SHINHAN FINANCIAL GROUP CO LTD
Form 20-F
April 30, 2013
Table of Contents

As filed with the Securities and Exchange Commission on April 30, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

Commission File Number: 001-31798

Shinhan Financial Group Co., Ltd.

(Exact name of registrant as specified in its charter)

N/A	The Republic of Korea
(Translation of registrant s name into English)	(Jurisdiction of incorporation or organization)

120, 2-Ga, Taepyung-Ro, Jung-Gu

Seoul 100-102, Korea

(Address of principal executive offices)

Sung Hun Yu, +822 6360 3071(T), irshy@shinhan.com, +822 6360 3082 (F), 120, 2- Ga, Taepyung-Ro, Jung-Gu, Seoul 100-102 Korea

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on Which Registered:
Common stock, par value Won 5,000 per share	New York Stock Exchange*
American depositary shares	New York Stock Exchange

* Not for trading, but only in connection with the listing of American depositary shares on the New York Stock Exchange, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of Shinhan Financial Group s classes of capital or common stock as of the close of the last full fiscal year covered by this Annual Report: 474,199,587 shares of common stock, par value of Won 5,000 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes þ No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:

Yes ¨ No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board þ Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes ¨ No þ

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court:

Yes ¨ No ¨

TABLE OF CONTENTS

Table of Contents

Table of Contents

CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

Unless otherwise specified or the context otherwise requires:

the terms we, us, our, Shinhan Financial Group, SFG and the Group mean Shinhan Financial Group Co., Ltd. and its conso subsidiaries;

the terms Shinhan Financial Group Co., Ltd. , our company and our holding company mean Shinhan Financial Group Co., Ltd.

All references to Korea or the Republic contained in this annual report mean The Republic of Korea. All references to the Government mean the government of The Republic of Korea. The Financial Supervisory Service (FSS) is the executive body of the Financial Services Commission of Korea (FSC). References to MOSF are to the Ministry of Strategy and Finance of Korea.

Our fiscal year ends on December 31 of each year, except Shinhan Life Insurance and four other subsidiaries. Unless otherwise specified or the context otherwise requires, all references to a particular year are to the year ended December 31 of that year.

The currency of the primary economic environment in which we operate is Korean Won.

In this annual report, unless otherwise indicated, all references to Won or are to the currency of The Republic of Korea, and all references to U.S. Dollars, Dollars, $ or US$ are to the currency of the United States of America. Unless otherwise indicated, all translations from Won Dollars were made at 1,063.2 to US$1.00, which was the noon buying rate in the City of New York on December 31, 2012 for cable transfers according to the H.10 statistical release of the Federal Reserve Board (the Noon Buying Rate). On April 10, 2013, the Noon Buying Rate was 1,135.35 to US$1.00. The Noon Buying Rate has been volatile recently and the U.S. Dollar amounts referred to in this report should not be relied upon as an accurate reflection of our results of operations. We expect this volatility to continue in the near future. No representation is made that the Won or U.S. Dollar amounts referred to in this report could have been or could be converted into Dollars or Won, as the case may be, at any particular rate or at all.

Unless otherwise indicated, the financial information presented in this annual report has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Any discrepancies in the tables included herein between totals and sums of the amounts listed are due to rounding.

Table of Contents

FORWARD LOOKING STATEMENTS

This annual report includes forward-looking statements, as defined in Section 27A of the U.S. Securities Act, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act), including statements regarding our expectations and projections for future operating performance and business prospects. The words believe, expect, anticipate, estimate, project and similar words us connection with any discussion of our future operating or financial performance identify forward-looking statements. In addition, all statements other than statements of historical facts included in this annual report are forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. All forward-looking statements are management s present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. This annual report discloses, under the caption Item 3.D. Risk Factors and elsewhere, important factors that could cause actual results to differ materially from our expectations (Cautionary Statements). Included among the factors discussed under the caption Item 3.D. Risk Factors are the followings risks related to our business, which could cause actual results to differ materially from those described in the forward-looking statements: the risk of adverse impacts from an economic downturn; increased competition; market volatility in securities and derivatives markets, interest or foreign exchange rates or indices; other factors impacting our operational plans; or legislative or regulatory developments. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

Table of Contents

ITEM 1. ***IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS***

Not applicable.

