



## **SHINHAN BANK AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2012 and 2011

(With Independent Auditor's Report Thereon)

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**Independent Auditor's Report**

(Based on a report originally issued in Korean)

The Board of Directors and Stockholder  
Shinhan Bank:

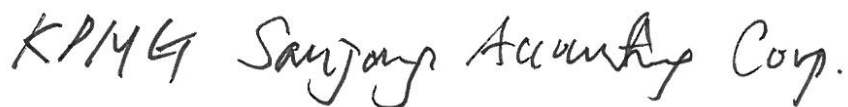
We have audited the accompanying consolidated statements of financial position of Shinhan Bank and its subsidiaries (the "Group") as of December 31, 2012 and 2011 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

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

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



KPMG Samjong Accounting Corp.  
Seoul, Korea  
March 11, 2013

This report is effective as of March 11, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SHINHAN BANK AND SUBSIDIARIES  
**Consolidated Statements of Financial Position**

As of December 31, 2012 and 2011

<i>(In millions of won)</i>	<u>Note</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
<b>Assets</b>			
Cash and due from banks	4,7,10,41	₩ 9,295,347	10,783,403
Trading assets	4,6,8	5,359,510	6,764,341
Derivative assets	4,9,42	1,843,714	2,153,824
Loans	4,6,10,17,42	169,140,922	163,637,977
Available-for-sale financial assets	4,11,17	28,316,748	26,725,683
Held-to-maturity financial assets	4,11,17	9,224,328	9,902,422
Property and equipment	12,17	2,215,048	2,166,087
Intangible assets	13	180,563	259,933
Investments in associates	14	197,224	171,945
Investment properties	15	545,432	553,312
Current tax assets	37	13,673	8,819
Deferred tax assets	37	17,340	6,855
Other assets	4,10,16,42	7,742,781	5,681,720
Assets held for sale		10,070	15,777
<b>Total assets</b>	<b>₩</b>	<b><u>234,102,700</u></b>	<b><u>228,832,098</u></b>
<b>Liabilities</b>			
Deposits	4,18,42	₩ 166,820,320	162,582,328
Trading liabilities	4,19	484,061	602,592
Derivative liabilities	4,9,42	1,537,822	1,726,718
Borrowings	4,20	10,846,518	13,416,653
Debt securities issued	4,21,42	18,500,639	19,054,607
Liability for defined benefit obligations	22	164,668	199,008
Provisions	23,40,42	331,579	440,324
Current tax liabilities	37	150,603	372,506
Deferred tax liabilities	37	76,783	187,591
Other liabilities	4,24,34,40,44	14,917,696	10,959,951
<b>Total liabilities</b>		<b><u>213,830,689</u></b>	<b><u>209,542,278</u></b>
<b>Equity</b>			
Capital stock	25	7,928,078	7,928,078
Other equity instruments	25	2,329,760	2,329,760
Capital surplus	25	403,164	403,164
Capital adjustments	25	2,011	1,034
Accumulated other comprehensive income	25	781,633	913,162
Retained earnings	25,26	8,824,737	7,711,930
Total equity attributable to equity holder of the Shinhan Bank		20,269,383	19,287,128
Non-controlling interests		2,628	2,692
<b>Total equity</b>		<b><u>20,272,011</u></b>	<b><u>19,289,820</u></b>
<b>Total liabilities and equity</b>	<b>₩</b>	<b><u>234,102,700</u></b>	<b><u>228,832,098</u></b>

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES  
**Consolidated Statements of Comprehensive Income**  
For the years ended December 31, 2012 and 2011

<i>(In millions of won)</i>	<u>Note</u>	<u>2012</u>	<u>2011</u>
Interest income		₩ 10,318,110	10,349,527
Interest expense		(5,567,024)	(5,378,900)
<b>Net interest income</b>	4,6,27,42	<u>4,751,086</u>	<u>4,970,627</u>
Fees and commission income		1,035,797	1,052,732
Fees and commission expense		(199,654)	(190,187)
<b>Net fees and commission income</b>	4,6,28,42,44	<u>836,143</u>	<u>862,545</u>
Dividend income	29	80,593	108,695
Net trading income	30	106,344	116,324
Net foreign currencies transaction gain		109,166	61,384
Net loss on financial instruments designated at fair value through profit or loss	31	-	(357)
Net gain on sale of available-for-sale financial assets	11	313,638	642,724
Net impairment loss on financial assets	4,11,32,42	(893,458)	(735,805)
General and administrative expenses	11,13,22,33,34,42	(2,706,688)	(2,800,977)
Net other operating expenses	35,42	(526,286)	(551,966)
<b>Operating income</b>		<u>2,070,538</u>	<u>2,673,194</u>
<b>Net non-operating expenses</b>		<u>(18,834)</u>	<u>(51,805)</u>
Equity in income of investments in associate	6,14	21,897	28,995
<b>Income before income taxes</b>		<u>2,073,601</u>	<u>2,650,384</u>
Income tax expense	6,37	423,942	534,816
<b>Income from continuing operations</b>		<u>1,649,659</u>	<u>2,115,568</u>
<b>Discontinued operation</b>			
Income from discontinued operation	6,38	7,311	3,347
<b>Net income for the year</b>	6,25,26	<u>1,656,970</u>	<u>2,118,915</u>
<b>Other comprehensive income (loss) for the year, net of income tax</b>	6,26,38		
Foreign currency translation differences for foreign operations		(91,348)	13,818
Net change in fair value of available-for-sale financial assets		(47,187)	(498,231)
Equity in other comprehensive income of associates		6,826	1,093
		<u>(131,709)</u>	<u>(483,320)</u>
<b>Total comprehensive income for the year</b>		<u>₩ 1,525,261</u>	<u>1,635,595</u>

See accompanying notes to the consolidated financial statement

## SHINHAN BANK AND SUBSIDIARIES

**Consolidated Statements of Comprehensive Income (continued)**

For the years ended December 31, 2012 and 2011

*(In millions of won, except for earning per share)*

	<u>Note</u>	<u>2012</u>	<u>2011</u>
<b>Net income attributable to:</b>			
Equity holder of the Shinhan Bank		1,656,797	2,118,421
Non-controlling interests		173	494
		<u>1,656,970</u>	<u>2,118,915</u>
<b>Other comprehensive income attributable to:</b>			
	6		
Equity holder of the Shinhan Bank		1,525,268	1,634,530
Non-controlling interests		(7)	1,065
		<u>1,525,261</u>	<u>1,635,595</u>
<b>Earnings per share:</b>			
	39		
Basic earnings per share in won		948	1,238
Diluted earnings per share in won		948	1,238

See accompanying notes to the consolidated financial statements.

SHINHAN BANK AND SUBSIDIARIES  
**Consolidated Statements of Changes in Equity**

For the years ended December 31, 2012 and 2011

(In millions of won)

	Attributable to equity holder of the Shinhan Bank								Non-controlling interest	Total equity
	Capital stock	Other equity instruments	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total			
<b>Balance at January 1, 2011</b>	₩ 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	
<b>Other comprehensive income, net of income tax</b>										
Foreign currency translation differences for foreign operations	-	-	-	-	13,247	-	13,247	571	13,818	
Net change in fair value of available-for-sale financial assets	-	-	-	-	(498,231)	-	(498,231)	-	(498,231)	
Equity in other comprehensive income of associates	-	-	-	-	1,093	-	1,093	-	1,093	
	-	-	-	-	(483,891)	-	(483,891)	571	(483,320)	
<b>Total comprehensive income for the year</b>	-	-	-	-	(483,891)	2,118,421	1,634,530	1,065	1,635,595	
<b>Transactions with owners of the Bank</b>										
Annual dividends to equity holder	-	-	-	-	-	(478,033)	(478,033)	-	(478,033)	
Interim dividends to equity holder	-	-	-	-	-	(350,000)	(350,000)	-	(350,000)	
Dividend to hybrid bond holders	-	-	-	-	-	(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)	
<b>Balance at December 31, 2011</b>	₩ 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 Changes in Equity (continued)**

For the years ended December 31, 2012 and 2011

	Attributable to equity holder of the Shinhan Bank								Non-controlling interest	Total equity
	Capital stock	Other equity instruments	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total			
<b>Balance at January 1, 2012</b>	₩ 7,928,078	2,329,760	403,164	1,034	913,162	7,711,930	19,287,128	2,692	19,289,820	
Net income for the year	-	-	-	-	-	1,656,797	1,656,797	173	1,656,970	
<b>Other comprehensive income (loss) for the period, net of income tax</b>										
Foreign currency translation differences for the foreign operations	-	-	-	-	(91,168)	-	(91,168)	(180)	(91,348)	
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	(47,187)	-	(47,187)	-	(47,187)	
Equity in other comprehensive income of associates	-	-	-	-	6,826	-	6,826	-	6,826	
	-	-	-	-	(131,529)	-	(131,529)	(180)	(131,709)	
<b>Total comprehensive income (loss) for the period</b>	-	-	-	-	(131,529)	1,656,797	1,525,268	(7)	1,525,261	
<b>Transactions with owners of the Group</b>										
Dividends to equity holder	-	-	-	-	-	(390,000)	(390,000)	-	(390,000)	
Dividends to hybrid bond holders	-	-	-	-	-	(153,990)	(153,990)	-	(153,990)	
Share-based payment	-	-	-	977	-	-	977	-	977	
Disposal of subsidiary	-	-	-	-	-	-	-	(57)	(57)	
	-	-	-	977	-	(543,990)	(543,013)	(57)	(543,070)	
<b>Balance at December 31, 2012</b>	₩ 7,928,078	2,329,760	403,164	2,011	781,633	8,824,737	20,269,383	2,628	20,272,011	

See accompanying notes to the consolidated financial statements.



SHINHAN BANK AND SUBSIDIARIES  
**Consolidated Statements of Cash Flows**  
For the years ended December 31, 2012 and 2011

(In millions of won)

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities</b>		
Income before income taxes	₩ 2,073,601	2,650,384
Adjustments for:		
Net interest income	(4,751,086)	(4,970,627)
Dividend income	(80,593)	(108,695)
Net trading income	(30,147)	(116,324)
Net foreign currencies transaction gain	(44,465)	(119,868)
Net loss on financial assets designated at fair value through profit or loss	-	357
Net gain on sales of available-for-sale financial assets	(313,638)	(642,724)
Net impairment loss on financial assets	893,458	735,805
Non-cash salary expenses	119,551	181,335
Depreciation and amortization	191,734	192,207
Non-cash other operating expenses, net	28,992	50,357
Non-cash net non-operating expenses	30,369	318
Equity in income of investments in associates, net	(21,897)	(28,995)
	<u>(3,977,722)</u>	<u>(4,826,854)</u>
Changes in assets and liabilities:		
Due from banks	2,028,508	(1,930,047)
Trading assets	1,315,394	(2,724,061)
Derivative assets	1,562,018	1,818,348
Loans	(7,403,620)	(9,892,848)
Other assets	(2,134,725)	(665,214)
Deposits	5,639,968	15,363,722
Trading liabilities	(112,749)	70,418
Derivative liabilities	(1,404,172)	(1,746,131)
Liability for defined benefit obligations	(148,775)	(127,313)
Provisions	(104,198)	821
Other liabilities	4,265,922	(149,079)
	<u>3,503,571</u>	<u>18,616</u>
Income taxes paid	(772,742)	(331,155)
Interest received	10,300,968	10,046,955
Interest paid	(5,661,624)	(5,115,182)
Dividends received	82,599	113,898
<b>Net cash provided by operating activities</b>	<u>₩ 5,548,651</u>	<u>2,556,662</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, 2012 and 2011

(In millions of won)

	<u>Note</u>	<u>2012</u>	<u>2011</u>
<b>Cash flows from investing activities</b>			
Proceeds from sales of financial instruments designated at fair value through profit or loss	₩	-	29,312
Proceeds from sales of available-for-sale financial assets		31,082,817	37,229,586
Proceeds from sales of held-to-maturity financial assets		2,378,258	4,385,756
Proceeds from sales of property and equipment		5,954	25,212
Proceeds from sales of intangible assets		1,414	-
Proceeds from sale of investments in associate		28,000	4,655
Proceeds from sales of investment properties		-	2,306
Proceeds from sales of assets held for sale		6,489	2,047
Increase in other assets		1,151,831	45,023
Acquisitions of available-for-sale financial assets		(32,538,542)	(39,365,971)
Acquisitions of held-to-maturity financial assets		(1,745,778)	(3,689,364)
Acquisitions of property and equipment		(201,794)	(206,845)
Acquisitions of intangible assets		(37,170)	(101,352)
Acquisitions of investments in associate		(9,750)	(14,220)
Decrease in other assets		(1,187,584)	(60,495)
Acquisition of subsidiaries, net of cash acquired		-	(103,859)
<b>Net cash used in investing activities</b>		<u>(1,065,855)</u>	<u>(1,818,209)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		15,282,060	16,774,837
Repayments of borrowings		(17,546,442)	(15,362,192)
Proceeds from issuance of debt securities		7,096,702	6,065,201
Repayments of debt securities		(7,736,545)	(7,289,803)
Dividends paid		(544,875)	(982,413)
Acquisition of non-controlling interests		-	(4,334)
Increase in other liabilities		175,814	53,647
Decrease in other liabilities		(161,623)	(66,811)
<b>Net cash used in financing activities</b>		<u>(3,434,909)</u>	<u>(811,868)</u>
<b>Effect of exchange rate fluctuations on cash and cash equivalents held</b>		(3,635)	27,914
<b>Cash flows from discontinued operation</b>	38	50,976	6,327
<b>Net increase (decrease) in cash and cash equivalents</b>		1,095,228	(39,174)
<b>Beginning cash and cash equivalents</b>	41	3,111,702	3,150,876
<b>Ending cash and cash equivalents</b>	41 ₩	<u>4,206,930</u>	<u>3,111,702</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, 2012 and 2011

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, 2012, 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, 2012, the Bank operates through 846 domestic branches, 103 depositary offices, 23 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, 2012, 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, 2012, 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, 2012, 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, 2012, 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, 2012, 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, 2012, Shinhan Canada's capital stock amounted to CAD \$50 million.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

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, 2012, 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. Shinhan Aitas is presented as discontinued operation since the Group disposed the investment on Shinhan Aitas to Shinhan Financial Group on October 31, 2012.

i. Shinhan Bank Japan

Shinhan Bank Japan (“Shinhan Japan”) was established on September 14, 2009. As of December 31, 2012, 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, 2012, Shinhan Vietnam’s capital stock amounted to VND 4,547,100 million.

