289,803)	(8,568,468)
Dividends paid		(982,413)	(306,054)
Redemption of other equity instruments		-	(2,572)
Acquisition of Non-controlling interests		(4,334)	(2,493)
Net cash used in financing activities		<u>(798,733)</u>	<u>(3,420,443)</u>
Effect of exchange rate fluctuations on cash and cash equivalents held		<u>27,915</u>	<u>27,479</u>
Net increase (decrease) in cash and cash equivalents		<u>(39,174)</u>	<u>56,689</u>
Beginning cash and cash equivalents	44	3,150,876	3,094,187
Ending cash and cash equivalents	44	<u>₩ 3,111,702</u>	<u>3,150,876</u>

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and 2010

1. Reporting entity

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

(a) Controlling company

The Bank was established through the merger of Hansung Bank and Dongil Bank, which were established on February 19, 1897 and August 8, 1906, respectively, to engage in commercial banking and trust operations.

The Bank acquired Chungbuk Bank and Kangwon Bank in 1999, and the former Shinhan Bank in 2006, and subsequently changed its name to Shinhan Bank. As of December 31, 2011, the Bank has 1,585,615,506 outstanding common shares with par value of ₩7,928,078 million which Shinhan Financial Group Co., Ltd. ("Shinhan Financial Group") owns 100% of them. As of December 31, 2011, the Bank operates through 863 domestic branches, 107 depositary offices, 24 premises and 7 overseas branches.

(b) Subsidiaries included in consolidation

a. Shinhan Asia Ltd.

Shinhan Asia Limited ("Shinhan Asia") engages in merchant banking activities in Hong Kong. As of December 31, 2011, Shinhan Asia's capital stock amounted to US \$100 million.

b. Shinhan Bank America

Shinhan Bank America ("Shinhan America") was established on March 24, 2003 through the merger of Chohung Bank of New York and California Chohung Bank. In addition, Shinhan America acquired North Atlanta National Bank on November 30, 2007. As of December 31, 2011, Shinhan America's capital stock amounted to US \$123 million.

c. Shinhan Bank Europe GmbH

Shinhan Bank Europe GmbH ("Shinhan Europe") was established in 1994. As of December 31, 2011, Shinhan Europe's capital stock amounted to EUR 23 million.

d. Shinhan Khmer Bank

Shinhan Khmer Bank ("Shinhan Khmer") was established on August 10, 2007. As of December 31, 2011, Shinhan Khmer's capital stock amounted to US \$20 million.

e. Shinhan Kazakhstan Bank

Shinhan Kazakhstan Bank ("Shinhan Kazakhstan") was established on March 21, 2008. As of December 31, 2011, Shinhan Kazakhstan's capital stock amounted to KZT 10,029 million.

f. Shinhan Canada Bank

Shinhan Canada Bank ("Shinhan Canada") was established on August 22, 2008. As of December 31, 2011, Shinhan Canada's capital stock amounted to CAD \$30 million.

SHINHAN BANK AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2011 and 2010

1. Reporting entity (continued)

g. Shinhan Bank China Limited

Shinhan Bank China Limited ("Shinhan China") was established on April 30, 2008. As of December 31, 2011, Shinhan China's capital stock amounted to CNY 2,000 million.

h. Shinhan Aitas Co., Ltd

Shinhan Aitas Co., Ltd. ("Shinhan Aitas") is a fund administrator established in June 2000. As of December 31, 2011, Shinhan Aitas' capital stock amounted to KRW 2,372 million.

i. Shinhan Bank Japan

Shinhan Bank Japan ("Shinhan Japan") was established on September 14, 2009. As of December 31, 2011, Shinhan Japan's capital stock amounted to JPY 15,000 million.

j. Shinhan Bank Vietnam

Shinhan Bank Vietnam ("Shinhan Vietnam") was established on October 13, 2009 and merged with Shinhan Vina Bank on November 28, 2011. As of December 31, 2011, Shinhan Vietnam's capital stock amounted to VND 4,547,100 million.

Details of ownerships in subsidiaries as of December 31, 2011 and 2010 and January 1, 2010 were as follows:

Investee	Country	Ownership (%)		
		December 31, 2011	December 31, 2010	January 1, 2010
Shinhan Asia	Hong Kong	99.9	99.9	99.9
Shinhan America	U.S.A	100.0	100.0	100.0
Shinhan Europe	Germany	100.0	100.0	100.0
Shinhan Khmer	Cambodia	90.0	90.0	80.1
Shinhan Kazakhstan	Kazakhstan	100.0	100.0	100.0
Shinhan Canada	Canada	100.0	100.0	100.0
Shinhan Bank China Ltd	China	100.0	100.0	100.0
Shinhan Aitas	Korea	99.8	89.6	89.6
Shinhan Japan	Japan	100.0	100.0	100.0
Shinhan Vietnam	Vietnam	100.0	100.0	100.0

SHINHAN BANK AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2011 and 2010

1. Reporting entity (continued)

In addition, Special purpose entities ("SPEs") included in consolidation as of December 31, 2011 were as follows:

SPEs	Country	Closing month
Shinhan 6 th ABS Specialty Co., Ltd.	Korea	December
Shinhan 7 th ABS Specialty Co., Ltd.	Korea	December
Shinhan 8 th ABS Specialty Co., Ltd.	Korea	December
I-Clover Series B5	Korea	December
I-Clover Series L1	Korea	December
I-Clover Series L2	Korea	December
Shinhan Mortgage 1 st ABS Specialty Co., Ltd.	Korea	December
SH 2007-2 NPL Investment Co., Ltd.	Korea	December
Shinwha-China Investment Co., Ltd.	Korea	December
Shinhan Mortgage 2 nd ABS Specialty Co., Ltd.	Korea	December
Shift 1 st Co., Ltd.	Korea	March
KAMCO Value Recreation 6 th ABS Specialty Co., Ltd.	Korea	December
JR 1 st Co., Ltd.	Korea	October
MPC Yulchon Green 1 st Development Trust	Korea	December
Non-specified Money Trust	Korea	December
SH Private Bond Investment Fund SH-3	Korea	December
Shinhan Model Index Private Stock Investment Fund 2 nd	Korea	December
SH Growth Private Investment Fund 1 st	Korea	December
Shinhan Model Index Stock Long-term Investment Fund 1 st	Korea	December
China Opportunity Private Special Asset Investment Fund 3 rd	Korea	December
Midas Private Investment Fund 4 th	Korea	September
Heungkuk Rainbow Private Investment Trust Fund S-74 th	Korea	September
Heungkuk Rainbow Private Investment Trust Fund S-77 th	Korea	September
Korea Investment Private Basic Investment Trust Fund 46 th	Korea	September
Dongbu All Together Private Investment Trust Fund 54 th	Korea	September

Status of subsidiaries those were added to the consolidated financial statements and excluded from the consolidated financial statements during the year 2011 were as follows:

i) Newly added subsidiaries during the year 2011

	Reason
MPC Yulchon Green 1 st	ABCP purchase agreement
Heungkuk Rainbow Private Investment Trust Fund S-74 th	100% Shareholdings beneficiary certificate
Midas Private Investment Trust Fund 4 th	"
Dongbu All Together Private Investment Trust Fund 54 th	"
Korea Investment Private Basic Investment Trust Fund 46 th	"
Heungkuk Rainbow Private Investment Trust Fund S-77 th	"

SHINHAN BANK AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2011 and 2010

1. Reporting entity (continued)

ii) Excluded subsidiaries during the year 2011

	Reason
I-Clover Series B8	Termination of ABCP purchase agreement
I-Clover Series B9	"
Incheon Development & Tourism Corp. 1 st	"
Midas 1 st Inc.	"
Midas 2 nd Inc.	"
Dongyang high plus private investment Trust Fund N-12 th	Disposal of beneficiary certificate
Dongbu All Together Private Investment Trust Fund 43 rd (Bond)	"
Yuri Select Private Investment Trust Fund 22 nd	"
Woori Frontier Short term Private Investment Trust Fund 10 th	"
Heungkuk Best All Private Investment Trust Fund 78 th	"
Heungkuk Best All Private Investment Trust Fund 80 th	"
Samsung Focus Private Investment Trust Fund 21 nd	"
Heungkuk Safe Private Investment Trust Fund A-5 th	"
Heungkuk Safe Private Investment Trust Fund A-6 th	"
Woori Frontier Short term Private Investment Trust Fund 11 th	"

2. Basis of preparation

(a) Statement of compliance

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

These are the Group's first consolidated financial statements prepared in accordance with K-IFRS and K-IFRS No. 1101 *First-time Adoption of Korean International Financial Reporting Standards ("K-IFRS No. 1101")* has been applied. The Group's date of transition to K-IFRS was January 1, 2010, and the effect of the transition from Korean Generally Accepted Accounting Principles ("K-GAAP") to K-IFRS on the Group's reported financial position and financial performance was explained in note 48.

(b) Basis of measurement

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

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

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2. Basis of preparation (continued)

(c) Functional and presentation currency

These consolidated financial statements are presented in Korean won, which are the Group's functional currency and the currency of the primary economic environment in which the Group operates. Subsidiaries of those using different functional currency with the Banks presentation currency were as follows:

Functional currency	Subsidiary
USD	Shinhan Asia Ltd. Shinhan Bank America Shinhan Khmer Bank
EUR	Shinhan Bank Europe GmbH
KZT	Shinhan Kazakhstan Bank
CAD	Shinhan Canada Bank
CNY	Shinhan Bank China Ltd.
JPY	Shinhan Japan
VND	Shinhan Bank Vietnam

(d) Use of estimates and judgements

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

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

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

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2. Basis of preparation (continued)

(e) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. The operating segment is strategically divided and separately operated as a marketing strategy and a product portfolio required for each segment differ.

The segment reporting to a chief executive officer includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly general expenses and income tax assets and liabilities. The Group considers the CEO as the chief operating decision maker.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening K-IFRS statement of financial position at January 1, 2010 for the purposes of the transition from previous Korea Generally Accepted Accounting Principle ("K-GAAP") to K-IFRS, unless otherwise indicated.

An explanation of how the transition from previous K-GAAP to K-IFRS has affected the Group's financial position and financial performance was described in note 48.

The accounting policies have been applied consistently by Group entities.

(a) Basis of consolidation

i) Subsidiaries

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

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

ii) Special Purpose Entities

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

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3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

iii) Intra-group transactions eliminated on consolidation

Intra-group balances, transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

iv) Non-controlling interests

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

(b) Business combination

i) Business combination

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

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

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

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

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

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3. Significant accounting policies (continued)

(b) Business combination (continued)

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

ii) Goodwill

The Group measures goodwill at the acquisition date as:

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

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

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

iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control is established; for this purpose comparatives are revised. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognized as part of share premium.

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3. Significant accounting policies (continued)

(c) Investments in associates and jointly controlled entities (collectively "associates")

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

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

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

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

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

(d) Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

SHINHAN BANK AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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3. Significant accounting policies (continued)

(d) Foreign currency (continued)

ii) Foreign operations

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

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

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

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

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

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. However, our account overdraft is included in borrowings.

(f) Non-derivative financial assets

Financial assets are classified into financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity financial assets. Financial assets are recognized when the Group becomes a party to the contractual provisions of the instrument. Also, structured purchase or sale transactions (In other words, purchasing or selling financial instruments by regulations or practices of the relevant market such as transferring financial instruments in accordance with the terms of the agreement within the period set of time.) are recognized in the trading day.

A financial asset is measured initially at its fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition of the financial asset.

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3. Significant accounting policies (continued)

(f) Non-derivative financial assets (continued)

i) Financial assets at fair value through profit or loss

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

ii) Held-to-maturity financial assets

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

iii) Loans and receivables

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

iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives those are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

v) Derecognition of financial assets

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

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

vi) Offsetting

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

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3. Significant accounting policies (continued)

(g) Impairment of financial assets

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

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

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

i) Loans and receivables

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

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

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

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

Future cash flows of financial assets applicable to collective impairment assessment are estimated by using statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of losses incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the impairment losses are likely to be greater or less than suggested by historical modelling. In adjusting the future cash flows by historical modelling, the result has to be in line with changes and trends of observable data (e.g., impairment losses of collective assets and unemployment rates, asset prices, commodity prices, payment status and other variables representing the size of impairment losses). Methodologies and assumptions used to estimate future cash flow are reviewed on a regular basis in order to reduce discrepancy between estimated impairment losses and actual loss.

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3. Significant accounting policies (continued)

(g) Impairment of financial assets (continued)

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

ii) Available-for-sale financial assets

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

iii) Held-to-maturity financial assets

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

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3. Significant accounting policies (continued)

(h) Derivative financial instruments

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

i) Hedge Accounting

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

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

ii) Fair value hedges

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

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

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3. Significant accounting policies (continued)

(h) Derivative financial instruments (continued)

iii) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the consolidated interim statements of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecasted transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognized in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognized. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

iv) Hedge of net investment

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

v) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

vi) Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

SHINHAN BANK AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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3. Significant accounting policies (continued)

(i) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The Group elected to measure land and buildings at fair value at the date of transition and use those fair values as their deemed costs.

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

Land is not depreciated. Other property and equipment are depreciated on a straight-line basis over the estimated useful lives, which most closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives for the current and comparative periods are as follows:

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

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

(j) Intangible assets

i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditures capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Other development expenditures are recognized in profit or loss as incurred.

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3. Significant accounting policies (continued)

(j) Intangible assets (continued)

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

iii) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

iv) Amortization

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and membership from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

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

The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period. Amortization methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

(k) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment property is initially recognized at cost including expenditures that are directly attributable to the acquisition of the asset. Subsequent to initial recognition, the asset is measured at cost less accumulated depreciation and accumulated impairment losses, if any.

SHINHAN BANK AND SUBSIDIARIES
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3. Significant accounting policies (continued)

(l) Leased assets

i) Classification of a lease

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of the leased asset from the lessor to the lessee; title to the asset may or may not transfer under such a lease. An operating lease is a lease other than a finance lease.

ii) Lessee

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

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

iii) Lessor

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

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

(m) Assets held for sale

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

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

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

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3. Significant accounting policies (continued)

(n) Impairment of non-financial assets

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

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

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

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3. Significant accounting policies (continued)

(o) Non-derivative financial liabilities

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

i) Financial liabilities at fair value through profit or loss

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

ii) Other financial liabilities

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

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

(p) Equity instrument

i) Capital stock

Capital stock is classified as equity. Incremental costs directly attributable to the transaction of stock are deducted, net of tax, from the equity.

ii) Hybrid bonds

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

iii) Non-controlling interests

Non-controlling interests, which represent the equity in a subsidiary not attributable, directly or indirectly, to a parent's ownership interests, consist of the amount of those non-controlling interests at the date of the original combination calculated in accordance with K-IFRS No. 1103 *Business Combination* and the non-controlling interests' share of changes in equity since the date of the combination.

SHINHAN BANK AND SUBSIDIARIES
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3. Significant accounting policies (continued)

(q) Employee benefits

i) Short-term employee benefits

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

ii) Other long-term employee benefits

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

iii) Retirement benefits: defined contribution plans

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

iv) Retirement benefits: defined benefit plans

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

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

SHINHAN BANK AND SUBSIDIARIES
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3. Significant accounting policies (continued)

(q) Employee benefits (continued)

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

v) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(r) Share-based payment transactions

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

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

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

(s) Provisions

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

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

SHINHAN BANK AND SUBSIDIARIES
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3. Significant accounting policies (continued)

(s) Provisions (continued)

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

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

(t) Financial guarantee contract

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

(u) Financial income and expense

i) Interest

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

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

ii) Fees and commission

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

Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

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

iii) Dividends

Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

SHINHAN BANK AND SUBSIDIARIES
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3. Significant accounting policies (continued)

(v) Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized, using the asset-liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Shinhan Financial Group, the parent company, files its national income tax return with the Korean tax authorities under the consolidated corporate tax system, which allows it to make national income tax payments based on the consolidated profits or losses of the Shinhan Financial Group and its wholly owned domestic subsidiaries including the Group. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected profits or losses of eligible companies in accordance with the consolidated corporate tax system. Consolidated corporate tax amounts, once determined, are allocated to each of the subsidiaries and are used as a basis for the income taxes to be recorded in their stand-alone financial statements.

SHINHAN BANK AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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3. Significant accounting policies (continued)

(w) Accounting for trust accounts

The Group accounts for trust accounts separately from its group accounts under the Financial Investment Services and Capital Markets Act and thus the trust accounts are not included in the accompanying consolidated financial statements. Funds transferred between a group account and a trust account are recognized as borrowings from trust accounts in other liabilities with fees for managing the accounts recognized as non-interest income by the Group.

(x) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholder of the Bank by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(y) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2011, and the Group has not early adopted them.

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

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

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

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

SHINHAN BANK AND SUBSIDIARIES
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3. Significant accounting policies (continued)

(y) New standards and interpretations not yet adopted (continued)

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

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Group's annual periods beginning on or after January 1, 2013. Management believes the impacts of the amendments on the Group's consolidated financial statements will be significant.

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

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Group's annual periods beginning on or after January 1, 2013. Management believes the impacts of the amendments on the Group's consolidated financial statements will not be significant.

SHINHAN BANK AND SUBSIDIARIES
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4. Financial risk management

4-1. Credit risk

Credit risk is the risk of financial loss of the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from due from banks, the lending process related to loans, investment activities in debt securities and off balance sheet items including loan commitments, etc. Credit risk management is critical to the Group's business activities; thus, the Group carefully manages the credit risk exposure.

(a) Credit risk management

Major policies of the credit risk management are determined by the Credit Policy Committee, which is the Group's executive decision-making body for credit risk management. The Credit Policy Committee is led by the Company's Deputy President and Head of Risk Management Group. The Credit Policy Committee also consists of chief officers from eight different business units. The Credit Review Committee performs credit review evaluations and operates separately from the Credit Policy Committee. Both the Credit Policy Committee and the Credit Review Committee make decisions by obtaining more than two-thirds of votes from the attending members of the respective committees, which must constitute at least two-thirds of the relevant committee members to satisfy the respective quorum.

Each business unit is required to implement the Group's risk management policies and procedures. The Credit Risk Management Department reviews compliance of business units with agreed exposure limits established by the Credit Policy Committee, including those for selected industries, country risk and product types.

The Group established the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to the business unit credit officer. Larger facilities require approval by the Credit Committee. The Group assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and review of facilities are subject to the same review process.

The Group is responsible for limiting concentrations of exposures to counterparties, geographies and industries, and by issuers, credit rating band, market liquidity and country.

The Group develops and maintains the risk grading system in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining credit approvals, credit renewals, credit pricing, credit limits, or where impairment provisions may be required against specific credit exposures for existing loans.

Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio, including those subject to central approval. In addition to periodic loan reviews by credit officers, the Group also utilizes an automated monitoring tool which conducts searches for companies with high probability of default. Regular reports on the credit quality of local portfolios are provided to the Credit Administration Department who may require appropriate corrective action to be taken.

SHINHAN BANK AND SUBSIDIARIES
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(In millions of won)

4. Financial risk management (continued)

(b) Maximum exposure to credit risk

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as of December 31, 2011, 2010 and January 1, 2010 was as follows:

		December 31, 2011	December 31, 2010	January 1, 2010
Due from banks and loans(*1,2):				
Banks	₩	6,410,632	5,131,797	5,097,473
Retail:				
Mortgage lending		40,061,301	35,363,074	33,210,439
Other		32,044,839	31,833,272	31,576,147
		<u>72,106,140</u>	<u>67,196,346</u>	<u>64,786,586</u>
Government		8,771,818	6,143,262	8,000,987
Corporate:				
Large company		32,726,063	31,275,850	26,561,716
Small business		45,654,026	42,823,269	42,608,064
Special finance		6,669,784	7,379,976	8,136,334
Other		1,772	1,914	112,793
		<u>85,051,645</u>	<u>81,481,009</u>	<u>77,418,907</u>
Card		1,572	1,458	5
	₩	<u>172,341,807</u>	<u>159,953,872</u>	<u>155,303,958</u>
Trading assets:				
Debt securities	₩	5,428,985	3,741,538	3,083,972
Gold deposits		341,434	153,457	256,244
Financial assets designated at fair value through profit or loss:				
Debt and other securities		-	30,984	96,977
Derivative assets		2,229,510	3,722,090	4,513,236
Available-for-sale financial assets:				
Debt securities		23,036,822	18,543,832	18,972,587
Held-to-maturity financial assets:				
Debt securities		9,902,422	10,565,990	11,170,310
Other financial assets(*3)		5,497,956	4,615,601	4,601,231
Off balance sheet items:				
Financial guarantee contracts		2,739,590	3,497,633	4,715,265
Loan commitments and other liabilities for credit		66,699,616	63,107,050	58,779,572
		<u>69,439,206</u>	<u>66,604,683</u>	<u>63,494,837</u>
	₩	<u>288,218,142</u>	<u>267,932,047</u>	<u>261,493,352</u>

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

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

(*3) Other financial assets comprise accounts receivable, accrued income, guarantee deposits, etc.

SHINHAN BANK AND SUBSIDIARIES
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(In millions of won)

4. Financial risk management (continued)

(c) Impaired due from banks and loans

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

		December 31, 2011					
		Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	₩	6,453,682	71,689,496	8,773,596	84,698,394	1,572	171,616,740
Past due but not impaired		-	431,528	-	296,618	-	728,146
Impaired		-	255,023	-	1,462,089	-	1,717,112
		<u>6,453,682</u>	<u>72,376,047</u>	<u>8,773,596</u>	<u>86,457,101</u>	<u>1,572</u>	<u>174,061,998</u>
Less: allowance		(43,050)	(269,907)	(1,778)	(1,405,456)	-	(1,720,191)
	₩	<u>6,410,632</u>	<u>72,106,140</u>	<u>8,771,818</u>	<u>85,051,645</u>	<u>1,572</u>	<u>172,341,807</u>

		December 31, 2010					
		Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	₩	5,175,235	66,922,636	6,139,091	80,871,857	1,458	159,110,277
Past due but not impaired		-	347,487	-	463,607	-	811,094
Impaired		-	172,868	4,524	1,760,866	-	1,938,258
		<u>5,175,235</u>	<u>67,442,991</u>	<u>6,143,615</u>	<u>83,096,330</u>	<u>1,458</u>	<u>161,859,629</u>
Less: allowance		(43,438)	(246,645)	(353)	(1,615,321)	-	(1,905,757)
	₩	<u>5,131,797</u>	<u>67,196,346</u>	<u>6,143,262</u>	<u>81,481,009</u>	<u>1,458</u>	<u>159,953,872</u>

		January 1, 2010					
		Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	₩	5,109,063	64,586,362	8,001,242	76,733,922	5	154,430,594
Past due but not impaired		-	262,535	-	601,801	-	864,336
Impaired		-	216,433	-	1,901,352	-	2,117,785
		<u>5,109,063</u>	<u>65,065,330</u>	<u>8,001,242</u>	<u>79,237,075</u>	<u>5</u>	<u>157,412,715</u>
Less: allowance		(11,590)	(278,744)	(255)	(1,818,168)	-	(2,108,757)
	₩	<u>5,097,473</u>	<u>64,786,586</u>	<u>8,000,987</u>	<u>77,418,907</u>	<u>5</u>	<u>155,303,958</u>

SHINHAN BANK AND SUBSIDIARIES
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4. Financial risk management (continued)

(c) Impaired due from banks and loans (continued)

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

		December 31, 2011					
		Banks	Retail	Government	Corporate	Card	Total
Grade 1(*)	₩	6,453,682	70,123,837	8,773,596	49,757,677	-	135,108,792
Grade 2(*)		-	1,565,659	-	34,940,717	1,572	36,507,948
		6,453,682	71,689,496	8,773,596	84,698,394	1,572	171,616,740
Less: allowance		(43,050)	(130,105)	(1,778)	(862,582)	-	(1,037,515)
	₩	6,410,632	71,559,391	8,771,818	83,835,812	1,572	170,579,225
Mitigation of credit risk due to collateral	₩	3,127	50,072,035	58	39,558,903	-	89,634,123

		December 31, 2010					
		Banks	Retail	Government	Corporate	Card	Total
Grade 1(*)	₩	5,175,235	65,293,622	6,139,091	45,904,647	-	122,512,595
Grade 2(*)		-	1,629,014	-	34,967,210	1,458	36,597,682
		5,175,235	66,922,636	6,139,091	80,871,857	1,458	159,110,277
Less: allowance		(43,438)	(140,699)	(353)	(809,013)	-	(993,503)
	₩	5,131,797	66,781,937	6,138,738	80,062,844	1,458	158,116,774
Mitigation of credit risk due to collateral	₩	81,856	44,988,321	-	36,385,608	-	81,455,785

		January 1, 2010					
		Banks	Retail	Government	Corporate	Card	Total
Grade 1(*)	₩	5,109,063	62,939,076	8,001,242	40,203,968	-	116,253,349
Grade 2(*)		-	1,647,286	-	36,529,954	5	38,177,245
		5,109,063	64,586,362	8,001,242	76,733,922	5	154,430,594
Less: allowance		(11,590)	(140,029)	(255)	(852,191)	-	(1,004,065)
	₩	5,097,473	64,446,333	8,000,987	75,881,731	5	153,426,529
Mitigation of credit risk due to collateral	₩	7,004	43,348,996	-	35,958,183	-	79,314,183

(*) Credit quality of due from banks and loans was classified based on the internal credit rating. The banks and government were classified as Grade 1 regardless of credit rating.