ITEM 2. ***OFFER STATISTICS AND EXPECTED TIMETABLE***

Not applicable.

ITEM 3. ***KEY INFORMATION***

ITEM 3.A. Selected Financial Data

The selected consolidated income statement and balance sheet data set forth below for the years ended December 31, 2010, 2011 and 2012 have been derived from our consolidated financial statements which have been prepared in accordance with IFRS as issued by the IASB. Until December 31, 2010, we prepared our consolidated financial information in accordance with generally accepted accounting principles in the United States (U.S. GAAP). All financial information as of and for the year ended December 31, 2010 included in this report has been prepared in accordance with IFRS. Our consolidated financial statements as of and for the years ended December 31, 2010, 2011 and 2012 have been audited by independent registered public accounting firm KPMG Samjong Accounting Corp.

You should read the following data with the more detailed information contained in Item 5. Operating and Financial Review and Prospects and our consolidated financial statements included in Item 18. Financial Statements. Historical results do not necessarily predict future results.

Consolidated Income Statement Data

	Year Ended December 31,			
	2010	**2011**	**2012**	
	(In billions of Won and millions of US$, except per common share data)			
Interest income	12,909	13,781	13,857	$ 13,033
Interest expense	(6,436)	(6,701)	(6,883)	(6,474)
Net interest income	**6,473**	**7,080**	**6,974**	**6,559**
Fees and commission income	3,397	3,557	3,514	3,305
Fees and commission expense	(1,640)	(1,798)	(1,942)	(1,826)
Net fees and commission income	**1,757**	**1,759**	**1,572**	**1,479**
Net insurance income	(76)	(119)	(209)	(197)
Dividend income	217	209	176	165
Net trading income (loss)	334	(132)	596	560
Net foreign currency transaction gain	117	14	280	263
Net gain (loss) on financial instruments designated at fair value through profit or loss	(125)	172	(532)	(500)
Net gain on sale of available-for-sale financial assets	652	846	537	505
Impairment loss on financial assets(1)	(1,336)	(983)	(1,416)	(1,332)
General and administrative expenses	(3,848)	(4,135)	(4,060)	(3,818)
Other operating expenses, net(1)	(613)	(538)	(724)	(681)
Operating income(1)	**3,552**	**4,173**	**3,194**	**3,003**
Equity in income of associates	15	58	28	26
Other non-operating income (loss), net(1)	(138)	(38)	11	11

Income before income taxes	**3,429**	**4,193**	**3,233**	**3,040**
Income tax expense	(570)	(920)	(739)	(695)
Net income for the period	**2,859**	**3,273**	**2,494**	**$ 2,345**

3

Table of Contents

	Year Ended December 31,			
	2010	2011	2012	
	(In billions of Won and millions of US$, except per common share data)			
Other comprehensive income (loss) for the period, net of income tax	(18)	16	(85)	$ (80)
Foreign currency translation differences for foreign operations assets	175	(461)	12	11
Equity in other comprehensive income of associates	21	3	4	4
Net Change in unrealized fair value of cash flow hedges	13	1	15	14
Other comprehensive income (loss) of separate account	2	0	0	0
Total other comprehensive loss, net of income tax	193	(441)	(54)	(51)
Total comprehensive income for the period	**3,052**	**2,832**	**2,440**	**$ 2,294**
Net income attributable to:				
Equity holder of the Group	2,684	3,100	2,323	2,184
Non-controlling interest	175	173	171	161
Total comprehensive income attributable to:				
Equity holder of the Group	2,876	2,659	2,269	2,134
Non-controlling interest	176	172	172	162
Earnings per share:				
Basic earnings per share in won(2)	5,175	5,954	4,686	4,407
Dilutive earnings per share in won(3)	5,076	5,832	4,686	4,407

Notes:

(1) We changed our accounting policy regarding certain items previously classified as operating income items to non-operating income items in the consolidated statements of comprehensive income, and have retrospectively presented prior years consolidated statements of comprehensive income for comparative purposes. See Note 2(e) of the notes to our consolidated financial statements.