Details of ownerships in subsidiaries as of December 31, 2012 and 2011 were as follows:

Investee	Country	Ownership(%)	
		December 31, 2012	December 31, 2011
Shinhan Asia	Hong Kong	99.9	99.9
Shinhan America	U.S.A	100.0	100.0
Shinhan Europe	Germany	100.0	100.0
Shinhan Khmer	Cambodia	90.0	90.0
Shinhan Kazakhstan	Kazakhstan	100.0	100.0
Shinhan Canada	Canada	100.0	100.0
Shinhan China	China	100.0	100.0
Shinhan Aitas	Korea	-	99.8
Shinhan Japan	Japan	100.0	100.0
Shinhan Vietnam	Vietnam	100.0	100.0

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

1. Reporting entity (continued)

In addition, Special purpose entities ("SPEs") included in consolidation as of December 31, 2012 were as follows:

SPEs	Country	Closing month
I-Clover Series B5	Korea	December
I-Clover Series L1	Korea	December
I-Clover Series L2	Korea	December
SH 2007-2 NPL Investment Co., Ltd.	Korea	December
Shinwha-China Investment Co., Ltd.	Korea	December
Shinhan Mortgage 2 <sup>nd</sup> ABS Specialty Co., Ltd.	Korea	December
KAMCO Value Recreation 6 <sup>th</sup> ABS Specialty Co., Ltd.	Korea	December
MPC Yulchon Green 1 <sup>st</sup>	Korea	December
AR Plus 2 <sup>nd</sup>	Korea	December
MPC Yulchon 2 <sup>nd</sup>	Korea	September
STAY 1 <sup>st</sup>	Korea	March
STAY 2 <sup>nd</sup>	Korea	March
Development Trust	Korea	December
Non-specified Money Trust	Korea	December
China Opportunity Private Special Asset Investment Fund 3 <sup>rd</sup>	Korea	December
Dongbu All Together Private Investment Trust Fund 2 <sup>nd</sup>	Korea	January
Heungkuk Rainbow Private Investment Trust Fund K-94 <sup>th</sup>	Korea	March
Shinyoung Private Investment Trust Fund S-1 <sup>st</sup>	Korea	March
Heungkuk Rainbow Private Investment Trust Fund K-99 <sup>th</sup>	Korea	March
Heungkuk Rainbow Private Investment Trust Fund K-100 <sup>th</sup>	Korea	March

Status of subsidiaries those were added to the consolidated financial statements and excluded from the consolidated financial statements for the year ended December 31, 2012 were as follows:

i) Newly added subsidiaries the year ended December 31, 2012

	Reason
AR Plus 2 <sup>nd</sup>	ABCP purchase agreement
MPC Yulchon 2 <sup>nd</sup>	"
STAY 1 <sup>st</sup>	"
STAY 2 <sup>nd</sup>	"
Dongbu All Together Private Investment Trust Fund 2 <sup>nd</sup>	100% Shareholdings beneficiary certificate
Heungkuk Rainbow Private Investment Trust Fund K-94 <sup>th</sup>	"
Shinyoung Private Investment Trust Fund S-1 <sup>st</sup>	"
Heungkuk Rainbow Private Investment Trust Fund K-99 <sup>th</sup>	"
Heungkuk Rainbow Private Investment Trust Fund K-100 <sup>th</sup>	"

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

1. Reporting entity (continued)

ii) Excluded subsidiaries for the year period ended December 31, 2012

	Reason
Shinhan Aitas	Disposal of investment
Shinhan 6 <sup>th</sup> ABS Specialty Co., Ltd.	Liquidation of SPE
Shinhan 7 <sup>th</sup> ABS Specialty Co., Ltd.	"
Shinhan 8 <sup>th</sup> ABS Specialty Co., Ltd.	"
Shinhan Mortgage 1 <sup>st</sup> ABS Specialty Co., Ltd.	"
Shift 1 <sup>st</sup> Co., Ltd.	Termination of ABCP purchase agreement
JR 1 <sup>st</sup> Co., Ltd.	"
SH Private Bond Investment Fund SH-3	Disposal of beneficiary certificate
Shinhan Model Index Private Stock Investment Fund 2 <sup>nd</sup>	"
SH Growth Private Investment Fund 1 <sup>st</sup>	"
Shinhan Model Index Stock Long-term Investment Fund 1 <sup>st</sup>	"
Heungkuk Rainbow Private Investment Trust Fund S-74 <sup>th</sup>	"
Midas Private Investment Fund SH-4 <sup>th</sup>	"
Dongbu All Together Private Investment Trust Fund 54 <sup>th</sup>	"
Korea Investment Private Basic Investment Trust Fund 46 <sup>th</sup>	"
Heungkuk Rainbow Private Investment Trust Fund S-77 <sup>th</sup>	"

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

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*.

Moreover, the comparative statement of comprehensive income and the statement of cash flow have been re-presented to show the discontinued operation separately from continuing operations as the Group disposed all the investment on Shinhan Aitas to Shinhan Finance Group. Financial information regarding the discontinued operation is described in note 38.

(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

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

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 Bank's presentation currency were as follows:

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



SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011  
(In millions of won)

2. Basis of preparation (continued)

(e) Presentation of financial statements

i) Changes in accounting policies

The Group adopted the amendments pursuant to the amended K-IFRS No. 1001, 'Presentation of Financial Statements' from the annual period ended December 31, 2012. The Group's operating income separate is calculated as operating income less operating expenses, and is presented separately in the statement of comprehensive income.

ii) Impact of change in accounting policy

The Group retrospectively applied the amendment to K-IFRS No. 1001, for which the impact is as follows:

		2012	2011
Operating income before adoption of the amendments	₩	2,051,704	2,621,389
Changes			
Non-operating income			
Gain on sale of assets		362	429
Gain on Investments in associates		25,258	44,243
Others		102,202	94,601
		<u>127,822</u>	<u>139,273</u>
Non-operating expenses			
Loss on sale of assets		78	2,794
Loss on Investments in associates		8,441	4,821
Others		138,137	183,463
		<u>146,656</u>	<u>191,078</u>
Operating income after adoption of the amendment	₩	<u>2,070,538</u>	<u>2,673,194</u>

ii) Correction of error

The Group has started to recorded synthetic options on a net basis since 2012 while it had been recorded synthetic options on a gross basis. The Group restated the comparative financial information for the prior period, retrospectively. As a result, the amount of derivative assets, derivative liabilities, total assets and total liabilities as of December 31, 2011 are decreased by ₩75,686 million, respectively. The opening balances of the prior period are not presented since this error is not material.

(f) Approval of the financial statements

The consolidated financial statements were authorized for issue by the Board of Director in February 26, 2013, which will be submitted for approval to the shareholder's meeting to be held on March 27, 2013.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
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2. Basis of preparation (continued)

(g) 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

(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 ("SPEs")

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.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

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.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
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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.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
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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.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

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.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
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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.



SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

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.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
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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.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
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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 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**  
For the years ended December 31, 2012 and 2011

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, which is deemed cost, in accordance with K-IFRS No.1101.

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 were as follows:

Descriptions	Useful lives
Buildings	40 years
Other properties	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.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

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 were 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.

The depreciation method and the estimated useful lives for the current and comparative periods were as follows:

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40 years

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**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

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).

SHINHAN BANK AND SUBSIDIARIES  
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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 were 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.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

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  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

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 profit or loss when incurred.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

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  
**Notes to the Consolidated Financial Statements**  
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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) Discontinued operation

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income and cash flows are re-presented as if the operation had been discontinued from the start of the comparative period.

(z) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2012, and the Group has not early adopted them.

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

The standard introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees (i.e. Trusts guaranteed as to principal shall be consolidated), the standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Management cannot estimate in the process of evaluating the impact of the amendments on the Group's consolidated financial statements as of December 31, 2012.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

3. Significant accounting policies (continued)

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

ii) K-IFRS No.1111, '*Joint Arrangements*'

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

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

The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. The standard requires the disclosure of information about the nature, risks and financial effects of these interests. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Management believes the impacts of the amendments on the Group's consolidated financial statements will not be significant.

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

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Bank's annual periods beginning on or after January 1, 2013. Actuarial losses recognized in profit or loss for the years ended December 31, 2012 and 2011 are ₩1,397 million and ₩111,081 million, respectively. Management believes the impacts of the amendments on the Group's consolidated financial statements will be significant.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

3. Significant accounting policies (continued)

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

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

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Bank'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.

vi) Amendments to K-IFRS No. 1001, '*Presentation of Financial Statements*'

The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment is mandatorily effective for annual periods beginning on or after July 1, 2012. Management believes the impacts of the amendments on the Group's consolidated financial statements will not be significant.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011

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 Group'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  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011  
(In millions of won)

4. Financial risk management (continued)

4-1. Credit risk (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, 2012 and 2011 was as follows:

	December 31, 2012	December 31, 2011
Due from banks and loans(*1,2):		
Banks	₩ 6,722,056	6,410,632
Retail:		
Mortgage lending	40,160,293	40,061,301
Other	36,776,064	32,044,839
	<u>76,936,357</u>	<u>72,106,140</u>
Government	7,164,419	8,771,818
Corporate:		
Large company	32,019,256	32,726,063
Small business	46,564,871	45,654,026
Special finance	6,086,705	6,669,784
Other	2,061	1,772
	<u>84,672,893</u>	<u>85,051,645</u>
Card	2,474	1,572
	<u>175,498,199</u>	<u>172,341,807</u>
Trading assets:		
Debt securities	3,785,381	5,428,985
Gold deposits	437,928	341,434
Derivative assets	1,843,714	2,153,824
Available-for-sale financial assets:		
Debt securities	24,814,636	23,036,822
Held-to-maturity financial assets:		
Debt securities	9,224,328	9,902,422
Other financial assets(*1,3)	7,568,867	5,497,956
Off balance sheet items:		
Financial guarantee contracts	2,829,082	2,739,590
Loan commitments and other liabilities for credit	71,491,393	66,699,616
	<u>74,320,475</u>	<u>69,439,206</u>
	<u>₩ 297,493,528</u>	<u>288,142,456</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  
**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011  
(In millions of won)

4. Financial risk management (continued)

4-1. Credit risk (continued)

(c) Impaired due from banks and loans

i) Due from banks and loans, net of allowance, as of December 31, 2012 and 2011 were as follows:

		December 31, 2012					
		Banks	Retail	Government	Corporate	Card	Total
Neither past due nor impaired	₩	6,731,150	76,521,918	7,168,021	84,397,685	2,474	174,821,248
Past due but not impaired		116	324,615	-	442,524	-	767,255
Impaired		-	428,731	-	1,244,991	-	1,673,722
		6,731,266	77,275,264	7,168,021	86,085,200	2,474	177,262,225
Less: allowance		(9,210)	(338,907)	(3,602)	(1,412,307)	-	(1,764,026)
	₩	6,722,056	76,936,357	7,164,419	84,672,893	2,474	175,498,199

		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
		6,453,682	72,376,047	8,773,596	86,457,101	1,572	174,061,998
Less: allowance		(43,050)	(269,907)	(1,778)	(1,405,456)	-	(1,720,191)
	₩	6,410,632	72,106,140	8,771,818	85,051,645	1,572	172,341,807

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
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4. Financial risk management (continued)

4-1. Credit risk (continued)

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

ii) Credit quality of due from banks and loans that were neither past due nor impaired as of December 31, 2012 and 2011 were as follows:

		December 31, 2012					
		Banks	Retail	Government	Corporate	Card	Total
Grade 1(*)	₩	6,731,150	74,694,986	7,168,021	50,796,364	-	139,390,521
Grade 2(*)		-	1,826,932	-	33,601,321	2,474	35,430,727
		6,731,150	76,521,918	7,168,021	84,397,685	2,474	174,821,248
Less: allowance		(9,210)	(127,157)	(3,602)	(993,970)	-	(1,133,939)
	₩	6,721,940	76,394,761	7,164,419	83,403,715	2,474	173,687,309
Mitigation of credit risk due to collateral	₩	-	52,025,004	-	39,602,860	-	91,627,864

		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

(\*) Credit quality of due from banks and loans was classified based on the internal credit rating.

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4. Financial risk management (continued)

4-1. Credit risk (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, 2012 and 2011 were as follows:

		December 31, 2012			
		Bank	Retail	Corporate	Total
Within 30 days	₩	116	253,860	315,288	569,264
30~60 days		-	42,654	53,335	95,989
60~90 days		-	27,549	56,068	83,617
More than 90 days		-	552	17,833	18,385
		116	324,615	442,524	767,225
Less: allowance		-	(17,366)	(24,840)	(42,206)
	₩	116	307,249	417,684	725,049
Mitigation of credit risk due to collateral	₩	-	247,414	264,995	512,409

		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

iv) Mitigation of credit risk due to the collateral of impaired due from banks and loans as of December 31, 2012 and 2011 was as follows:

		December 31, 2012		
		Retail	Corporate	Total
Impaired	₩	428,731	1,244,991	1,673,722
Less: allowance		(194,384)	(393,497)	(587,881)
	₩	234,347	851,494	1,085,841
Mitigation of credit risk due to collateral	₩	106,405	464,947	571,352

		December 31, 2011		
		Retail	Corporate	Total
Impaired	₩	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

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4. Financial risk management (continued)

4-1. Credit risk (continued)

(d) Credit rating

i) Credit rating of debt securities as of December 31, 2012 and 2011 were as follows:

December 31, 2012				
	Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩ 198,314	16,716,336	7,952,032	24,866,682
AA- to AA+	833,206	4,582,167	821,520	6,236,893
A- to A+	1,896,329	1,528,691	90,410	3,515,430
BBB- to BBB+	720,448	1,043,280	-	1,763,728
Lower than BBB-	9,939	246,909	26,337	283,185
Unrated	127,145	697,253	334,029	1,158,427
	₩ 3,785,381	24,814,636	9,224,328	37,824,345

December 31, 2011				
	Trading assets	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
BBB- to BBB+	304,606	825,954	8,607	1,139,167
Lower than BBB-	191,256	80,632	31,493	303,381
Unrated	404,865	1,010,229	297,864	1,712,958
	₩ 5,428,985	23,036,822	9,902,422	38,368,229

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

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

(\*1) KIS: Korea Investors Service

(\*2) KR: Korea Ratings

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4. Financial risk management (continued)

4-1. Credit risk (continued)

(d) Credit rating (continued)

ii) Credit status of debt securities as of December 31, 2012 and 2011 were as follows:

		December 31, 2012	December 31, 2011
Neither past due nor impaired	₩	37,824,345	38,368,207
Impaired		-	22
	₩	<u>37,824,345</u>	<u>38,368,229</u>

(e) Assets acquired through foreclosures amounting to ₩9,977 million, ₩14,876 million were classified as assets held for sale as of December 31, 2012 and 2011, respectively.

(f) Concentration by geographic location

An analysis of concentration by geographic location for due from financial instrument, net of allowance, as of December 31, 2012 and 2011 was as follows:

	December 31, 2012						
	Korea	U.S.A	Japan	Vietnam	China	Other	Total
Due from banks and loans:							
Banks	₩ 3,264,497	534,204	142,839	104,818	1,112,011	1,563,687	6,722,056
Retail	76,423,942	245,247	43,893	9,062	13,380	200,833	76,936,357
Government	6,610,197	221,413	226,426	50,827	617	54,939	7,164,419
Corporate	78,799,771	1,037,021	1,252,534	681,755	1,264,749	1,637,063	84,672,893
Card	-	1,366	-	1,108	-	-	2,474
	<u>165,098,407</u>	<u>2,039,251</u>	<u>1,665,692</u>	<u>847,570</u>	<u>2,390,757</u>	<u>3,456,522</u>	<u>175,498,199</u>
Trading assets	3,785,381	-	-	-	-	437,928	4,223,309
Available-for-sale financial assets	24,218,505	264,487	-	218,275	-	113,369	24,814,636
Held-to-maturity financial assets	9,090,046	1,210	62,629	19,609	-	50,834	9,224,328
	<u>₩ 202,192,339</u>	<u>2,304,948</u>	<u>1,728,321</u>	<u>1,085,454</u>	<u>2,390,757</u>	<u>4,058,653</u>	<u>213,760,472</u>
	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
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>

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4. Financial risk management (continued)

4-1. Credit risk (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, 2012 and 2011 was as follows:

		December 31, 2012						
		Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans:								
Banks	₩	5,686,333	-	-	120,696	915,027	-	6,722,056
Retail		-	-	-	-	-	76,936,357	76,936,357
Government		6,959,974	-	-	-	204,445	-	7,164,419
Corporate		1,915,919	32,021,759	10,934,742	14,916,064	24,884,409	-	84,672,893
Card		-	-	-	-	-	2,474	2,474
		<u>14,562,226</u>	<u>32,021,759</u>	<u>10,934,742</u>	<u>15,036,760</u>	<u>26,003,881</u>	<u>76,938,831</u>	<u>175,498,199</u>
Trading assets		1,806,763	769,553	447,620	757,547	441,826	-	4,223,309
Available-for-sale financial assets		16,864,320	838,340	154,157	603,043	6,354,776	-	24,814,636
Held-to-maturity financial assets		3,053,098	-	-	274,223	5,897,007	-	9,224,328
		<u>36,286,407</u>	<u>33,629,652</u>	<u>11,536,519</u>	<u>16,671,573</u>	<u>38,697,490</u>	<u>76,938,831</u>	<u>213,760,472</u>
		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
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>

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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)

4-2. Market risk (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, 2012 and 2011 was as follows:

		2012			At December 31
		Average	Maximum	Minimum	
Interest rate risk	₩	24,085	32,036	19,817	19,817
Equity risk		26,476	41,920	11,085	12,247
Foreign currency risk(*1)		79,449	95,661	49,583	55,243
Volatility risk		257	897	95	251
Covariance		(60,274)	(80,989)	(37,435)	(38,966)
	₩	<u>69,993</u>	<u>89,525</u>	<u>43,145</u>	<u>48,592</u>

		2011			At December 31
		Average	Maximum	Minimum	
Interest rate risk	₩	32,725	49,155	25,933	30,722
Equity risk		19,227	32,447	8,492	21,825
Foreign currency risk(*1,2)		58,848	101,775	13,688	88,334
Volatility risk		488	1,123	92	313
Covariance		(55,238)	(97,474)	(8,187)	(58,078)
	₩	<u>56,050</u>	<u>87,026</u>	<u>40,018</u>	<u>83,116</u>

(\*1) The Group measured foreign currency risk arising from trading position and non-trading position.