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4. Financial risk management (continued)

(c) Impaired due from banks and loans (continued)

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

		December 31, 2011		
		Retail	Corporate	Total
Within 30 days	₩	341,490	166,584	508,074
30~60 days		41,846	97,649	139,495
60~90 days		47,158	17,336	64,494
More than 90 days		1,034	15,049	16,083
		431,528	296,618	728,146
Less: allowance		(18,703)	(16,907)	(35,610)
	₩	412,825	279,711	692,536
Mitigation of credit risk due to collateral	₩	322,422	129,875	452,297

		December 31, 2010		
		Retail	Corporate	Total
Within 30 days	₩	242,078	303,898	545,976
30~60 days		34,838	86,224	121,062
60~90 days		67,597	38,965	106,562
More than 90 days		2,974	34,520	37,494
		347,487	463,607	811,094
Less: allowance		(13,874)	(31,610)	(45,484)
	₩	333,613	431,997	765,610
Mitigation of credit risk due to collateral	₩	204,477	164,321	368,798

		January 1, 2010		
		Retail	Corporate	Total
Within 30 days	₩	208,848	469,395	678,243
30~60 days		28,091	70,477	98,568
60~90 days		22,742	26,953	49,695
More than 90 days		2,854	34,976	37,830
		262,535	601,801	864,336
Less: allowance		(11,944)	(28,063)	(40,007)
	₩	250,591	573,738	824,329
Mitigation of credit risk due to collateral	₩	193,638	261,044	454,682

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4. Financial risk management (continued)

(c) Impaired due from banks and loans (continued)

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

		December 31, 2011		
		Retail	Corporate	Total
Impaired loans	₩	255,023	1,462,089	1,717,112
Less: allowance		(121,099)	(525,967)	(647,066)
	₩	133,924	936,122	1,070,046
Mitigation of credit risk due to collateral	₩	80,452	536,275	616,727

		December 31, 2010			
		Retail	Government	Corporate	Total
Impaired loans	₩	172,868	4,524	1,760,866	1,938,258
Less: allowance		(92,072)	-	(774,698)	(866,770)
	₩	80,796	4,524	986,168	1,071,488
Mitigation of credit risk due to collateral	₩	56,379	-	728,153	784,532

		January 1, 2010		
		Retail	Corporate	Total
Impaired loans	₩	216,433	1,901,352	2,117,785
Less: allowance		(126,771)	(937,914)	(1,064,685)
	₩	89,662	963,438	1,053,100
Mitigation of credit risk due to collateral	₩	62,980	487,927	550,907

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4. Financial risk management (continued)

(d) Credit rating

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

		December 31, 2011				
		Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩	938,489	-	14,265,368	8,105,641	23,309,498
AA- to AA+		1,056,614	-	5,118,235	1,153,363	7,328,212
A- to A+		2,533,155	-	1,736,404	305,454	4,575,013
Lower than A-		495,862	-	906,586	40,100	1,442,548
Unrated		404,865	-	1,010,229	297,864	1,712,958
	₩	<u>5,428,985</u>	<u>-</u>	<u>23,036,822</u>	<u>9,902,422</u>	<u>38,368,229</u>

		December 31, 2010				
		Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩	820,340	-	11,056,591	8,381,050	20,257,981
AA- to AA+		1,027,767	-	4,281,944	1,673,005	6,982,716
A- to A+		1,161,431	-	1,363,903	315,017	2,840,351
Lower than A-		260,747	-	834,942	44,220	1,139,909
Unrated		471,253	30,984	1,006,452	152,698	1,661,387
	₩	<u>3,741,538</u>	<u>30,984</u>	<u>18,543,832</u>	<u>10,565,990</u>	<u>32,882,344</u>

		January 1, 2010				
		Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩	1,542,638	-	16,288,992	10,850,601	28,682,231
AA- to AA+		-	-	95,268	59,989	155,257
A- to A+		1,116,305	-	882,558	100,376	2,099,239
Lower than A-		106,027	-	831,605	49,377	987,009
Unrated		319,002	96,977	874,164	109,967	1,400,110
	₩	<u>3,083,972</u>	<u>96,977</u>	<u>18,972,587</u>	<u>11,170,310</u>	<u>33,323,846</u>

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4. Financial risk management (continued)

(d) Credit rating (continued)

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

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

(*1) KIS: Korea Investors Service

(*2) KR: Korea Ratings

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

		<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Neither past due nor impaired	₩	38,368,207	32,876,931	33,323,824
Impaired		22	5,413	22
	₩	<u>38,368,229</u>	<u>32,882,344</u>	<u>33,323,846</u>

(e) Assets acquired through foreclosures amounting to ₩14,876 million were classified as assets held for sale as of December 31, 2011.

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4. **Financial risk management (continued)**

(f) Concentration by geographic location

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

	December 31, 2011						
	Korea	U.S.A	Japan	Vietnam	China	Other	Total
Due from banks and loans:							
Banks	₩ 3,537,015	279,716	55,983	264,493	1,124,431	1,148,994	6,410,632
Retail	71,651,668	257,865	23,794	4,011	8,462	160,340	72,106,140
Government	8,476,904	176,171	42,452	28,843	3,460	43,988	8,771,818
Corporate	79,565,532	1,199,441	1,213,034	369,247	953,396	1,750,995	85,051,645
Card	228	1,339	-	5	-	-	1,572
	<u>163,231,347</u>	<u>1,914,532</u>	<u>1,335,263</u>	<u>666,599</u>	<u>2,089,749</u>	<u>3,104,317</u>	<u>172,341,807</u>
Trading assets	5,428,985	-	-	-	-	341,434	5,770,419
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-
Available-for-sale financial assets	22,553,213	292,717	-	-	-	190,892	23,036,822
Held-to-maturity financial assets	9,766,190	1,922	37,172	7,412	-	89,726	9,902,422
	<u>₩ 200,979,735</u>	<u>2,209,171</u>	<u>1,372,435</u>	<u>674,011</u>	<u>2,089,749</u>	<u>3,726,369</u>	<u>211,051,470</u>

	December 31, 2010						
	Korea	U.S.A	Japan	Vietnam	China	Other	Total
Due from banks and loans:							
Banks	₩ 3,934,146	153,940	42,471	120,504	455,817	424,919	5,131,797
Retail	66,710,907	214,806	15,879	850	124,203	129,701	67,196,346
Government	6,044,961	-	62,618	5,024	-	30,659	6,143,262
Corporate	76,439,931	1,229,217	782,513	168,993	1,032,063	1,828,292	81,481,009
Card	-	1,458	-	-	-	-	1,458
	<u>153,129,945</u>	<u>1,599,421</u>	<u>903,481</u>	<u>295,371</u>	<u>1,612,083</u>	<u>2,413,571</u>	<u>159,953,872</u>
Trading assets	3,741,538	-	-	-	-	153,457	3,894,995
Financial assets designated at fair value through profit or loss	-	-	-	-	-	30,984	30,984
Available-for-sale financial assets	18,097,706	215,685	28,406	-	-	202,035	18,543,832
Held-to-maturity financial assets	10,285,820	3,054	240,225	-	-	36,891	10,565,990
	<u>₩ 185,255,009</u>	<u>1,818,160</u>	<u>1,172,112</u>	<u>295,371</u>	<u>1,612,083</u>	<u>2,836,938</u>	<u>192,989,673</u>

	January 1, 2010						
	Korea	U.S.A	Japan	Vietnam	China	Other	Total
Due from banks and loans:							
Banks	₩ 3,405,414	530,421	34,952	21,556	380,559	724,571	5,097,473
Retail	64,527,444	137,397	14,198	740	4,999	101,808	64,786,586
Government	7,572,132	85,647	242,284	5,412	9,728	85,784	8,000,987
Corporate	73,106,621	1,290,064	463,946	155,523	688,731	1,714,022	77,418,907
Card	5	-	-	-	-	-	5
	<u>148,611,616</u>	<u>2,043,529</u>	<u>755,380</u>	<u>183,231</u>	<u>1,084,017</u>	<u>2,626,185</u>	<u>155,303,958</u>
Trading assets	3,083,972	-	-	-	-	256,244	3,340,216
Financial assets designated at fair value through profit or loss	-	-	-	-	-	96,977	96,977
Available-for-sale financial assets	18,354,319	209,504	59,684	-	-	349,080	18,972,587
Held-to-maturity financial assets	11,042,892	4,933	75,736	-	-	46,749	11,170,310
	<u>₩ 181,092,799</u>	<u>2,257,966</u>	<u>890,800</u>	<u>183,231</u>	<u>1,084,017</u>	<u>3,375,235</u>	<u>188,884,048</u>

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4. Financial risk management (continued)

(g) Concentration by industry sector

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

		December 31, 2011						
		Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans:								
Banks	₩	4,885,723	-	-	505,686	1,019,223	-	6,410,632
Retail		-	-	-	-	-	72,106,140	72,106,140
Government		8,440,455	-	-	-	331,363	-	8,771,818
Corporate		2,389,782	32,343,402	10,862,629	14,314,043	25,141,789	-	85,051,645
Card		-	-	-	-	-	1,572	1,572
		<u>15,715,960</u>	<u>32,343,402</u>	<u>10,862,629</u>	<u>14,819,729</u>	<u>26,492,375</u>	<u>72,107,712</u>	<u>172,341,807</u>
Trading assets		3,233,614	649,120	278,863	894,454	714,368	-	5,770,419
Financial assets designated at fair value through profit or loss		-	-	-	-	-	-	-
Available-for-sale financial assets		15,691,622	804,518	163,933	670,480	5,706,269	-	23,036,822
Held-to-maturity financial assets		3,446,783	9,999	-	321,185	6,124,455	-	9,902,422
	₩	<u>38,087,979</u>	<u>33,807,039</u>	<u>11,305,425</u>	<u>16,705,848</u>	<u>39,037,467</u>	<u>72,107,712</u>	<u>211,051,470</u>

		December 31, 2010						
		Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans:								
Banks	₩	3,137,437	19,996	-	1,015,665	958,699	-	5,131,797
Retail		-	-	-	-	-	67,196,346	67,196,346
Government		5,971,612	-	-	-	171,650	-	6,143,262
Corporate		3,267,202	30,257,690	10,209,167	13,631,738	24,115,212	-	81,481,009
Card		-	-	-	-	-	1,458	1,458
		<u>12,376,251</u>	<u>30,277,686</u>	<u>10,209,167</u>	<u>14,647,403</u>	<u>25,245,561</u>	<u>67,197,804</u>	<u>159,953,872</u>
Trading assets		1,901,959	328,661	109,781	397,789	1,156,805	-	3,894,995
Financial assets designated at fair value through profit or loss		-	-	-	-	30,984	-	30,984
Available-for-sale financial assets		10,444,091	690,158	142,282	534,905	6,732,396	-	18,543,832
Held-to-maturity financial assets		3,537,508	9,994	-	261,430	6,757,058	-	10,565,990
	₩	<u>28,259,809</u>	<u>31,306,499</u>	<u>10,461,230</u>	<u>15,841,527</u>	<u>39,922,804</u>	<u>67,197,804</u>	<u>192,989,673</u>

		January 1, 2010						
		Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans:								
Banks	₩	2,907,451	19,996	9,998	1,425,500	734,528	-	5,097,473
Retail		-	-	-	-	-	64,786,586	64,786,586
Government		7,253,562	-	-	-	747,425	-	8,000,987
Corporate		4,156,405	27,158,451	9,169,872	13,863,704	23,070,475	-	77,418,907
Card		-	-	-	-	-	5	5
		<u>14,317,418</u>	<u>27,178,447</u>	<u>9,179,870</u>	<u>15,289,204</u>	<u>24,552,428</u>	<u>64,786,591</u>	<u>155,303,958</u>
Trading assets		2,509,370	189,108	29,882	9,964	601,892	-	3,340,216
Financial assets designated at fair value through profit or loss		-	-	-	-	96,977	-	96,977
Available-for-sale financial assets		11,626,055	591,850	144,865	181,147	6,428,670	-	18,972,587
Held-to-maturity financial assets		4,804,355	9,989	-	233,710	6,122,256	-	11,170,310
	₩	<u>33,257,198</u>	<u>27,969,394</u>	<u>9,354,617</u>	<u>15,714,025</u>	<u>37,802,223</u>	<u>64,786,591</u>	<u>188,884,048</u>

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4. Financial risk management (continued)

4-2. Market risk

Market risk is the risk that changes in market price, such as interest rates, equity prices, and foreign exchange rates etc, will affect the Group's income. Trading position is exposed to the risk, such as interest rates, equity prices, and foreign exchange rates, etc, and non-trading position is mostly exposed to interest rates. The Group classifies exposures to market risk into either trading or non-trading position.

Overall authority for market risk is vested in the Group's Asset & Liability Management Committee ("ALM Committee"). The Risk Management Department is responsible for the development of detailed risk management policies which are subject to review and approval by the ALM Committee and for the day-to-day review of their implementation. The ALM Committee also sets Value at Risk (VaR) limit, damage limit, sensitivity limit, investment limits, position limits, and stress damage limits of each department and desk. The Risk Management Department monitors operation departments and reports regularly to the ALM Committee and the Risk Management Committee.

Before a new product from each business unit becomes effective, the Group is required to perform an objective analysis of the risk evaluation and examination of fair value evaluation method from the Risk Management Department or Fair Value Evaluation Committee. The Derivative and Structured Product Risk Review Committee reviews the related risk exposure and investment limit.

(a) Market risk management of trading positions

Trading position includes securities, foreign exchange position, and derivatives which are traded for profits.

Trading data of foreign exchange, stocks, bonds and derivatives from trading positions are tracked and daily risk limits are systematically monitored based on the Group's risk management parameters. Statistical analysis complements the above risk management process and stress testing is performed regularly in order to manage the impact and loss of rapid economic changes. These risk management processes enable the Group to manage the scale of potential losses within a certain range when a crisis occurs.

i) Measurement method on market risk arising from trading position

The principal tool used to measure and control market risk exposure within the Group's trading position is VaR. The VaR of a trading position is the estimated loss that will arise on the portfolio over a specified period of time (ten days holding period) from an adverse market movement with a specified probability (confidence level). The Group measures market risk based on 99% confidence interval by using a historical simulation of VaR method theory.

VaR is a commonly used market risk management technique. However, VaR estimates possible losses over a certain period at a particular confidence level using the historical market movement data. The use of historical market movement data as a basis for determining the possible range of future outcome may not always cover all possible scenarios, especially those of an exceptional nature. VaR models assume that a holding period of generally one to ten days is sufficient prior to liquidating the underlying positions, but this may not be the case for certain highly illiquid assets or in situations in which there is severe general market illiquidity.

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4. Financial risk management (continued)

(a) Market risk management of trading positions (continued)

The Group directly applies the historical changes in interest rates, equity prices, and foreign exchange rates to current position. The actual outputs are regularly monitored by testing the effectiveness of assumptions, measurements and parameter. The application of this method does not prevent loss from larger market's movements that exceed the acceptable parameter.

VaR limit related to the operation of trading and non-trading portfolio is determined by management annually. VaR is measured at least daily and more regularly for more actively traded portfolios. The quality of VaR model is monitored consistently by examining the VaR results related to trading book.

ii) VaR of trading position

An analysis of trading position VaR for the years ended December 31, 2011 and 2010, was as follows:

		2011			
		Average	Maximum	Minimum	At December 31
Interest rate risk	₩	24,791	37,239	19,646	23,275
Equity risk		14,566	24,581	6,433	16,534
Foreign currency risk(*)		44,582	77,103	10,370	66,920
Volatility risk		370	850	70	237
Covariance		(41,847)	(73,845)	(6,202)	(43,999)
	₩	<u>42,462</u>	<u>65,928</u>	<u>30,317</u>	<u>62,967</u>

		2010			
		Average	Maximum	Minimum	At December 31
Interest rate risk	₩	26,503	44,391	13,305	33,572
Equity risk		9,709	16,658	6,607	11,430
Foreign currency risk(*)		66,697	121,427	45,815	46,136
Volatility risk		458	781	212	497
Covariance		(38,899)	(75,645)	(25,712)	(51,408)
	₩	<u>64,468</u>	<u>107,612</u>	<u>40,227</u>	<u>40,227</u>

(*) The Group measured foreign currency risk arising from trading position and non-trading position.

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4. Financial risk management (continued)

(b) Market risk management from non-trading position

The most critical market risk that arises in non-trading position is the interest rate risk. Accordingly, the Group measures and manages market risk for non-trading position by taking into account effects of interest rate changes on both its net asset value and income. Interest rate risk is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALM Committee is the monitoring body for compliance with these limits including establishing policies and setting the limits and is assisted by the Risk Management Department in its day-to-day monitoring activities.

i) Measurement method on market risk arising from non-trading position

The Bank measures and manages interest rate risk by using various analyses such as interest rate gap, duration gap, and NII simulation of each scenario through the ALM system (OFSA). The Bank also monitors interest rate VaR, earnings at risk ("EaR"), and gap rate of interest rate by setting the limits on a monthly basis.

The Group measures interest rate VaR by using standard modified duration and interest rate volatility, and interest rate EaR by using impact period by maturity period and interest rate volatility based on a standard methodology provided by Bank for International Settlements ("BIS").

ii) Interest rate VaR and EaR for non-trading positions

Interest rate VaR and EaR for non-trading positions which was measured by the standard methodology provided by BIS as of December 31, 2011, 2010 and January 1, 2010 were as follows:

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

(c) Foreign exchange risk

The Group manages foreign currency risk based on general positions which includes all spot and future foreign currency positions, etc. The ALM Committee oversees the Group's foreign exchange exposure for both trading and non-trading activities by establishing limits for the net foreign currencies open position. The Group's foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage the Group's overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps. The Group sets a limit for net open positions by currency, and the limits for currencies other than the U.S. dollar and Japanese yen are set in order to minimize other foreign exchange trading.

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4. **Financial risk management (continued)**

(c) Foreign exchange risk (continued)

Foreign currencies denominated assets and liabilities as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011					
	USD	JPY	EUR	CNY	Other	Total
Assets						
Cash and due from banks	₩ 1,205,682	935,555	136,189	777,916	749,176	3,804,518
Trading assets	-	-	-	-	341,434	341,434
Derivative assets	299,152	2,035	8,679	-	738	310,604
Loans	12,143,069	4,988,219	1,301,212	1,193,620	1,857,358	21,483,478
Available-for-sale financial assets	1,084,488	48,492	136	-	66,267	1,199,383
Held-to-maturity financial assets	3,725	400,474	-	-	50,780	454,979
Other financial assets	788,171	126,584	132,270	33,760	144,397	1,225,182
	₩ <u>15,524,287</u>	<u>6,501,359</u>	<u>1,578,486</u>	<u>2,005,296</u>	<u>3,210,150</u>	<u>28,819,578</u>
Liabilities						
Deposits	₩ 4,033,453	5,914,166	463,213	1,391,878	1,227,444	13,030,154
Trading liabilities	-	-	-	-	414,088	414,088
Derivative liabilities	170,992	3,404	244	-	116	174,756
Borrowings	7,401,491	727,406	939,682	37,674	427,544	9,533,797
Debt securities issued	2,925,854	-	-	-	375,385	3,301,239
Other financial liabilities	861,650	258,847	153,589	99,340	230,574	1,604,000
	₩ <u>15,393,440</u>	<u>6,903,823</u>	<u>1,556,728</u>	<u>1,528,892</u>	<u>2,675,151</u>	<u>28,058,034</u>
Net assets (liabilities)	₩ 130,847	(402,464)	21,758	476,404	534,999	761,544
Off-balance derivative exposure	1,120,186	220,077	138,379	(11,561)	88,917	1,555,998
Net position	₩ <u>1,251,033</u>	<u>(182,387)</u>	<u>160,137</u>	<u>464,843</u>	<u>623,916</u>	<u>2,317,542</u>

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4. Financial risk management (continued)

(c) Foreign exchange risk (continued)

		December 31, 2010					Total
		USD	JPY	EUR	CNY	Other	
Assets							
Cash and due from banks	₩	1,090,238	606,264	119,891	382,528	471,411	2,670,332
Trading assets		-	-	-	-	153,457	153,457
Financial assets designated at fair value through profit or loss		30,984	-	-	-	-	30,984
Derivative assets		237,551	2,714	7,401	-	317	247,983
Loans		10,747,148	4,627,663	1,053,247	1,418,446	1,308,845	19,155,349
Available-for-sale financial assets		1,190,333	65,209	138	-	49,294	1,304,974
Held-to-maturity financial assets		3,054	240,225	9,108	-	27,277	279,664
Other financial assets		473,703	177,249	63,715	21,474	105,790	841,931
	₩	<u>13,773,011</u>	<u>5,719,324</u>	<u>1,253,500</u>	<u>1,822,448</u>	<u>2,116,391</u>	<u>24,684,674</u>
Liabilities							
Deposits	₩	4,050,003	5,206,532	333,228	1,129,741	583,119	11,302,623
Trading liabilities		-	-	-	-	198,619	198,619
Derivative liabilities		253,459	1,673	3,122	-	283	258,537
Borrowings		5,857,897	847,927	1,000,633	103,168	128,174	7,937,799
Debt securities issued		2,854,783	-	-	-	346,123	3,200,906
Other financial liabilities		996,612	158,029	66,509	130,376	67,308	1,418,834
	₩	<u>14,012,754</u>	<u>6,214,161</u>	<u>1,403,492</u>	<u>1,363,285</u>	<u>1,323,626</u>	<u>24,317,318</u>
Net assets (liabilities)	₩	(239,743)	(494,837)	(149,992)	459,163	792,765	367,356
Off-balance derivative exposure		1,450,504	438,133	101,109	-	(470,628)	1,519,118
Net position	₩	<u>1,210,761</u>	<u>(56,704)</u>	<u>(48,883)</u>	<u>459,163</u>	<u>322,137</u>	<u>1,886,474</u>

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4. Financial risk management (continued)

(c) Foreign exchange risk (continued)

		January 1, 2010					Total
		USD	JPY	EUR	CNY	Other	
Assets							
Cash and due from banks	₩	1,554,906	586,177	207,279	423,197	278,256	3,049,815
Trading assets		-	-	-	-	256,244	256,244
Financial assets designated at fair value through profit or loss		96,977	-	-	-	-	96,977
Derivative assets		163,196	4	13,551	-	125	176,876
Loans		9,876,112	3,616,674	754,997	1,016,686	1,043,732	16,308,201
Available-for-sale financial assets		1,424,678	108,608	-	-	37,265	1,570,551
Held-to-maturity financial assets		4,966	75,736	27,361	-	19,388	127,451
Other financial assets		1,068,181	110,398	15,540	7,147	41,232	1,242,498
	₩	<u>14,189,016</u>	<u>4,497,597</u>	<u>1,018,728</u>	<u>1,447,030</u>	<u>1,676,242</u>	<u>22,828,613</u>
Liabilities							
Deposits	₩	5,210,212	4,376,846	290,069	931,398	468,855	11,277,380
Trading liabilities		-	-	-	-	318,969	318,969
Derivative liabilities		448,586	8,420	10,200	-	112	467,318
Borrowings		4,510,935	1,082,503	448,873	38,545	123,222	6,204,078
Debt securities issued		2,654,311	-	-	-	575,743	3,230,054
Other financial liabilities		943,296	274,233	46,077	9,363	33,123	1,306,092
	₩	<u>13,767,340</u>	<u>5,742,002</u>	<u>795,219</u>	<u>979,306</u>	<u>1,520,024</u>	<u>22,803,891</u>
Net assets (liabilities)	₩	421,676	(1,244,405)	223,509	467,724	156,218	24,722
Off-balance derivative exposure		1,133,160	1,207,022	(205,631)	-	169,659	2,304,210
Net position	₩	<u>1,554,836</u>	<u>(37,383)</u>	<u>17,878</u>	<u>467,724</u>	<u>325,877</u>	<u>2,328,932</u>

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4. Financial risk management (continued)

4-3. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The ALM Committee is responsible for establishing policies and setting the limits related to liquidity risk management. The Risk Management Department evaluates and manages the Group's overall liquidity risk and monitors compliance of all operating subsidiaries and foreign branches with limits on a daily basis.