(2) Basic earnings per share are calculated by dividing net income available to holders of our common shares by the weighted average number of common shares issued and outstanding for the relevant period.

(3) Dilutive earnings per share are calculated in a manner consistent with basic earnings per share, while giving effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common shares were converted into or exercised for common shares. Common shares issuable upon conversion of redeemable convertible preferred shares are potentially dilutive.

4

Table of Contents

Consolidated Balance Sheet Data

	As of December 31,			
	2010	2011	2012	
	(In billions of Won and millions of US$, except per common share data)			
Assets				
Cash and due from banks	11,822	14,731	13,394	$ 12,598
Trading assets	9,412	11,954	14,019	13,185
Financial assets designated at fair value through profit or loss	2,208	1,801	2,585	2,431
Derivative assets(1)	3,159	2,319	2,165	2,036
Loans	181,347	192,573	199,656	187,780
Available-for-sale financial assets	29,452	34,106	36,328	34,168
Held-to-maturity financial assets	12,529	11,895	11,659	10,966
Property and equipment, net	2,976	2,994	3,047	2,865
Intangible assets, net	4,073	4,203	4,191	3,942
Investments in associates	300	249	299	281
Deferred tax assets	65	29	96	90
Current tax receivables	11	9	14	13
Investment property, net	286	275	247	232
Assets held for sale	21	16	54	51
Other assets, net	9,949	10,888	13,094	12,315
Total assets(1)	**267,610**	**288,042**	**300,848**	**$ 282,953**
Liabilities				
Deposits	149,417	163,016	170,096	$ 159,979
Trading liabilities	823	704	1,371	1,289
Financial liabilities designated at fair value through profit or loss	1,954	3,298	4,822	4,535
Derivative liabilities(1)	2,588	1,972	1,904	1,791
Borrowings	18,085	20,033	18,891	17,768
Debt securities issued	40,286	39,737	38,840	36,530
Liability for defined benefit obligations	170	275	214	201
Provisions	859	870	747	702
Current tax liabilities	251	568	252	237
Deferred tax liabilities	184		20	19
Liabilities under insurance contracts	8,986	10,867	13,419	12,620
Other liabilities	16,812	19,843	21,493	20,215
Total liabilities(1)	**240,415**	**261,183**	**272,069**	**$ 255,886**
Equity				
Capital stock	2,590	2,645	2,645	$ 2,488
Other equity instruments		239	537	505
Capital surplus	8,835	9,887	9,887	9,299
Capital adjustments	(391)	(393)	(393)	(370)
Accumulated other comprehensive income	1,629	1,189	1,135	1,067
Retained earnings	12,071	10,830	12,499	11,756
Total equity attributable to equity holders of the Group	24,734	24,397	26,310	24,745
Non-controlling interest	2,461	2,462	2,469	2,322
Total equity	**27,195**	**26,859**	**28,779**	**$ 27,067**

Total liabilities and equity(1)	**267,610**	**288,042**	**300,848**	**$ 282,953**

Table of Contents

Note:

(1) Prior to 2012, we recorded certain synthetic options on a gross basis that should have recorded on a net basis. As of December 31, 2012, the respective synthetic options have been recorded on a net basis and all corresponding information in the prior periods has been retrospectively adjusted. As a result, as of December 31, 2010, derivative assets, total assets, derivative liabilities, total liabilities and total liabilities and equity were each decreased by 947 billion and as of December 31, 2011 all such line items were each decreased by 76 billion. As of and for the years ended December 31, 2010 and 2011, there was no impact on total equity, net income or the presentation of consolidated statements of comprehensive income.