(\*2) The Group changed the confidence interval from 99% to 99.9% in 2012. Therefore, the VaR for the year ended December 31, 2011 was remeasured based upon a 99.9% confidence interval.

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4. Financial risk management (continued)

4-2. Market risk (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 Group 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 Group 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 Group 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, 2012 and 2011 were as follows:

		December 31, 2012	December 31, 2011
VaR	₩	841,157	561,088
EaR		249,567	262,405

(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)

4-2. Market risk (continued)

(c) Foreign exchange risk (continued)

Foreign currencies denominated assets and liabilities as of December 31, 2012 and 2011 were as follows:

		December 31, 2012					Total
		USD	JPY	EUR	CNY	Other	
<b>Assets</b>							
Cash and due from banks	₩	841,423	1,117,778	72,352	869,410	329,697	3,230,660
Trading assets		-	-	-	-	437,928	437,928
Derivative assets		277,666	-	9,939	-	121	287,726
Loans		10,997,249	4,933,486	1,323,022	1,340,645	1,964,774	20,559,176
Available-for-sale financial assets		862,560	40,662	9,005	-	334,775	1,247,002
Held-to-maturity financial assets		1,210	392,628	-	-	40,648	434,486
Other financial assets		2,046,380	215,776	15,531	145,075	93,889	2,516,651
	₩	<u>15,026,488</u>	<u>6,700,330</u>	<u>1,429,849</u>	<u>2,355,130</u>	<u>3,201,832</u>	<u>28,713,629</u>
<b>Liabilities</b>							
Deposits	₩	5,072,717	5,651,055	245,374	1,634,499	1,517,097	14,120,742
Trading liabilities		-	-	-	-	484,061	484,061
Derivative liabilities		123,088	47,718	-	-	16	170,822
Borrowings		4,726,626	669,151	688,222	84,900	250,879	6,419,778
Debt securities issued		2,451,584	436,625	106,220	210,002	658,191	3,862,622
Other financial liabilities		1,313,903	227,995	253,730	244,272	224,260	2,264,160
	₩	<u>13,687,918</u>	<u>7,032,544</u>	<u>1,293,546</u>	<u>2,173,673</u>	<u>3,134,504</u>	<u>27,322,185</u>
Net assets (liabilities)	₩	1,338,570	(332,214)	136,303	181,457	67,328	1,391,444
Off-balance derivative exposure		(886,388)	331,807	(122,759)	203,513	572,845	99,018
Net position	₩	<u>452,182</u>	<u>(407)</u>	<u>13,544</u>	<u>384,970</u>	<u>640,173</u>	<u>1,490,462</u>

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4. Financial risk management (continued)

4-2. Market risk (continued)

(c) Foreign exchange risk (continued)

		December 31, 2011					Total
		USD	JPY	EUR	CNY	Other	
<b>Assets</b>							
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>
<b>Liabilities</b>							
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)

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)

4-3. Liquidity risk (continued)

(a) Contractual maturities for financial instruments

Contractual maturities for financial assets and financial liabilities as of December 31, 2012 and 2011 were as follows:

	December 31, 2012						Total
	Less than 1 month	1~3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	
<b>Assets</b>							
Cash and due from banks	₩ 8,194,725	292,330	267,318	332,411	229,332	3,935	9,320,051
Trading assets	5,359,510	-	-	-	-	-	5,359,510
Derivative assets	1,701,353	324,673	58,793	120,729	786,257	625,855	3,617,660
Loans	18,911,475	22,582,161	28,544,385	41,088,757	41,092,440	43,327,795	195,547,013
Available-for-sale financial assets	27,316,772	-	-	-	-	999,976	28,316,748
Held-to-maturity financial assets	259,685	424,589	437,935	1,451,635	7,084,773	967,501	10,626,118
Other financial assets	4,380,025	-	-	-	3,329,582	-	7,709,607
	<u>₩ 66,123,545</u>	<u>23,623,753</u>	<u>29,308,431</u>	<u>42,993,532</u>	<u>52,522,384</u>	<u>45,925,062</u>	<u>260,496,707</u>
<b>Liabilities</b>							
Deposits	₩ 68,303,480	19,415,729	17,024,856	57,237,516	10,115,145	833,490	172,930,216
Trading liabilities	484,061	-	-	-	-	-	484,061
Derivative liabilities	1,487,388	45,815	48,617	81,812	496,489	375,361	2,535,482
Borrowings	3,223,498	1,918,201	1,299,297	1,199,631	2,778,720	653,871	11,073,218
Debt securities issued	828,493	1,242,513	1,177,303	2,945,496	11,727,939	3,645,486	21,567,230
Other financial liabilities	14,633,987	-	-	-	143,266	-	14,777,253
	<u>₩ 88,960,907</u>	<u>22,622,258</u>	<u>19,550,073</u>	<u>61,464,455</u>	<u>25,261,559</u>	<u>5,508,208</u>	<u>223,367,460</u>

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4. Financial risk management (continued)

4-3. Liquidity risk (continued)

(a) Contractual maturities for financial instruments (continued)

	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	
<b>Assets</b>							
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	2,026,891	456,655	69,226	133,586	1,102,694	1,180,302	4,969,354
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>₩ 62,384,307</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>258,158,737</u>
<b>Liabilities</b>							
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	1,630,656	75,604	71,761	132,975	777,517	543,004	3,231,517
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>₩ 90,854,221</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>220,828,674</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 of December 31, 2012 and 2011 were as follows:

	December 31, 2012	December 31, 2011
Financial guarantee contracts	₩ 2,829,082	2,739,590
Loan commitments and others	71,491,393	66,699,616
	<u>₩ 74,320,475</u>	<u>69,439,206</u>

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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:

<u>Type</u>	<u>Measurement methods of fair value</u>
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)

4-4. Measurement of fair value (continued)

(a) The financial instruments measured at amortized cost

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

	December 31, 2012					
	Book value					
	Balance	Unamortized balance	Allowance	Total	Fair value	
<b>Assets</b>						
Cash and due from banks:						
Cash and cash equivalent	₩	2,938,070	-	-	2,938,070	2,938,070
Due from banks		6,361,732	-	(4,455)	6,357,277	6,357,277
Loans:						
Household loans		70,451,445	99,829	(266,537)	70,284,737	70,671,092
Corporate loans		92,671,987	131,315	(1,467,866)	91,335,436	92,314,680
Public and other loans		3,061,975	4,339	(13,736)	3,052,578	3,071,211
Loans to bank		4,477,129	-	(11,432)	4,465,697	4,483,004
Card receivables		2,474	-	-	2,474	2,474
Held-to-maturity financial assets:						
Government bonds		4,981,642	-	-	4,981,642	5,242,727
Financial institutions bonds		1,101,275	-	-	1,101,275	1,122,471
Corporate bonds and others		3,141,411	-	-	3,141,411	3,215,340
Other financial assets		7,709,607	(78,796)	(61,944)	7,568,867	7,622,688
	₩	<u>196,898,747</u>	<u>156,687</u>	<u>(1,825,970)</u>	<u>195,229,464</u>	<u>197,041,034</u>
<b>Liabilities</b>						
Deposits:						
Demand deposits	₩	51,721,627	-	-	51,721,627	51,721,627
Time deposits		109,131,300	-	-	109,131,300	109,378,972
Negotiable certificates of deposits		1,273,333	-	-	1,273,333	1,303,483
Note discount deposits		3,013,376	-	-	3,013,376	3,013,147
CMA(*)		1,626,061	-	-	1,626,061	1,626,061
Others		54,623	-	-	54,623	54,662
Borrowings:						
Call money		273,835	-	-	273,835	273,835
Bill sold		55,397	-	-	55,397	55,023
Bonds sold under repurchase agreements		306,538	-	-	306,538	306,537
Borrowings		10,057,440	(2,842)	-	10,054,598	10,073,308
Due to Bank of Korea in foreign currency		156,150	-	-	156,150	156,151
Debt securities issued:						
Debt securities issued in won		14,675,818	(22,205)	-	14,653,613	14,991,677
Debt securities issued in foreign currency		3,862,622	(15,596)	-	3,847,026	4,067,560
Other financial liabilities		14,814,060	(4,173)	-	14,809,887	14,812,108
	₩	<u>211,022,180</u>	<u>(44,816)</u>	<u>-</u>	<u>210,977,364</u>	<u>211,834,151</u>

(\*) CMA: Cash management account deposits

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

4-4. Measurement of fair value (continued)

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

		December 31, 2011				
		Book value				
		Balance	Unamortized balance	Allowance	Total	Fair value
<b>Assets</b>						
Cash and due from banks:						
	₩	2,079,573	-	-	2,079,573	2,079,573
		8,735,993	-	(32,163)	8,703,830	8,703,830
Loans:						
		66,051,757	128,090	(204,628)	65,975,219	66,352,805
		91,771,228	46,562	(1,451,339)	90,366,451	92,164,851
		4,885,462	404	(19,082)	4,866,784	4,900,583
		2,440,930	-	(12,979)	2,427,951	2,449,895
		1,572	-	-	1,572	1,572
Held-to-maturity financial assets:						
		5,282,523	-	-	5,282,523	5,498,291
		1,423,904	-	-	1,423,904	1,495,532
		3,195,995	-	-	3,195,995	3,224,181
		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
<b>Liabilities</b>						
Deposits:						
	₩	49,705,260	-	-	49,705,260	49,705,260
		103,476,368	-	-	103,476,368	103,447,613
		2,888,198	-	-	2,888,198	2,956,604
		4,823,802	-	-	4,823,802	4,823,359
		1,617,547	-	-	1,617,547	1,617,547
		71,153	-	-	71,153	71,216
Borrowings:						
		730,236	-	-	730,236	730,236
		99,207	-	-	99,207	98,443
		579,842	-	-	579,842	579,842
		11,779,125	(4,129)	-	11,774,996	11,756,620
		232,372	-	-	232,372	232,557
Debt securities issued:						
		15,804,405	(41,336)	-	15,763,069	15,415,443
		3,301,239	(9,701)	-	3,291,538	3,139,902
		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)

4-4. Measurement of fair value (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, 2012 and 2011 by the level in the fair value hierarchy into which the fair value measurement is categorized:

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Trading assets:				
Debt securities	₩ -	3,785,381	-	3,785,381
Equity securities	125,724	1,010,477	-	1,136,201
Gold deposits	437,928	-	-	437,928
Derivative assets:				
Trading	16	1,554,310	29,251	1,583,577
Hedging	-	192,328	67,809	260,137
Available-for-sale financial assets:				
Debt securities	7,007,061	17,807,575	-	24,814,636
Equity securities	2,049,673	99,276	1,353,163	3,502,112
	₩ 9,620,402	24,449,347	1,450,223	35,519,972
<b>Liabilities</b>				
Trading liabilities:				
Gold deposits	₩ 484,061	-	-	484,061
Derivative liabilities:				
Trading	-	1,423,746	25,240	1,448,986
Hedging	-	38,198	50,638	88,836
	₩ 484,061	1,461,944	75,878	2,021,883

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4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

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

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
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	1,643,768	244,210	1,887,994
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>24,599,221</u>	<u>1,642,623</u>	<u>35,643,848</u>
<b>Liabilities</b>				
Trading liabilities:				
Debt securities	₩ 188,504	-	-	188,504
Gold deposits	414,088	-	-	414,088
Derivative liabilities:				
Trading	4	1,577,434	33,328	1,610,766
Hedging	-	48,885	67,067	115,952
₩	<u>602,596</u>	<u>1,626,319</u>	<u>100,395</u>	<u>2,329,310</u>

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4. Financial risk management (continued)

4-4. Measurement of fair value (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, 2012 and 2011 were as follows:

		2012		
		Available-for-sale financial assets	Net derivatives instruments	Total
Beginning balance	₩	1,339,021	203,207	1,542,228
Total gain or loss:				
Recognized in profit or loss		117,885	23,978	141,863
Recognized in other comprehensive income		(89,210)	-	(89,210)
Purchases		140,560	306	140,866
Settlements		(251,595)	(170,870)	(422,465)
Transfers into (out of) level 3		96,502	(35,439)	61,063
Ending balance	₩	<u>1,353,163</u>	<u>21,182</u>	<u>1,374,345</u>

		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	₩	<u>-</u>	<u>1,339,021</u>	<u>203,207</u>	<u>1,542,228</u>

(d) There is no deferred amount to be recognized in day one gain or loss for the years ended December 31, 2012 and 2011

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4. Financial risk management (continued)

4-4. Measurement of fair value (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, 2012 and 2011 were as follows:

		December 31, 2012					
		Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Derivatives held for hedging	Total
<b>Assets</b>							
Due from banks	₩	-	-	-	6,357,277	-	6,357,277
Trading assets		5,359,510	-	-	-	-	5,359,510
Derivatives		1,583,577	-	-	-	260,137	1,843,714
Loans		-	-	-	169,140,922	-	169,140,922
Available-for-sale financial assets		-	28,316,748	-	-	-	28,316,748
Held-to-maturity financial assets		-	-	9,224,328	-	-	9,224,328
Other financial assets		-	-	-	7,568,867	-	7,568,867
	₩	<u>6,943,087</u>	<u>28,316,748</u>	<u>9,224,328</u>	<u>183,067,066</u>	<u>260,137</u>	<u>227,811,366</u>

		December 31, 2012			
		Trading liabilities	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
<b>Liabilities</b>					
Deposits	₩	-	166,820,320	-	166,820,320
Trading liabilities		484,061	-	-	484,061
Derivatives		1,448,986	-	88,836	1,537,822
Borrowings		-	10,846,518	-	10,846,518
Debt securities issued		-	18,500,639	-	18,500,639
Other financial liabilities		-	14,809,887	-	14,809,887
	₩	<u>1,933,047</u>	<u>210,977,364</u>	<u>88,836</u>	<u>212,999,247</u>

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4. Financial risk management (continued)

4-4. Measurement of fair value (continued)

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

		December 31, 2011					
		Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Derivatives held for hedging	Total
<b>Assets</b>							
Due from banks	₩	-	-	-	8,703,830	-	8,703,830
Trading assets		6,764,341	-	-	-	-	6,764,341
Derivatives		1,887,994	-	-	-	265,830	2,153,824
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 financial assets		-	-	-	5,497,956	-	5,497,956
	₩	<u>8,652,335</u>	<u>26,725,683</u>	<u>9,902,422</u>	<u>177,839,763</u>	<u>265,830</u>	<u>223,386,033</u>

		December 31, 2011			
		Trading liabilities	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
<b>Liabilities</b>					
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 financial liabilities		-	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)

4-4. Measurement of fair value (continued)

(f) Financial instruments income and costs by categories for the years ended December 31, 2012 and 2011 were as follows:

	2012					
	Interest income (expense)	Fees and commission income (expense)	Impairment loss	Others	Total	Other comprehensive income (loss)
Trading assets	₩ 153,440	6,180	-	107,890	267,510	-
Available-for-sale financial assets	925,745	-	(75,742)	393,029	1,243,032	(61,617)
Held-to-maturity financial assets	471,881	-	-	-	471,881	-
Loans and receivable	8,767,044	154,407	(817,716)	(12,066)	8,091,669	-
Trading liabilities	-	(489)	-	-	(489)	-
Financial liabilities measured at amortized cost	(5,567,024)	(2)	-	(15,305)	(5,582,331)	82,096
Net derivatives held for hedging	-	-	-	19,840	19,840	-
	₩ <u>4,751,086</u>	<u>160,096</u>	<u>(893,458)</u>	<u>493,388</u>	<u>4,511,112</u>	<u>20,479</u>