The Group applies the following basic principles for liquidity risk management:

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

The Group manages its liquidity risk within the limits set on won and foreign currency by using various analysis methods such as liquidity gap, real liquidity gap and loan-deposit ratio through the ALM system and various indices including risk limits, early warning index, and monitoring index.

The following table presents the Group's cash flows of financial assets and financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Since the effect of the discount is not important for the balance with the maturities of less than 12 months, the amount is the same as the book value.

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4. Financial risk management (continued)

(a) Contractual maturities for financial instruments

Contractual maturities for financial assets and financial liabilities as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011						Total
	Less than 1 month	1~3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	
Assets							
Cash and due from banks	₩ 8,759,834	547,682	1,139,841	238,371	175,236	-	10,860,964
Trading assets	6,764,341	-	-	-	-	-	6,764,341
Derivative assets	2,102,577	456,655	69,226	133,586	1,102,694	1,180,302	5,045,040
Loans	17,091,391	23,974,435	28,636,972	39,236,994	40,898,253	41,807,146	191,645,191
Available-for-sale financial assets	24,980,134	-	-	-	-	1,745,549	26,725,683
Held-to-maturity financial assets	191,943	636,788	362,830	1,451,865	7,187,731	1,698,543	11,529,700
Other financial assets	2,569,773	-	-	-	3,093,731	-	5,663,504
	<u>₩ 62,459,993</u>	<u>25,615,560</u>	<u>30,208,869</u>	<u>41,060,816</u>	<u>52,457,645</u>	<u>46,431,540</u>	<u>258,234,423</u>
Liabilities							
Deposits	₩ 73,844,050	14,800,361	14,353,154	54,118,161	10,541,250	1,756,012	169,412,988
Trading liabilities	602,592	-	-	-	-	-	602,592
Derivative liabilities	1,706,342	75,604	71,761	132,975	777,517	543,004	3,307,203
Borrowings	3,292,841	3,282,633	2,059,352	1,644,932	2,774,294	691,306	13,745,358
Debt securities issued	656,185	753,733	2,230,726	3,633,712	11,091,849	4,513,042	22,879,247
Other financial liabilities	10,827,897	-	-	-	129,075	-	10,956,972
	<u>₩ 90,929,907</u>	<u>18,912,331</u>	<u>18,714,993</u>	<u>59,529,780</u>	<u>25,313,985</u>	<u>7,503,364</u>	<u>220,904,360</u>
December 31, 2010							
	Less than 1 month	1~3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	Total
Assets							
Cash and due from banks	₩ 7,702,132	542,728	370,465	22,389	64,578	-	8,702,292
Trading assets	3,968,743	-	-	-	-	-	3,968,743
Financial assets designated at fair value through profit or loss	30,984	-	-	-	-	-	30,984
Derivative assets	3,603,785	261,375	56,069	90,716	1,475,629	785,986	6,273,560
Loans	17,657,085	23,505,529	26,205,599	38,374,154	38,154,189	32,293,342	176,189,898
Available-for-sale financial assets	22,195,291	-	-	-	-	2,387,298	24,582,589
Held-to-maturity financial assets	105,642	260,709	375,103	1,247,608	8,681,313	1,841,933	12,512,308
Other financial assets	2,363,391	-	-	-	2,449,932	-	4,813,323
	<u>₩ 57,627,053</u>	<u>24,570,341</u>	<u>27,007,236</u>	<u>39,734,867</u>	<u>50,825,641</u>	<u>37,308,559</u>	<u>237,073,697</u>
Liabilities							
Deposits	₩ 66,703,482	11,854,545	12,138,932	51,476,152	7,829,172	1,113,654	151,115,937
Trading liabilities	502,350	-	-	-	-	-	502,350
Derivative liabilities	3,299,261	136,602	29,303	47,411	667,775	403,860	4,584,212
Borrowings	3,928,531	1,900,929	2,295,596	1,658,822	1,871,201	903,836	12,558,915
Debt securities issued	463,780	1,316,185	1,413,922	4,464,764	12,169,568	3,856,545	23,684,764
Other financial liabilities	10,496,801	-	-	-	121,642	-	10,618,443
	<u>₩ 85,394,205</u>	<u>15,208,261</u>	<u>15,877,753</u>	<u>57,647,149</u>	<u>22,659,358</u>	<u>6,277,895</u>	<u>203,064,621</u>

SHINHAN BANK AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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4. Financial risk management (continued)

(a) Contractual maturities for financial instruments (continued)

	January 1, 2010						Total
	Less than 1 month	1~3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	
Assets							
Cash and due from banks	₩ 10,436,975	270,424	410,150	23,540	121,759	4,843	11,267,691
Trading assets	3,462,104	-	-	-	-	-	3,462,104
Financial assets designated at fair value through profit or loss	96,977	-	-	-	-	-	96,977
Derivative assets	4,447,551	300,150	64,387	104,173	1,785,465	982,434	7,684,160
Loans	14,831,724	22,689,293	24,796,364	36,710,152	37,863,810	30,777,248	167,668,591
Available-for-sale financial assets	21,941,530	-	-	-	-	3,322,895	25,264,425
Held-to-maturity financial assets	174,304	508,234	587,482	1,636,425	8,477,961	1,877,163	13,261,569
Other financial assets	2,847,838	-	-	-	2,153,664	-	5,001,502
	<u>₩ 58,239,003</u>	<u>23,768,101</u>	<u>25,858,383</u>	<u>38,474,290</u>	<u>50,402,659</u>	<u>36,964,583</u>	<u>233,707,019</u>
Liabilities							
Deposits	₩ 59,355,185	10,028,499	12,904,843	53,932,094	8,641,696	757,662	145,619,979
Trading liabilities	318,969	-	-	-	-	-	318,969
Derivative liabilities	4,143,588	146,015	31,322	50,677	875,592	496,209	5,743,403
Borrowings	4,314,603	1,829,211	2,075,303	1,057,021	2,784,306	640,951	12,701,395
Debt securities issued	2,118,331	1,527,297	2,258,338	2,950,828	13,475,525	5,649,102	27,979,421
Other financial liabilities	10,182,485	-	-	-	86,898	-	10,269,383
	<u>₩ 80,433,161</u>	<u>13,531,022</u>	<u>17,269,806</u>	<u>57,990,620</u>	<u>25,864,017</u>	<u>7,543,924</u>	<u>202,632,550</u>

(*1) These amounts include cash flows of principal and interest on financial assets and financial liabilities.

(*2) The undiscounted cash flows were classified based on the earliest dates for obligation repayment.

Trading assets and available-for-sale financial assets except for assets restricted for sale for certain periods were included in the less than 1 month.

(b) Contractual maturities for off balance sheet items

Financial guarantees such as financial guarantee contracts and loan commitments and others provided by the Group are classified based on the earliest date at which the Group should fulfill the obligation under the guarantee when the counter party request for the payment.

Off balance as of December 31, 2011, 2010 and January 1, 2010 was as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Financial guarantee contracts	₩ 2,739,590	3,497,633	4,715,265
Loan commitments and others	66,699,616	63,107,050	58,779,572
	<u>69,439,206</u>	<u>66,604,683</u>	<u>63,494,837</u>

(*) Loan commitments and guarantees for off balance sheet items were divided into the earliest section practicable.

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4. Financial risk management (continued)

4-4. Measurement of fair value

The fair value which the Group primarily uses for measurement of financial instruments are the published price quotations in an active market which are based on the market prices or the dealer price quotations of financial instruments traded in an active market where available, which is the best evidence of fair value.

If the market for a financial instrument is not active, fair value is established either by using a valuation technique or independent third-party valuation service. The Group uses diverse valuation techniques under reasonable assumptions which are based on the inputs observable in markets at the end of each reporting date.

Valuation techniques include using the recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. For example, the fair value for interest swaps is the present value of estimated future cash flows, and fair value for foreign exchange forwards contracts is measured by using the published forward exchange rate at the end of each reporting date.

(a) The financial instruments measured at amortized cost

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

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

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4. Financial risk management (continued)

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

	December 31, 2011				
	Book value				
	Balance	Unamortized balance	Allowance	Total	Fair value
Assets					
Cash and due from banks:					
Cash and cash equivalent	₩ 2,079,573	-	-	2,079,573	2,079,573
Due from Banks	8,735,993	-	(32,163)	8,703,830	8,703,830
Loans:					
Household loans	66,051,757	128,090	(204,628)	65,975,219	66,352,805
Corporate loans	91,771,228	46,562	(1,451,339)	90,366,451	92,164,851
Public and other	4,885,462	404	(19,082)	4,866,784	4,900,583
Loans to bank	2,440,930	-	(12,979)	2,427,951	2,449,895
Card receivables	1,572	-	-	1,572	1,572
Held-to-maturity financial assets:					
Government bonds	5,282,523	-	-	5,282,523	5,498,291
Financial institutions bonds	1,423,904	-	-	1,423,904	1,495,532
Corporate bonds and others	3,195,995	-	-	3,195,995	3,224,181
Other financial assets	5,663,226	(88,597)	(76,673)	5,497,956	5,596,786
	₩ 191,532,163	86,459	(1,796,864)	189,821,758	192,467,899
Liabilities					
Deposits:					
Demand deposits	₩ 49,705,260	-	-	49,705,260	49,705,260
Time deposits	103,476,368	-	-	103,476,368	103,447,613
Negotiable certificates of deposits	2,888,198	-	-	2,888,198	2,956,604
Note discount deposits	4,823,802	-	-	4,823,802	4,823,359
CMA(*)	1,617,547	-	-	1,617,547	1,617,547
Others	71,153	-	-	71,153	71,216
Borrowings:					
Call money	730,236	-	-	730,236	730,236
Bill sold	99,207	-	-	99,207	98,443
Bonds sold under repurchase agreements	579,842	-	-	579,842	579,842
Borrowings	11,779,125	(4,129)	-	11,774,996	11,756,620
Due to Bank of Korea in foreign currency	232,372	-	-	232,372	232,557
Debt securities issued:					
Debt securities issued in won	15,804,405	(41,336)	-	15,763,069	15,415,443
Debt securities issued in foreign currency	3,301,239	(9,701)	-	3,291,538	3,139,902
Other financial liabilities	11,006,781	(2,464)	-	11,004,317	10,987,369
	₩ 206,115,535	(57,630)	-	206,057,905	205,562,011

(*) CMA: Cash management account deposits

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4. Financial risk management (continued)

(a) The financial instruments measured at amortized cost (continued)

	December 31, 2010					
	Book value				Fair value	
	Balance	Unamortized balance	Allowance	Total		
Assets						
Cash and due from banks:						
Cash and cash equivalent	₩	2,477,255	-	-	2,477,255	2,477,255
Due from Banks		6,190,608	-	(14,107)	6,176,501	6,176,501
Loans:						
Household loans		61,863,285	66,370	(179,357)	61,750,298	61,813,511
Corporate loans		89,586,652	(14,639)	(1,665,182)	87,906,831	89,282,874
Public and other		2,721,900	56	(14,967)	2,706,989	2,719,270
Loans to bank		1,443,939	-	(32,144)	1,411,795	1,421,738
Card receivables		1,458	-	-	1,458	1,458
Held-to-maturity financial assets:						
Government bonds		5,664,043	-	-	5,664,043	5,854,854
Financial institutions bonds		1,656,550	-	-	1,656,550	1,702,935
Corporate bonds and others		3,245,397	-	-	3,245,397	3,322,146
Other financial assets		4,813,052	(108,887)	(88,564)	4,615,601	4,724,040
	₩	179,664,139	(57,100)	(1,994,321)	177,612,718	179,496,582
Liabilities						
Deposits:						
Demand deposits	₩	47,362,356	-	-	47,362,356	47,362,356
Time deposits		89,747,987	-	-	89,747,987	90,103,625
Negotiable certificates of deposits		3,240,793	-	-	3,240,793	3,427,025
Note discount deposits		4,494,294	-	-	4,494,294	4,493,977
CMA(*)		1,628,543	-	-	1,628,543	1,628,543
Others		99,385	-	-	99,385	99,783
Borrowings:						
Call money		922,218	-	-	922,218	922,218
Bill sold		48,929	-	-	48,929	48,701
Bonds sold under repurchase agreements		389,174	-	-	389,174	389,177
Borrowings		10,380,423	(3,981)	-	10,376,442	10,570,201
Due to Bank of Korea in foreign currency		218,591	-	-	218,591	218,516
Debt securities issued:						
Debt securities issued in won		17,038,213	(15,438)	-	17,022,775	16,930,906
Debt securities issued in foreign currency		3,200,906	(6,453)	-	3,194,453	3,189,550
Other financial liabilities		10,695,347	(3,114)	-	10,692,233	10,674,964
	₩	189,467,159	(28,986)	-	189,438,173	190,059,542

(*) CMA: Cash management account deposits

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4. Financial risk management (continued)

(a) The financial instruments measured at amortized cost (continued)

		January 1, 2010				
		Book value				
		Balance	Unamortized balance	Allowance	Total	Fair value
Assets						
Cash and due from banks:						
	Cash and cash equivalent	₩ 1,732,511	-	-	1,732,511	1,732,511
	Due from Banks	9,518,235	-	(8,611)	9,509,624	9,509,624
Loans:						
	Household loans	59,895,311	33,581	(173,777)	59,755,115	59,868,512
	Corporate loans	84,776,268	(68,994)	(1,902,552)	82,804,722	83,463,165
	Public and other	2,190,740	8	(15,776)	2,174,972	2,186,001
	Loans to bank	1,067,561	-	(8,041)	1,059,520	1,070,360
	Card receivables	5	-	-	5	5
Held-to-maturity financial assets:						
	Government bonds	5,367,008	-	-	5,367,008	5,496,969
	Financial institutions bonds	3,369,326	-	-	3,369,326	3,436,118
	Corporate bonds and others	2,433,976	-	-	2,433,976	2,474,731
	Other financial assets	4,828,519	(113,271)	(114,017)	4,601,231	4,640,120
		₩ 175,179,460	(148,676)	(2,222,774)	172,808,010	173,878,116
Liabilities						
Deposits:						
	Demand deposits	₩ 44,881,577	-	-	44,881,577	44,881,577
	Time deposits	81,872,469	-	-	81,872,469	82,055,626
	Negotiable certificates of deposits	7,356,996	-	-	7,356,996	7,807,371
	Note discount deposits	5,324,541	-	-	5,324,541	5,324,197
	CMA(*)	1,311,767	-	-	1,311,767	1,311,767
	Others	144,332	-	-	144,332	145,036
Borrowings:						
	Call money	1,943,857	-	-	1,943,857	1,943,857
	Bill sold	68,391	-	-	68,391	68,107
	Bonds sold under repurchase agreements	963,109	-	-	963,109	963,337
	Borrowings	8,962,750	(4,490)	-	8,958,260	9,014,841
	Due to Bank of Korea in foreign currency	197,584	-	-	197,584	197,684
Debt securities issued:						
	Debt securities issued in won	19,814,505	(20,792)	-	19,793,713	19,345,669
	Debt securities issued in foreign currency	3,230,054	(5,739)	-	3,224,315	3,390,456
	Other financial liabilities	10,304,804	(4,177)	-	10,300,627	10,286,138
		₩ 186,376,736	(35,198)	-	186,341,538	186,735,663

(*) CMA: Cash management account deposits

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4. Financial risk management (continued)

(b) Financial instruments measured at the fair value

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

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

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

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets:				
Debt securities	₩ 389,215	5,039,770	-	5,428,985
Equity securities	92,272	901,650	-	993,922
Gold deposits	341,434	-	-	341,434
Derivative assets:				
Trading	16	1,682,195	281,469	1,963,680
Hedging	-	206,438	59,392	265,830
Available-for-sale financial assets:				
Debt securities	6,380,324	16,656,498	-	23,036,822
Equity securities	2,198,743	151,097	1,339,021	3,688,861
	₩ <u>9,402,004</u>	<u>24,637,648</u>	<u>1,679,882</u>	<u>35,719,534</u>
Liabilities				
Trading liabilities:				
Debt securities	₩ 188,504	-	-	188,504
Gold deposits	414,088	-	-	414,088
Derivative liabilities:				
Trading	4	1,615,861	70,587	1,686,452
Hedging	-	48,885	67,067	115,952
	₩ <u>602,596</u>	<u>1,664,746</u>	<u>137,654</u>	<u>2,404,996</u>

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4. Financial risk management (continued)

(b) Financial instruments measured at the fair value (continued)

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets:				
Debt securities	₩ 398,636	3,342,902	-	3,741,538
Equity securities	73,748	-	-	73,748
Gold deposits	153,457	-	-	153,457
Financial assets designated at fair value through profit or loss:				
Debt securities and others	-	-	30,984	30,984
Derivative assets:				
Trading	-	3,337,053	165,152	3,502,205
Hedging	-	161,732	58,153	219,885
Available-for-sale financial assets:				
Debt securities	6,782,321	11,761,511	-	18,543,832
Equity securities	2,553,125	1,924,726	1,560,906	6,038,757
₩	<u>9,961,287</u>	<u>20,527,924</u>	<u>1,815,195</u>	<u>32,304,406</u>
Liabilities				
Trading liabilities:				
Debt securities	₩ 303,731	-	-	303,731
Gold deposits	198,619	-	-	198,619
Derivative liabilities:				
Trading	30	3,187,511	58,631	3,246,172
Hedging	-	49,100	51,641	100,741
₩	<u>502,380</u>	<u>3,236,611</u>	<u>110,272</u>	<u>3,849,263</u>

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4. Financial risk management (continued)

(b) Financial instruments measured at the fair value (continued)

	January 1, 2010			Total
	Level 1	Level 2	Level 3	
Assets				
Trading assets:				
Debt securities	₩ 303,827	2,780,145	-	3,083,972
Equity securities	121,888	-	-	121,888
Gold deposits	256,244	-	-	256,244
Financial assets designated at fair value through profit or loss:				
Debt securities and others	-	-	96,977	96,977
Derivative assets:				
Trading	290	4,174,939	155,671	4,330,900
Hedging	-	169,892	12,444	182,336
Available-for-sale financial assets:				
Debt securities	6,999,734	11,972,628	225	18,972,587
Equity securities	2,643,786	1,813,336	1,834,716	6,291,838
₩	<u>10,325,769</u>	<u>20,910,940</u>	<u>2,100,033</u>	<u>33,336,742</u>
Liabilities				
Trading liabilities:				
Gold deposits	₩ 318,969	-	-	318,969
Derivative liabilities:				
Trading	522	3,958,680	127,639	4,086,841
Hedging	-	81,149	113,074	194,223
₩	<u>319,491</u>	<u>4,039,829</u>	<u>240,713</u>	<u>4,600,033</u>

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4. Financial risk management (continued)

(c) Changes in level 3 of the fair value hierarchy

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

	2011			
	Financial assets designated at fair value through profit or loss	Available-for- sale financial assets	Net derivatives instruments	Total
Beginning balance	₩ 30,984	1,560,906	113,033	1,704,923
Total gain or loss:				
Recognized in profit or loss	(1,671)	301,061	95,315	394,705
Recognized in other comprehensive income	-	(176,152)	-	(176,152)
Purchases	-	168,524	32,198	200,722
Settlements	(29,313)	(514,200)	(109,684)	(653,197)
Transfers into (out of) level 3	-	(1,118)	72,345	71,227
Ending balance	₩ -	1,339,021	203,207	1,542,228

	2010			
	Financial assets designated at fair value through profit or loss	Available-for- sale financial assets	Net derivatives instruments	Total
Beginning balance	₩ 96,977	1,834,941	(72,598)	1,859,320
Total gain or loss:				
Recognized in profit or loss	1,664	25,565	100,397	127,626
Recognized in other comprehensive income	-	(236,888)	-	(236,888)
Purchases	-	71,216	36,473	107,689
Settlements	(67,657)	(133,928)	19,307	(182,278)
Transfers into level 3	-	-	29,454	29,454
Ending balance	₩ 30,984	1,560,906	113,033	1,704,923

(d) There is no deferred amount to be recognized in day one gain or loss for the years ended December 31, 2011 and 2010.

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4. Financial risk management (continued)

(e) Classification by categories of financial instruments

Financial assets and liabilities were measured at fair value or amortized cost. The financial instruments measured at fair value or amortized costs were measured in accordance with the Group's valuation methodologies, which were described in Note 3.