Dividends

	Year Ended December 31,		
	2010	2011	2012
		(In Won and US$)	
Cash dividends per share of common stock:			
In Korean Won	750	750	700
In U.S. dollars	$ 0.66	$ 0.65	$ 0.66
Cash dividends per share of preferred stock:			
In Korean Won	5,275	4,996	5,580
In U.S. dollars	$ 4.62	$ 4.31	$ 5.25

Selected Statistical Information

Profitability Ratios

	Year Ended December 31,		
	2010	2011	2012
		(Percentages)	
Net income attributable to the Group as a percentage of:			
Average total assets(1)	0.98%	1.09%	0.78%
Average total Group stockholders equity(1)	10.36	10.89	8.25
Dividend payout ratio(2)	21.84	20.39	17.98
Net interest spread(3)	2.29	2.34	2.18
Net interest margin(4)	2.69	2.80	2.60
Efficiency ratio(5)	87.60	83.14	85.73
Cost-to-average assets ratio(6)	8.85	7.23	6.59
Equity to average asset ratio(7)	9.49	9.97	9.42

Notes:

(1) Average balances are based on (a) daily balances for Shinhan Bank and (b) quarterly balances for other subsidiaries.

(2) Represents the ratio of total dividends declared on common and preferred stock as a percentage of net income attributable to the Group.

(3) Represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(4) Represents the ratio of net interest income to average interest-earning assets.

Table of Contents

(5) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income, a measure of efficiency for banks and financial institutions. Efficiency ratio may be reconciled to comparable line-items in our income statements for the periods indicated as follows:

	Year Ended December 31, 2010	2011	2012
	(In billions of Won, except percentages)		
Non-interest expense(A)	24,183	20,657	19,715
Divided by			
The sum of net interest income and non-interest income(B)	27,606	24,845	22,997
Net interest income	6,473	7,080	6,974
Non-interest income	21,133	17,765	16,022
Efficiency ratio ((A) as a percentage of (B))	87.60%	83.14%	85.73%

(6) Represents the ratio of non-interest expense to average total assets.

(7) Represents the ratio of average stockholders equity to average total assets.

Asset Quality Ratios

	As of December 31, 2010	2011	2012
	(In billions of Won, except percentages)		
Total gross loans	184,249	195,055	202,275
Total allowance for loan losses	2,852	2,577	2,793
Allowance for loan losses as a percentage of total loans	1.55%	1.32%	1.38%
Impaired loans(1)	2,757	2,457	2,636
Impaired loans as a percentage of total loans	1.50%	1.26%	1.30%
Allowance as a percentage of impaired loans	103.45%	104.88%	105.96%
Total non-performing loans(2)	1,427	1,416	1,695
Non-performing loans as a percentage of total loans	0.77%	0.73%	0.84%
Allowance as a percentage of total assets	1.06%	0.89%	0.93%

Notes:

(1) Impaired loans include (i) loans for which the borrower has defaulted under Basel standards and (ii) loans that qualify as troubled debt restructurings under IFRS.

(2) Non-performing loans are defined as loans, whether corporate or retail, that are past due more than 90 days.

Capital Ratios

	As of December 31, 2010	2011	2012
	(Percentages)		

Group BIS ratio(1)	12.38%	11.41%	12.46%
Total capital adequacy ratio of Shinhan Bank	15.47	15.26	15.83
Adjusted equity capital ratio of Shinhan Card(2)	24.99	25.81	27.43
Solvency ratio for Shinhan Life Insurance(3)	397.93	324.02	287.70

Notes:

(1) Starting 2007, under the revised guidelines of the Financial Services Commission applicable to financial holding companies, the minimum requisite capital ratio applicable to us changed to the Bank for International Settlement (BIS) ratio of 8%. This computation is based on our consolidated financial statements in accordance with IFRS. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

Table of Contents

(2) Represents the ratio of total adjusted shareholders equity to total adjusted assets and is computed in accordance with the guidelines issued by the Financial Services Commission for credit card companies. Under these guidelines, a credit card company is required to maintain a minimum adjusted equity capital ratio of 8%. This computation is based on the separate financial statements of the credit card company prepared in accordance with IFRS. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Credit Card Companies Capital Adequacy.