	2011					
	Interest income (expense)	Fees and commission income (expense)	Impairment loss	Others	Total	Other comprehensive loss
Trading assets	₩ 209,459	5,604	-	117,108	332,171	-
Financial assets designated at fair value through profit or loss	-	-	-	(357)	(357)	-
Available-for-sale financial assets	811,551	-	(90,146)	755,157	1,476,562	(599,986)
Held-to-maturity financial assets	524,703	-	-	-	524,703	-
Loans and receivable	8,803,433	181,830	(645,659)	(11,034)	8,328,570	-
Trading liabilities	-	(1,483)	-	-	(1,483)	-
Financial liabilities measured at amortized cost	(5,378,519)	-	-	(55,805)	(5,434,324)	(4,790)
Net derivatives held for hedging	-	-	-	29,460	29,460	-
	₩ <u>4,970,627</u>	<u>185,951</u>	<u>(735,805)</u>	<u>834,529</u>	<u>5,255,302</u>	<u>(604,776)</u>



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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, 2012 and 2011 were as follows:

Category	December 31, 2012	December 31, 2011
Capital:		
Tier I capital	₩ 16,325,436	15,342,524
Tier II capital	4,123,117	3,483,915
	20,448,553	18,826,439
Total risk-weighted assets	₩ 129,146,100	123,353,100
Capital adequacy ratio:		
Tier I capital adequacy ratio	12.64%	12.44%
Tier II capital adequacy ratio	3.19%	2.82%
	15.83%	15.26%

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

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**4-6. The transaction as a transfer of financial asset**

(a) Transfers financial assets that were not derecognized

i) Bonds sold under repurchase agreements as of December 31, 2012 and 2011 are as follows:

		<u>December 31, 2012</u>	<u>December 31, 2011</u>
Transferred asset:			
Held-to-maturity financial assets	₩	241,592	416,011
Associated liabilities:			
Bonds sold under repurchase agreements		214,220	345,990

ii) Securities loaned as of December 31, 2012 and 2011 were as follows:

		<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>Lender</u>
Government bonds	₩	343,850	272,411	Korea Securities Finance Corp., Mitsui Sumitomo and others
Financial institutions bonds		<u>370,143</u>	<u>60,267</u>	<u>Korea Securities Finance Corp.</u>
	₩	<u>713,993</u>	<u>332,678</u>	

(b) Qualify for derecognition and continuing involvement in financial assets

There are no financial assets that meets the conditions of the derecognition and in which the Group has continuing involvement as of December 31, 2012 and 2011.

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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 30% against the original cost as "significant decline" and the status when the market price for marketable equity less than the carrying amounts of instruments for a six consecutive months as a "prolonged decline". Since 2012, The Group changed its significant decline criteria from 50% to 30%, considering recent stock market volatility. In result, an additional ₩15,169 million of impairment loss on available-for-sale financial assets was recognized for the year ended December 31, 2012.

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6. Operating segments

- (a) The general descriptions of the Group's operating segments as of December 31, 2012 and 2011 were as follows:

Description	Area of business
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 Bank	Supervision of overseas subsidiaries and branch operations and other international businesses.
Other(*)	Administration of bank operations and Merchant Banking Account.

(\*)The other segment include Shinhan Aitas classified as discontinued operation as of December 31, 2012.

The Group revised comparative information of the prior year, including for the years ended December 31, 2011, as a result of the Group restructuring the composition of its operating segments.

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6. Operating segments (continued)

(b) The following table financial performance for each operating segment for the years ended December 31, 2012 and 2011.

		2012					
		Retail	Corporate and treasury	International group	Other	Consolidated adjustment	Total
Net interest income	₩	2,428,399	1,049,010	288,688	969,717	15,272	4,751,086
Net fees and commission income (expense)		589,043	275,065	47,578	(83,452)	7,909	836,143
Net other expense		(2,349,673)	(436,825)	(125,544)	(496,609)	(108,040)	(3,516,691)
Operating income		667,769	887,250	210,722	389,656	(84,859)	2,070,538
Other non-operating income (expenses), net		(13,414)	5,501	(1,692)	48,050	(57,279)	(18,834)
Equity in income of associates		-	-	-	-	21,897	21,897
Income before income taxes		654,355	892,751	209,030	437,706	(120,241)	2,073,601
Income tax expenses		(132,108)	(181,507)	(53,739)	(90,206)	33,618	(423,942)
Income from continuing operations		522,247	711,244	155,291	347,500	(86,623)	1,649,659
Income from discontinued operation		-	-	-	7,311	-	7,311
Income for the year	₩	522,247	711,244	155,291	354,811	(86,623)	1,656,970
Attributable to:							
Equity holder of the Group	₩	522,247	711,244	155,291	354,811	(86,796)	1,656,797
Non-controlling interests		-	-	-	-	173	173
	₩	522,247	711,244	155,291	354,811	(86,623)	1,656,970
		2011					
		Retail	Corporate and treasury	International group	Other	Consolidated adjustment	Total
Net interest income	₩	2,587,324	1,013,951	259,548	1,048,984	60,820	4,970,627
Net fees and commission income (expense)		610,569	279,177	45,580	(70,339)	(2,442)	862,545
Net other expense		(2,358,972)	(459,041)	(231,861)	(101,588)	(8,516)	(3,159,978)
Operating income		838,921	834,087	73,267	877,057	49,862	2,673,194
Other non-operating income (expenses), net		(15,816)	1,639	(1,832)	(48,784)	12,988	(51,805)
Equity in income of associates		-	-	-	-	28,995	28,995
Income before income taxes		823,105	835,726	71,435	828,273	91,845	2,650,384
Income tax expenses		(163,452)	(168,205)	(20,050)	(167,093)	(16,016)	(534,816)
Income from continuing operations		659,653	667,521	51,385	661,180	75,829	2,115,568
Income from discontinued operation		-	-	-	3,347	-	3,347
Income for the year	₩	659,653	667,521	51,385	664,527	75,829	2,118,915
Attributable to:							
Equity holder of the Group	₩	659,653	667,521	51,385	664,527	75,335	2,118,421
Non-controlling interests		-	-	-	-	494	494
	₩	659,653	667,521	51,385	664,527	75,829	2,118,915

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6. Operating segments (continued)

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

		December 31, 2012					
		Retail	Corporate and treasury	International group	Other	Consolidated adjustment	Total
Trading assets	₩	-	5,606,443	-	329,266	(576,199)	5,359,510
Loans		101,709,757	58,446,375	8,645,957	1,930,038	(1,591,205)	169,140,922
Available-for-sale financial assets		-	25,030,962	871,999	2,664,564	(250,777)	28,316,748
Held-to-maturity financial assets		-	8,789,842	434,486	-	-	9,224,328
	₩	<u>101,709,757</u>	<u>97,873,622</u>	<u>9,952,442</u>	<u>4,923,868</u>	<u>(2,418,181)</u>	<u>212,041,508</u>

		December 31, 2011					
		Retail	Corporate and treasury	International group	Other	Consolidated adjustment	Total
Trading assets	₩	-	7,479,525	-	332,897	(1,048,081)	6,764,341
Loans		97,773,938	57,229,149	8,058,557	2,098,758	(1,522,425)	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>97,773,938</u>	<u>97,765,733</u>	<u>9,240,517</u>	<u>5,306,167</u>	<u>(3,055,932)</u>	<u>207,030,423</u>

(d) Financial information of geographical area

(i) The following table provides information of operating income by geographical area for the years ended December 31, 2012 and 2011.

		Operating revenue from external consumers		Operating expense from external consumers		Operating income from external consumers	
		2012	2011	2012	2011	2012	2011
Domestic	₩	17,384,402	18,313,656	15,504,440	15,724,510	1,879,962	2,589,146
Overseas		1,188,408	464,604	997,832	380,556	190,576	84,048
	₩	<u>18,572,810</u>	<u>18,778,260</u>	<u>16,502,272</u>	<u>16,105,066</u>	<u>2,070,538</u>	<u>2,673,194</u>

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

		December 31, 2012	December 31, 2011
Domestic	₩	2,889,489	2,917,160
Overseas		51,554	62,172
	₩	<u>2,941,043</u>	<u>2,979,332</u>

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

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7. Cash and due from banks

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

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Cash	₩ 2,938,070	2,079,573
Deposits in won:		
Reserve deposits	2,731,008	3,322,294
Others	775,767	2,102,225
	<u>3,506,775</u>	<u>5,424,519</u>
Deposits in foreign currency:		
Deposits	1,555,138	1,431,164
Time deposits	1,147,638	1,627,044
Others	152,181	253,266
	<u>2,854,957</u>	<u>3,311,474</u>
Allowance for impairment	(4,455)	(32,163)
	<u>₩ 9,295,347</u>	<u>10,783,403</u>

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

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Deposits in won:		
Reserve deposits	₩ 2,731,008	3,322,294
Others	740,738	1,201,546
	<u>3,471,746</u>	<u>4,523,840</u>
Deposits in foreign currency:		
Deposits	403,370	658,642
Time deposits	14,101	11,425
Others	70,116	91,569
	<u>487,587</u>	<u>761,636</u>
	<u>₩ 3,959,333</u>	<u>5,285,476</u>



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8. Trading assets

Trading assets as of December 31, 2012 and 2011 were as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Debt securities:		
Government	₩ -	197,371
Financial institutions	-	664,990
Corporate bonds	-	96,190
Bills bought	2,766,861	3,005,346
CMA(*)	1,018,520	1,465,088
	<u>3,785,381</u>	<u>5,428,985</u>
Equity securities:		
Stocks	125,724	92,272
Beneficiary certificates	1,010,477	901,650
	<u>1,136,201</u>	<u>993,922</u>
Other:		
Gold deposits	437,928	341,434
	<u>₩ 5,359,510</u>	<u>6,764,341</u>

(\*) CMA: Cash management account deposits

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9. Derivatives

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

	December 31, 2012	December 31, 2011
<b>Foreign currency related</b>		
Over the counter:		
Currency forwards	₩ 32,294,582	41,471,819
Currency swaps	11,688,685	12,572,854
Currency options	366,153	1,671,521
	<u>44,349,420</u>	<u>55,716,194</u>
Exchange traded:		
Currency futures	87,295	113,254
	<u>44,436,715</u>	<u>55,829,448</u>
<b>Interest rates related</b>		
Over the counter:		
Interest rate swaps	77,650,591	86,905,640
Interest rate options	5,776,662	8,803,485
	<u>83,427,253</u>	<u>95,709,125</u>
Exchange traded:		
Interest rate futures	-	41,860
	<u>83,427,253</u>	<u>95,750,985</u>
<b>Equity related</b>		
Over the counter:		
Equity options	571,079	5,312,708
Exchange traded:		
Equity futures	64,529	6,323
Equity options	2,606	23,475
	<u>67,135</u>	<u>29,798</u>
	<u>638,214</u>	<u>5,342,506</u>
<b>Commodity related</b>		
Over the counter:		
Swaps and forwards	-	10,101
Commodity options	27,995	58,788
	<u>27,995</u>	<u>68,889</u>
<b>Hedge</b>		
Fair value hedge:		
Interest rate swaps	8,264,998	8,887,426
	<u>₩ 136,795,175</u>	<u>165,879,254</u>

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9. Derivatives (continued)

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

	December 31, 2012		December 31, 2011	
	Assets	Liabilities	Assets	Liabilities
<b>Foreign currency related</b>				
Over the counter:				
Currency forwards	₩ 507,243	611,723	623,710	433,652
Currency swaps	360,967	256,162	450,006	567,011
Currency options	24,955	11	113,241	7,798
	<u>893,165</u>	<u>867,896</u>	<u>1,186,957</u>	<u>1,008,461</u>
<b>Interest rates related</b>				
Over the counter:				
Interest rate swaps	652,262	541,396	642,675	544,953
Interest rate options	23,921	33,297	32,998	36,611
	<u>676,183</u>	<u>574,693</u>	<u>675,673</u>	<u>581,564</u>
<b>Equity related</b>				
Over the counter:				
Equity options	13,842	6,026	23,090	18,479
Exchange traded:				
Equity options	16	-	16	4
	<u>13,858</u>	<u>6,026</u>	<u>23,106</u>	<u>18,483</u>
<b>Commodity related</b>				
Over the counter:				
Swaps and forwards	-	-	1,191	1,191
Commodity options	371	371	1,067	1,067
	<u>371</u>	<u>371</u>	<u>2,258</u>	<u>2,258</u>
<b>Hedge</b>				
Fair value hedge:				
Interest rate swaps	260,137	88,836	265,830	115,952
	<u>₩ 1,843,714</u>	<u>1,537,822</u>	<u>2,153,824</u>	<u>1,726,718</u>

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9. Derivatives (continued)

(c) Net gain (loss) on valuation of derivatives for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
<b>Foreign currency</b>		
Over the counter:		
Currency forwards	₩ (166,320)	178,066
Currency swaps	185,693	(101,656)
Currency options	(9,407)	6,244
	<u>9,966</u>	<u>82,654</u>
<b>Interest rates</b>		
Over the counter:		
Interest rate swaps	(11,835)	42,539
Interest rate options	985	(3,502)
	<u>(10,850)</u>	<u>39,037</u>
<b>Equity</b>		
Over the counter:		
Equity options	6,999	2,235
Exchange traded:		
Equity options	(6)	(18)
	<u>6,993</u>	<u>2,217</u>
<b>Commodity</b>		
Over the counter:		
Swaps and forwards	-	3
Commodity options	46	327
	<u>46</u>	<u>330</u>
<b>Hedge</b>		
Fair value hedge:		
Interest rate swaps	19,202	44,377
	<u>₩ 25,357</u>	<u>168,615</u>

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9. Derivatives (continued)

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

	2012	2011
Hedged items	₩ (18,662)	(51,283)
Hedging instruments	19,840	29,460
	₩ <u>1,178</u>	<u>(21,823)</u>

(e) Hedge of net investment in foreign operations

For some of net investments in foreign operations, the hedge accounting is applied. The gain or loss on the hedging instruments which is reflected to overseas operations translation for the years ended December 31, 2012 and 2011 were as follows:

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

10. Loans

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

	December 31, 2012	December 31, 2011
Household loans	₩ 70,451,445	66,051,757
Corporate loans	92,671,987	91,771,228
Public and other	3,061,975	4,885,462
Loans to banks	4,477,129	2,440,930
Card receivables	2,474	1,572
	<u>170,665,010</u>	<u>165,150,949</u>
Deferred loan origination costs and fees	235,483	175,056
	<u>170,900,493</u>	<u>165,326,005</u>
Allowance for impairment	(1,759,571)	(1,688,028)
	₩ <u>169,140,922</u>	<u>163,637,977</u>

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10. Loans (continued)

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

	2012					
	Due from banks	Loans			Other assets	Total
		Household	Corporate	Other		
Beginning balance	₩ 32,163	204,628	1,451,339	32,061	76,673	1,796,864
Provision for (reversal of) allowance	(27,708)	157,503	698,391	(6,893)	(3,577)	817,716
Write-offs	-	(108,482)	(604,851)	-	(590)	(713,923)
Effect of discounting	-	-	(60,341)	-	-	(60,341)
Allowance related to loans transferred	-	(17,222)	(83,212)	-	-	(100,434)
Recoveries	-	30,110	65,635	-	93	95,838
Others(*)	-	-	905	-	(10,655)	(9,750)
Ending balance	₩ 4,455	266,537	1,467,866	25,168	61,944	1,825,970

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

	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)	(7,048)	645,659
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	-	(2,399)	19,000
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.