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

	December 31, 2011					Total
	Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivable	Derivatives held for hedging assets	
Assets						
Due from banks	₩ -	-	-	8,703,830	-	8,703,830
Trading assets	6,764,341	-	-	-	-	6,764,341
Derivatives	1,963,680	-	-	-	265,830	2,229,510
Loans	-	-	-	163,637,977	-	163,637,977
Available-for-sale financial assets	-	26,725,683	-	-	-	26,725,683
Held-to-maturity financial assets	-	-	9,902,422	-	-	9,902,422
Other	-	-	-	5,497,956	-	5,497,956
	₩ <u>8,728,021</u>	<u>26,725,683</u>	<u>9,902,422</u>	<u>177,839,763</u>	<u>265,830</u>	<u>223,461,719</u>

	December 31, 2011			Total
	Trading liabilities	Financial liabilities measured at amortized cost	Derivatives held for hedging liabilities	
Liabilities				
Deposits	₩ -	162,582,328	-	162,582,328
Trading liabilities	602,592	-	-	602,592
Derivatives	1,686,452	-	115,952	1,802,404
Borrowings	-	13,416,653	-	13,416,653
Debt securities issued	-	19,054,607	-	19,054,607
Other	-	11,004,317	-	11,004,317
	₩ <u>2,289,044</u>	<u>206,057,905</u>	<u>115,952</u>	<u>208,462,901</u>

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4. Financial risk management (continued)

(e) Classification by categories of financial instruments (continued)

		December 31, 2010						
		Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivable	Derivatives held for hedging assets	Total
Assets								
Due from banks	₩	-	-	-	-	6,176,501	-	6,176,501
Trading assets		3,968,743	-	-	-	-	-	3,968,743
Financial assets designated at fair value through profit or loss		-	30,984	-	-	-	-	30,984
Derivatives		3,502,205	-	-	-	-	219,885	3,722,090
Loans		-	-	-	-	153,777,371	-	153,777,371
Available-for-sale financial assets		-	-	24,582,589	-	-	-	24,582,589
Held-to-maturity financial assets		-	-	-	10,565,990	-	-	10,565,990
Other		-	-	-	-	4,615,601	-	4,615,601
	₩	<u>7,470,948</u>	<u>30,984</u>	<u>24,582,589</u>	<u>10,565,990</u>	<u>164,569,473</u>	<u>219,885</u>	<u>207,439,869</u>

		December 31, 2010			
		Trading liabilities	Financial liabilities measured at amortized cost	Derivatives held for hedging liabilities	Total
Liabilities					
Deposits	₩	-	146,573,358	-	146,573,358
Trading liabilities		502,350	-	-	502,350
Derivatives		3,246,172	-	100,741	3,346,913
Borrowings		-	11,955,354	-	11,955,354
Debt securities issued		-	20,217,228	-	20,217,228
Other		-	10,692,233	-	10,692,233
	₩	<u>3,748,522</u>	<u>189,438,173</u>	<u>100,741</u>	<u>193,287,436</u>

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4. Financial risk management (continued)

(e) Classification by categories of financial instruments (continued)

		January 1, 2010						
		Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivable	Derivatives held for hedging assets	Total
Assets								
Due from banks	₩	-	-	-	-	9,509,624	-	9,509,624
Trading assets		3,462,104	-	-	-	-	-	3,462,104
Financial assets designated at fair value through profit or loss		-	96,977	-	-	-	-	96,977
Derivatives		4,330,900	-	-	-	-	182,336	4,513,236
Loans		-	-	-	-	145,794,334	-	145,794,334
Available-for-sale financial assets		-	-	25,264,425	-	-	-	25,264,425
Held-to-maturity financial assets		-	-	-	11,170,310	-	-	11,170,310
Other		-	-	-	-	4,601,231	-	4,601,231
	₩	<u>7,793,004</u>	<u>96,977</u>	<u>25,264,425</u>	<u>11,170,310</u>	<u>159,905,189</u>	<u>182,336</u>	<u>204,412,241</u>

		January 1, 2010			
		Trading liabilities	Financial liabilities measured at amortized cost	Derivatives held for hedging liabilities	Total
Liabilities					
Deposits	₩	-	140,891,682	-	140,891,682
Trading liabilities		318,969	-	-	318,969
Derivatives		4,086,841	-	194,223	4,281,064
Borrowings		-	12,131,201	-	12,131,201
Debt securities issued		-	23,018,028	-	23,018,028
Other		-	10,300,627	-	10,300,627
	₩	<u>4,405,810</u>	<u>186,341,538</u>	<u>194,223</u>	<u>190,941,571</u>

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4. Financial risk management (continued)

(f) Financial instruments income and costs by categories

	2011					
	Interest income (expense)	Fees and commission income (expense)	Impairment loss	Others	Total	Other comprehensive income
Trading assets	₩ 209,459	5,604	-	117,108	332,171	-
Financial assets designated at fair value through profit of loss	-	-	-	(357)	(357)	-
Available-for-sale financial assets	811,551	-	(90,146)	755,157	1,476,562	(498,231)
Held-to-maturity financial assets	524,703	-	-	-	524,703	-
Loans and receivable	8,803,916	181,830	(645,658)	(6,027)	8,334,061	-
Trading liabilities	-	(1,483)	-	-	(1,483)	-
Financial liabilities measured at amortized cost	(5,378,519)	-	-	(49,778)	(5,428,297)	-
Net derivatives held for hedging instruments	-	-	-	29,460	29,460	-
	₩ <u>4,971,110</u>	<u>185,951</u>	<u>(735,804)</u>	<u>845,563</u>	<u>5,266,820</u>	<u>(498,231)</u>

	2010					
	Interest income (expense)	Fees and commission income (expense)	Impairment loss	Others	Total	Other comprehensive income
Trading assets	₩ 171,708	5,259	-	187,919	364,886	-
Financial assets designated at fair value through profit of loss	-	-	-	6,002	6,002	-
Available-for-sale financial assets	807,581	-	(63,792)	724,032	1,467,821	63,158
Held-to-maturity financial assets	579,294	-	-	-	579,294	-
Loans and receivable	8,171,207	203,125	(1,126,847)	3,877	7,251,362	-
Trading liabilities	-	(488)	-	-	(488)	-
Financial liabilities measured at amortized cost	(5,139,738)	-	-	(210,219)	(5,349,957)	-
Net derivatives held for hedging instruments	-	-	-	206,680	206,680	-
	₩ <u>4,590,052</u>	<u>207,896</u>	<u>(1,190,639)</u>	<u>918,291</u>	<u>4,525,600</u>	<u>63,158</u>

(g) Derecognition of financial instruments

There were no transferred financial instruments which were not qualified for derecognition as of December 31, 2011, 2010 and January 1, 2010.

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4. Financial risk management (continued)

4-5. Capital risk management

Capital regulations applicable to banks were adopted in 1988, which focused primarily on capital adequacy and asset soundness as a measure of risk. Building upon the initial Basel Capital Accord of 1988, capital regulations were developed to reflect additional risks as well. For the purpose of improving risk management and increasing capital adequacy of banks, capital adequacy standards based on the new Basel Capital Accord (Basel II) was implemented by the Financial Services Commission regulations beginning in January 2008. Under these regulations, all domestic banks including us were required to maintain a capital adequacy ratio of 8% and report whether we meet the capital adequacy ratio to the Financial Services Commission.

Under the Banking Act, the capital of a bank is divided into two categories.

(a) Tier I capital (core capital): Tier I capital (core capital) consists of stockholders' equity, capital surplus, retained earnings and equity representing new types of equity securities deemed to be functionally equivalent to capital which are designated by the Financial Services Commission.

(b) Tier II capital (supplementary capital): Tier II capital (supplementary capital) consists of revaluation reserves, gain on valuation of investment in securities, allowance for bad debts set aside for loans classified as "normal" or "precautionary," perpetual subordinated debt, cumulative preferred shares, redeemable preferred shares (with a right to redeem after the fifth anniversary of the date of issuance) and certain other subordinated debt.

The capital adequacy ratio of the Group is calculated by ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets. Pursuant to Basel II, operational risk, such as inadequate procedures, loss risk by employees, internal systems, occurrence of unexpected events, as well as credit risk and market risk, is taken into account in calculating the risk-weighted assets.

The Group evaluates and manages the capital adequacy ratio pursuant to internally developed standards. It means that the Group assesses whether the level on ratio of soluble capital to economic capital is sufficient, or not. Economic capital is totalled taking into account in type of the risk (credit, market, operation, interest rate, liquidity, bias)

Details of capital categories and the capital adequacy ratio of the Group as of December 31, 2011 and December 31, 2010 were as follows:

Category	December 31, 2011	December 31, 2010
Capital:		
Tier I capital	₩ 15,342,524	14,703,674
Tier II capital	3,484,014	3,693,908
	18,826,538	18,397,582
Total risk-weighted assets	₩ 123,385,281	119,185,565
Capital adequacy ratio:		
Tier I capital adequacy ratio	12.44%	12.34%
Tier II capital adequacy ratio	2.82%	3.10%
	15.26%	15.44%

The Group maintains the capital adequacy ratio of 8% as described in the above table.

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5. Significant estimates and judgments

The preparation of consolidated financial statements requires the application of certain critical estimates and judgments relative to the future. Management's estimated outcomes may differ from actual outcomes. The change in an accounting estimate is recognized prospectively in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both.

(a) Goodwill

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

(b) Income taxes

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

(c) Fair value of financial instruments

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

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

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

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5. Significant estimate and judgment (continued)

(e) Defined benefit obligation

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

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

When there is a significant or prolonged decline in the fair value of an investment in an equity instrument below its original cost, there is objective evidence that available-for-sale equity investments are impaired. Accordingly, the Group considers the decline in the fair value of more than 50% against the original cost as "significant decline" and the status when the market price for marketable equity less than the carrying amounts of instruments for a six consecutive months as a "prolonged decline". Additionally, when the fair value declines more than 30% from the original cost, it is considered as a possible indication of impairment and the Group recognizes impairment loss as necessary considering other facts and circumstance.

(g) Special purpose entities included in consolidation

The Group has established a number of SPEs for trading and investment purposes. When assessing whether the Group controls an SPE in addition to the criteria in K-IFRS No. 1027, it evaluates a range of factors, including whether:

- the activities of the SPE are being conducted on the Group's behalf according to its specific business needs so that the Group obtains the benefits from the SPE's operations;
- the Group has the decision-making power to obtain the majority of the benefits of the activities of the SPE, or the Group has delegated these decision-making power by setting up an 'autopilot' mechanism; or
- the Group has the rights to obtain the majority of the benefits of the activities of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
- the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain the benefits from its activities.

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6. **Business combination**

(a) Acquisition of Shinhan Vina Bank

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

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

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

(b) Identifiable assets and liabilities

Assets and liabilities from business combination were as of follows:

	Amount
Asset	
Cash and cash equivalents	₩ 2,081
Due from banks	54,408
Loans(*1)	357,245
Held-to-maturity financial assets	7,439
Property and equipment	1,790
Intangible assets(*2)	17,685
Other assets	3,906
	444,554
Liability	
Deposits	281,111
Borrowings	17,415
Provisions	121
Other liabilities	9,410
	308,057
Total identifiable net assets	₩ 136,497

(*1) The fair value of loans equals the carrying amount due to immaterial differences between fair value and carrying amount.

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

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6. Business combination (continued)

(c) Goodwill

Goodwill recorded from the business combination was as follows:

	Amount
Cash paid	₩ 105,940
Fair value of previous interest in the acquiree	105,940
Less: fair value of identifiable net assets	136,497
Goodwill	₩ 75,383

Goodwill recognized was not deductible for income tax purposes.

(d) Costs associated with the business combination

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

(e) Difference between fair value and book value of equity securities held by the Group before the business combination

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

(f) Shinhan Vina Bank's operating income and net income since the acquisition date

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

(g) The Groups operating income and net income for the year

Had the acquisition of Shinhan Vina Bank occurred at January 1, 2011, the operating income and net income would be as follows:

	Amount
Operating income	₩ 2,640,238
Net income	2,131,766

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6. **Business combination (continued)**

(h) The financial effects of adjustments recognized in the reporting period related to changes in goodwill and intangible assets recognized since the date of acquisition were as follows:

		<u>Goodwill</u>	<u>Intangible assets</u>
Date of acquisition	₩	75,383	17,685
Impairment		(31,543)	-
Amortization		-	(268)
End of the year	₩	<u>43,840</u>	<u>17,417</u>

7. **Operating segments**

(a) The general descriptions of the Group's operating segments as of December 31, 2011, 2010 and January 1, 2010 were as follows:

<u>Description</u>	<u>Area of business</u>
Retail banking	Loans to or deposits from individual customers, wealth management customers, and institutions such as hospitals, airports and schools.
Corporate banking and treasury	Loans to or deposits from corporations, including small or medium sized companies and businesses related to investment banking. Internal asset and liability management, trading of securities and derivatives, investment portfolio management and other related businesses.
International group	Supervision on overseas subsidiaries and branch operations and other international businesses.
Other	Administration of bank operations and Merchant Banking Account.

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7. Operating segments (continued)

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

		2011					
		Retail	Corporate and treasury	International group	Other	Consolidated adjustment	Total
Net interest income	₩	2,572,451	2,059,495	281,537	(3,042)	60,669	4,971,110
Net fees and commission income (expense)		622,238	209,637	45,274	10,896	(2,442)	885,603
Net other expenses		(2,208,491)	(692,296)	(161,334)	(173,264)	4,623	(3,230,762)
Operating income (loss)		986,198	1,576,836	165,477	(165,410)	62,850	2,625,951
Equity in income of associates		-	-	-	-	28,995	28,995
Income (loss) before income taxes		986,198	1,576,836	165,477	(165,410)	91,845	2,654,946
Income tax expense (benefit)		(197,670)	(318,028)	(34,235)	29,917	(16,015)	(536,031)
Income (loss) for the year	₩	788,528	1,258,808	131,242	(135,493)	75,830	2,118,915
Attributable to:							
Equity holder of the Bank	₩	788,528	1,258,808	131,242	(135,493)	75,336	2,118,421
Non-controlling interests		-	-	-	-	494	494
	₩	788,528	1,258,808	131,242	(135,493)	75,830	2,118,915
		2010					
		Retail	Corporate and treasury	International group	Other	Consolidated adjustment	Total
Net interest income	₩	2,238,559	2,080,547	231,249	21,495	18,202	4,590,052
Net fees and commission income (expense)		633,194	239,523	41,544	(38,489)	6,487	882,259
Net other expenses		(2,011,765)	(784,626)	(215,750)	(84,748)	(337,496)	(3,434,385)
Operating income (loss)		859,988	1,535,444	57,043	(101,742)	(312,807)	2,037,926
Equity in income of associates		-	-	-	-	12,508	12,508
Income (loss) before income taxes		859,988	1,535,444	57,043	(101,742)	(300,299)	2,050,434
Income tax expense (benefit)		(171,375)	(301,413)	(17,013)	45,615	64,210	(379,976)
Income (loss) for the year	₩	688,613	1,234,031	40,030	(56,127)	(236,089)	1,670,458
Attributable to:							
Equity holder of the Bank	₩	688,613	1,234,031	40,030	(56,127)	(236,499)	1,670,048
Non-controlling interests		-	-	-	-	410	410
	₩	688,613	1,234,031	40,030	(56,127)	(236,089)	1,670,458

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7. Operating segments (continued)

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

		December 31, 2011					
		Retail	Corporate and treasury	International group	Other	Consolidated adjustment	Total
Trading Assets	₩	-	7,810,959	-	1,463	(1,048,081)	6,764,341
Loans		95,546,998	59,008,600	8,052,825	2,551,978	(1,522,424)	163,637,977
Available-for-sale financial assets		-	23,609,648	726,981	2,874,480	(485,426)	26,725,683
Held-to-maturity financial assets		-	9,447,411	454,979	32	-	9,902,422
	₩	<u>95,546,998</u>	<u>99,876,618</u>	<u>9,234,785</u>	<u>5,427,953</u>	<u>(3,055,931)</u>	<u>207,030,423</u>

		December 31, 2010					
		Retail	Corporate and treasury	International group	Other	Consolidated adjustment	Total
Trading Assets	₩	-	5,492,153	-	1,590	(1,525,000)	3,968,743
Financial assets designated at fair value through profit or loss		-	30,984	-	-	-	30,984
Loans		86,983,397	57,932,018	6,467,695	3,999,704	(1,605,443)	153,777,371
Available-for-sale financial assets		-	21,224,111	827,765	3,145,001	(614,288)	24,582,589
Held-to-maturity financial assets		-	10,285,788	280,170	32	-	10,565,990
	₩	<u>86,983,397</u>	<u>94,965,054</u>	<u>7,575,630</u>	<u>7,146,327</u>	<u>(3,744,731)</u>	<u>192,925,677</u>

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7. Operating segments (continued)

(d) Financial information of geographical area

(i) The following table provides information of operating income by geographical area for the years ended December 31, 2011 and December 31, 2010.

	Operating revenue from external consumers		Operating expense from external consumers		Operating income from external consumers	
	2011	2010	2011	2010	2011	2010
Domestic	₩ 18,933,125	20,274,961	16,456,257	18,279,607	2,476,868	1,995,354
Overseas	973,072	876,606	823,989	834,034	149,083	42,572
	₩ 19,906,197	21,151,567	17,280,246	19,113,641	2,625,951	2,037,926

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

	December 31, 2011	December 31, 2010
Domestic	₩ 2,917,160	2,787,075
Overseas	62,172	46,682
	₩ 2,979,332	2,833,757

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

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8. Cash and due from banks

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

		<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Cash	₩	2,079,573	2,477,255	1,732,511
Deposits in won:				
Reserve deposits		3,322,294	3,566,174	6,172,687
Other		<u>2,102,225</u>	<u>291,840</u>	<u>551,574</u>
		<u>5,424,519</u>	<u>3,858,014</u>	<u>6,724,261</u>
Deposits in foreign currency:				
Deposits		1,431,164	958,919	1,256,641
Time deposits		1,627,044	1,192,882	936,940
Other		<u>253,266</u>	<u>180,793</u>	<u>600,393</u>
		<u>3,311,474</u>	<u>2,332,594</u>	<u>2,793,974</u>
Provisions		(32,163)	(14,107)	(8,611)
	₩	<u>10,783,403</u>	<u>8,653,756</u>	<u>11,242,135</u>

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

		<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Deposits in won:				
Reserve deposits	₩	3,322,294	3,566,174	6,172,687
Other(*)		<u>1,201,546</u>	<u>62,401</u>	<u>113,347</u>
		<u>4,523,840</u>	<u>3,628,575</u>	<u>6,286,034</u>
Deposits in foreign currency:				
Deposits		658,642	592,276	646,086
Time deposits		11,425	9,369	20,040
Other		<u>91,569</u>	<u>73,974</u>	<u>146,117</u>
		<u>761,636</u>	<u>675,619</u>	<u>812,243</u>
	₩	<u>5,285,476</u>	<u>4,304,194</u>	<u>7,098,277</u>

(*) Pursuant to the Regulation on Financial Investment Business, the Group was required to deposit certain portions of customers' deposits with the Korean Securities Finance Corporation ("KSFC") or banks to ensure repayment of customer deposits and the deposits may not be pledged as collateral.

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9. Trading assets

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

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Debt securities:			
Government	₩ 197,371	379,561	110,309
Financial institutions	664,990	388,960	1,078,490
Corporation	96,190	87,882	164,639
Bills bought	3,005,346	2,553,646	1,419,179
CMA(*)	1,465,088	329,570	273,704
Others	-	1,919	37,651
	<u>5,428,985</u>	<u>3,741,538</u>	<u>3,083,972</u>
Equity securities:			
Stocks	92,272	73,748	121,888
Beneficiary certificates	901,650	-	-
	<u>993,922</u>	<u>73,748</u>	<u>121,888</u>
Other:			
Gold deposits	341,434	153,457	256,244
	<u>₩ 6,764,341</u>	<u>3,968,743</u>	<u>3,462,104</u>

(*) CMA: Cash management account deposits

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

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

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Debt securities	₩ -	30,984	96,977

The debt securities were capital guarantee derivative securities that embed a dynamic trading strategy in order to provide participation to the performance of a certain underlying asset. The Group has designated the whole part of combined contracts as financial assets designated at fair value through profit or loss as of the transition date. Debt securities that are designated as financial assets designated at fair value through profit or loss were recognized as available-for-sale financial instruments in the past financial statements.

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11. Derivatives

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

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Foreign currency related			
Over the counter:			
Currency forwards	₩ 41,471,819	43,740,974	59,285,969
Currency swaps	12,572,854	16,238,079	24,471,958
Currency options	1,671,521	1,673,199	4,091,341
	<u>55,716,194</u>	<u>61,652,252</u>	<u>87,849,268</u>
Exchange traded:			
Currency futures	113,254	-	139,914
	<u>55,829,448</u>	<u>61,652,252</u>	<u>87,989,182</u>
Interest rates related			
Over the counter:			
Interest rate swaps	86,905,640	150,965,731	122,302,930
Interest rate options	8,803,485	9,359,103	11,346,344
	<u>95,709,125</u>	<u>160,324,834</u>	<u>133,649,274</u>
Exchange traded:			
Interest rate futures	41,860	154,066	43,448
	<u>95,750,985</u>	<u>160,478,900</u>	<u>133,692,722</u>
Equity related			
Over the counter:			
Equity swap and forwards	-	7,500	1,332,504
Equity options	5,312,708	11,002,420	2,607,183
	<u>5,312,708</u>	<u>11,009,920</u>	<u>3,939,687</u>
Exchange traded:			
Equity futures	6,323	7,261	47,726
Equity options	23,475	21,600	111,375
	<u>29,798</u>	<u>28,861</u>	<u>159,101</u>
	<u>5,342,506</u>	<u>11,038,781</u>	<u>4,098,788</u>
Commodity related			
Over the counter:			
Swaps and forwards	10,101	10,926	-
Commodity options	58,788	85,366	48,557
	<u>68,889</u>	<u>96,292</u>	<u>48,557</u>
Credit related			
Over the counter:			
Credit swaps	-	-	56,016
Hedge			
Interest rate swaps	8,887,426	9,717,369	10,452,964
	<u>₩ 165,879,254</u>	<u>242,983,594</u>	<u>236,338,229</u>

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11. Derivatives (continued)

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

	December 31, 2011		December 31, 2010		January 1, 2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Foreign currency related						
Over the counter:						
Currency forwards	₩ 623,710	433,652	811,621	432,131	1,728,108	707,038
Currency swaps	450,006	567,011	726,164	957,137	1,309,087	2,071,244
Currency options	113,241	7,798	150,060	11,568	352,144	75,526
	<u>1,186,957</u>	<u>1,008,461</u>	<u>1,687,845</u>	<u>1,400,836</u>	<u>3,389,339</u>	<u>2,853,808</u>
Interest rates related						
Over the counter:						
Interest rate swaps	642,675	544,953	728,553	760,869	621,439	920,431
Interest rate options	32,998	36,611	43,766	44,800	55,769	53,218
	<u>675,673</u>	<u>581,564</u>	<u>772,319</u>	<u>805,669</u>	<u>677,208</u>	<u>973,649</u>
Equity related						
Over the counter:						
Equity swap and forwards	-	-	462	462	108,406	121,155
Equity options	98,763	94,152	1,038,545	1,036,178	154,482	112,686
	<u>98,763</u>	<u>94,152</u>	<u>1,039,007</u>	<u>1,036,640</u>	<u>262,888</u>	<u>233,841</u>
Exchange traded:						
Equity options	16	4	-	30	290	522
	<u>98,779</u>	<u>94,156</u>	<u>1,039,007</u>	<u>1,036,670</u>	<u>263,178</u>	<u>234,363</u>
Commodity related						
Over the counter:						
Swaps and forwards	1,191	1,191	1,193	1,160	-	-
Commodity options	1,080	1,080	1,841	1,837	1,175	1,178
	<u>2,271</u>	<u>2,271</u>	<u>3,034</u>	<u>2,997</u>	<u>1,175</u>	<u>1,178</u>
Credit related						
Over the counter:						
Credit swaps	-	-	-	-	-	23,843
Hedge						
Interest rate swaps	265,830	115,952	219,885	100,741	182,336	194,223
₩	<u>2,229,510</u>	<u>1,802,404</u>	<u>3,722,090</u>	<u>3,346,913</u>	<u>4,513,236</u>	<u>4,281,064</u>

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11. Derivatives (continued)

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

	2011		2010	
	Gain	Loss	Gain	Loss
Foreign currency related				
Over the counter:				
Currency forwards	₩ 558,745	380,679	398,449	466,666
Currency swaps	148,158	249,814	376,489	304,862
Currency options	8,313	2,069	2,107	23,151
	<u>715,216</u>	<u>632,562</u>	<u>777,045</u>	<u>794,679</u>
Interest rates related				
Over the counter:				
Interest rate swaps	352,558	310,019	565,342	490,037
Interest rate options	20,076	23,578	20,720	27,307
	<u>372,634</u>	<u>333,597</u>	<u>586,062</u>	<u>517,344</u>
Equity related				
Over the counter:				
Equity swap and forwards	-	-	497	497
Equity options:	107,028	104,793	972,943	971,526
	<u>107,028</u>	<u>104,793</u>	<u>973,440</u>	<u>972,023</u>
Exchange traded				
Equity options	18	36	2	-
	<u>107,046</u>	<u>104,829</u>	<u>973,442</u>	<u>972,023</u>
Commodity related				
Over the counter:				
Swaps and forwards	1,169	1,166	1,192	1,157
Commodity options	878	551	1,581	1,335
	<u>2,047</u>	<u>1,717</u>	<u>2,773</u>	<u>2,492</u>
Hedge				
Interest rate swaps	134,340	89,963	295,696	96,521
	₩ <u>1,331,283</u>	<u>1,162,668</u>	<u>2,635,018</u>	<u>2,383,059</u>

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11. Derivatives (continued)

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

	2011	2010
Hedged item	₩ (51,283)	(213,377)
Hedging instruments	29,460	206,680
	₩ <u>(21,823)</u>	<u>(6,697)</u>

(e) Hedge of net investment in foreign operations

The group uses borrowings in foreign currency to hedge the foreign currency translation risk on its net investment in foreign operations. Gain or loss on valuation borrowings in foreign currency of the hedging instrument on the effective portion ₩4,790 million was recognized as foreign currency translation differences for foreign operations.