(3) Solvency ratio is the ratio of the solvency margin to the standard amount of solvency margin as defined and computed in accordance with the guidelines issued by the Financial Services Commission for life insurance companies. Under these guidelines, Shinhan Life Insurance is required to maintain a minimum solvency ratio of 100%. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Insurance Companies Capital Adequacy.

The Financial Services Commission regulations require that capital ratios be computed based on our consolidated financial statements under IFRS and regulatory guidelines. The following table sets forth our capital ratios computed on the basis of our consolidated financial statements under IFRS and the regulatory guidelines of the Financial Services Commission.

	As of December 31,		
	2010	**2011**	**2012**
	(In millions of Won, except percentages)		
Risk-weighted assets	188,785,745	195,579,399	201,184,402
Total risk-adjusted capital	23,369,691	22,315,419	25,075,736
Tier 1 capital	15,502,733	17,316,861	19,124,728
Capital adequacy ratio (%)	12.38%	11.41%	12.46%
Tier 1 capital ratio (%)	8.21%	8.85%	9.51%

Exchange Rates

The following table sets forth, for the periods and dates indicated, certain information concerning the Noon Buying Rate in Won per US$1.00.

Year Ended December 31,	**At End of Period**	**Average(1)**	**High**	**Low**
		(Won per US$1.00)		
2008	1,262.0	1,105.3	1,507.9	935.2
2009	1,163.7	1,270.0	1,532.8	1,163.7
2010	1,130.6	1,155.7	1,253.2	1,104.0
2011	1,158.5	1,106.9	1,197.5	1,049.2
2012	1,063.2	1,126.2	1,185.0	1,063.2
October	1,090.2	1,105.4	1,114.6	1,090.2
November	1,081.8	1,087.0	1,091.8	1,081.8
December	1,063.2	1,075.2	1,083.7	1,063.2
2013 (through April 10)	1,135.4	1,090.4	1,140.3	1,056.0
January	1,087.5	1,066.5	1,091.2	1,056.0
February	1,083.9	1,087.3	1,095.7	1,078.2
March	1,112.5	1,102.9	1,119.2	1,083.9
April (through April 10)	1,135.4	1,128.0	1,140.3	1,114.4

Source: *Federal Reserve Bank of New York (for the periods ended on or prior to December 31, 2008) and Federal Reserve Board (for the period since January 1, 2009)*

Note:

(1) Represents the average of the Noon Buying Rates on the last day of each month during the relevant period.

Table of Contents

We have translated certain amounts in Korean Won, which appear in this annual report, into U.S. dollars for convenience. This does not mean that the Won amounts referred to could have been, or could be, converted into U.S. dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, translations of Won amounts to U.S. dollars are based on the Noon Buying Rate in effect on December 31, 2012, which was 1,063.2 to US$1.00. On April 10, 2013, the Noon Buying Rate in effect was 1,135.35 to US$1.00.

ITEM 3.B. Capitalization and Indebtedness

Not applicable.

ITEM 3.C. Reasons for the Offer and Use of Proceeds

Not applicable.

ITEM 3.D. Risk Factors

An investment in the American depositary shares representing our common shares involves a number of risks. You should carefully consider the following information about the risks we face, together with the other information contained in this annual report, in evaluating us and our business.

Risks Relating to the Recent Economic and Market Crisis

Difficult conditions and turbulence in the Korean and global economy and financial markets may adversely affect our business, asset quality, capital adequacy and earnings.