SHINHAN BANK AND SUBSIDIARIES  
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10. Loans (continued)

(c) Finance lease receivables was fully recovered as of December 31, 2012 and finance lease receivables as of December 31, 2011 was 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

(d) Changes in deferred loan origination costs for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Beginning balance	₩ 175,056	51,787
Loan originations	185,247	156,348
Amortization	(124,820)	(33,079)
Ending balance	₩ 235,483	175,056

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11. 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, 2012 and 2011 were as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Available-for-sale financial assets:		
Debt securities:		
Government bonds	₩ 3,951,526	3,369,906
Financial institutions bonds	11,849,658	11,786,976
Corporate bonds and others	9,013,452	7,839,942
Others	-	39,998
	<u>24,814,636</u>	<u>23,036,822</u>
Equity securities(*):		
Stocks	2,879,823	3,120,251
Equity investments	402,837	377,444
Beneficiary certificates	195,778	151,096
Others	23,674	40,070
	<u>3,502,112</u>	<u>3,688,861</u>
	<u>₩ 28,316,748</u>	<u>26,725,683</u>
Held-to-maturity financial assets:		
Debt securities:		
Government bonds	₩ 4,981,642	5,282,523
Financial institutions bonds	1,101,275	1,423,904
Corporate bonds and others	3,141,411	3,195,995
	<u>₩ 9,224,328</u>	<u>9,902,422</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 ₩61,720 million, ₩276,077 million as of December 31, 2012 and 2011, respectively.

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

	<u>2012</u>	<u>2011</u>
Gain on sale of available-for-sale financial assets	₩ 327,679	657,929
Loss on sale of available-for-sale financial assets	(14,041)	(15,205)
	<u>₩ 313,638</u>	<u>642,724</u>



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12. Property and equipment

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

	December 31, 2012		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 1,267,928	-	1,267,928
Buildings	727,692	(80,980)	646,712
Others	1,445,690	(1,145,282)	300,408
	₩ <u>3,441,310</u>	<u>(1,226,262)</u>	<u>2,215,048</u>

	December 31, 2011		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 1,264,745	-	1,264,745
Buildings	699,792	(53,684)	646,108
Others	1,379,842	(1,124,608)	255,234
	₩ <u>3,344,379</u>	<u>(1,178,292)</u>	<u>2,166,087</u>

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12. Property and equipment (continued)

(b) Changes in property and equipment for the years ended December 31, 2012 and 2011 were as follows :

	2012			
	Land	Buildings	Others	Total
Beginning balance	₩ 1,264,745	646,108	255,234	2,166,087
Acquisitions(*1,2,4)	1,700	40,957	174,773	217,430
Disposals(*1,3)	(180)	(7,191)	(12,449)	(19,820)
Depreciation	-	(28,360)	(113,243)	(141,603)
Amounts transferred from (to) investment properties	3,241	(682)	-	2,559
Effects of foreign currency movements	(180)	(1,401)	(2,724)	(4,305)
Disposal of subsidiary	(1,398)	(2,719)	(1,183)	(5,300)
Ending balance	₩ 1,267,928	646,712	300,408	2,215,048

(\*1) ₩13,651 million transferred from construction-in progress was included.

(\*2) ₩960 million of provision for the asset retirement related to newly acquired assets was included.

(\*3) ₩513 million of write-off was included.

(\*4) Regarding discontinued operation, ₩1,025 million of acquisitions and ₩636 million of depreciation were included.

	2011			
	Land	Buildings	Other	Total
Beginning balance	₩ 1,280,374	647,129	235,475	2,162,978
Acquisitions(*1,2)	6,571	46,747	167,289	220,607
Disposals(*1)	(6,470)	(9,088)	(24,024)	(39,582)
Depreciation(*2)	-	(27,074)	(126,132)	(153,206)
Amounts transferred to investment properties	(17,108)	(11,004)	-	(28,112)
Amounts transferred from (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

(\*1) ₩13,546 million transferred from construction-in progress was included.

(\*2) Regarding discontinued operation, ₩216 million of acquisitions and ₩1,213 million of depreciation were included.

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

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13. Intangible assets

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

	2012					
	Goodwill	Software	Development cost	Member -ship	Other	Total
Beginning balance	₩ 61,574	41,747	39,471	44,352	72,789	259,933
Acquisitions(*2)	-	15,285	14,657	3,833	3,983	37,758
Disposals(*3)	-	-	-	(1,258)	(231)	(1,489)
Impairment(*1)	(43,840)	-	-	(665)	-	(44,505)
Amortization(*2)	-	(14,290)	(16,057)	-	(20,681)	(51,028)
Effects of foreign currency movements	-	(590)	-	(133)	(40)	(763)
Disposal of subsidiary	(17,734)	(1,065)	-	(544)	-	(19,343)
Ending balance	₩ -	41,087	38,071	45,585	55,820	180,563

(\*1) The Group recognized impairment losses from golf and condo memberships with indefinite useful life by comparing its recoverable amount with its carrying amount.

(\*2) Regarding discontinued operation, ₩588 million of acquisitions and ₩261 million of depreciation were included.

(\*3) ₩61 million of write-off was included.

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

(\*1) The Group recognized impairment losses from golf and condo memberships with indefinite useful life by comparing its recoverable amount with its carrying amount.

(\*2) Regarding discontinued operation, ₩243 million of acquisitions and ₩284 million of depreciation were included.

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13. Intangible assets (continued)

(b) Goodwill impairment

i) Goodwill as of December 31, 2012 and 2011 were as follows:

		December 31, 2012	December 31, 2011
International CGU	₩	-	43,840
Other CGU		-	17,734
	₩	-	61,574

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

		2012	2011
Beginning balance	₩	61,574	17,734
Acquisition of subsidiary(*1)		-	75,383
Disposals(*2)		(17,734)	-
Impairment		(43,840)	(31,543)
Ending balance	₩	-	61,574

(\*1) The adjustment of goodwill was from the result of the acquisition of Shinhan Vina Bank which belongs to international CGU.

(\*2) The adjustment of goodwill was from the result of the disposals of Shinhan Aitas which belongs to other 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.

① The date of valuation and projected period

The date of valuation to measure the recoverable amount was September 30, 2012. 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, 2012 through December 31, 2017) from the date of valuation with a terminal value applied thereafter.

② 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.

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13. Intangible assets (continued)

(b) Goodwill impairment (continued)

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

	Discount rates		Terminal growth rate	
	2012	2011	2012	2011
International CGU	11.2%	12.8%	2.9%	2.3%
Other CGU	11.2%	12.8%	2.9%	2.3%

③ Key assumptions used in the discounted cash flow calculations of CGUs were as follows:

	December 31, 2012			
	2013	2014	2015	2016 and thereafter
CPI growth	1.9%	2.8%	3.3%	3.2%
Real retail sales growth	2.7%	3.0%	3.7%	3.6%
Real GDP growth	1.9%	3.3%	3.9%	3.6%

	December 31, 2011			
	2012	2013	2014	2015 and thereafter
CPI growth	2.1%	2.2%	1.6%	2.3%
Real retail sales growth	3.5%	5.3%	4.0%	2.9%
Real GDP growth	3.9%	4.2%	3.6%	4.2%

iv) Recoverable amount and book value of CGUs, to which goodwill has been allocated, as of December 31, 2011 was as follows:

		International CGU	Other CGU(*)
Recoverable amount	₩	1,833,186	55,023
Carrying amount		1,833,186	43,483
	₩	-	11,540

(\*) The amount was from Shinhan Aitas.

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14. Investments in associates

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

Investees	Country	Reporting date	Ownership (%)	
			December 31, 2012	December 31, 2011
Macquarie Shinhan Infrastructure Management(*1)	Korea	September 30	-	35.18
Aju Capital Co., Ltd.(*2,3,7)	Korea	September 30	12.85	12.85
Cardif Life Insurance(*4)	Korea	September 30	14.99	14.99
UAMCO., Ltd.	Korea	December 31	17.50	17.50
Shinhan Corporate Restructuring Fund 7 <sup>th</sup> (*6)	Korea	December 31	58.82	58.82
Pohang TechnoPark 2PFV(*3)	Korea	December 31	14.90	14.90
DAEWONTOS Co., Ltd.(*5)	Korea	December 31	36.33	36.33

(\*1) Considered by common share except preferred shares.

(\*2) Financial statement as of September 30, 2012 were used for the equity method and significant transactions or events between September 30 and December 31, 2012 were properly considered.

(\*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) The Group reclassified available-for-sale financial assets that were acquired by debt-equity swap to investment in associates since vergleich procedure were completed and voting right were restored.

(\*6) Although the ownership interest in Shinhan Corporate Restructuring Fund 7<sup>th</sup> was more than 50%, the Group used the equity method of accounting as the Group does not have control with its limited partner status.

(\*7) The shares of Aju Capital Co., Ltd. were marketable investment securities and their market value was ₩29,654 million as of December 31, 2012 based on the quoted market price (₩4,010 per share) at that date.

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14. Investments in associates (continued)

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

Investees	2012							
	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	₩ -	3,248	(2,742)	-	(401)	-	(105)	-
Aju Capital Co., Ltd.	36,971	33,946	-	5,506	492	(8,441)	(1,849)	29,654
Cardif Life Insurance Co., Ltd.	26,280	26,801	9,750	421	6,705	-	(52)	43,625
UAMCO., Ltd.	12,250	104,240	-	16,650	25	-	-	120,915
Shinhan Corporate Restructuring Fund 7 <sup>th</sup>	-	13	-	-	-	-	-	13
Pohang TechnoPark 2PFV	4,470	3,697	-	(802)	-	-	-	2,895
DAEWONTOS CO., LTD.	-	-	-	122	-	-	-	122
	₩ 79,971	171,945	7,008	21,897	6,821	(8,441)	(2,006)	197,224

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 Co., Ltd.	16,530	16,456	9,750	2,300	(1,705)	-	-	26,801
Westend Corporate Restructuring Fund	381	5,131	(4,657)	1,163	-	-	(1,637)	-
UAMCO., Ltd.	12,250	86,481	-	17,784	(25)	-	-	104,240
Shinhan Vina Bank	-	57,833	(61,695)	928	2,934	-	-	-
Shinhan Corporate Restructuring Fund 7 <sup>th</sup>	-	162	-	(124)	-	-	(25)	13
Pohang TechnoPark 2PFV	4,470	-	4,470	(751)	(22)	-	-	3,697
	₩ 71,022	204,012	(52,602)	28,995	1,093	(4,351)	(5,202)	171,945

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14. Investments in associates (continued)

(c) Condensed financial statements of associates

i) The assets and liabilities as of December 31, 2012 and 2011 were as follows:

Investees	December 31, 2012		December 31, 2011	
	Assets	Liabilities	Assets	Liabilities
Macquarie Shinhan Infrastructure Management	₩ -	-	17,294	6,559
Aju Capital Co., Ltd.	5,857,903	5,153,149	5,200,373	4,523,282
Cardif Life Insurance	2,993,361	2,765,496	2,361,638	2,180,638
UAMCO., Ltd.	4,906,009	4,215,061	3,738,326	3,146,227
Shinhan Vina Bank	-	-	426,868	308,057
Shinhan Corporate Restructuring Fund 7 <sup>th</sup>	19	-	19	-
Pohang TechnoPark 2PFV	20,993	1,564	35,415	10,603
DAEWONTOS CO., LTD.	5,314	4,979	-	-
	₩ 13,783,599	12,140,249	11,779,933	10,175,366

ii) The operating revenue and net income (loss) for the years ended December 31, 2012 and 2011 were as follows:

Investees	2012		2011	
	Operating revenue	Net income (loss)	Operating revenue	Net income (loss)
Macquarie Shinhan Infrastructure Management	₩ -	-	16,797	8,865
Aju Capital Co., Ltd.	775,227	40,353	730,272	35,423
Cardif Life Insurance	798,918	2,497	646,812	4,915
Westend Corporate Restructuring Fund(*1)	-	-	2,360	939
UAMCO., Ltd.	599,570	95,828	468,220	101,624
Shinhan Vina Bank(*2)	-	-	48,534	1,857
Shinhan Corporate Restructuring Fund 7 <sup>th</sup>	-	-	1	(211)
Pohang TechnoPark 2PFV	-	(5,440)	-	(5,038)
DAEWONTOS CO., LTD.	24,397	243	-	-
	₩ 2,198,112	133,481	1,912,996	148,374

(\*1) Westend Corporate Restructuring Fund has been terminated for the year ended December 31, 2011.

(\*2) Shinhan Vina Bank was merged by Shinhan Vietnam Bank for the year ended December 31, 2011.



SHINHAN BANK AND SUBSIDIARIES  
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15. Investment properties

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

		December 31, 2012		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	437,301	-	437,301
Buildings		123,684	(15,553)	108,131
	₩	<u>560,985</u>	<u>(15,553)</u>	<u>545,432</u>

		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>

Market transactions between knowledgeable and willing partners.

(b) Changes in investment properties for the years ended December 31, 2012 and 2011 were as follows:

		2012		
		Land	Buildings	Total
Beginning balance	₩	440,542	112,770	553,312
Depreciation		-	(5,306)	(5,306)
Amounts transferred from (to) property and equipment		(3,241)	682	(2,559)
Effects of foreign currency movements		-	(15)	(15)
Ending balance	₩	<u>437,301</u>	<u>108,131</u>	<u>545,432</u>

		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>

SHINHAN BANK AND SUBSIDIARIES  
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15. Investment properties (continued)

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

		2012	2011
Rental Income	₩	21,170	18,819
Direct operating expenses for investment properties that generated rental income		4,643	4,385

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

		December 31, 2012	December 31, 2011
Land and buildings(*)	₩	559,827	559,188

(\*) Valuation was based on the recent arm's length market transactions between knowledgeable and willing parties.

16. Other assets

Other assets as of December 31, 2012 and 2011 were as follows:

		December 31, 2012	December 31, 2011
Unsettled trades and other financial assets	₩	3,356,235	1,436,023
Domestic exchange settlement debit		1,981,228	1,747,420
Guarantee deposits		1,216,501	1,183,086
Accrued income		1,023,791	1,133,472
Prepaid expense		86,459	92,069
Suspense payments		83,463	118,545
Sundry assets		135,650	135,388
Others		194	987
Present value discount		(78,796)	(88,597)
Allowances for impairment		(61,944)	(76,673)
	₩	<u>7,742,781</u>	<u>5,681,720</u>

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17. Pledged assets

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

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Loans	₩ 127,589	154,424
Securities(*):		
Available-for-sale financial assets	465,267	1,138,166
Held-to-maturity financial assets	5,528,274	5,513,027
	<u>5,993,541</u>	<u>6,651,193</u>
Real estate	7,249	7,873
	<u>₩ 6,128,379</u>	<u>6,813,490</u>

(\*) The carrying amounts of assets pledged as collateral for transferred assets that the transferees had the right to sell or repledge regardless of the Group's default as of December 31, 2012 and 2011 were ₩370,501million, ₩1,046,735 million, respectively.