12. Loans

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

	December 31, 2011	December 31, 2010	January 1, 2010
Household loans	₩ 66,051,757	61,863,285	59,895,311
Corporate loans	91,771,228	89,586,652	84,776,268
Public and other	4,885,462	2,721,900	2,190,740
Loans to banks	2,440,930	1,443,939	1,067,561
Card receivables	1,572	1,458	5
	<u>165,150,949</u>	<u>155,617,234</u>	<u>147,929,885</u>
Deferred loan origination costs and fees	175,056	51,787	(35,405)
	165,326,005	155,669,021	147,894,480
Allowance for impairment	(1,688,028)	(1,891,650)	(2,100,146)
	₩ <u>163,637,977</u>	<u>153,777,371</u>	<u>145,794,334</u>

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12. Loans (continued)

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

	2011					
	Due from banks	Loans			Other assets	Total
		Household	Corporate	Other		
Beginning balance	₩ 14,107	179,357	1,665,182	47,111	88,564	1,994,321
Provision for (reversal of) allowance	18,056	59,870	589,831	(15,050)	(7,049)	645,658
Write-offs	-	(64,090)	(733,514)	-	(2,649)	(800,253)
Effect of discounting	-	-	(54,673)	-	-	(54,673)
Allowance related to loans transferred	-	(11,090)	(125,448)	-	-	(136,538)
Recoveries	-	40,581	88,562	-	205	129,348
Others(*)	-	-	21,399	-	(2,398)	19,001
Ending balance	₩ 32,163	204,628	1,451,339	32,061	76,673	1,796,864

(*) Other changes were due to debt restructuring, debt-equity swap, and foreign exchange rate, etc.

	2010					
	Due from banks	Loans			Other assets	Total
		Household	Corporate	Other		
Beginning balance	₩ 8,611	173,777	1,902,553	23,816	114,017	2,222,774
Provision for (reversal of) allowance	5,496	45,179	1,112,616	23,295	(59,739)	1,126,847
Write-offs	-	(78,009)	(659,508)	-	(2,914)	(740,431)
Effect of discounting	-	-	(37,674)	-	-	(37,674)
Allowance related to loans transferred	-	(13,163)	(607,243)	-	-	(620,406)
Recoveries	-	51,573	69,835	-	-	121,408
Others(*)	-	-	(115,397)	-	37,200	(78,197)
Ending balance	₩ 14,107	179,357	1,665,182	47,111	88,564	1,994,321

(*) Other changes were due to debt restructuring, debt-equity swap, and foreign exchange rate, etc.

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12. Loans (continued)

(c) Finance lease receivables as of December 31, 2011, 2010 and January 1, 2010 were as follows:

December 31, 2011				
	Gross investment	Unearned finance income	Present value of minimum lease payment	Unguaranteed residual value
Less than one year	₩ 22,996	1,113	9,950	11,933
December 31, 2010				
	Gross investment	Unearned finance income	Present value of minimum lease payment	Unguaranteed residual value
Less than one year	₩ 13,585	624	12,961	-
Between one and five years	22,709	2,673	9,110	10,926
	₩ 36,294	3,297	22,071	10,926
January 1, 2010				
	Gross investment	Unearned finance income	Present value of minimum lease payment	Unguaranteed residual value
Less than one year	₩ 23,756	1,093	22,663	-
Between one and five years	51,132	7,299	25,406	18,427
	₩ 74,888	8,392	48,069	18,427

(d) Changes in deferred loan origination costs fees as of December 31, 2011 and 2010 were as follows:

	2011	2010
Beginning balance	₩ 51,787	(35,405)
Loan originations	156,348	52,306
Amortization	(33,079)	34,886
Ending balance	₩ 175,056	51,787

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

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

	December 31, 2011	December 31, 2010	January 1, 2010
Available-for-sale financial assets:			
Debt securities:			
Government bonds	₩ 3,369,906	4,751,999	4,859,716
Financial institutions bonds	11,786,976	8,167,697	9,305,997
Corporate bonds and others	7,839,942	5,624,136	4,788,052
Other	39,998	-	18,822
	<u>23,036,822</u>	<u>18,543,832</u>	<u>18,972,587</u>
Equity securities(*):			
Stock	3,120,251	3,721,770	4,106,913
Equity investments	377,444	350,745	353,338
Beneficiary certificates	151,096	1,924,726	1,813,335
Others	40,070	41,516	18,252
	<u>3,688,861</u>	<u>6,038,757</u>	<u>6,291,838</u>
	<u>₩ 26,725,683</u>	<u>24,582,589</u>	<u>25,264,425</u>
Held-to-maturity financial assets:			
Debt securities:			
Government bonds	₩ 5,282,523	5,664,043	5,367,008
Financial institutions bonds	1,423,904	1,656,550	3,369,326
Corporate bonds and others	3,195,995	3,245,397	2,433,976
	<u>₩ 9,902,422</u>	<u>10,565,990</u>	<u>11,170,310</u>

(*) Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at cost of ₩155,016 million, ₩171,490 million, and ₩209,162 million as of December 31, 2011, 2010 and January 1, 2010, respectively.

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

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

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

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

		2011	2010
Gain on sale of available-for-sale financial assets	₩	657,929	645,041
Loss on sale of available-for-sale financial assets		(15,205)	(20,856)
	₩	<u>642,724</u>	<u>624,185</u>

14. Property and equipment

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

		December 31, 2011		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	1,264,745	-	1,264,745
Buildings		699,792	(53,684)	646,108
Other		1,379,842	(1,124,608)	255,234
	₩	<u>3,344,379</u>	<u>(1,178,292)</u>	<u>2,166,087</u>
		December 31, 2010		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	1,280,374	-	1,280,374
Buildings		673,924	(26,795)	647,129
Other		1,313,088	(1,077,613)	235,475
	₩	<u>3,267,386</u>	<u>(1,104,408)</u>	<u>2,162,978</u>
		January 1, 2010		
		Acquisition cost	Accumulated depreciation	Book value(*)
Land	₩	1,208,529	-	1,208,529
Buildings		681,257	(1,046)	680,211
Other		1,361,348	(1,012,165)	349,183
	₩	<u>3,251,134</u>	<u>(1,013,211)</u>	<u>2,237,923</u>

(*) In the preparation of the opening K-IFRS consolidated statement of financial position on the date of transition to K-IFRS, the Group measured land and buildings at fair value at the date of transition, which was deemed cost, in accordance with K-IFRS No. 1101. Valuation was based on the recent arm's length market transactions between knowledgeable and willing parties. The carrying amounts of land and buildings recorded under the previous K-GAAP were ₩846,556 million and ₩713,958 million, respectively.

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14. Property and equipment (continued)

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

	2011			
	Land	Buildings	Other	Total
Beginning balance	₩ 1,280,374	647,129	235,475	2,162,978
Acquisitions(*)	6,571	46,747	167,289	220,607
Disposals(*)	(6,470)	(9,088)	(24,024)	(39,582)
Depreciation	-	(27,074)	(126,132)	(153,206)
Amounts transferred to investment property	(17,108)	(11,004)	-	(28,112)
Amounts transferred form (to) assets held for sale	1,327	(1,064)	-	263
Effects of foreign currency movements	51	462	836	1,349
Acquisitions from business combinations	-	-	1,790	1,790
Ending balance	₩ 1,264,745	646,108	255,234	2,166,087

(*) Included in land, buildings and other was ₩13,546 million transferred from construction-in progress.

	2010			
	Land	Buildings	Other	Total
Beginning balance	₩ 1,208,529	680,211	349,183	2,237,923
Acquisitions(*)	60,565	33,174	160,993	254,732
Disposals(*)	(2,233)	(1,580)	(105,476)	(109,289)
Depreciation	-	(26,438)	(169,562)	(196,000)
Amounts transferred from (to) Investment property	13,492	(38,224)	-	(24,732)
Amounts transferred to non-current assets held for sale	-	(8)	-	(8)
Effects of foreign currency movements	21	(6)	337	352
Ending balance	₩ 1,280,374	647,129	235,475	2,162,978

(*) Included in land, buildings and other was ₩67,888 million transferred from construction-in progress.

(c) There was no significant difference between the carrying amount of property and equipment and its fair value.

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15. Intangible assets

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

	2011					
	Goodwill	Software	Development cost	Member -ship	Other	Total
Beginning balance	₩ 17,734	30,343	40,143	42,478	7,262	137,960
Acquisitions	-	21,318	12,031	2,480	65,731	101,560
Business combination	75,383	-	-	-	17,685	93,068
Disposals	-	-	-	-	(16)	(16)
Impairment(*)	(31,543)	-	-	(718)	-	(32,261)
Amortization	-	(9,915)	(12,703)	-	(17,880)	(40,498)
Effects of foreign currency movements	-	1	-	112	7	120
Ending balance	₩ <u>61,574</u>	<u>41,747</u>	<u>39,471</u>	<u>44,352</u>	<u>72,789</u>	<u>259,933</u>

(*) The Group recognized impairment losses from golf and condo memberships with indefinite useful life by comparing its recoverable amount with its carrying amount.

	2010					
	Goodwill	Software	Development cost	Member -ship	Other	Total
Beginning balance	₩ 17,734	27,335	39,283	27,891	8,082	120,325
Acquisitions	-	9,906	11,043	17,006	1,149	39,104
Disposals	-	(37)	(131)	(2,419)	(10)	(2,597)
Amortization	-	(6,861)	(10,052)	-	(1,994)	(18,907)
Effects of foreign currency movements	-	-	-	-	35	35
Ending balance	₩ <u>17,734</u>	<u>30,343</u>	<u>40,143</u>	<u>42,478</u>	<u>7,262</u>	<u>137,960</u>

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15. Intangible assets (continued)

(b) Goodwill impairment

i) Goodwill as of December 31, 2011, 2010 and January 1, 2010 was as follows:

		December 31, 2011	December 31, 2010	January 1, 2010
International CGU	₩	43,840	-	-
Others CGU		17,734	17,734	17,734
	₩	<u>61,574</u>	<u>17,734</u>	<u>17,734</u>

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

		2011	2010
Beginning balance	₩	17,734	17,734
Acquisition of subsidiary(*)		75,383	-
Impairment(*)		(31,543)	-
Ending balance	₩	<u>61,574</u>	<u>17,734</u>

(*) The adjustment to the carrying amount of goodwill was from the result of the acquisition of Shinhan Vina Bank as discussed in Note 6. The impairment loss was recognized in the international CGU.

iii) Goodwill impairment test

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

The date of valuation and projected period

The date of valuation to measure the recoverable amount was September 30, 2011. The Group has conducted the impairment test for CGUs, to which goodwill has been allocated. The recoverable amount of CGUs has been determined by using estimated future cash flows which cover a 5.25-year period (October 1, 2011 through December 31, 2016) from the date of valuation with a terminal value applied thereafter.

Discount rates and terminal growth rate

The discount rates applied have been determined based on the cost of equity which was comprised of a risk-free interest rate, a market risk premium and systemic risk (beta factor). The expected terminal growth rate of estimated future cash flows was on the basis of inflation rates.

Discount rates and the terminal growth rate applied to CGUs were as follows:

	Discount rates	Terminal growth rate
International CGU	12.8%	2.3%
Other CGU	12.8%	2.3%

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15. Intangible assets (continued)

(b) Goodwill impairment (continued)

Key assumptions

Key assumptions used in the discounted cash flow calculations of CGUs were as follows:

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

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

		International CGU	Others CGU
Total recoverable amount	₩	1,833,186	55,023
Total carrying amount		1,833,186	43,483
	₩	-	11,540

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16. Investments in associates

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

Investees	Country	Reporting date	Ownership(%)(*1)		
			December 31, 2011	December 31, 2010	January 1, 2010
Macquarie Shinhan Infrastructure Management(*1,2)	Korea	September 30	35.18	35.18	35.18
Aju Capital Co., Ltd.(*2,3)	Korea	September 30	12.85	12.93	12.93
Cardif Life Insurance(*2,4)	Korea	September 30	14.99	14.99	14.99
Westend Corporate Restructuring Fund(*2,5)	Korea	September 30	-	17.24	17.24
UAMCO., Ltd.	Korea	December 31	17.50	17.50	17.50
Shinhan Vina Bank(*6)	Vietnam	December 31	-	50.00	50.00
Shinhan Corporate Restructuring Fund 7th(*7)	Korea	December 31	58.82	58.82	58.82
Pohang TechnoPark 2PFV(*3)	Korea	December 31	14.90	-	-

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

(*2) Financial statements as of September 30, 2011 were used for the equity method because financial statements as of December 31, 2011 were not available. Significant transactions or events between the end of the reporting period of investee and the Group were properly reflected.

(*3) Although the ownership interests in Aju Capital Co., Ltd. and Pohang TechnoPark 2PFV are less than 15%, the Group used the equity method of accounting as the Group has significant influence on electing board members who are able to influence the entity's financial and operating policy decisions.

(*4) Although the ownership interest in Cardif Life Insurance Co., Ltd was less than 15%, the Group used the equity method of accounting as the Group has significant influence through substantive operating transactions.

(*5) West End Corporate Restructuring Fund has been terminated for the current period.

(*6) Shinhan Vina Bank was merged by Shinhan Vietnam Bank for the current period.

(*7) Although the ownership interest in Shinhan Corporate Restructuring Fund 7th was more than 50%, the Group used the equity method of accounting as the Group does not have control with its limited partner status.

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16. Investments in associate (continued)

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

Investees	2011							
	Acquisition cost	Beginning balance	Acquisition (redemption)	Equity method income (loss)	Changes in accumulated other comprehensive income	Impairment loss	Dividends received	Ending balance
Macquarie Shinhan Infrastructure Management	₩ 420	3,045	-	3,118	405	-	(3,320)	3,248
Aju Capital Co., Ltd.	36,971	34,904	(470)	4,577	(494)	(4,351)	(220)	33,946
Cardif Life Insurance Westend Corporate Restructuring Fund	16,530	16,456	9,750	2,300	(1,705)	-	-	26,801
UAMCO., Ltd.	381	5,131	(4,657)	1,163	-	-	(1,637)	-
Shinhan Vina Bank Shinhan Corporate Restructuring Fund 7th Pohang Techno Park 2PFV	12,250	86,481	-	17,784	(25)	-	-	104,240
	-	57,833	(61,695)	928	2,934	-	-	-
	2,100	162	-	(124)	-	-	(25)	13
	4,470	-	4,470	(751)	(22)	-	-	3,697
	₩ 73,122	204,012	(52,602)	28,995	1,093	(4,351)	(5,202)	171,945

Investees	2010							
	Acquisition cost	Beginning balance	Acquisition (redemption)	Equity method income (loss)	Changes in accumulated other comprehensive income	Impairment loss	Dividends received	Ending balance
Macquarie Shinhan Infrastructure Management	₩ 420	3,133	-	3,956	-	-	(4,044)	3,045
Aju Capital Co., Ltd.	36,971	86,876	-	745	27,216	(79,933)	-	34,904
Cardif Life Insurance Westend Corporate Restructuring Fund	6,780	7,704	6,000	(353)	3,105	-	-	16,456
UAMCO., Ltd.	5,000	4,964	(345)	512	-	-	-	5,131
Shinhan Vina Bank Shinhan Corporate Restructuring Fund 7th	12,250	11,992	72,800	1,689	-	-	-	86,481
	23,541	53,184	-	5,956	(1,307)	-	-	57,833
	2,100	3,394	(2,100)	3	-	-	(1,135)	162
	₩ 87,062	171,247	76,355	12,508	29,014	(79,933)	(5,179)	204,012

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16. Investments in associates (continued)

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

Investees	December 31, 2011		December 31, 2010		January 1, 2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Macquarie Shinhan Infrastructure Management	₩ 17,294	6,559	17,335	7,187	17,884	7,488
Aju Capital Co., Ltd.	5,200,373	4,523,282	3,700,175	3,013,088	3,772,145	3,100,163
Cardif Life Insurance	2,361,638	2,180,638	2,250,981	2,128,304	1,675,937	1,619,758
Westend Corporate Restructuring Fund	-	-	29,760	-	28,790	-
UAMCO., Ltd.	3,738,326	3,146,227	1,786,464	1,293,766	68,710	185
Shinhan Vina Bank(*)	426,868	308,057	552,991	437,325	387,710	281,341
Shinhan Corporate Restructuring Fund 7th	19	-	275	-	5,828	57
Pohang Techno Park 2PFV	35,415	10,603	-	-	-	-
	₩ 11,779,933	10,175,366	8,337,981	6,879,670	5,957,004	5,008,992

(*) Deemed acquisition date was November 28, 2011.

Investees	2011		2010	
	Operating revenue	Net income (loss)	Operating revenue	Net income
Macquarie Shinhan Infrastructure Management	₩ 16,797	8,865	23,203	11,248
Aju Capital Co., Ltd.	730,272	35,423	747,093	5,762
Cardif Life Insurance	646,812	4,915	789,636	5,935
Westend Corporate Restructuring Fund	2,360	939	408	2,971
UAMCO., Ltd.	468,220	101,624	32,607	9,649
Shinhan Vina Bank(*)	48,534	1,857	37,440	11,913
Shinhan Corporate Restructuring Fund 7th	1	(211)	5	4
Pohang TechnoPark 2PFV	-	(5,038)	-	-
	₩ 1,912,996	148,374	1,630,392	47,482

(*) Deemed acquisition date was November 28, 2011.

(d) Marketable investment securities in associates as of December 31, 2011 were as follows:

	Market value(*)	Book value
Aju Capital Co., Ltd.	₩ 36,790	33,946

(*) The market value was measured based on 7,395,000 shares closed at ₩4,975 as of December 29, 2011, which was reported by Korea Exchange ("KRX").

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17. Investment properties

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

		December 31, 2011		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	440,542	-	440,542
Buildings		123,118	(10,348)	112,770
	₩	<u>563,660</u>	<u>(10,348)</u>	<u>553,312</u>
		December 31, 2010		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	425,216	-	425,216
Buildings		112,541	(4,938)	107,603
	₩	<u>537,757</u>	<u>(4,938)</u>	<u>532,819</u>
		January 1, 2010		
		Acquisition cost	Accumulated depreciation	Book value
Land(*)	₩	438,756	-	438,756
Buildings(*)		73,942	-	73,942
	₩	<u>512,698</u>	<u>-</u>	<u>512,698</u>

(*) Land and buildings were revalued on January 1, 2010 by an independent valuation service provider. The valuation was based on recent arm's length market transactions between knowledgeable and willing parties. Under the previous K-GAAP, the book value of land and building were reported at cost of ₩307,678 million and ₩76,967 million, respectively.

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17. Investment properties (continued)

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

		2011		
		Land	Buildings	Total
Beginning balance	₩	425,216	107,603	532,819
Disposals		(1,782)	(519)	(2,301)
Depreciation		-	(5,331)	(5,331)
Amounts transferred from property and equipment		17,108	11,004	28,112
Effects of foreign currency movements		-	13	13
Ending balance	₩	<u>440,542</u>	<u>112,770</u>	<u>553,312</u>

		2010		
		Land	Buildings	Total
Beginning balance	₩	438,756	73,942	512,698
Disposals		(48)	(113)	(161)
Depreciation		-	(4,450)	(4,450)
Amounts transferred from (to) property and equipment		(13,492)	38,224	24,732
Ending balance	₩	<u>425,216</u>	<u>107,603</u>	<u>532,819</u>

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

		2011	2010
Rental Income	₩	18,819	19,495
Direct operating expenses for investment properties that generated rental income		4,385	4,173

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

		December 31, 2011	December 31, 2010	January 1, 2010
Land and buildings	₩	559,188	550,695	512,698

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18. Other assets

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

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Accounts receivable	₩ 1,436,023	1,422,676	1,747,011
Domestic exchange settlement debit	1,747,420	1,151,548	853,075
Guarantee deposits	1,183,086	1,166,064	1,117,752
Accrued income	1,133,472	940,444	927,831
Prepaid expense	92,069	107,810	148,286
Suspense payments	118,545	111,743	170,006
Sundry assets	135,388	52,937	74,544
Other	987	1,737	3,037
Present value discount account	(88,597)	(108,887)	(113,271)
Allowances for impairment	(76,673)	(88,564)	(114,017)
	<u>₩ 5,681,720</u>	<u>4,757,508</u>	<u>4,814,254</u>

19. Pledged assets

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

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Loans	₩ 154,424	147,301	187,931
Securities:			
Available-for-sale financial assets	1,138,166	1,455,477	1,754,300
Held-to-maturity financial assets	5,513,027	4,702,963	5,073,147
	<u>6,651,193</u>	<u>6,158,440</u>	<u>6,827,447</u>
Real estate	7,873	6,444	6,023
	<u>₩ 6,813,490</u>	<u>6,312,185</u>	<u>7,021,401</u>

(*) The carrying amounts of assets pledged as collateral for transferred assets that the transferees had the right to sell or repledge as of December 31, 2011, 2010 and January 1, 2010 were ₩1,046,735 million, ₩915,090 million and ₩2,160,931 million, respectively.