Most of our assets are located in, and we generate most of our income from, Korea. Accordingly, our business and profitability are largely dependent on the general economic and social conditions in Korea, including interest rates, inflation, exports, personal expenditures and consumption, unemployment, demand for business products and services, debt service burden of households and businesses, the general availability of credit, the asset value of real estate and securities and other factors affecting the financial well-being of our corporate and retail customers.

The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. The ongoing difficulties affecting the European, U.S. and global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the European, U.S., Chinese and global economy have increased the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. Due to recent liquidity and credit concerns and volatility in the global financial markets, the value of the Won relative to the U.S. Dollar has also fluctuated significantly in recent years. Furthermore, as a result of adverse global and Korean economic conditions, there has been continuing volatility in the stock prices of Korean companies. While the global economy showed some signs of stabilization and improvement starting in 2010 following the global credit and financial crisis in 2008 and 2009, substantial uncertainties remain, among others, in the form of fiscal and financial crisis in several European countries (including Italy, Spain, France, Greece and Portugal), a downgrade in the sovereign or other credit ratings of governments and financial institutions in Europe and the United States and signs of cooling of the Chinese economy, and the overall prospects for the Korean and global economy in 2013 and beyond remain uncertain. Although we have exposure to certain troubled European countries, namely Spain, Ireland, Italy and Portugal, our aggregate exposure to such countries only amounted to 57.3 billion as of December 31, 2012, which is approximately 0.02% of our total assets as of December 31, 2012. However, any future deterioration of the European or other economies, and in turn, the global and Korean economy, could adversely affect our business, financial condition and results of operations.

In particular, difficulties in financial and economic conditions could result in significant deterioration in the quality of our assets and accumulation of higher provisioning, allowances for loan losses and charge-offs as an increasing number of our corporate and retail customers declare bankruptcy or insolvency or otherwise face increasing difficulties in meeting their debt obligations. For example, during the global financial crisis in 2008 to

9

2009, our delinquent and non-performing loans increased significantly before returning largely to pre-crisis levels in 2009 due in part to our preemptive measures and improvements in the general economy. In addition, since 2010 the continuing slump in the real estate market and the shipbuilding industry have led to increased delinquency among our corporate borrowers in the construction, real estate leasing, shipbuilding and shipping industries (and in certain cases, even insolvency and/or corporate restructurings as was recently the case for Kukdong Engineering & Construction and its parent Woongjin Holdings). For example, in April 2013, as a result of the continued stagnation in the shipbuilding industry, STX Offshore & Shipbuilding, the flagship member company of one of the leading conglomerates STX Group, entered into a voluntary arrangement with its creditors (including Shinhan Bank) to improve its credit situation. While we have sought to actively reduce our exposure to such troubled industries through preemptive risk management policies, we cannot assure you that we will not experience further loan losses from borrowers in these industries since the quality of their assets may further deteriorate due to the continued slump in these industries or for other reasons. Shinhan Bank s delinquency ratio (based on one or more month of delinquency) increased from 0.48% in 2010 to 0.60% in 2011 and 0.61% in 2012. As for Shinhan Card, its delinquency ratio under the Financial Services Commission guidelines increased from 2.0% in 2010 to 2.3% in 2011 and 2.6% in 2012 largely as a result of an increase in Shinhan Card s assets, but it may continue to experience an increase in delinquency ratio as it seeks to maintain or enlarge its asset base amid intensifying competition among credit card companies to gain market share.

Moreover, as was the case during the recent global financial crisis, depending on the nature of the difficulties in the financial markets and general economy, we may be forced to scale back certain of our core lending activities and other operations and/or borrow money at a higher funding cost or face a tightening in the net interest spread, any of which may have a negative impact on our earnings and profitability. Furthermore, while we and our principal subsidiaries currently maintain a capital adequacy ratio at a level higher than the required regulatory minimum, there is no guarantee that an even higher capital requirement will not be imposed by the Government in case of a renewed economic crisis.