(b) The fair value of collateral held that the Group has the right to sell or repledge regardless of pledger's default as of December 31, 2012 and 2011 was as follows:

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Collateral held</u>	<u>Collateral sold or repledged</u>	<u>Collateral held</u>	<u>Collateral sold or repledged</u>
Securities	₩ 2,679,618	-	781,902	-

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18. Deposits

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

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Demand deposits:		
Korean won	₩ 47,134,850	45,755,852
Foreign currency	4,586,777	3,949,408
	<u>51,721,627</u>	<u>49,705,260</u>
Time deposits:		
Korean won	100,138,890	95,204,033
Foreign currency	9,010,545	8,270,185
Loss(Gain) on fair value hedge	(18,136)	2,150
	<u>109,131,299</u>	<u>103,476,368</u>
Negotiable certificates of deposits	1,273,333	2,888,198
Note discount deposits	3,013,376	4,823,802
CMA(*)	1,626,061	1,617,547
Others	54,624	71,153
	<u>₩ 166,820,320</u>	<u>162,582,328</u>

(\*) CMA: Cash management account deposits

19. Trading liabilities

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

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	Interest rate(%)	Amount	Interest rate(%)	Amount
Debt securities sold	-	₩ -	3.00~5.75	₩ 188,504
Gold deposits	-	484,061	-	414,088
		<u>₩ 484,061</u>		<u>₩ 602,592</u>

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20. **Borrowings**

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

	December 31, 2012		December 31, 2011	
	Interest rate(%)	Amount	Interest rate(%)	Amount
Call money:				
Korean won	2.57~2.70	₩ 16,600	3.05~3.18	₩ 174,100
Foreign currency	0.07~9.00	257,235	0.14~5.20	556,136
		<u>273,835</u>		<u>730,236</u>
Bill sold	1.70~3.80	55,397	1.70~4.30	99,207
Bonds sold under repurchase agreements:				
Korean won	2.50	24,262	0.10~3.74	56,754
Foreign currency	1.02~3.65	282,276	0.90~3.45	523,088
		<u>306,538</u>		<u>579,842</u>
Borrowings in won:				
Borrowings from Bank of Korea	1.25~1.50	1,321,751	1.50	754,221
Others	0.00~5.68	3,011,572	0.00~5.40	2,802,703
		<u>4,333,323</u>		<u>3,556,924</u>
Borrowings in foreign currency:				
Overdraft due to banks	0.63	155,212	0.89~2.98	1,021,187
Borrowings from banks	0.08~3.88	3,045,123	0.60~9.26	3,928,986
Others	0.30~1.86	2,523,782	0.70~5.90	3,272,028
		<u>5,724,117</u>		<u>8,222,201</u>
Due to Bank of Korea in foreign currency	0.10	156,150	0.10	232,372
Deferred origination costs		(2,842)		(4,129)
		<u>10,846,518</u>		₩ <u>13,416,653</u>

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20. Borrowings (continued)

(b) Borrowings from other financial institution as of December 31, 2012 and 2011 were as follows:

	December 31, 2012			
	Bank of Korea	Commercial banks	Other financial institution	Total
Call money	₩ -	3,600	270,235	273,835
Bonds sold under repurchase agreements	-	68,056	214,220	282,276
Borrowings in won	1,321,751	341,797	143,101	1,806,649
Borrowings in foreign currency	-	3,703,041	2,021,076	5,724,117
Due to Bank of Korea in foreign currency	156,150	-	-	156,150
	<u>₩ 1,477,901</u>	<u>4,116,494</u>	<u>2,648,632</u>	<u>8,243,027</u>

	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>

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21. Debt securities issued

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

	December 31, 2012		December 31, 2011	
	Interest rate(%)	Amount	Interest rate(%)	Amount
Debt securities issued in won:				
Debt securities issued	0.00~9.00	₩ 9,537,969	0.00~11.95	₩ 11,848,071
Subordinated debt securities issued	3.41~7.70	5,030,290	4.25~14.45	3,868,677
Loss on fair value hedges		107,559		87,657
Discount on debt securities issued		(22,205)		(41,336)
		<u>14,653,613</u>		<u>15,763,069</u>
Debt securities issued in foreign:				
Debt securities issued	0.72~8.13	3,745,525	1.05~8.13	3,200,523
Loss on fair value hedges		117,097		100,716
Discount on debt securities issued		(15,596)		(9,701)
		<u>3,847,026</u>		<u>3,291,538</u>
		<u>₩ 18,500,639</u>		<u>₩ 19,054,607</u>

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**22. 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, 2012 and 2011 were as follows:

		December 31, 2012	December 31, 2011
Present value of defined benefit obligation	₩	748,324	644,814
Fair value of plan assets		(583,656)	(445,806)
Recognized liabilities for defined benefit obligation	₩	<u>164,668</u>	<u>199,008</u>

(b) Changes in the present value of defined benefit obligation for the years ended December 31, 2012 and 2011 were as follows:

		2012	2011
Beginning balance	₩	644,814	448,453
Current service cost		99,752	74,675
Interest expense		33,072	27,377
Actuarial losses		399	111,314
Effects of foreign currency movements		46	437
Benefits paid by the plan		(31,519)	(19,194)
Others		1,760	1,752
Ending balance	₩	<u>748,324</u>	<u>644,814</u>

(c) Changes in the fair value of plan assets for the years ended December 31, 2012 and 2011 were as follows:

		2012	2011
Beginning balance	₩	445,806	322,048
Expected return on plan assets		19,832	13,654
Actuarial gains (losses)		(998)	233
Contributions paid into the plan		124,000	120,300
Benefits paid by the plan		(4,984)	(10,429)
Ending balance	₩	<u>583,656</u>	<u>445,806</u>



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22. Employee benefits (continued)

(d) Expenses recognized in profit or loss

Expenses recognized in profit or loss for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Defined benefit plans:		
Current service costs	₩ 99,752	74,675
Interest expense	33,072	27,377
Expected return on plan assets	(19,832)	(13,654)
Actuarial losses	1,397	111,081
Defined contribution plans: (*)		
Severance benefits	740	587
	₩ 115,129	200,066
Actual return on plan assets	₩ 18,834	13,887

(\*) Total amount is related to the discontinued operation.

(e) Historical information of defined benefit plan assets and liabilities recognized for the current and previous years are as follows:

	December 31, 2012	December 31, 2011	December 31, 2010	January 1, 2010
Present value of defined benefit obligation	₩ 748,324	644,814	448,453	329,267
Fair value of plan assets(*)	(583,656)	(445,806)	(322,048)	(202,829)
Deficit in the plan	₩ 164,668	199,008	126,405	126,438
Adjustments to defined benefit obligation	₩ 399	111,314	42,747	-
Adjustments to plan assets	998	(233)	(285)	-

(\*) Plan assets were recorded as due from bank, etc.

(f) Actuarial assumptions as of December 31, 2012 and 2011 were as follows:

	Assumptions		Descriptions
	December 31, 2012	December 31, 2011	
Discount rate	4.44%	5.37%	AA0 Corporate bond yields
Expected return on plan assets	4.07%	4.38%	Weighted average yield for the past
Future salary increasing rate	1.88% + Upgrade rate	2.00% + Upgrade rate	Average for 5 years

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23. Provisions

(a) Changes in provisions for the years ended December 31, 2012 and 2011 were as follows:

	2012					
	Asset retirement	Litigation	Unused credit	Guarantee	Other(*2)	Total
Beginning balance	₩ 21,470	181,254	98,717	84,377	54,506	440,324
Provision (reversal)	681	4,121	(10,185)	7,960	11,116	13,693
Provision used	(88)	(87,874)	-	-	(16,236)	(104,198)
Foreign exchange translation	-	(460)	(2,650)	(2,429)	(644)	(6,183)
Others(*1)	960	-	-	(13,017)	-	(12,057)
Ending balance	₩ 23,023	97,041	85,882	76,891	48,742	331,579

	2011					
	Asset retirement	Litigation	Unused credit	Guarantee	Other(*2)	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(*1)	749	-	-	(16,384)	-	(15,635)
Ending balance	₩ 21,470	181,254	98,717	84,377	54,506	440,324

(\*1) Other changes were due to originations and maturities of financial guarantees recognized initially at their fair value, effect of discount rate change and acquisition cost of new leased properties relating to asset retirement.

(\*2) Provision for dormant deposit of ₩40,817 million and ₩22,761 million are included as of December 31, 2012 and 2011, respectively.

(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.

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24. Other liabilities

Other liabilities as of December 31, 2012 and 2011 were as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Unsettled trades and other financial liabilities	₩ 3,276,244	1,319,153
Sundry liabilities	154,506	56,927
Borrowing from trust account	2,420,734	2,008,134
Accrued expenses	2,737,182	2,913,047
Domestic exchange remittances pending	2,843,480	1,974,620
Due to agencies for Bank of Korea	1,950,737	1,306,603
Due to agencies for other institutions	650,667	392,055
Security deposits received	397,319	422,891
Foreign exchange remittances pending	208,782	202,364
Suspense payable	98,684	160,559
Unearned income	75,107	89,855
Withholding value-added tax and other taxes	89,975	91,055
Dividend payable	18,131	19,017
Others	321	6,135
Present value discount account	(4,173)	(2,464)
	<u>₩ 14,917,696</u>	<u>10,959,951</u>

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25. Equity

(a) Equity as of December 31, 2012 and 2011 was as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Capital stock:		
Common stock	₩ 7,928,078	7,928,078
Other equity instruments:		
Hybrid bonds	2,329,760	2,329,760
Capital surplus:		
Share premium	398,080	398,080
Others	5,084	5,084
	<u>403,164</u>	<u>403,164</u>
Capital adjustments:		
Stock options	2,011	1,034
Accumulated other comprehensive income:		
Net change in fair value of available-for-sale financial assets	868,708	915,895
Equity in other comprehensive income (loss) of associates, net	7,868	1,042
Foreign currency translation differences for foreign operations	(94,943)	(3,775)
	<u>781,633</u>	<u>913,162</u>
Retained earnings:		
Legal reserve(*1)	933,299	732,810
Voluntary reserve(*2)	6,275,187	4,232,167
Other reserve(*3)	55,579	40,994
Retained earnings(*4)	1,560,672	2,705,959
	<u>8,824,737</u>	<u>7,711,930</u>
Non-controlling interests	2,628	2,692
	<u>₩ 20,272,011</u>	<u>19,289,820</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) The amounts include a regulatory reserve for loan losses of ₩1,677,061 million and asset revaluation surplus of ₩355,898 million as of December 31, 2012.

(\*3) Other reserve was established according to the oversea branch (Singapore, Mumbai)'s laws and it was only used to reduce overseas branch's deficit.

(\*4) The amounts include an estimated regulatory reserve for loan losses of ₩35,059 million, ₩1,677,061 million as of December 31, 2012 and 2011, respectively.

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25. Equity (continued)

(b) Capital stock

Capital stock of the Bank as of December 31, 2012 and 2011 were 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, 2012 and 2011 were as follows:

Date of issue	Date of expiration		Book Value		Interest rate(%)
			December 31, 2012	December 31, 2011	
In foreign currency:					
March 2, 2005	March 2, 2035	₩	298,951	298,951	5.66
September 20, 2006	September 20, 2036		94,761	94,761	6.82
September 20, 2006	September 20, 2036		237,144	237,144	6.82
In won:					
March 21, 2008	March 21, 2038		19,978	19,978	6.83
March 21, 2008	March 21, 2038		119,878	119,878	7.30
March 25, 2008	March 25, 2038		49,948	49,948	7.30
March 28, 2008	March 28, 2038		510,000	510,000	7.02
June 5, 2009	June 5, 2039		699,370	699,370	5.95
June 29, 2009	June 29, 2039		299,730	299,730	5.95
		₩	<u>2,329,760</u>	<u>2,329,760</u>	
Dividends on hybrid bond holders		₩	153,990	154,719	
Weighted average interest rate			6.61%	6.64%	

(\*) 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 is paid for common shares, the agreed interest is also not paid.

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25. Equity (continued)

(d) Changes in accumulated other comprehensive income for the years ended December 31, 2012 and 2011 were as follows:

	2012			
	Net change in fair value of available-for-sale financial assets	Equity in the other comprehensive income of associates, net	Foreign currency translation differences for foreign operations	Total
Beginning balance	₩ 915,895	1,042	(3,775)	913,162
Change due to fair value	143,795	-	-	143,795
Change due to other comprehensive income of associates	-	7,225	-	7,225
Change due to impairment	(365)	-	-	(365)
Change due to disposal	(200,345)	(404)	-	(200,749)
Effect of hedge accounting	(3,861)	-	82,096	78,235
Effect of foreign currency movements	(841)	-	(158,210)	(159,051)
Effect of deferred tax	14,430	5	(15,054)	(619)
Ending balance	₩ 868,708	7,868	(94,943)	781,633

	2011			
	Net change in fair value of available-for-sale financial assets	Equity in the other comprehensive income 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)	-	-	(167,292)
Change due to other comprehensive income of associates	-	1,093	-	1,093
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

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25. Equity (continued)

(e) Appropriation of retained earnings

Appropriation of retained earnings for the years ended December 31, 2012 and 2011 are as follows:

	2012 Date of appropriation: March 27, 2013	2011 Date of disposition: March 27, 2012
Unappropriated retained earnings:		
Balance at beginning of year	₩ -	1,147,932
Interim dividends	-	(350,000)
Interest on hybrid bond	(153,990)	(154,719)
Net income	1,649,571	2,004,881
	<u>1,495,581</u>	<u>2,648,094</u>
Transfer from reserves:		-
Other reserve	13,171	3,679
Voluntary reserve	3,963,379	4,232,167
	<u>3,976,550</u>	<u>4,235,846</u>
	<u>5,472,131</u>	<u>6,883,940</u>
Appropriation of retained earnings:		
Legal reserve	164,958	200,489
Regulatory reserve for loan loss	16,164	1,677,061
Asset revaluation surplus	-	634,747
Other reserve	8,992	18,264
Voluntary reserves	4,832,017	3,963,379
Dividends		
Dividends on common stock	450,000	390,000
Dividends per share in won:		
Current year ₩283.80 (5.68%)		
Last year ₩245.96 (4.92%)		
	<u>5,472,131</u>	<u>6,883,940</u>
Unappropriated retained earnings to be carried over to subsequent year	₩ -	-

(\*) These statements of appropriation of retained earnings were based on the separate financial statements of the Bank.

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25. Equity (continued)

(f) Dividends

Dividends of common stock for the years ended December 31, 2012 and 2011 were as follows:

		2012 (*1)	2011 (*2)
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 (%)		5.68%	9.33%
Dividend per share in won	₩	283.80	466.70

(\*1) Dividends for the year ended December 31, 2012 includes 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.

(\*2) Dividends for the year ended December 31, 2011 includes interim dividends.

(g) Dividends payout ratio

Dividends payout ratio for the years ended December 31, 2012 and 2011 were as follows:

		2012	2011
Dividends	₩	450,000	740,000
Net income		1,656,797	2,118,421
Dividends payout ratio to net income		27.16%	34.93%
Net income adjusted for regulatory reserve	₩	1,621,738	1,634,844
Dividends to net income		27.75%	45.26%

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



SHINHAN BANK AND SUBSIDIARIES  
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26. **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, 2012 and 2011 was as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Regulatory reserve for loan loss	₩ 1,677,061	-
Estimated regulatory reserve for loan loss	<u>35,059</u>	<u>1,677,061</u>
	<u>₩ 1,712,120</u>	<u>1,677,061</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, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Provision for regulatory reserve for loan loss	₩ 35,059	483,577
Net income adjusted for regulatory reserve	1,621,911	1,635,338
Earnings per share adjusted for regulatory reserve in won	₩ 926	934

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27. Net interest income

(a) Net interest income for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Interest income:		
Cash and due from banks	₩ 98,584	96,373
Trading assets	153,440	209,459
Available-for-sale financial assets	925,745	811,551
Held-to-maturity financial assets	471,881	524,703
Loans	8,529,813	8,569,292
Others	138,647	138,149
	<u>10,318,110</u>	<u>10,349,527</u>
Interest expense:		
Deposits	(4,423,310)	(4,157,026)
Borrowings	(279,625)	(284,487)
Debt securities issued	(796,761)	(864,209)
Others	(67,328)	(73,178)
	<u>(5,567,024)</u>	<u>(5,378,900)</u>
Net interest income	₩ <u>4,751,086</u>	<u>4,970,627</u>

(b) Interest income recognized on impaired financial assets for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Interest income	₩ 60,341	54,673

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**28. Net fees and commission income**

Net fees and commission income for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Fees and commission income:		
Credit placement fees	₩ 52,202	44,723
Commission received as electronic charge receipt	132,699	144,363
Brokerage fees	122,606	166,103
Commission received as agency	368,462	319,185
Investment banking fees	55,346	64,596
Commission received in foreign exchange activities	143,255	156,238
Asset management fee from trust accounts	60,684	62,198
Gold service	305	706
Guarantee fees	52,812	50,059
Others	47,426	44,561
	1,035,797	1,052,732
Fees and commission expense:		
Credit-related fee	(26,351)	(12,958)
Brand-related fee	(84,361)	(91,937)
Service-related fees	(13,636)	(6,565)
Trading and brokerage fees	(5,521)	(6,029)
Commission paid in foreign exchange activities	(20,048)	(19,534)
Guarantee fees	(9,266)	(10,030)
Others	(40,471)	(43,134)
	(199,654)	(190,187)
Net fees and commission income	₩ 836,143	862,545

**29. Dividend income**

Dividend income for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Trading assets	₩ 1,545	784
Available-for-sale financial assets	79,048	107,911
	₩ 80,593	108,695