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

	<u>December 31, 2011</u>		<u>December 31, 2010</u>		<u>January 1, 2010</u>	
	<u>Collateral held</u>	<u>Collateral sold or repledged</u>	<u>Collateral held</u>	<u>Collateral sold or repledged</u>	<u>Collateral held</u>	<u>Collateral sold or repledged</u>
Securities	₩ 781,902	-	1,200,129	-	439,700	-

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20. Deposits

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

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Demand deposits:			
Korean won	₩ 45,755,852	43,982,022	41,944,832
Foreign currency	<u>3,949,408</u>	<u>3,380,334</u>	<u>2,936,745</u>
	<u>49,705,260</u>	<u>47,362,356</u>	<u>44,881,577</u>
Time deposits:			
Korean won	95,206,183	82,394,843	73,620,666
Foreign currency	<u>8,270,185</u>	<u>7,353,144</u>	<u>8,251,803</u>
	<u>103,476,368</u>	<u>89,747,987</u>	<u>81,872,469</u>
Negotiable certificates of deposits	2,888,198	3,240,793	7,356,996
Note discount deposits	4,823,802	4,494,294	5,324,541
CMA(*)	1,617,547	1,628,543	1,311,767
Others	<u>71,153</u>	<u>99,385</u>	<u>144,332</u>
	<u>₩ 162,582,328</u>	<u>146,573,358</u>	<u>140,891,682</u>

(*) CMA: Cash management account deposits

21. Trading liabilities

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

	<u>December 31, 2011</u>		<u>December 31, 2010</u>		<u>January 1, 2010</u>	
	<u>Interest rate(%)</u>	<u>Amount</u>	<u>Interest rate(%)</u>	<u>Amount</u>	<u>Interest rate(%)</u>	<u>Amount</u>
Debt securities sold	3.00~5.75	₩ 188,504	3.38~4.50	₩ 303,731	-	₩ -
Gold deposits	-	<u>414,088</u>	-	<u>198,619</u>	-	<u>318,969</u>
		<u>₩ 602,592</u>		<u>₩ 502,350</u>		<u>₩ 318,969</u>

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22. **Borrowings**

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

	December 31, 2011		December 31, 2010		January 1, 2010	
	Interest rate(%)	Amount	Interest rate(%)	Amount	Interest rate(%)	Amount
Call money:						
Korean won	3.05~3.18 ₩	174,100	2.28~2.41 ₩	245,900	1.35~1.95 ₩	1,144,700
Foreign currency	0.14~5.20	556,136	0.15~0.86	676,318	0.15~2.08	799,157
		<u>730,236</u>		<u>922,218</u>		<u>1,943,857</u>
Bill sold	1.70~4.30	99,207	1.70~4.40	48,929	1.50~3.85	68,391
Bonds sold under repurchase agreements:						
Korean won	0.10~3.74	56,754	0.10~4.70	296,673	2.00~2.11	881,422
Foreign currency	0.90~3.45	523,088	1.08~6.25	92,501	0.10~7.80	81,687
		<u>579,842</u>		<u>389,174</u>		<u>963,109</u>
Borrowings in won:						
Borrowings from Bank of Korea	1.50	754,221	1.00~1.25	744,642	1.25	1,201,653
Others	0.00~5.40	2,802,703	0.00~5.45	2,685,392	0.00~4.50	2,635,447
		<u>3,556,924</u>		<u>3,430,034</u>		<u>3,837,100</u>
Borrowings in foreign currency:						
Overdraft due to banks	0.89~2.98	1,021,187	0.10~5.77	1,191,864	0.10~7.57	583,510
Borrowings from banks	0.60~9.26	3,928,986	0.57~5.97	2,780,955	0.15~7.57	2,258,963
Others	0.70~5.90	3,272,028	1.15~5.90	2,977,570	1.15~5.90	2,283,177
		<u>8,222,201</u>		<u>6,950,389</u>		<u>5,125,650</u>
Due to Bank of Korea in foreign currency	0.10	232,372	0.10	218,591	0.10	197,584
Deferred loan origination costs		(4,129)		(3,981)		(4,490)
		<u>₩ 13,416,653</u>		<u>₩ 11,955,354</u>		<u>₩ 12,131,201</u>

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22. **Borrowings (continued)**

(b) Borrowings from other financial institution

Borrowings from other financial institution as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011			
	Bank of Korea	Commercial banks	Other financial institution	Total
Call money	₩ -	526,833	203,403	730,236
Bonds sold under repurchase agreements	-	257,176	266,412	523,588
Borrowings in won	754,221	516,411	78,832	1,349,464
Borrowings in foreign currency	-	5,216,495	3,005,706	8,222,201
Due to Bank of Korea in foreign currency	232,372	-	-	232,372
	<u>₩ 986,593</u>	<u>6,516,915</u>	<u>3,554,353</u>	<u>11,057,861</u>

	December 31, 2010			
	Bank of Korea	Commercial banks	Other financial institution	Total
Call money	₩ -	697,018	225,200	922,218
Bonds sold under repurchase agreements	198,100	92,501	49,000	339,601
Borrowings in won	744,642	115	623,842	1,368,599
Borrowings in foreign currency	-	4,400,299	2,550,090	6,950,389
Due to Bank of Korea in foreign currency	218,591	-	-	218,591
	<u>₩ 1,161,333</u>	<u>5,189,933</u>	<u>3,448,132</u>	<u>9,799,398</u>

	January 1, 2010			
	Bank of Korea	Commercial banks	Other financial institution	Total
Call money	₩ -	1,275,057	668,800	1,943,857
Bonds sold under repurchase agreements	198,100	81,687	350,200	629,987
Borrowings in won	1,201,653	115	906,074	2,107,842
Borrowings in foreign currency	-	3,444,841	1,680,809	5,125,650
Due to Bank of Korea in foreign currency	197,584	-	-	197,584
	<u>₩ 1,597,337</u>	<u>4,801,700</u>	<u>3,605,883</u>	<u>10,004,920</u>

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23. Debt securities issued

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

	December 31, 2011		December 31, 2010		January 1, 2010	
	Interest rate(%)	Amount	Interest rate(%)	Amount	Interest rate(%)	Amount
Debt securities issued in won						
Debt securities issued	0.00~11.95	₩ 11,848,071	2.34~10.00	₩ 13,537,686	0.00~9.00	₩ 16,331,210
Subordinated debt securities issued	4.25~14.45	3,868,677	4.56~7.70	3,390,672	4.56~7.70	3,568,392
Loss on fair value hedges		87,657		109,855		(85,097)
Discount on debt securities issued		(41,336)		(15,438)		(20,792)
		<u>15,763,069</u>		<u>17,022,775</u>		<u>19,793,713</u>
Debt securities issued in foreign currency						
Debt securities issued	1.05~8.13	3,200,523	1.30~8.13	2,817,192	0.86~8.13	2,437,815
Subordinated debt securities issued	-	-	5.13~5.75	341,670	5.13~5.75	758,940
Loss on fair value hedges		100,716		42,044		33,299
Discount on debt securities issued		(9,701)		(6,453)		(5,739)
		<u>3,291,538</u>		<u>3,194,453</u>		<u>3,224,315</u>
		<u>₩ 19,054,607</u>		<u>₩ 20,217,228</u>		<u>₩ 23,018,028</u>

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23. Debt securities issued (continued)

(b) Debt securities issued or redeemed in won for the years ended December 31, 2011 and 2010 were as follows:

	2011		2010	
	Interest rate(%)	Amount	Interest rate(%)	Amount
Issue				
Debt securities	3.48~6.70	₩ 4,190,000	3.20~7.20	₩ 4,291,824
Subordinated debt securities	4.25~5.10	1,000,000	-	-
		₩ <u>5,190,000</u>		₩ <u>4,291,824</u>
Redemption				
Debt securities	3.71~7.78	₩ 5,879,615	0.00~10.00	₩ 7,085,348
Subordinated debt securities	4.56~7.70	521,995	5.10~14.45	177,720
		₩ <u>6,401,610</u>		₩ <u>7,263,068</u>

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23. Debt securities issued (continued)

(c) Debt securities issued or redeemed in foreign currency for the years ended December 31, 2011 and 2010 were as follows:

2011					
Issue					
Issue date		Notional amount(*1)	Interest rate(%)	Expiration date	Type
2011-04-04	₩	547,300	4.13	2016-10-04	Debt securities
2011-06-15		48,758	1.32	2012-06-22	Debt securities
2011-07-26		43,656	1.05	2012-07-26	Debt securities
2011-08-11		50,246	1.82	2014-08-11	Debt securities
2011-09-01		27,488	1.30	2014-09-02	Debt securities
2011-11-04		67,890	2.01	2012-11-05	Debt securities
2011-11-18		21,620	1.84	2012-11-19	Debt securities
2011-11-30		23,006	2.23	2012-12-17	Debt securities
2011-12-20		17,543	2.03	2012-12-21	Debt securities
2011-12-21		35,013	1.64	2012-06-21	Debt securities
	₩	<u>882,520</u>			

2011					
Redemption					
Redemption date		Notional amount(*1)	Interest rate(%)	Expiration date	Type
2011-02-28	₩	338,370	5.75	2016-02-28	Subordinated debt security
2011-05-16		11,908	4.24	2011-05-16	Debt securities
2011-06-07		21,550	1.60	2011-06-04	Debt securities
2011-06-02		26,064	1.50	2011-06-02	Debt securities
2011-11-01		66,312	1.30	2011-11-01	Debt securities
Redemption by installment(*2)		241,723	6.00	2039-12-12	Debt securities
Redemption by installment(*2)		80,503	6.00	2039-12-12	Debt securities
Redemption by installment(*2)		101,763	6.00	2012-01-15	Debt securities
	₩	<u>888,193</u>			

(*1) Converted into won based on exchange rate of the date of issue or expiration

(*2) Debt securities were issued under conditions on redemption by installment with residual fund at quarterly interest payment date.

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23. Debt securities issued (continued)

(c) Debt securities issued or redeemed in foreign currency (continued)

2010					
Issue					
The date of issue		Notional amount(*1)	Interest rate(%)	Expiration date	Type
2010-02-17	₩	20,782	6.70	2013-02-18	Debt securities
2010-03-15		791,770	4.38	2015-09-15	Debt securities
2010-06-01		25,742	1.50	2011-06-02	Debt securities
2010-07-15		60,207	3.94	2016-01-15	Debt securities
2010-07-16		57,022	3.93	2016-01-16	Debt securities
2010-10-27		34,446	2.40	2014-10-27	Debt securities
2010-11-01		67,452	1.30	2011-11-01	Debt securities
2010-11-09		31,738	4.01	2020-11-09	Debt securities
2010-11-16		225,840	1.58	2012-11-16	Debt securities
	₩	<u>1,314,999</u>			

2010					
Redemption					
Redemption date		Notional amount(*1)	Interest rate(%)	Expiration date	Type
2010-06-08	₩	250,355	3.68	2010-06-08	Debt securities
2010-06-08		150,213	6.88	2010-06-08	Debt securities
2010-10-25		56,475	0.86	2010-10-25	Debt securities
2010-05-04		14,373	1.03	2010-05-04	Debt securities
2010-05-17		29,112	1.19	2010-05-15	Debt securities
2010-06-17		43,452	3.78	2010-06-17	Debt securities
2010-07-14		35,015	3.80	2010-07-14	Debt securities
2010-08-04		25,973	3.50	2010-08-04	Debt securities
2010-07-15		419,720	5.13	2015-07-15	Subordinated debt security
Redemption by installment(*2)		119,595	6.00	2039-12-12	Debt securities
Redemption by installment(*2)		39,943	6.00	2039-12-12	Debt securities
Redemption by installment(*2)		121,174	6.00	2012-01-15	Debt securities
	₩	<u>1,305,400</u>			

(*1) Converted into won based on exchange rate of the date of issue or expiration

(*2) Debt securities were issued under conditions on redemption by installment with residual fund at quarterly interest payment date.

SHINHAN BANK AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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24. Employee benefits

(a) Defined benefit plan assets and liabilities

The Group provides a defined benefit plan for qualified employees at the headquarters and the domestic subsidiaries. Plan assets are managed by trust companies, funds, and other similar companies that are regulated by local regulation and each country's business environment.

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

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Present value of defined benefit obligation	₩ 644,814	448,453	329,267
Fair value of plan assets	<u>(445,806)</u>	<u>(322,048)</u>	<u>(202,829)</u>
Recognized liabilities for defined benefit obligation	₩ <u>199,008</u>	<u>126,405</u>	<u>126,438</u>

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

		<u>2011</u>	<u>2010</u>
Beginning balance	₩	448,453	329,267
Current service cost		74,868	62,955
Interest expense		27,377	23,020
Actuarial losses		111,314	42,747
Effects of foreign currency movements		64	65
Benefits paid by the plan		(19,014)	(7,284)
Others		1,752	(2,317)
Ending balance	₩	<u>644,814</u>	<u>448,453</u>

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

		<u>2011</u>	<u>2010</u>
Beginning balance	₩	322,048	202,829
Expected return on plan assets		13,654	10,348
Actuarial losses		233	285
Contributions paid into the plan		120,300	113,500
Benefits paid by the plan		(10,429)	(4,914)
Ending balance	₩	<u>445,806</u>	<u>322,048</u>

SHINHAN BANK AND SUBSIDIARIES
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24. Employee benefits (continued)

(d) Expenses recognized in profit or loss

Expenses recognized in profit or loss for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Defined benefit plans		
Current service costs	₩ 74,868	62,955
Interest expense	27,377	23,020
Expected return on plan assets	(13,654)	(10,348)
Actuarial gains (losses)	111,081	42,462
	<u>199,672</u>	<u>118,089</u>
Defined contribution plans		
Severance benefits	587	585
	<u>₩ 200,259</u>	<u>118,674</u>
Actual return on plan assets	₩ 13,887	10,633

(*) The Group recognizes all profit or loss arising from defined benefit plans in general and administrative expenses.

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

	December 31, 2011	December 31, 2010	January 1, 2010
Present value of defined benefit obligation	₩ 644,814	448,453	329,267
Fair value of plan assets(*)	(445,806)	(322,048)	(202,829)
Deficit (surplus) in the plan	199,008	126,405	126,438
Adjustments to defined benefit obligation	111,314	42,747	-
Adjustments to plan assets	(233)	(285)	-

(*) Plan assets as of December 31, 2011, 2010 and January 1, 2010 comprise of due from bank, etc.

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

	Assumptions	Descriptions
Discount rate	5.37%	AA0 Corporate bond yields
Expected return on plan assets	4.38%	Weighted average yield for the past
Future salary increasing rate	2.00% + Upgrade rate	Average for 5 years

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25. Provisions

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

		December 31, 2011	December 31, 2010	January 1, 2010
Asset retirement obligation	₩	21,470	20,258	19,089
Expected loss related to litigation		181,254	75,244	75,663
Unused credit commitments		98,717	94,536	100,341
Financial guarantee contracts issued		84,377	170,378	104,885
Others		54,506	60,592	37,022
	₩	<u>440,324</u>	<u>421,008</u>	<u>337,000</u>

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

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

		2011					
		Asset retirement	Litigation	Unused credit	Guarantee	Other	Total
Beginning balance	₩	20,258	75,244	94,536	170,378	60,592	421,008
Provision (reversal)		677	112,314	3,317	(70,844)	(6,086)	39,378
Provision used		(214)	(6,304)	-	-	-	(6,518)
Foreign exchange translation		-	-	864	1,227	-	2,091
Others(*)		749	-	-	(16,384)	-	(15,635)
Ending balance	₩	<u>21,470</u>	<u>181,254</u>	<u>98,717</u>	<u>84,377</u>	<u>54,506</u>	<u>440,324</u>
		2010					
		Asset retirement	Litigation	Unused credit	Guarantee	Other	Total
Beginning balance	₩	19,089	75,663	100,341	104,885	37,022	337,000
Provision (reversal)		676	2,533	(6,455)	41,013	23,570	61,337
Provision used		-	(2,952)	-	-	-	(2,952)
Foreign exchange translation		-	-	650	(820)	-	(170)
Others(*)		493	-	-	25,300	-	25,793
Ending balance	₩	<u>20,258</u>	<u>75,244</u>	<u>94,536</u>	<u>170,378</u>	<u>60,592</u>	<u>421,008</u>

(*) Other changes were due to the amounts discounted to present value and effect of discount rate change, etc

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26. Other liabilities

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

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Accounts payable	₩ 1,319,153	1,127,277	1,756,363
Sundry liabilities	1,363,530	1,606,286	1,279,051
Borrowing from trust account	2,008,134	1,836,844	1,464,524
Accrued expenses	2,913,047	2,614,923	2,560,358
Domestic exchange remittances pending	1,974,620	2,311,282	2,253,588
Due to agencies	392,055	430,043	394,695
Securities deposit received	422,891	433,143	283,345
Foreign exchange remittances pending	202,364	170,762	246,906
Suspense payable	160,559	153,325	86,328
Unearned income	89,855	94,122	116,581
Withholding value-added tax and other taxes	91,055	94,712	76,688
Dividend payable	19,017	18,677	18,882
Others	6,135	153	235
Present value discount account	(2,464)	(3,114)	(4,177)
	<u>₩ 10,959,951</u>	<u>10,888,435</u>	<u>10,533,367</u>

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27. Equity

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

	December 31, 2011	December 31, 2010	January 1, 2010
Capital stock:			
Common stock	₩ 7,928,078	7,928,078	7,928,078
Other equity instruments:			
Hybrid bonds	2,329,760	2,329,760	2,332,332
Capital surplus:			
Share premium	398,080	398,080	398,080
Others	5,084	6,884	6,823
	<u>403,164</u>	<u>404,964</u>	<u>404,903</u>
Capital adjustments:			
Stock options	1,034	(546)	-
Other	-	-	(2)
	<u>1,034</u>	<u>(546)</u>	<u>(2)</u>
Accumulated other comprehensive income:			
Net change in fair value of available-for-sale financial assets	915,895	1,414,126	1,350,968
Equity in other comprehensive income (loss) of associates, net	1,042	(51)	(21,450)
Foreign currency translation differences for foreign operations(*1)	(3,775)	(17,022)	-
	<u>913,162</u>	<u>1,397,053</u>	<u>1,329,518</u>
Retained earnings:			
Legal reserve	732,810	567,971	493,104
Voluntary reserve	4,232,167	3,223,470	2,668,724
Other reserve(*2)	40,994	44,174	74,653
Retained earnings(*3)	2,705,959	2,740,647	1,975,581
	<u>7,711,930</u>	<u>6,576,262</u>	<u>5,212,062</u>
Non-controlling interests	2,692	4,161	6,563
	<u>₩ 19,289,820</u>	<u>18,639,732</u>	<u>17,213,454</u>

(*1) In accordance with K-IFRS No. 1101 *First-time Adoption of Korea International Financial Reporting Standards*, the cumulative translation differences of all the foreign operations at the date of transition were regarded as nil.

(*2) Other reserve was established according to the oversea branch (Singapore, Mumbai)'s laws and it was only used to reduce overseas branch's deficit.

(*3) The amounts contain regulatory reserve for loan loss of ₩1,677,061 million and ₩1,193,484 million as of December 31, 2011 and December 31, 2010, respectively.

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27. Equity (continued)

(b) Capital stock

Capital stock of the controlling company as of December 31, 2011, 2010 and January 1, 2010 was as follows:

Number of authorized shares		2,000,000,000
Par value per share in won	₩	5,000
Number of issued shares outstanding		1,585,615,506

(c) Hybrid bonds

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

Date of issue	Date of expiration		Book value			Interest rate(%)
			December 31, 2011	December 31, 2010	January 1, 2010	
In Foreign currency:						
March 2, 2005	March 2, 2035	₩	298,951	298,951	298,951	5.66
September 20, 2006	September 20, 2036		94,761	94,761	94,761	6.82
September 20, 2006	September 20, 2036		237,144	237,144	237,144	6.82
In Won:						
October 28, 2004	October 28, 2034		-	-	2,572	5.70
March 21, 2008	March 21, 2038		19,978	19,978	19,978	6.83
March 21, 2008	March 21, 2038		119,878	119,878	119,878	7.30
March 25, 2008	March 25, 2038		49,948	49,948	49,948	7.30
March 28, 2008	March 28, 2038		510,000	510,000	510,000	7.02
June 5, 2009	June 5, 2039		699,370	699,370	699,370	5.95
June 29, 2009	June 29, 2039		299,730	299,730	299,730	5.95
		₩	<u>2,329,760</u>	<u>2,329,760</u>	<u>2,332,332</u>	

(*) The above hybrid bonds can be repaid early after 5 years or 10 years from date of issuance, and the maturity can be extended under the same condition. In addition, if no dividend was to be paid for common shares, the agreed interest was also not paid.

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27. Equity (continued)

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

		2011			
		Net change in fair value of available-for-sale financial assets	Equity in the other comprehensive loss of associates, net	Foreign currency translation differences for foreign operations	Total
Beginning balance	₩	1,414,126	(51)	(17,022)	1,397,053
Change due to fair value		(167,292)	1,093	-	(166,199)
Change due to impairment		(54,752)	-	-	(54,752)
Change due to disposal		(369,641)	-	-	(369,641)
Effect of hedge accounting		(8,318)	-	(4,790)	(13,108)
Effect of foreign currency movements		17	-	13,306	13,323
Effect of deferred tax		101,755	-	4,731	106,486
Ending balance	₩	915,895	1,042	(3,775)	913,162

		2010			
		Net change in fair value of available-for-sale financial assets	Equity in the other comprehensive loss of associates, net	Foreign currency translation differences for foreign operations	Total
Beginning balance	₩	1,350,968	(21,450)	-	1,329,518
Change due to fair value		342,822	27,387	-	370,209
Change due to impairment		36,248	-	-	36,248
Change due to disposal		(332,110)	-	-	(332,110)
Effect of hedge accounting		26,012	-	-	26,012
Effect of foreign currency movements		(3,385)	-	(16,941)	(20,326)
Effect of deferred tax		(6,429)	(5,988)	(81)	(12,498)
Ending balance	₩	1,414,126	(51)	(17,022)	1,397,053

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27. Equity (continued)

(e) Retained earnings restricted from being used

Retained earnings restricted from being used as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Legal reserve(*1)	₩ 732,810	567,971	493,104
Other reserve(*2)	40,994	44,174	74,653
	<u>₩ 773,804</u>	<u>612,145</u>	<u>567,757</u>

(*1) According to the article 40 of the Banking Act, the bank was required to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 100% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common stocks in connection with a free issue of shares

(*2) Other reserve was established according to the overseas branch (Singapore, Mumbai)'s laws and it was only used to reduce overseas branch's deficit.

(*3) According to the law, retained earning regulatory reserve for loan loss and revaluation reserves, which were restricted for the dividend, were accumulated ₩1,677,061 million and ₩634,747 million, respectively.

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28. Dividends

(a) Dividends of common stock for the years ended December 31, 2011 and 2010 were as follows:

		2011(*)	2010
Number of issued shares outstanding		1,585,615,506	1,585,615,506
Par value per share in won	₩	5,000	5,000
Dividend rate per share		9.33%	6.03%
Dividends per share in won	₩	466.70	301.48

(*) Dividends for the year ended December 31, 2011 includes both dividends to holders not recognized since they were not confirmed through general meeting of stockholders, even though it was proposed prior to the date of financial statements publication, and interim dividends.

(b) Dividends of hybrid bonds for the years ended December 31, 2011 and 2010 were as follows:

		2011	2010
Book value of hybrid bonds	₩	2,329,760	2,329,760
Weighted average interest rate		6.64%	6.70%
Dividends to hybrid bond holders	₩	154,720	156,113

(c) Dividends payout ratio

		2011	2010(*1)
Dividends	₩	740,000	478,033
Net income(*2)		2,118,421	1,670,048
Dividends payout ratio to net income		34.93%	28.62%
Net income adjusted for regulatory reserve(*2)	₩	1,634,844	-
Dividends to net income		45.26%	-

(*1) Provision for regulatory reserve for loan loss and net income adjusted for regulatory reserve for 2010 were not calculated.

(*2) Net income and net income adjusted for regulatory reserve were calculated on the basis of the amount attributable equity holder of the Bank.

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29. Regulatory reserve for loan loss

The Group should calculate and disclose regulatory reserve for loan loss, in accordance with Article 29-1 and 29-2 of Regulation on Supervision of Banking Business.

(a) The regulatory reserve for loan loss as of December 31, 2011, 2010 and January 1, 2010 was as follows:

		December 31, 2011	December 31, 2010	January 1, 2010
Regulatory reserve for loan loss	₩	1,677,061	-	-
Estimated regulatory reserve for loan loss		-	1,193,484	-
	₩	<u>1,677,061</u>	<u>1,193,484</u>	<u>-</u>

(b) Net income adjusted for regulatory reserve for loan loss and earnings per share adjusted for regulatory reserve for loan loss for the years ended December 31, 2011 and 2010 were as follows:

		2011	2010(*)
Provision for regulatory reserve for loan loss	₩	483,577	-
Net income adjusted for regulatory reserve		1,635,338	-
Earnings per share adjusted for regulatory reserve in won	₩	1,031	-

(*) Provision for regulatory reserve for loan loss and net income adjusted for regulatory reserve for 2010 were not calculated.