In addition, given the highly integrated nature of financial systems and economic relationships worldwide, there may be other, unanticipated systemic or other risks that may not be presently predictable. Any of these risks if materialized may have a material adverse effect on our business, liquidity, financial condition and results of operations.

Risks Relating to Our Overall Business

Competition in the Korean financial services industry is intense, and may further intensify as a result of further deregulation.

Competition in the Korean financial services industry is, and is likely to remain, intense.

In the banking sector, Shinhan Bank competes principally with other national commercial banks in Korea, but also faces competition from a number of additional banking institutions, including branches and subsidiaries of foreign banks operating in Korea, regional banks, government-owned development banks and Korea s specialized banks, such as Korea Development Bank, the Industrial Bank of Korea and the National Association of Agriculture and Fisheries, as well as various other types of financial service providers, including savings institutions (such as mutual savings and finance companies, credit unions and credit cooperatives), investment companies (such as securities brokerage firms, merchant banking corporations and asset management companies) and life insurance companies. As of December 31, 2012, Korea had seven major nationwide domestic commercial banks (including Citibank and Standard Chartered Bank, both of which are domestic commercial banks acquired by global financial institutions), six regional commercial banks and branches and subsidiaries of 39 foreign banks. We believe that foreign financial institutions, many of which have greater experiences and resources than we do, will continue to enter the Korean market and compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions.

In the small- and medium-sized enterprise and retail banking segments, which have been Shinhan Bank s traditional core businesses, competition is expected to increase further, although in a more limited fashion compared to that prior to the recent global financial crisis. Prior to the crisis, most Korean banks, including Shinhan Bank, focused on enlarging their assets through aggressive loan growth from small- and medium-sized enterprises and retail customers and, to a lesser extent, from large corporate borrowers, while developing fee income businesses, including bancassurance and investment products, as complementary sources of revenue. Following the crisis, the Korean banks, including Shinhan Bank, are increasingly focusing on stable asset growth based on quality credit, such as corporate borrowers with high credit ratings, loans to small office, home office (SOHO) with high levels of collateralization, and mortgage and home equity loans within the limits of the prescribed loan-to-value ratios and debt-to-income ratios, while reducing their credit exposure to small- and medium-sized enterprises. This shift in focus toward stable growth based on less risky assets may result in lower net interest margin and reduced overall profitability, especially as the banks compete for the same pool of quality credit by engaging in price competition or by other means. Shinhan Bank has traditionally focused, and will continue to focus, on enhancing profitability rather than increasing asset size or market share, and has avoided, to the extent practicable, engaging in price competition by way of lowering lending rates. Therefore, if competing financial institutions seek to expand market share by lowering their lending rates, Shinhan Bank may suffer customer loss, especially among customers who select their lenders principally on the basis of lending rates. In response thereto or for other strategic reasons, Shinhan Bank may subsequently lower their lending rates to stay competitive, which could lead to a decrease in its net interest margins and outweigh any positive impact on the net interest margin from a general rise in market interest rates. Any future decline in Shinhan Bank s customer base or its net interest margins could have an adverse effect on its results of operations and financial condition.