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30. Net trading income

Net trading income for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
<b>Trading assets and trading liabilities</b>		
Debt:		
Gain on valuation of debt securities ₩	3,080	2,539
Gain on sale of debt securities	17,358	35,686
Loss on valuation of debt securities	(146)	(1,794)
Loss on sale of debt securities	(18,550)	(42,582)
	<u>1,742</u>	<u>(6,151)</u>
Equity:		
Gain on valuation of equity securities	24,363	1,974
Gain on sale of equity securities	48,728	16,315
Loss on valuation of equity securities	(2,055)	(9,555)
Loss on sale of equity securities	(18,468)	(43,818)
	<u>52,568</u>	<u>(35,084)</u>
Gold:		
Gain on valuation of gold deposit	4,978	23,938
Gain on sale of gold deposit	3,299	6,746
Loss on valuation of gold deposit	(6,228)	(29,671)
Loss on sale of gold deposit	(355)	(1,438)
	<u>1,694</u>	<u>(425)</u>
	<u>56,004</u>	<u>(41,660)</u>
<b>Derivatives</b>		
Foreign exchange:		
Gain on valuation and transaction, net	44,208	112,823
Interest rates:		
Gain on valuation and transaction, net	4,090	39,919
Equity:		
Gain on valuation and transaction, net	1,993	4,812
Commodity:		
Gain on valuation and transaction, net	49	430
	<u>50,340</u>	<u>157,984</u>
<b>Net trading income</b> ₩	<u>106,344</u>	<u>116,324</u>

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31. Net loss on financial instruments designated at fair value through profit or loss

Details of net loss on financial instruments designated at fair value through profit or loss for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
<b>Assets</b>		
Debt securities:		
Loss on sale and redemption	₩ -	(357)

32. Net impairment loss on financial assets

Net impairment loss on financial assets for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Impairment loss:		
Due from banks and loans	₩ 817,716	645,659
Available-for-sale financial assets	75,742	90,194
	<u>893,458</u>	<u>735,853</u>
Reversal of impairment loss:		
Available-for-sale financial assets	-	48
	₩ <u>893,458</u>	<u>735,805</u>

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**33. General and administrative expenses**

General and administrative expenses for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Employee benefits:		
Short and long term employee benefits ₩	1,369,327	1,374,923
Post-employee benefits	114,389	199,479
Termination benefits	43,100	72,672
	<u>1,526,816</u>	<u>1,647,074</u>
Depreciation and amortization:		
Depreciation	140,967	151,993
Amortization of intangible assets	50,767	40,214
	<u>191,734</u>	<u>192,207</u>
Other general and administrative:		
Employee fringe benefits	115,556	91,057
Rent	254,301	235,960
Service contract expenses	234,058	209,442
Taxes and dues	93,496	90,146
Advertising	57,805	60,492
Electronic data processing expenses	60,559	53,783
Others	172,363	220,816
	<u>988,138</u>	<u>961,696</u>
₩	<u>2,706,688</u>	<u>2,800,977</u>

SHINHAN BANK AND SUBSIDIARIES  
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34. Share based payments

(a) Cash-settled stock options as of December 31, 2012 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, 2011	477,431	1,208,643	542,161	247,873
Exercised	(384,005)	(19,254)	-	-
Outstanding at December 31, 2012(*1)	93,426	1,189,389	542,161	247,873
Exercisable at December 31, 2012	93,426	1,189,389	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	₩ 38,850	₩ 38,850	₩ 38,850	₩ 38,850
Expected stock price volatility	-	20.11%	21.88%	26.25%
Expected exercise period	-	0.11 years	0.61 years	1.11 years
Expected dividends rate	-	1.82%	1.82%	1.61%
Risk-free interest rate	-	2.74%	2.74%	2.74%
Fair value in won:	₩ 10,844	₩ 1,059	₩ 74	₩ 1,409

(\*1) The weighted average exercise price for 2,072,849 options outstanding as of December 31, 2012 was ₩43,678.

(b) Equity-settled share based payments

i) Equity-settled share based payments as of December 31, 2012 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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34. 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, 2012 were as follows:

Grant date	Grant shares	Fair value(* 1) (in won)	Estimated shares(*2)
April 1, 2010	306,400	₩ 45,150	134,785
July 21, 2010	3,800	46,800	1,978
August 30, 2010	12,400	46,500	8,758
November 4, 2010	3,800	44,000	2,317
December 30, 2010	42,800	52,900	29,121
January 11, 2011	65,200	51,500	40,760
January 28, 2011	49,500	50,700	31,910
February 10, 2011	3,300	49,700	2,104
April 18, 2011	15,400	46,800	8,851
January 26, 2012	49,200	44,300	15,288
February 8, 2012	30,900	46,650	9,244
March 27, 2012	4,100	44,550	1,046
August 24, 2012	10,800	36,150	1,280
October 15, 2012	4,100	37,200	290
	601,700		287,732

(\*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 Bank 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, 2012, the fair value per share data evaluated by Shinhan Financial Group amounted to ₩38,850.

(c) Stock compensation costs calculated for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Reversal of compensation costs recorded for the year	₩ 473	(23,269)
Residual compensation costs recorded after the year	14,440	15,168
Accrued expenses	16,338	22,045



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35. Net other operating expenses

Net other operating expenses for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
<b>Other operating income</b>		
Gain on sale of assets:		
Loans	₩ 28,205	43,062
Written off loans	33,681	48,088
	<u>61,886</u>	<u>91,150</u>
Others:		
Gain on hedge activity from hedged items	85,745	101,836
Gain on hedge activity from hedging instruments	102,311	138,930
Reversal of allowance for acceptances and guarantee	-	70,844
Others	19,079	13,812
	<u>207,135</u>	<u>325,422</u>
	<u>269,021</u>	<u>416,572</u>
<b>Other operating expenses</b>		
Loss on sale of assets:		
Loans	(40,271)	(54,096)
Others:		
Loss on hedge activity from hedged items	(104,407)	(153,119)
Loss on hedge activity from hedging instruments	(82,471)	(109,470)
Loss on allowance for acceptances and guarantee	(7,960)	-
Loss on other allowance	(5,733)	(110,222)
Contribution to fund	(247,108)	(234,929)
Insurance fee	(223,491)	(211,860)
Others	(83,866)	(94,842)
	<u>(755,036)</u>	<u>(914,442)</u>
	<u>(795,307)</u>	<u>(968,538)</u>
<b>Net other operating expenses</b>	₩ <u>(526,286)</u>	<u>(551,966)</u>

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36. Net non-operating expenses

Net non-operating expenses for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
<b>Non-operating income</b>		
Gain on sale of assets:		
Property and equipment	₩ 359	423
Intangible assets	3	-
Investment properties	-	5
Assets held for sale	-	1
	<u>362</u>	<u>429</u>
Others:		
Rental income on investment property	21,170	18,819
Others	<u>81,032</u>	<u>75,782</u>
	<u>102,202</u>	<u>94,601</u>
Investments in associates:		
Gain from disposition	<u>25,258</u>	<u>44,243</u>
	<u>127,822</u>	<u>139,273</u>
<b>Non-operating expenses</b>		
Loss on sale of assets:		
Property and equipment	(61)	(1,247)
Impairment loss on intangible assets	(17)	(16)
Assets held for sale	-	(1,531)
	<u>(78)</u>	<u>(2,794)</u>
Others:		
Investment properties depreciation	(5,306)	(5,331)
Donations	(56,546)	(84,335)
Impaired loss on intangible assets	(44,504)	(32,261)
Others	<u>(31,781)</u>	<u>(61,536)</u>
	<u>(138,137)</u>	<u>(183,463)</u>
Investments in associates:		
Loss from disposition	-	(470)
Impairment loss	<u>(8,441)</u>	<u>(4,351)</u>
	<u>(8,441)</u>	<u>(4,821)</u>
	<u>(146,656)</u>	<u>(191,078)</u>
<b>Net non-operating expenses</b>	₩ <u>(18,834)</u>	<u>(51,805)</u>

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**37. Income tax expense**

(a) The components of income tax expense of the Group for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Current income tax expense	₩ 546,534	588,745
Changes in deferred tax arising from temporary differences	(120,964)	(158,716)
Deferred income tax adjustment charged or credited directly to equity	(931)	106,002
Income tax expenses from discontinued operation	(697)	(1,215)
Income tax expense	₩ <u>423,942</u>	<u>534,816</u>

(b) The income tax expense calculated by applying statutory tax rates to the Group's taxable income differs from the actual tax expense in the consolidated statements of income for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Income before income taxes	₩ 2,073,601	2,650,384
Statutory tax rate	24.20%	24.20%
Income taxes at statutory tax rates	501,349	640,931
Adjustments:		
Non-taxable income	(40,564)	(46,402)
Non-deductible expense	4,235	4,196
Tax credit	(1,093)	(893)
Decrease resulting from consolidated corporate tax system	(38,062)	(25,220)
Refund due to adjustments of prior year tax returns	(21,871)	(32,697)
Others	19,948	(5,099)
Income tax expense	₩ <u>423,942</u>	<u>534,816</u>
Effective tax rate	20.44%	20.18%

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**37. Income tax expense (continued)**

(c) Changes in temporary differences and deferred tax assets (liabilities) for the years ended December 31, 2012 and 2011.

		2012			Ending balance	Deferred tax assets (liabilities)(*1)
		Beginning balance	Decreases	Increases		
Accrued income	₩	(415,834)	(415,834)	(508,335)	(508,335)	(123,017)
Accounts receivable		(74,850)	(74,850)	(53,882)	(53,882)	(13,040)
Trading assets		(1,186)	(1,186)	(14,401)	(14,401)	(3,485)
Available-for-sale financial assets		1,068,957	119,490	345,627	1,295,094	313,413
Investments in associates(*2)		(23,714)	(3,634)	(22,829)	(42,909)	(10,384)
Deferred loan origination costs and fees		69,561	2,269	(295,434)	(228,142)	(55,210)
Revaluation and depreciation on property and equipment		(495,963)	(49,164)	8,172	(438,627)	(106,148)
Derivative assets (liabilities)		(155,151)	(228,845)	(172,294)	(98,600)	(23,861)
Deposits		154,993	154,993	132,232	132,232	32,000
Accrued expenses		197,134	197,134	182,339	182,339	44,126
Defined benefit obligations		374,224	-	337,021	711,245	172,121
Plan assets		(374,224)	-	(98,006)	(472,230)	(114,280)
Other provisions		318,701	318,701	254,688	254,688	61,634
Allowance for guarantees and acceptance		109,458	109,458	76,891	76,891	18,608
Allowance for advanced depreciation		(181,096)	-	-	(181,096)	(43,825)
Allowance for expensing depreciation		(3,314)	(232)	-	(3,082)	(746)
Deemed dividends		5,513	-	-	5,513	1,334
Net change in fair value of available-for-sale financial assets		(1,196,487)	(1,196,487)	(1,146,055)	(1,146,055)	(277,345)
Donation payables		82,185	82,185	54,925	54,925	13,292
Allowance and bad debt		(181,851)	(181,851)	152,851	152,851	42,507
Compensation expenses associated with stock option		9,975	9,897	2,662	2,740	663
Fictitious dividends		3,990	37	-	3,953	957
Others		(80,503)	(222,205)	(106,586)	35,116	8,497
		<u>(789,482)</u>	<u>(1,380,124)</u>	<u>(870,414)</u>	<u>(279,772)</u>	<u>(62,189)</u>
Temporary differences not qualified for deferred tax assets or liabilities:						
Investments in associates(*2)		(42,822)	-	31,476	(11,346)	(2,746)
	₩	<u>(746,660)</u>	<u>(1,380,124)</u>	<u>(901,890)</u>	<u>(268,426)</u>	<u>(59,443)</u>

(\*1) Deferred tax assets from international subsidiaries has increased by ₩244 million due to the effect of foreign currency differences and deferred tax liabilities has decreased by ₩85 million due to disposal of Shinhan Aitas.

(\*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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**37. Income tax expense (continued)**

(c) Changes in temporary differences and deferred tax assets (liabilities) for the years ended December 31, 2012 and 2011. (continued)

		2011			Ending balance	Deferred tax assets (liabilities)(*1)
		Beginning balance	Decreases	Increases		
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 from 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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37. Income tax expense (continued)

(d) Changes in deferred tax assets (liabilities) that were directly charged or credited to equity for the years ended December 31, 2012 and 2011 were as follows:

	December 31, 2012		December 31, 2011		Changes in deferred tax assets (liabilities)
	Temporary difference	Deferred tax assets (liabilities)	Temporary difference	Deferred tax assets (liabilities)	
Net change in fair value of available-for-sale financial assets	₩ 1,146,055	(277,345)	1,207,670	(291,775)	14,430
Equity in other comprehensive income of associates	7,862	5	1,042	-	5
Foreign currency translation differences for foreign operations	(84,540)	(10,404)	(8,425)	4,650	(15,054)
Other (stock option)	2,653	(642)	1,364	(330)	(312)
	₩ <u>1,072,030</u>	<u>(288,386)</u>	<u>1,201,651</u>	<u>(287,455)</u>	<u>(931)</u>
	December 31, 2011		December 31, 2010		Changes in deferred tax assets (liabilities)
	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)	101,755
Equity in other comprehensive loss of associates	1,042	-	(51)	-	-
Foreign currency translation differences for foreign operations	(8,425)	4,650	(16,941)	(81)	4,731
Other (stock option)	1,364	(330)	(700)	154	(484)
	₩ <u>1,201,651</u>	<u>(287,455)</u>	<u>1,789,964</u>	<u>(393,457)</u>	<u>106,002</u>

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37. Income tax expense (continued)

(e) The current tax assets and current tax liabilities as of December 31, 2012 and 2011 were as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Current tax assets :		
Income taxes paid	₩ 13,673	8,819
Current tax liabilities :		
Payable due to consolidated tax system	142,930	342,078
Income taxes payables	7,673	30,428
	<u>₩ 150,603</u>	<u>372,506</u>

(f) The current tax assets (liabilities) and deferred tax assets (liabilities) presented on a gross basis prior to any offsetting as of December 31, 2012 and 2011 were as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Deferred tax assets	₩ 1,113,523	1,220,570
Deferred tax liabilities	1,172,966	1,401,306
Current tax assets	336,593	282,854
Current tax liabilities	473,523	646,541

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**38. Discontinued operation**

The group disposed all the investment on Shinhan Aitas to improve management efficiency controlled by Shinhan Financial Group. As such, gain and loss from Shinhan Aitas are presented as discontinued operation.

(a) Income from discontinued operation

Income from discontinued operation for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Net interest income	₩ 514	483
Net fees and commission income	20,425	23,057
Net foreign currency transaction loss	(6)	-
General and administrative expenses	(18,049)	(18,911)
Non-operating income(expenses)	112	(67)
Income before income tax expenses	2,996	4,562
Income tax expense	(697)	(1,215)
Gain on the sale of Shinhan Aitas	5,012	-
	₩ <u>7,311</u>	<u>3,347</u>

(b) Cash flows from discontinued operation

Cash flows from discontinued operation for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Net cash flows from operating activities	₩ 7,628	7,929
Net cash flows from investing activities (*)	44,928	(1,573)
Net cash flows from financing activities	(1,580)	(29)
	₩ <u>50,976</u>	<u>6,327</u>

(\*) Cash flows from the disposal of Shinhan Aitas were included.



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**39. Earnings per share**

Earnings per share for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Net income for the year	₩ 1,656,797	2,118,421
Less: dividends on other capital instruments	(153,990)	(154,720)
Net income available for common stock	1,502,807	1,963,701
Weighted average number of common shares outstanding	1,585,615,506	1,585,615,506
Earnings per share in won	₩ 948	1,238

Considering that the Group had no dilutive potential ordinary shares and stock options were not included in the calculation of diluted earnings per share because they were anti-dilutive for the reporting periods presented diluted earnings per share equal basic earnings per share for the years ended December 31, 2012 and 2011.