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30. Net interest income

(a) Net interest income for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Interest income:		
Cash and due from banks	₩ 96,476	44,801
Trading assets	209,459	171,708
Available-for-sale financial assets	811,551	807,581
Held-to-maturity financial assets	524,703	579,294
Loans	8,569,292	7,999,076
Others	138,148	127,330
	<u>10,349,629</u>	<u>9,729,790</u>
Interest expense:		
Deposits	4,156,645	3,861,302
Borrowings	284,487	250,297
Debt securities issued	864,209	975,352
Others	73,178	52,787
	<u>5,378,519</u>	<u>5,139,738</u>
Net interest income	₩ <u>4,971,110</u>	<u>4,590,052</u>

(b) Interest income recognized on impaired financial investments for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Interest income	₩ 54,673	37,674

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31. Net fees and commission income

Net fees and commission income for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Fees and commission income:		
Credit placement fees	₩ 44,724	41,251
Commission received as electronic charge receipt	144,363	140,749
Brokerage fees	166,103	188,285
Commission received as agency	319,185	313,924
Investment banking fees	64,596	77,995
Commission received in foreign exchange activities	156,238	152,922
Asset management fees	62,198	62,379
Gold service	706	427
Guarantee fees	50,059	50,085
Others	67,618	63,564
	<u>1,075,790</u>	<u>1,091,581</u>
Fees and commission expense:		
Credit-related fees	12,958	3,657
Brand-related fees	92,015	108,124
Service-related fees	6,565	3,306
Trading and brokerage fees	6,029	6,918
Commission paid in foreign exchange activities	19,534	17,402
Guarantee fees	10,030	4,818
Others	43,056	65,097
	<u>190,187</u>	<u>209,322</u>
Net fees and commission income	₩ <u>885,603</u>	<u>882,259</u>

32. Dividend income

Dividend income for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Trading assets	₩ 784	965
Available-for-sale financial assets	107,911	106,881
	₩ <u>108,695</u>	<u>107,846</u>

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33. Net trading income

Net trading income for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Trading assets and trading liabilities		
Gain on valuation of debt securities	₩ 4,190	17,439
Gain on sale of debt securities	35,686	22,876
Loss on valuation of debt securities	(1,794)	(1,754)
Loss on sale of debt securities	(42,582)	(18,898)
	<u>(4,500)</u>	<u>19,663</u>
Gain on valuation of equity securities	323	7,597
Gain on sale of equity securities	16,315	21,857
Loss on valuation of equity securities	(9,555)	(1,066)
Loss on sale of equity securities	(43,818)	(9,282)
	<u>(36,735)</u>	<u>19,106</u>
Gain on valuation of gold deposit	23,938	54,011
Gain on sale of gold deposit	6,745	4,323
Loss on valuation of gold deposit	(29,670)	(71,584)
Loss on sale of gold deposit	(1,438)	(116)
	<u>(425)</u>	<u>(13,366)</u>
	<u>(41,660)</u>	<u>25,403</u>
Derivatives		
Foreign exchange:		
Gain on valuation and transaction	3,603,305	5,923,688
Loss on valuation and transaction	(3,490,482)	(5,766,804)
	<u>112,823</u>	<u>156,884</u>
Interest rates:		
Gain on valuation and transaction	936,567	937,674
Loss on valuation and transaction	(896,648)	(960,275)
	<u>39,919</u>	<u>(22,601)</u>
Credit:		
Gain on valuation and transaction	-	2,897
Loss on valuation and transaction	-	(133)
	<u>-</u>	<u>2,764</u>
Equity:		
Gain on valuation and transaction	1,075,742	1,379,145
Loss on valuation and transaction	(1,070,930)	(1,370,134)
	<u>4,812</u>	<u>9,011</u>
Commodity:		
Gain on valuation and transaction	8,232	23,149
Loss on valuation and transaction	(7,802)	(7,655)
	<u>430</u>	<u>15,494</u>
	<u>157,984</u>	<u>161,552</u>
Net trading income	<u>₩ 116,324</u>	<u>186,955</u>

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34. Net gain (loss) on financial instruments designated at fair value through profit or loss

Details of net gain (loss) on financial instruments designated at fair value through profit or loss for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Assets		
Debt securities:		
Gain on valuation	₩ -	2,385
Gain on sale and redemption	-	5,395
Loss on sale and redemption	(357)	(1,778)
	₩ (357)	6,002

35. Net impairment loss on financial assets

Net impairment loss on financial assets for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Impairment loss:		
Loans and due from banks	₩ 652,707	1,186,586
Available-for-sale financial assets	90,194	65,663
Investments in associate	4,351	79,933
	747,252	1,332,182
Reversal of impairment loss:		
Available-for-sale financial assets	48	1,871
Other assets	7,049	59,739
	7,097	61,610
	₩ 740,155	1,270,572

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36. General and administrative expenses

General and administrative expenses for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Employee benefits:		
Salaries	₩ 997,303	882,139
Defined benefit plans	199,672	118,089
Defined contribution plans	587	585
Termination benefits	72,479	609
	<u>1,270,041</u>	<u>1,001,422</u>
Depreciation and amortization:		
Depreciation	153,206	196,000
Amortization of intangible assets	40,498	18,907
	<u>193,704</u>	<u>214,907</u>
Other general and administrative expenses:		
Other employee benefits	479,491	475,631
Rent	242,119	235,645
Service contract expenses	212,170	193,457
Taxes and dues	90,750	82,496
Advertising	60,494	50,575
Electronic data processing expenses	53,783	45,498
Others	217,335	225,982
	<u>1,356,142</u>	<u>1,309,284</u>
	<u>₩ 2,819,887</u>	<u>2,525,613</u>

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37. Share-based payments

(a) Stock options had granted as of December 31, 2011 were as follows:

	4th grant	5th grant	6th grant	7th grant
Grant date	March 30, 2005	March 21, 2006	March 20, 2007	March 19, 2008
Exercise price in won	₩28,006	₩38,829	₩54,560	₩49,053
Number of shares granted	1,871,400	2,143,800	715,500	314,700
Contractual exercise period	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date
Changes in number of shares granted:				
Outstanding at December 31, 2010	1,102,391	1,495,265	542,161	252,400
Exercised	(624,960)	(286,622)	-	(4,527)
Outstanding at December 31, 2011	477,431	1,208,643	542,161	247,873
Exercisable at December 31, 2011	477,431	1,208,643	542,161	247,873
Valuation method for the liability:	Fair value	Fair value	Fair value	Fair value
Valuation model	Black-Scholes Model	Black-Scholes Model	Black-Scholes Model	Black-Scholes Model
Stock price in won	₩39,750	₩39,750	₩39,750	₩39,750
Expected stock price volatility	34.85%	36.56%	32.42%	30.01%
Expected exercise period	0.12 years	0.61 years	1.11 years	1.61 years
Expected dividends rate	1.41%	1.41%	1.41%	1.41%
Risk-free interest rate	3.34%	3.34%	3.34%	3.33%
Fair value in won:	₩11,792	₩5,115	₩1,644	₩3,313

The weighted average exercise price for 2,476,108 options outstanding as of December 31, 2011 was ₩41,210.

(b) Equity-settled share-based payments

i) Equity-settled share-based payments as of December 31, 2011 were as follows:

	Content
Type	Equity-settled share-based payment
Service period	Upon appointment and promotion since April 1, 2010 (Within 3 years from grant date)
Performance conditions	Increase rate of stock price and achievement of target ROE(*)

(*) ROE: Return on equity

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37. Share-based payment (continued)

(b) Equity-settled share-based payments (continued)

ii) Granted shares and the fair value of grant date as of December 31, 2011 were as follows:

Grant date	Grant shares	Fair value(*1) (in won)	Estimated shares(*2)
April 1, 2010	306,400	₩ 45,150	116,908
July 21, 2010	3,800	46,800	1,825
August 30, 2010	12,400	46,500	5,513
November 4, 2010	3,800	44,000	1,463
December 30, 2010	42,800	52,900	14,329
January 11, 2011	65,200	51,500	21,108
January 28, 2011	49,500	50,700	15,240
February 10, 2011	3,300	49,700	977
April 18, 2011	15,400	46,800	3,620
	502,600		180,983

(*1) The fair value per share was evaluated based on the closing price of Shinhan Financial Group at each grant date.

(*2) Grant shares at grant date were adjusted pursuant to increase rate of stock price (33.4%) and achievement of target ROE (66.6%) based on standard quantity applicable to the days of service among specified period of service, which allows for the determination of acquired quantity at the end of the operation period.

(*3) The amount that the Group must pay to the Shinhan Financial Group according to commitment was recognized in liabilities after directly deducting the fair value evaluated by Shinhan Financial Group from equity. As of December 31, the fair value per share data evaluated by Shinhan Financial Group amounted to ₩39,750.

(c) Stock compensation costs calculated for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Reversal of compensation costs recorded for the year	₩ (23,269)	15,773
Residual compensation costs recorded after the year	15,168	13,436
Accrued expenses	22,045	61,288

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38. Other operating expenses, net

Other operating expenses, net for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Other operating income		
Gain on sale of assets:		
Loans	₩ 43,062	27,026
Property and equipment	423	499
Investment properties	5	-
Assets held for sale	1	-
	<u>43,491</u>	<u>27,525</u>
Others:		
Gain on hedge activity	240,766	443,291
Reversal of allowance for acceptances and guarantee	70,844	-
Rental income on investment property	18,819	19,495
Others	137,688	86,728
	<u>468,117</u>	<u>549,514</u>
	<u>511,608</u>	<u>577,039</u>
Other operating expenses		
Loss on sale of assets:		
Loans	54,096	44,976
Property and equipment	1,247	6,143
Loss from disposition of Intangible assets	16	1,120
Investment properties	-	5
Assets held for sale	1,531	-
	<u>56,890</u>	<u>52,244</u>
Others:		
Loss on hedge activity	262,589	449,988
Loss on allowance for acceptances and guarantee	-	41,013
Loss on other allowance	110,222	20,324
Contribution to fund	234,929	225,135
Insurance fee	211,860	192,629
Investment properties depreciation	5,331	4,450
Donations	84,335	80,576
Impaired loss on intangible assets	32,261	-
Others	156,454	119,958
	<u>1,097,981</u>	<u>1,134,073</u>
	<u>1,154,871</u>	<u>1,186,317</u>
Other operating expenses, net	<u>₩ (643,263)</u>	<u>(609,278)</u>

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39. Income tax expense

(a) The components of income tax expense for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Current income tax expense	₩ 588,745	401,104
Changes in deferred tax arising from temporary differences	(158,716)	(8,784)
Deferred income tax adjustment charged or credited directly to equity	106,002	(12,344)
Income tax expenses	₩ <u>536,031</u>	<u>379,976</u>

(b) The income tax expense calculated by applying statutory tax rates to the Group's taxable income for the year differs from the actual tax expense in the consolidated statements of income for the years ended December 31, 2011 and 2010 for the following reasons:

	2011	2010
Income before income taxes	₩ 2,654,946	2,050,434
Income taxes at statutory tax rates	642,471	496,179
Adjustments:		
Non-taxable income	(46,402)	(41,975)
Non-deductible expense	4,196	3,609
Tax credit	(8,928)	(8,781)
Decrease resulting from consolidated corporate tax system	(25,220)	(25,330)
Refund due to adjustments of prior year tax returns	(32,697)	(28,864)
Others	2,611	(14,862)
Income tax expense	₩ <u>536,031</u>	<u>379,976</u>
Effective tax rate	20.19%	18.53%
Statutory tax rate	24.20%	24.20%

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39. Income tax expense (continued)

(c) Changes in temporary differences and deferred tax assets (liabilities) for the years ended December 31, 2011 and 2010 were as follows:

	2011					Deferred tax assets (liabilities)(*1)
	Beginning balance	Decreases	Increases	Ending balance		
Accrued income	₩ (314,184)	(314,184)	(415,834)	(415,834)	(100,632)	
Accounts receivable	(109,075)	(109,075)	(74,850)	(74,850)	(18,114)	
Trading assets	262	151	(1,297)	(1,186)	(287)	
Available-for-sale financial assets	967,100	192,691	294,548	1,068,957	258,688	
Investments in associates(*2)	(31,956)	-	8,242	(23,714)	(5,739)	
Deferred loan origination costs and fees	81,815	65,747	53,493	69,561	16,834	
Revaluation and depreciation on Property and equipment	(484,133)	-	(11,830)	(495,963)	(120,023)	
Derivative assets (liabilities)	344,973	344,973	(155,151)	(155,151)	(37,547)	
Deposits	120,097	120,097	154,993	154,993	37,508	
Accrued expenses	74,995	65,202	187,341	197,134	47,706	
Defined benefit obligations	339,622	95,854	130,456	374,224	90,562	
Plan assets	(251,880)	(8,112)	(130,456)	(374,224)	(90,562)	
Other provisions	217,803	217,803	318,701	318,701	77,126	
Allowance for guarantees and acceptance	208,736	208,736	109,458	109,458	26,489	
Allowance for advanced depreciation	(181,104)	(8)	-	(181,096)	(43,825)	
Allowance for expensing depreciation	(3,546)	(232)	-	(3,314)	(802)	
Deemed dividends	44,594	39,081	-	5,513	1,334	
Net change in fair value of available-for-sale financial assets	(1,807,656)	(1,807,656)	(1,196,487)	(1,196,487)	(289,550)	
Donation payables	43,954	43,954	82,185	82,185	19,889	
Provisions on derivatives	49,576	49,576	-	-	-	
Allowance and bad debt	(740,861)	(822,819)	(263,809)	(181,851)	(43,750)	
Compensation expenses associated with stock option	48,077	16,319	(21,783)	9,975	2,414	
Fictitious dividends	4,613	648	25	3,990	965	
Others	(80,769)	(18,624)	(18,358)	(80,503)	(19,783)	
	<u>(1,458,947)</u>	<u>(1,619,878)</u>	<u>(950,413)</u>	<u>(789,482)</u>	<u>(191,099)</u>	
Temporary differences not qualified for deferred tax assets or liabilities:						
Investments in associates(*2)	(53,017)	(10,195)	-	(42,822)	(10,363)	
	<u>₩ (1,405,930)</u>	<u>(1,609,683)</u>	<u>(950,413)</u>	<u>(746,660)</u>	<u>(180,736)</u>	

(*1) Deferred tax assets belong to international subsidiaries has increased by ₩588 million due to the effect of foreign currency differences.

(*2) The effect of income taxes by the valuation of equity method was rationally estimated based on the both plausibility and the applicable amount of deferred income tax belong to each associate investee

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39. Income tax expense (continued)

(c) Changes in temporary differences and deferred tax assets (liabilities) (continued)

	2010					Deferred tax assets (liabilities)(*1)
	Beginning balance	Decreases	Increases	Ending balance		
Accrued income	₩ (30,318)	(46,474)	(330,340)	(314,184)	(70,102)	
Accounts receivable	121,479	112,092	(118,462)	(109,075)	(23,997)	
Trading assets	(1,119)	(1,119)	262	262	63	
Available-for-sale financial assets	1,018,510	289,598	238,188	967,100	194,511	
Investments in associates(*2)	(74,682)	363,888	406,614	(31,956)	(7,030)	
Deferred loan origination costs and fees	124,753	124,753	81,815	81,815	18,353	
Revaluation and depreciation on property and equipment	(544,276)	(138)	60,005	(484,133)	(106,509)	
Derivative assets (Liabilities)	(34,824)	-	379,797	344,973	76,166	
Deposits	86,650	86,650	120,097	120,097	26,421	
Accrued expenses	(6,086)	8,761	89,842	74,995	17,760	
Defined benefit obligations	245,868	3,160	96,914	339,622	74,717	
Plan assets	(195,141)	(3,160)	(59,899)	(251,880)	(55,414)	
Other Provisions	221,602	221,602	217,803	217,803	49,804	
Allowance for guarantees and acceptance	62,995	62,995	208,736	208,736	45,922	
Allowance for advanced depreciation	(181,104)	-	-	(181,104)	(44,098)	
Allowance for expensing depreciation	(3,778)	(232)	-	(3,546)	(780)	
Deemed dividends	23,542	-	21,052	44,594	9,811	
Net change in fair value of available-for-sale financial assets	(1,738,069)	(1,738,069)	(1,807,656)	(1,807,656)	(393,530)	
Donation payables	36,023	36,023	43,954	43,954	10,637	
Provisions on derivatives	113,373	113,373	49,576	49,576	11,997	
Donation	41,417	41,417	-	-	-	
Financial assets (liabilities) designated as at fair value through profit or loss	(178)	(178)	-	-	-	
Allowance and bad debt	(1,057,492)	(1,057,492)	(740,861)	(740,861)	(178,871)	
Compensation expenses associated with stock option	-	-	48,077	48,077	11,633	
Fictitious dividends	-	-	4,613	4,613	1,015	
Others	224,859	192,499	(113,129)	(80,769)	(20,183)	
	<u>(1,545,996)</u>	<u>(1,190,051)</u>	<u>(1,103,002)</u>	<u>(1,458,947)</u>	<u>(351,704)</u>	
Temporary differences not qualified for deferred tax assets or liabilities:						
Investments in associates(*2)	(85,787)	(32,770)	-	(53,017)	(11,664)	
Other provisions	57,417	57,417	-	-	-	
₩	<u>(1,517,626)</u>	<u>(1,214,698)</u>	<u>(1,103,002)</u>	<u>(1,405,930)</u>	<u>(340,040)</u>	

(*1) Deferred tax assets belong to international subsidiaries has increased by ₩191 million due to the effect of foreign currency differences.

(*2) The effect of income taxes by the valuation of equity method was rationally estimated based on the both plausibility and the applicable amount of deferred income tax belong to each associate investee

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39. Income tax expense (continued)

(d) The deferred tax assets and liabilities that were directly charged or credited to equity as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011		December 31, 2010	
	Temporary difference	Deferred tax assets (liabilities)	Temporary difference	Deferred tax assets (liabilities)
Net change in fair value of available-for-sale financial assets	₩ 1,207,670	(291,775)	1,807,656	(393,530)
Equity in other comprehensive income (loss) of associates	1,042	-	(51)	-
Foreign currency translation differences for foreign operations	(8,425)	4,650	(16,941)	(81)
Other (stock option)	1,364	(330)	(700)	154
	₩ <u>1,201,651</u>	<u>(287,455)</u>	<u>1,789,964</u>	<u>(393,457)</u>

	December 31, 2010		January 1, 2010	
	Temporary difference	Deferred tax assets (liabilities)	Temporary difference	Deferred tax assets (liabilities)
Net change in of available-for-sale financial assets	₩ 1,807,656	(393,530)	1,738,069	(387,101)
Equity in other comprehensive income of associates	(51)	-	(27,438)	5,988
Foreign currency translation differences for foreign operations	(16,941)	(81)	-	-
Other (stock option)	(700)	154	-	-
	₩ <u>1,789,964</u>	<u>(393,457)</u>	<u>1,710,631</u>	<u>(381,113)</u>

(e) The current tax assets and current tax liabilities as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Current tax assets:			
Prepaid income tax payments	₩ 8,819	10,472	6,746
Current tax liabilities:			
Payable due to consolidated corporate tax system	342,078	68,926	-
Income tax payable	30,428	48,737	224,988
	₩ <u>372,506</u>	<u>117,663</u>	<u>224,988</u>

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(In millions of won, except per share data)

39. Income tax expense (continued)

(f) The current tax assets (liabilities) and deferred tax assets (liabilities) presented on a gross basis prior to any offsetting as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Deferred tax assets	1,220,570	914,926	1,989,828
Deferred tax liabilities	1,401,306	1,254,966	2,338,843
Current tax assets	282,854	277,456	90,406
Current tax liabilities	646,541	384,647	308,648

40. Earnings per share

Earnings per share for the years ended December 31, 2011 and 2010 were computed as follows:

	<u>2011</u>	<u>2010</u>
Net income for the year	₩ 2,118,421	1,670,048
Less: dividends on other capital instruments	(154,720)	(156,113)
Net income available for common stock	1,963,701	1,513,935
Weighted average number of common shares outstanding	1,585,615,506	1,585,615,506
Earnings per share in won	₩ <u>1,238</u>	<u>955</u>

Considering that the Group had no dilutive potential common shares and stock options were not included in the calculation of diluted earnings per share because they were anti-dilutive for the reporting periods, diluted earnings per share equal to basic earnings per share for the years ended December 31, 2011 and 2010.

SHINHAN BANK AND SUBSIDIARIES

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41. Statements of appropriation of retained earnings

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

	2011	2010
Unappropriated retained earnings	₩ 2,648,094	2,796,321
Balance at beginning of the year	1,147,932	1,210,372
Interim dividends	(350,000)	-
Dividends to hybrid bond holders	(154,719)	(156,114)
Net income for the year	2,004,881	1,742,063
Transfer from reserves	4,235,846	3,233,653
Other reserve	3,679	10,183
Voluntary reserve	4,232,167	3,223,470
	<u>6,883,940</u>	<u>6,029,974</u>
Appropriation of retained earnings	6,883,940	4,882,042
Legal reserve	200,489	164,839
Regulatory reserve for loan loss	1,677,061	-
Asset revaluation surplus	634,747	-
Other reserve	18,264	7,003
Voluntary reserves	3,963,379	4,232,167
Dividends	<u>390,000</u>	<u>478,033</u>
Cash dividends on common stock	390,000	478,033
Dividends per share in won:		
Current year ₩245.96 (4.92%)		
Last year ₩301.48 (6.03%)		
Unappropriated retained earnings carried over to subsequent year	₩ <u>-</u>	<u>1,147,932</u>

(*1) These statements of appropriation of retained earnings were based on the separate financial statements of the parent company.

(*2) The statements of appropriation of retained earnings for the year ended December 31, 2010 reflected adjustments due to adoption of K-IFRS were different from the amount recorded under previous K-GAAP.

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42. Operating revenues

(a) Details of operating revenues for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Interest income	₩ 10,349,629	9,729,790
Fees and commission income	1,075,790	1,091,581
Dividend income	108,695	107,846
Trading income	5,711,044	8,394,656
Foreign currency transaction gain	1,491,454	595,963
Gain on financial instruments designated at fair value through profit or loss	-	7,780
Gain on sale of available-for-sale financial assets	657,929	645,041
Reversal of impairment loss of financial assets	48	1,871
Other operating income	511,608	577,039
	₩ <u>19,906,197</u>	<u>21,151,567</u>

(b) Reconciliations of operating revenues reported under K-IFRS to previous K-GAAP for the years ended December 31, 2011 were as follows:

	2011
K-IFRS	₩ 19,906,197
Adjustments:	
Deduction	
Gain on retrieve of investments in associates	(44,243)
Gain on sale of property and equipment	(423)
Rental income from investment properties	(18,819)
Gain on repayment of debt securities	(14,152)
Gain on sale of bad debt	(48,088)
Gain on recovery of bad debt	(19,774)
Others	(41,595)
	<u>(187,094)</u>
Previous K-GAAP	₩ <u>19,719,103</u>

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For the years ended December 31, 2011 and 2010
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42. Operating revenues (continued)

(c) Reconciliations of operating income reported under K-IFRS to previous K-GAAP for the year ended December 31, 2011 were as follows:

	2011
K-IFRS	₩ 2,625,951
Adjustments:	
Deduction	
Gain on retrieve of investments in associates	44,243
Gain on sale of property and equipment	423
Rental income from investment properties	18,819
Gain on repayment of debt securities	14,152
Gain on sale of bad debt	48,088
Gain on recovery of bad debt	19,774
Others	41,595
	<u>(187,094)</u>
Addition:	
Loss on retrieve of investments in associates	470
Impairment loss on investment in associates	4,351
Loss on sale of property and equipment	1,247
Donations and contributions	84,335
Impairment loss on intangible assets	32,261
Collecting of written-off expenses	2,021
Collecting of written-off commission	3,722
Depreciation of investment properties	5,331
Debt ex-post settling up	6,756
Direct operating expenses arising from investment properties	4,385
Others	45,182
	<u>190,061</u>
Previous K-GAAP	₩ <u><u>2,628,918</u></u>

SHINHAN BANK AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and 2010
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43. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Guarantees:			
Guarantee outstanding	₩ 10,093,632	8,516,282	8,569,141
Contingent guarantees	6,880,648	7,112,352	6,930,292
	<u>16,974,280</u>	<u>15,628,634</u>	<u>15,499,433</u>
Commitments to extend credit:			
Loan commitments in won	₩ 46,103,454	45,221,127	39,204,431
Loan commitments in foreign currency	19,372,663	17,058,732	18,705,100
ABS and ABCP purchase commitments(*)	1,605,268	2,688,976	3,706,044
Others	1,221,400	824,984	867,834
	<u>68,302,785</u>	<u>65,793,819</u>	<u>62,483,409</u>
Endorsed bills:			
Secured endorsed bills	₩ 9,746	12,119	51,652
Unsecured endorsed bills	8,773,125	12,322,165	11,681,946
	<u>8,782,871</u>	<u>12,334,284</u>	<u>11,733,598</u>
Loans sold with repurchase agreement	₩ 2,099	2,207	2,207

(*) ABS: Asset Backed Securities
ABCPC: Asset Backed Commercial Paper

(b) Provision for acceptances and guarantees

Allowance for acceptances and guarantees, as of December 31, 2011, 2010 and January 1, 2010 was as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Guarantees outstanding	₩ 10,093,632	8,516,282	8,569,141
Contingent guarantees	6,880,648	7,112,352	6,930,292
ABS and ABCP purchase commitments(*)	1,605,268	2,688,976	3,706,044
Endorsed bills	9,746	12,119	51,652
Guarantees outstanding	<u>18,589,294</u>	<u>18,329,729</u>	<u>19,257,129</u>
Contingent guarantees	₩ 84,377	170,378	104,885
Ratio	<u>0.45%</u>	<u>0.93%</u>	<u>0.54%</u>

(*) ABS: Asset Backed Securities
ABCPC: Asset Backed Commercial Paper

(c) Guaranteed fixed rate trust

As of December 31, 2011, 2010 and January 1, 2010, the Group guaranteed repayment of principal on trust account assets under management was the amount of ₩3,391,444 million, ₩3,557,556 million and ₩3,623,164 million, respectively. Additional losses may be recorded based on future performance of these guaranteed trust accounts.

SHINHAN BANK AND SUBSIDIARIES
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43. Commitments and contingencies (continued)

(d) Legal contingencies

The Group was subject to various legal proceedings and claims that arise in the ordinary course of business. The Group establishes reserves for specific liabilities in connection with legal actions that it deems to be probable and estimable. In other instances, the Group was not able to make a reasonable estimate of any liability because of uncertainties related to the outcome and/or the amount or range of loss.

As of December 31, 2011, the Group was involved in 195 pending lawsuits as a defendant (total claim amount: ₩583,713 million) and recorded a provision in other liabilities of ₩181,254 million with respect to these lawsuits. In the opinion of management, the ultimate disposition of these pending litigations will not have a material adverse effect on the Group's financial position, results of operations, or liquidity.

(e) Maturity structure of minimum lease payments

		within 1 year	1~5years	over 5years	Total
Minimum lease payments	₩	68,791	92,146	12,758	173,695

44. Cash flows

(a) Cash and cash equivalents reported in the accompanying consolidated interim statements of cash flows as of December 31, 2011, 2010 and January 1, 2010 were as follows:

		December 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	₩	2,079,573	2,477,255	1,732,511
Due from other financial institutions		1,032,129	673,621	1,361,676
	₩	<u>3,111,702</u>	<u>3,150,876</u>	<u>3,094,187</u>

(*) Cash and cash equivalents in the accompanying the consolidated statements of cash flows include unrestricted due from other financial institutions with original maturities of less than three months.

(b) Significant non-cash activities for the years ended December 31, 2011 and 2010 were as follows:

		2011	2010
Dividend payable of hybrid bonds	₩	340	208
Debt-equity swap		71,280	71,943

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45. Related parties

(a) Significant balances with the related parties as of December 31, 2011, 2010 and January 1, 2010 were as follows:

Related party	Account		December 31, 2011	December 31, 2010	January 1, 2010	
The Groups Parent company						
Shinhan Financial Group	Deposits	₩	2,220,564	787	9,822	
	Other liabilities		389,542	143,388	57,799	
Other related parties						
Shinhan Card Co., Ltd.	Derivative assets	₩	881	3,572	3,856	
	Loans		-	15,300	58,200	
	Allowances		-	3	22	
	Other assets		1,894	1,765	29	
	Deposits		232,378	26,693	25,597	
	Derivative liabilities		43,268	33,503	54,049	
	Other liabilities		46,824	41,864	27,382	
	Shinhan Life Insurance	Derivative assets		2,703	12,475	23,159
		Other assets		90	108	103
		Allowances		1	2	1
		Deposits		16,219	65,841	65,914
		Debt securities issued		60,000	59,664	59,035
	Shinhan Investment Corp	Derivative liabilities		2,620	2,807	4,512
		Other liabilities		60,048	43,855	15,572
Derivative assets			55	32	290	
Other assets			34,815	12,191	10,949	
Allowances			40	26	12	
Debt securities issued			30,000	30,100	-	
Deposits			290,410	190,962	168,623	
Provisions			7	7	7	
Derivative liabilities			28	34	522	
Other liabilities			35,101	22,625	21,494	
Shinhan Capital Co., Ltd.	Other assets		3	1	1	
	Loans		-	-	96	
	Allowances		-	-	1	
	Derivative liabilities		-	36,335	19,273	
	Deposits		4,872	3,778	7,920	
	Other liabilities		976	979	969	
	Jeju Bank	Loans		16,504	11,681	10,507
Allowances			3	5	4	
Other assets			77	68	53	
Deposits			2,931	432	250	
Other liabilities			1,141	1,140	-	

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45. Related parties (continued)

Related party	Account	December 31, 2011	December 31, 2010	January 1, 2010
Other related parties (continued)				
Shinhan Credit Information Co., Ltd.	Deposits	₩ 9,162	9,470	9,452
	Other liabilities	1,523	1,468	1,967
Shinhan Private Equity, Inc	Loans	13,980	29,065	7,657
	Allowances	1,221	286	85
	Derivative assets	-	-	37
	Other assets	58	47	25
	Deposits	6,527	4,107	6,314
	Other liabilities	123	2	-
Shinhan BNP Paribas AMC	Deposits	87,791	80,784	59,847
	Other liabilities	1,505	977	966
Shinhan Data system	Deposits	6,105	6,777	6,328
	Other liabilities	286	277	257
SHC Management Co., Ltd.	Deposits	100	100	-
	Other liabilities	3	5	-
Shinhan Savings Bank	Deposits	3,992	-	-
Investments in associates				
Shinhan Corporate Restructuring fund 7th	Deposits	19	275	5,828
Aju Capital Co., Ltd.	Loans	50,000	110,000	150,000
	Allowances	254	558	426
	Provisions	11	675	381
UAMCO., Ltd	Loans	38,723	40,257	-
	Allowances	52	29	-
Pohang TechnoPark2PFV	Loans	658	-	-
	Allowances	3	-	-
	Provisions	286	-	-
Key management personnel	Loans	1,239	1,286	1,147
		₩ <u>3,717,616</u>	<u>1,048,468</u>	<u>896,740</u>

(b) Significant transactions with the related parties for the years ended December 31, 2011 and 2010 were as follows:

Related party	Account	2011	2010
The Groups Parent company			
Shinhan Financial Group	Other operating incomes	₩ 701	597
	Interest expense	36,046	564
	Fees and commission expense	92,023	108,163
	Other operating expenses	911	885

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45. Related parties (continued)

Related party	Account	2011	2010
Other related parties			
Shinhan Card Co., Ltd.	Interest income	₩ 1,990	5,483
	Fees and commission income	158,274	154,164
	Gain related to derivatives	18,528	39,662
	Interest expense	4,128	1,092
	Fees and commission expense	1,522	1,009
	Other operating expense	154	2,766
	Impairment for Allowance	-	3
	Loss related to derivatives	13,370	4,413
	Other operating income	1,324	1,435
	Shinhan Life Insurance	Interest income	52
Fees and commission income		17,194	19,113
Gain related to derivatives		689	3,182
Other operating income		1,360	1,423
Interest expense		1,864	4,153
Other operating expense		-	21
Impairment for Allowance		2	2
Loss related to derivatives		1,385	3,531
Shinhan Investment Corp	Interest income	788	1,038
	Fees and commission income	6,372	5,676
	Gain related to derivatives	381	4,763
	Other operating income	1,237	1,994
	Interest expense	10,669	4,862
	Fees and commission expense	-	4
	Other operating expense	974	2,010
	Impairment for Allowance	3	32
Shinhan Capital Co., Ltd.	Interest income	4	10
	Gain related to derivatives	1,220	171
	Other operating income	617	873
	Interest expense	367	273
	Other operating expense	578	832
	Impairment for Allowance	2	-
	Loss related to derivatives	115	17,233
	Other operating income	617	873
Jeju Bank	Interest income	169	178
	Fees and commission income	1	1
	Other operating income	44	34
	Interest expense	41	31
	Impairment for allowance	2	5

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45. Related parties (continued)

Related party	Account	2011	2010
Other related parties (continued)			
Shinhan Credit Information Co., Ltd.	Other operating income	₩ 56	65
	Interest expense	377	350
	Fees and commission expense	6,110	4,821
	Other operating expense	100	74
Shinhan Private Equity, Inc	Interest income	1,111	639
	Fees and commission income	7	22
	Gain related to derivatives	-	41
	Interest expense	8	9
	Impairment for allowance	1,058	141
Shinhan BNP Paribas AMC	Loss related to derivatives	-	37
	Fees and commission income	-	1,114
	Other operating income	6	-
	Interest expense	3,516	615
SHC Management Co., Ltd.	Fees and commission expense	-	1,372
	Interest expense	3	5
Shinhan Data system	Other operating income	301	4,337
	Interest expense	142	82
	Other operating expense	26,165	21,716
Investments in associates			
Shinhan Corporate Restructuring fund 7th	Other operating expense	1,283	-
	Interest expense	1	-
Key management personnel	Interest incomes	55	71
		₩ 415,752	432,253

(c) Details of benefits compensated to the related parties for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Short-term employee benefits	₩ 7,108	7,580
Severance benefits	130	70
Share-based payment transactions	159	7,547
	₩ 7,397	15,197

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45. Related parties (continued)

(d) Guarantees provided between the related parties as of December 31, 2011, 2010 and January 1, 2010 were as follows:

Guarantor	Guaranteed Parts	Amount of guarantees			Account
		December 31, 2011	December 31, 2010	January 1, 2010	
Shinhan Bank	Shinhan Capital Co., Ltd.	₩ 321	-	-	Letter of credit
		-	1,550	701	Letter of guarantee
	SHC Management Co., Ltd.	94	94	94	Performance guarantees
	Aju Capital Co., Ltd.	-	103,090	109,270	Debt securities issued guarantees
		-	-	2,554	Letter of credit
		-	20,000	-	Loan commitment
	Shinhan Investment Corp	15,566	90,000	90,000	Financial guarantee
		₩ 15,981	214,734	202,619	

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46. Investment in subsidiaries

(a) Condensed financial information for the Group's subsidiaries.

i) Condensed financial positions for the Shinhan Bank, the controlling company, and its subsidiaries as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011			December 31, 2010			January 1, 2010		
	Total assets	Total liabilities	Total equity	Total assets	Total liabilities	Total equity	Total assets	Total liabilities	Total equity
Shinhan Bank	₩ 222,050,205	202,846,814	19,203,391	206,919,613	188,203,827	18,715,786	203,693,469	186,487,257	17,206,212
Shinhan Asia	249,278	81,067	168,211	204,789	45,244	159,545	209,711	48,857	160,854
Shinhan America	1,087,346	997,450	89,896	1,054,949	968,960	85,989	1,126,811	1,059,216	67,595
Shinhan Europe	398,781	322,439	76,342	371,450	298,629	72,821	347,895	271,976	75,919
Shinhan Khmer	55,571	29,065	26,506	51,778	26,824	24,954	54,530	30,071	24,459
Shinhan									
Kazakhstan	132,404	54,922	77,482	42,564	2,874	39,690	42,209	1,848	40,361
Shinhan Canada	278,578	253,496	25,082	157,243	129,934	27,309	101,552	72,625	28,927
Shinhan China	1,891,122	1,539,433	351,689	1,689,942	1,363,865	326,077	1,323,294	980,683	342,611
Shinhan Aitas	27,991	3,215	24,776	25,778	4,347	21,431	18,791	2,739	16,052
Shinhan Japan	6,550,230	6,132,182	418,048	5,518,173	5,142,900	375,273	4,450,812	4,235,808	215,004
Shinhan Vietnam	1,049,260	726,388	322,872	503,073	319,955	183,118	359,984	266,006	93,978
Special Purpose Entities	2,259,326	2,449,676	(190,350)	4,584,862	4,726,419	(141,557)	5,084,477	4,966,438	118,039
	₩ 236,030,092	215,436,147	20,593,945	221,124,214	201,233,778	19,890,436	216,813,535	198,423,524	18,390,011

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46. Investment in subsidiaries (continued)

ii) Condensed comprehensive income statements for the Shinhan Bank, the controlling company, and its subsidiaries for the years ended December 31, 2011 and 2010 were as follows:

	2011			2010		
	Operating income	Net income	Total comprehensive income	Operating income	Net income	Total comprehensive income
Shinhan Bank	₩ 19,348,654	2,004,881	1,468,777	20,692,098	1,742,063	1,818,539
Shinhan Asia	11,432	4,145	8,666	8,609	645	(1,309)
Shinhan America	65,852	1,397	3,907	67,222	(15,406)	(16,031)
Shinhan Europe	15,268	4,605	3,522	14,510	2,782	(3,099)
Shinhan Khmer	4,102	1,214	1,552	3,763	1,108	494
Shinhan Kazakhstan	5,951	(1,279)	242	3,013	58	(671)
Shinhan Canada	8,750	(1,993)	(2,227)	5,481	(2,427)	(1,618)
Shinhan China	97,553	17,288	25,613	73,743	(8,187)	(16,530)
Shinhan Aitas	23,552	3,345	3,345	21,685	5,380	5,380
Shinhan Japan	180,402	12,410	42,775	145,104	10,179	21,200
Shinhan Vietnam	77,203	21,555	6,935	43,937	19,191	11,201
Special Purpose Entities	169,366	(24,483)	(24,696)	232,902	151,166	142,561
	₩ <u>20,008,085</u>	<u>2,043,085</u>	<u>1,538,411</u>	<u>21,312,067</u>	<u>1,906,552</u>	<u>1,960,117</u>

47. Information of trust business

(a) Significant balances with trust business as of December 31, 2011, 2010 and January 1, 2010 were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Borrowings from trust account	₩ 2,008,134	1,836,844	1,464,524

(b) Significant transactions with trust business for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Fees and commissions from trust account	₩ 62,198	57,935
Commissions received from cancellation of commodities	46	34
Interest on borrowings from trust account	61,871	37,214

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48. Implementation of K-IFRS

As stated in note 2(a), these are the Group's first consolidated financial statements prepared in accordance with K-IFRSs.

The accounting policies set out in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening K-IFRS statement of financial position at January 1, 2010 (the Group's date of transition).

In preparing its opening K-IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous K-GAAP. An explanation of how the transition from previous K-GAAP to K-IFRSs has affected the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

(a) Significant differences in accounting policies

i) First-time adoption of K-IFRSs

Area	K-IFRS
Business combinations	K-IFRS No. 1103 <i>Business Combinations</i> will not be applied retroactively to business combinations occurring prior to January 1, 2010.
Deemed cost	The Bank elected to measure land and buildings at fair value at the date of transition and use those fair values as their deemed costs.
Cumulative translation differences	The cumulative translation difference of foreign operations as of January 1, 2010 will be regarded as nil.
Derecognition of financial assets and financial liabilities	The derecognition requirements in K-IFRS No. 1039 <i>Financial Instruments: Recognition and Measurement</i> were applied prospectively for transactions occurred on or before the date of transition.

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For the years ended December 31, 2011 and 2010

48. Implementation of K-IFRS (continued)

(a) Significant differences in accounting policies (continued)

i) First-time adoption of K-IFRSs (continued)

Area	K-IFRS
Financial asset designated as available for sale or financial instrument designated as a financial asset or financial liability at fair value through profit or loss	Although K-IFRS No. 1039 <i>Financial Instruments: Recognition and Measurement</i> permits a financial asset to be designated on initial recognition as available for sale or a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss, those designations are permitted at the date of transition. The Group elected to use these exemptions.
Share-based payment transactions	K-IFRS No. 1102 <i>Share-based Payment</i> was applied retrospectively to equity instruments that were granted on or before the date of transition.
Decommissioning liabilities included in the cost of property and equipment	The amount that would have been included in the cost of the related asset when the liability first arose is estimated by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period.

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48. Implementation of K-IFRS (continued)

(a) Significant differences in accounting policies (continued)

ii) Significant differences between K-IFRS and previous K-GAAP

Area	K-IFRS	Previous K-GAAP
Basis of financial statement preparation	Consolidated financial statement	Separate financial statement
Consolidation scope	If the Group has dominant influence or control over the subsidiary including special purpose vehicle (SPV), the subsidiary is included in the Group's consolidation scope regardless of the subsidiary size.	Based on the Act on External Audit of Stock Companies, a stock company whose total value of assets is less than ₩ 10 billion as of the end of the immediate preceding fiscal year, shall not be considered a subsidiary. Consolidation of SPV is not stipulated in K-GAAP.
Allowance for loan losses	Allowance for loan losses that has been incurred but not yet identified are estimated at a specific asset and collective level using historical experience.	Allowance for loan losses is estimated at the greater of the amount resulting from the expected loss method reasonably estimated using the historical experience and the amount estimated based on the asset classification guidelines of the Financial Services Commission in accordance with the Regulations for the Supervision of Banks.
Revenue recognition	All fees associated with origination of loans are deferred and recognized over the expected life of the loan using the effective interest method as an adjustment to the loan balance and interest income.	Fees directly associated with origination of loans are deferred and recognized over the maturity of the loan using the effective interest method as an adjustment to the loan balance and interest income.

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For the years ended December 31, 2011 and 2010

48. Implementation of K-IFRS (continued)

(a) Significant differences in accounting policies (continued)

ii) Significant differences between K-IFRS and previous K-GAAP (continued)

Area	K-IFRS	Previous K-GAAP
Presentation of liabilities and equity	The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.	Classified under Commercial Law
Derecognition of financial instruments	Depending on the extent to which it retains the risks and rewards of ownership of the financial asset, the transferred asset continues to be recognized, is derecognized or continues to be recognized to the extent of its continuing involvement in the financial asset.	Depends on whether or not the Group retains control over the financial assets, the transferred asset continues to be recognized or derecognized.
Employee benefits	Under the Projected Unit Credit Method, the Bank recognizes a defined benefit obligation calculated using an actuarial technique and a discount rate based on the present value of the projected benefit obligation.	The Group establishes an allowance for severance liability equal to the amount which would be payable if all employees left at the end of the reporting period.

(b) Changes in subsidiaries

Under previous K-GAAP, certain SPEs were excluded from consolidation, however they are considered to be consolidated subsidiaries in accordance with K-IFRS No. 2012 *Consolidation Special Purpose Entities*. Additionally, under previous K-GAAP, trust accounts where there is a repayment guarantee of principal and minimum interest earnings are subject to consolidation scope in accordance with Detailed Regulation on Supervision of Banking Business. Under K-IFRS, however, guaranteed principal money trusts are excluded from the consolidation scope since the Bank does not have control.

SHINHAN BANK AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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48. Implementation of K-IFRS (continued)

(c) Summary of the effects of the adoption of K-IFRS on the Group's financial position and the results of its operation

i) The effects on the Group's financial position due to the adoption of K-IFRS as of the date of transition to K-IFRS, January 1, 2010 was as follows:

	<u>Total assets</u>	<u>Total liabilities</u>	<u>Total equity</u>
Previous K-GAAP	₩ 209,385,296	195,963,150	13,422,146
Adjustments:			
Changes in the consolidated entities	(1,363,093)	(1,410,804)	47,711
Allowance for loan losses	1,043,231	-	1,043,231
Allowance for unused loan commitments	-	(166,508)	166,508
Effective interest	(38,671)	(4,490)	(34,181)
Fair value of financial guarantee contract and allowance for loss on guarantees and acceptances	60,382	23,069	37,313
Impairment of securities	(48,326)	-	(48,326)
Hybrid bonds	-	(2,529,787)	2,529,787
Deemed cost for land and buildings	456,280	-	456,280
Change in depreciation method for furniture, office equipment and others	67,000	-	67,000
Defined benefit obligation (Actuarial valuation)	-	49,760	(49,760)
Fair value of share based payment	-	10,394	(10,394)
Others	(91,858)	(68,151)	(23,707)
Tax effect on adjustments	(45,035)	345,119	(390,154)
Total adjustments	<u>39,910</u>	<u>(3,751,398)</u>	<u>3,791,308</u>
K-IFRS	<u>₩ 209,425,206</u>	<u>192,211,752</u>	<u>17,213,454</u>

SHINHAN BANK AND SUBSIDIARIES

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48. Implementation of K-IFRS (continued)

(c) Summary of the effects of the adoption of K-IFRS on the Group's financial position and the results of its operation (continued)

ii) The effects on the Group's financial position due to the adoption of K-IFRS as of December 31, 2010 and results of its operations for the year end of December 31, 2010 were as follows:

	Total assets	Total liabilities	Total equity	Net income(*)	Total comprehensive income(*)
Previous K-GAAP	₩ 212,876,919	197,866,018	15,010,901	1,649,153	1,740,775
Adjustments:					
Changes in the consolidated entities	(1,239,897)	(1,197,606)	(42,291)	(47,489)	(93,424)
Allowance for loan losses	980,028	-	980,028	(62,746)	(63,356)
Allowance for unused loan commitments	-	(192,688)	192,688	26,282	26,366
Effective interest	(12,829)	(3,982)	(8,847)	25,334	25,334
Fair value of financial guarantee contract and allowance for loss on guarantees and acceptances	101,656	71,904	29,752	(7,717)	(7,560)
Impairment of securities	(34,004)	-	(34,004)	(3,282)	14,322
Hybrid bonds	13,476	(2,523,079)	2,536,555	165,456	165,456
Deemed cost for land and buildings	450,374	-	450,374	(5,906)	(5,906)
Change in depreciation method for furniture, office equipment and others	25,504	-	25,504	(41,496)	(41,496)
Defined benefit obligation (Actuarial valuation)	-	87,742	(87,742)	(37,983)	(37,983)
Fair value of share based payment	-	9,793	(9,793)	1,301	1,301
Others	(19,542)	21,884	(41,426)	(19,260)	(23,574)
Tax effect on adjustments	10,081	372,048	(361,967)	28,811	34,926
Total adjustments	274,847	(3,353,984)	3,628,831	21,305	(5,594)
K-IFRS	₩ 213,151,766	194,512,034	18,639,732	1,670,458	1,735,181

(*) Attributable to equity holder of the Bank and non-controlling interests

(d) Cash flows from deposits that had been previously classified as cash flows from financing activities under K-GAAP have been classified as cash flows from operating activities under K-IFRS. In addition, cash flows from acquisition of equity or debt securities that had been previously classified as operating activities under K-GAAP have been classified as cash flows from investing activities under K-IFRS. There are no major differences between statements of cash flows under K-GAAP and K-IFRS except for the items mentioned above.