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40. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of December 31, 2012 and 2011 were as follows:

		<u>December 31, 2012</u>	<u>December 31, 2011</u>
Guarantees:			
Guarantee outstanding	₩	9,483,301	10,093,632
Contingent guarantees		5,201,326	6,880,648
		<u>14,684,627</u>	<u>16,974,280</u>
Commitments to extend credit:			
Loan commitments in won	₩	51,064,624	46,103,454
Loan commitments in foreign currency		19,264,249	19,372,663
ABS and ABCP purchase commitments(*)		1,527,404	1,605,268
Others		1,160,421	1,221,400
		<u>73,016,698</u>	<u>68,302,785</u>
Endorsed bills:			
Secured endorsed bills	₩	3,946	9,746
Unsecured endorsed bills		11,519,392	8,773,125
		<u>11,523,338</u>	<u>8,782,871</u>
Loans sold with repurchase agreement	₩	<u>2,099</u>	<u>2,099</u>

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

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

(b) Provision for acceptances and guarantees

Allowance for acceptances and guarantees, as of December 31, 2012 and 2011 were as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Guarantees outstanding	₩ 9,483,301	10,093,632
Contingent guarantees	5,201,326	6,880,648
ABS and ABCP purchase commitments(*)	1,527,404	1,605,268
Secured endorsed bills	3,946	9,746
	<u>16,215,977</u>	<u>18,589,294</u>
Allowance for acceptances and guarantees	₩ 76,891	84,377
Ratio(%)	<u>0.47</u>	<u>0.45</u>

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

(c) Trusts guaranteed as to principal

As of December 31, 2012 and 2011, the Group guaranteed the return of the principal amount invested under management in the amount of ₩3,412,551 million and ₩3,391,444 million, respectively. Additional losses may be recorded based on future performance of these guaranteed trust accounts.

SHINHAN BANK AND SUBSIDIARIES  
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For the years ended December 31, 2012 and 2011  
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40. Commitments and contingencies (continued)

(d) Legal contingencies

Pending litigations that the Group was involved as a defendant as of December 31, 2012 were as follows:

Case	Number of Claim	Claim amount	Description
Confirmations on absence of debt litigation	1	96,286	Dongah Construction has filed a lawsuit against the Bank claiming that the Bank should recover principal and interest of their trustee account insisting the payment was made improperly. The Bank has paid ₩96.8 billion as it had lost at the second appeal trial. The final appeal of the lawsuit is in progress.
Compensation for a loss	1	90,200	The plaintiff has filed a lawsuit against the Bank claiming that the Bank should compensate for a loss of the damaged right of management insisting the Bank had purchased the shares of Shinho Paper Co., Ltd. (currently known as Artone Paper Co., Ltd.) with being aware that the sale had been executed against the will of the members of Aram Corporate Restructuring Association. The first appeal has been ruled in favor of the plaintiff. The Bank has appealed and such appeal is currently pending at the second appeal.
Claimed for principal and interest of the ABCP	1	65,000	A holder of an Asset Backed Commercial Paper ("ABCP") has claimed for principal and interest of the ABCP against the Bank, the broker of the ABCP deal, as a the Bank had refused to pay insisting the line of credit was provided illegally by their employee. As of December 31, 2012, the Bank believes that there are low possibilities of resource outflows in respect of the lawsuit considering similar litigation.
Claimed uncollected receivables of goods	1	43,362	A plaintiff claimed uncollected receivables of goods against the Bank since the plaintiff had delivered goods based on a bank guarantee forged by the Bank issued. The case is currently pending at the first appeal and the Group recorded a provision based on similar litigation.
Refund a cost of the fixed collateral establishment	110	11,621	The plaintiffs has filed the lawsuits against the Bank claiming that the Bank should refund a cost of the fixed collateral establishment insisting a loan agreement was invalid since it regulated that the cost should be paid by the borrower.
Contract void check and the return of unfair profits	37	205,897	As of December 31, 2012, the Bank set as allowance for the lawsuits that has filed to nullify investor's obligations under the KIKO contracts. The cases are currently pending at the second appeal or the final appeal.
Other	150	151,793	Various cases such as a compensation for a loss claim.
	301	664,159	

As of December 31, 2012, the Group recorded a provision of ₩97,041million for litigation for the certain lawsuits. Additional losses may be incurred from these legal actions besides the current provision established by the Group, but the amount of loss is not expected to have a material adverse effect on the Group's financial position or results of operations.

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011  
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40. Commitments and contingencies (continued)

e) Maturity structure of minimum lease payments

Minimum lease payments, as of December 31, 2012 and 2011 were as follows:

		2012	2011
Within 1year	₩	99,545	68,791
1~5years		115,869	92,146
Over 5years		5,665	12,758
Total	₩	<u>221,079</u>	<u>173,695</u>

41. Cash flows

(a) Cash and cash equivalents reported in the accompanying consolidated statements of cash flows as of December 31, 2012 and 2011 were as follows:

		December 31, 2012	December 31, 2011
Cash and cash equivalents	₩	2,938,070	2,079,573
Due from other financial institutions		1,268,860	1,032,129
	₩	<u>4,206,930</u>	<u>3,111,702</u>

(\*) Cash and cash equivalents in the accompanying 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, 2012 and 2011 were as follows:

		2012	2011
Dividend payable of hybrid bonds	₩	(885)	340
Debt-equity swap		56,408	71,280

SHINHAN BANK AND SUBSIDIARIES  
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For the years ended December 31, 2012 and 2011  
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42. Related parties

(a) Significant balances with the related parties as of December 31, 2012 and 2011 were as follows:

Related party	Account	December 31, 2012	December 31, 2011
<b>The Parent company</b>			
Shinhan Financial Group	Deposits	₩ 216,577	2,220,564
	Current tax liabilities	142,930	342,078
	Other liabilities	78,053	47,464
<b>Other related parties</b>			
Shinhan Card Co., Ltd.	Derivative assets	4,076	881
	Other assets	1,434	1,894
	Deposits	73,811	232,378
	Derivative liabilities	875	43,268
	Other liabilities	40,128	46,824
Shinhan Life Insurance	Derivative assets	1	2,703
	Other assets	5	90
	Allowances	-	1
	Deposits	61,595	16,219
	Derivative liabilities	290	2,620
	Debt securities issued	-	60,000
	Other liabilities	46,397	60,048
Shinhan Investment Corp.	Due from banks	105	-
	Derivative assets	146	55
	Loans	10,549	-
	Allowances	84	40
	Other assets	23,633	34,815
	Deposits	297,654	290,410
	Derivative liabilities	695	28
	Debt securities issued	-	30,000
	Provisions	39	7
	Other liabilities	36,274	35,101
Shinhan Capital Co., Ltd.	Other assets	-	3
	Deposits	11,777	4,872
	Borrowings	1,788	-
	Other liabilities	1,314	976
Jeju Bank	Loans	9,326	16,504
	Allowances	2	3
	Other assets	85	77
	Deposits	3,264	2,931
	Other liabilities	1,140	1,141

SHINHAN BANK AND SUBSIDIARIES  
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For the years ended December 31, 2012 and 2011  
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42. Related parties (continued)

(a) Significant balances with the related parties (continued)

Related party	Account	December 31, 2012	December 31, 2011
<b>Other related parties (continued)</b>			
Shinhan Credit Information Co., Ltd.	Deposits	₩ 9,418	9,162
	Other liabilities	1,405	1,523
Shinhan Private Equity, Inc	Loans	18,632	13,980
	Allowances	12,422	1,221
	Other assets	94	58
	Deposits	7,349	6,527
Shinhan BNP Paribas AMC	Other liabilities	124	123
	Deposits	97,819	87,791
Shinhan Data system	Other liabilities	985	1,505
	Deposits	1,191	6,105
SHC Management Co., Ltd.	Other liabilities	-	286
	Deposits	100	100
Shinhan Savings Bank	Other liabilities	3	3
	Deposits	-	3,992
Shinhan Aitas Co., Ltd.	Deposits	10,504	10,244
	Other liabilities	298	242
<b>Investments in associates</b>			
Shinhan Corporate Restructuring fund 7 <sup>th</sup>	Deposits	19	19
Aju Capital Co., Ltd.	Loans	50,000	50,000
	Allowances	254	254
	Deposits	20,297	-
	Provisions	-	11
UAMCO., Ltd.	Loans	-	38,723
	Allowances	-	52
	Deposits	517	-
Pohang TechnoPark2PFV	Loans	-	658
	Allowances	-	3
	Deposits	14,794	-
	Provisions	-	286
Cardif life insurance	Deposits	2,353	-
<b>Key management personnel</b>	Loans	984	1,239
	Allowances	-	1
		₩ 1,313,609	3,728,103

SHINHAN BANK AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011  
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42. Related parties (continued)

(b) Significant transactions with the related parties for the years ended December 31, 2012 and 2011 were as follows:

Related party	Account	2012	2011
<b>The Parent company</b>			
Shinhan Financial Group	Other operating income	₩ 1,873	701
	Interest expense	(10,694)	(36,046)
	Fees and commission expense	(84,361)	(91,945)
	Other operating expense	(891)	(911)
<b>Other related parties</b>			
Shinhan Card Co., Ltd.	Interest income	867	1,990
	Fees and commission income	167,151	158,274
	Gain related to derivatives	7,133	18,528
	Other operating income	1,323	1,324
	Interest expense	(1,567)	(4,128)
	Fees and commission expense	(1,569)	(1,522)
	Loss related to derivatives	(1,134)	(13,370)
	Provision for allowance	-	3
	Other operating expense	(178)	(154)
Shinhan Life Insurance	Interest income	57	52
	Fees and commission income	22,640	17,194
	Gain related to derivatives	946	689
	Other operating income	1,558	1,360
	Interest expense	(8,521)	(1,864)
	Loss related to derivatives	(1,279)	(1,385)
	Provision for allowance	1	1
	Other operating expense	(1,155)	-
Shinhan Investment Corp.	Interest income	1,262	788
	Fees and commission income	1,556	6,372
	Gain related to derivatives	1,061	381
	Other operating income	3,243	1,237
	Interest expense	(9,955)	(10,669)
	Loss related to derivatives	(1,855)	(352)
	Provision for allowance	(44)	(14)
	Other operating expense	(2,796)	(974)



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42. Related parties (continued)

(b) Significant transactions with the related parties (continued)

Related party	Account	2012	2011
Shinhan Capital Co.,Ltd.	Interest income	₩ 1	4
	Gain related to derivatives	-	1,220
	Other operating income	732	617
	Interest expense	(133)	(367)
	Loss related to derivatives	-	(115)
	Provision for allowance	-	2
	Other operating expense	(686)	(578)
Jeju Bank	Interest income	245	169
	Fees and commission income	-	1
	Other operating income	43	44
	Interest expense	(40)	(41)
	Provision for allowance	1	-
Shinhan Credit Information Co., Ltd.	Other operating income	202	56
	Interest expense	(383)	(377)
	Fees and commission expense	(5,590)	(6,110)
Shinhan Private Equity, Inc	Other operating expense	(165)	(100)
	Interest income	1,467	1,111
	Fees and commission income	-	7
	Other operating income	1	-
	Interest expense	(214)	(8)
Shinhan BNP Pribas AMC	Provision for allowance	(11,201)	(935)
	Fees and commission income	6	-
	Other operating income	7	6
	Interest expense	(3,499)	(3,516)
	Fees and commission expense	(2,172)	-
SHC Management Cp., Ltd.	Other operating income	2	-
	Interest expense	(6)	(3)
Shinhan Data System	Other operating income	300	301
	Interest expense	(97)	(142)
	Other operating expense	(32,952)	(26,165)
Shinhan Aitas Co., Ltd.	Fees and commission income	22	-
	Other operating income	8	1
	Interest expense	(388)	(385)

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42. Related parties (continued)

(b) Significant transactions with the related parties (continued)

Related party	Account	2012	2011
<b>Investments in associates</b>			
Aju Capital Co., Ltd.	Interest income	₩ 2,042	-
	Other operating income	11	664
	Provision for allowance	-	304
Shinhan Corporate Restructuring Fund 7 <sup>th</sup>	Interest expense	-	(1)
	Other operating expense	-	(1,283)
UAMCO., Ltd	Interest income	311	-
	Provision for allowance	52	(23)
Pohang TechnoPark2PFV	Other operating income	286	-
	Provision for allowance	3	(3)
	Interest expense	(17)	-
	Other operating expense	-	(286)
<b>Key management personnel</b>			
	Interest income	40	55
	Provision for allowance	1	-
		₩ 32,912	9,684

(c) Details of benefit compensated to the related parties for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Short and long term employee benefits	₩ 10,671	9,732
Post-employment benefits	190	130
Share-based payment transactions	2,524	1,775
	₩ 13,385	11,637

(d) The guarantees provided between the related parties as of December 31, 2012 and 2011 were as follows:

Guarantor	Guaranteed Parts	Amount of guarantees		Account
		December 31, 2012	December 31, 2011	
Shinhan Bank	Shinhan Capital Co., Ltd.	₩ -	321	Letter of credit
	"	1,428	-	Letter of guarantee
	SHC Management Co., Ltd.	94	94	Performance guarantees
	Shinhan Investment Corp.	9,640	15,566	Financial guarantee
	Shinhan Private Equity Investment	244	-	Letter of guarantee
		₩ 11,406	15,981	

SHINHAN BANK AND SUBSIDIARIES  
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43. Investment in subsidiaries

(a) Condensed financial positions for the Bank and its subsidiaries as of December 31, 2012 and 2011 were as follows:

	December 31, 2012			December 31, 2011		
	Total assets	Total liabilities	Total equity	Total assets	Total liabilities	Total equity
Shinhan Bank	₩ 226,773,162	206,516,983	20,256,179	221,974,519	202,771,128	19,203,391
Shinhan Asia	233,385	70,784	162,601	249,278	81,067	168,211
Shinhan America	1,026,620	920,862	105,758	1,087,346	997,450	89,896
Shinhan Europe	384,939	308,668	76,271	398,781	322,439	76,342
Shinhan Khmer	97,198	71,065	26,133	55,571	29,065	26,506
Shinhan Kazakhstan	116,031	41,102	74,929	132,404	54,922	77,482
Shinhan Canada	316,314	271,219	45,095	278,578	253,496	25,082
Shinhan China	2,339,458	1,981,674	357,784	1,891,122	1,539,433	351,689
Shinhan Aitas	-	-	-	27,991	3,215	24,776
Shinhan Japan	6,246,270	5,885,129	361,141	6,550,230	6,132,182	418,048
Shinhan Vietnam	1,170,771	839,017	331,754	1,049,260	726,388	322,872
Special Purpose Entities	1,182,445	1,329,813	(147,368)	2,259,326	2,449,676	(190,350)

(b) Condensed comprehensive income statements for the Bank and its subsidiaries for the years ended December 31, 2012 and 2011 were as follows:

	2012			2011		
	Operating income	Net Income (loss)	Total comprehensive income (loss)	Operating income	Net Income (loss)	Total comprehensive income (loss)
Shinhan Bank	₩ 18,146,063	1,649,571	1,595,801	18,241,857	2,004,881	1,468,777
Shinhan Asia	14,023	5,907	(5,609)	11,432	4,145	8,666
Shinhan America	60,056	23,768	15,862	64,860	1,397	3,907
Shinhan Europe	14,641	4,003	(71)	14,796	4,605	3,522
Shinhan Khmer	5,569	1,577	(372)	4,102	1,214	1,552
Shinhan Kazakhstan	7,099	5,538	(2,553)	5,925	(1,279)	242
Shinhan Canada	11,920	398	(3,060)	8,749	(1,993)	(2,227)
Shinhan China	122,143	30,211	6,094	97,135	17,288	25,613
Shinhan Aitas	-	-	-	23,546	3,345	3,345
Shinhan Japan	226,027	1,809	(56,906)	179,576	12,410	42,775
Shinhan Vietnam	98,483	31,607	8,882	77,203	21,555	6,935
Special Purpose Entities	75,726	(10,813)	(10,814)	168,104	(24,483)	(24,696)

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**44. Information of trust business**

(a) Significant balances with trust business as of December 31, 2012 and 2011 were as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Borrowings from trust accounts	₩ 2,420,734	2,008,134
Accrued revenues from asset management fee from trust accounts	17,335	12,989
Interest payable	706	860

(b) Significant transactions with trust business for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Asset management fee from trust accounts	₩ 60,684	62,198
Commissions received from cancellation of commodities	24	46
Interest on borrowings from trust accounts	52,011	61,871