In the credit card sector, Shinhan Card competes principally with existing monoline credit card companies, credit card divisions of commercial banks, consumer finance companies, other financial institutions and, recently, credit card service providers allied with mobile telecommunications service providers in Korea. Competition has been historically intense in this sector and the market has shown signs of saturation as existing and new credit card service providers, such as credit card companies spun off from KB Financial Group, made significant investments and engaged in aggressive marketing campaigns and promotions to acquire new customers and target customers with high credit quality. While competition has subsided somewhat recently due to stricter government regulations, such as curbs on excessive marketing expenses, competition remains intense and credit card issuers may continue to compete with Shinhan Card for customers by offering lower interest rates and fees, higher credit limits, more attractive promotions and incentives and alternative products such as phone cards, gift cards and low-interest consumer loan products. As a result, Shinhan Card may lose customers or service opportunities to competing credit card issuers and/or incur higher marketing expenses. In addition, recent Government regulations mandating lower merchant fees chargeable to small- and medium-sized businesses are likely to reduce the revenues of credit card companies, including Shinhan Card. Customer attrition, together with any further lowering of fees or reduction in base and market interest rates and/or additional expenses from more extensive marketing and promotional campaigns that Shinhan Card might implement to acquire and retain customers, could reduce its revenues and earnings. Furthermore, the average credit quality of Shinhan Card s customers may decline if customers with higher credit quality borrow from Shinhan Card s competitors rather than from Shinhan Card.

In other financial services sectors, our other subsidiaries also compete in a highly fragmented market. Some of our competitors, particularly the major global financial institutions, have greater experience and resources than we do.

Consolidation among our rival institutions may also add competition in the markets in which we and our subsidiaries conduct business. The Korean banking industry may undergo further consolidation either voluntarily or as part of government-led initiatives. Some of the financial institutions resulting from these developments may, by virtue of their increased size, expanded business scope and more efficient operations, provide greater competition for us. For example, the Government may eventually privatize Korea Development Bank, one of the Government s key policy banks, through an initial public offering. In January 2010, the Government announced its intent to sell its controlling stake in Woori Financial Group, one of the top three financial holding companies in Korea in terms of assets as of December 31, 2012 with a similarly ranked banking operation. If Woori Financial Group or any of its major operating subsidiaries were to be acquired by a rival bank or financial holding company, the consolidated entity will have a greater scale of operations, including a larger customer base, and financial resources than us, which may hurt our ability to compete effectively. In addition, in February 2012, Hana Financial Group, which owns and operates Hana Bank, one of the major commercial banks in Korea,

Table of Contents

received regulatory approval to acquire a controlling equity interest in Korea Exchange Bank, another major commercial bank in Korea, from Lone Star Funds, and in April 2013 Korea Exchange Bank became a wholly-owned subsidiary of Hana Financial Group and was delisted. In March 2012, the National Agricultural Cooperative Federation, another policy bank of the Government, was reorganized into a holding company structure pursuant to which several of its financial business units were spun off into separate subsidiaries, including banking, life insurance and non-life insurance units. Furthermore, former specialized policy banking institutions, such as the National Agricultural Cooperative Federation and Industrial Bank of Korea are in the course of actively expanding their retail operations. Any of these developments may place us at a competitive disadvantage and outweigh any potential benefit to us in the form of opportunities to acquire new customers who are displeased with the level of services at the newly reorganized entities or to provide credit facilities to corporate customers who wish to maintain relationships with a wide range of banks in order to diversify their sources of funding.

As the Korean economy further develops and new business opportunities arise, more competitors may enter the financial services industry. Recently, banks are beginning to compete for new customers and it is likely that competition between bank-operated credit card companies and independent card companies will increase substantially. For example, in 2009, Hana SK Card was launched through a partnership between Hana Financial Group Inc. and SK Telecom. In addition, in November 2011, BC Card became a subsidiary of KT Group while the KDB Group and Korea Post have recently announced their intentions to enter the credit card industry. Furthermore, large non-financial institutions, such as mobile telecommunications companies, have also been reported to be considering entry into the Korean credit card and consumer finance businesses by way of convergence with the existing and future mobile telephone networks. SK Telecom, Korea Telecom and LG Uplus have been actively providing mobile phone payment services through payment solutions tailored for smartphones. As these companies are the three largest telecommunications service providers in Korea serving a substantial majority of the Korean population, a widespread consumer acceptance of mobile phone payment services in lieu of credit card services could pose a serious competitive threat to the existing credit card service providers, including our credit card subsidiary.

Competition in the Korean financial services industry may also intensify as a result of deregulation. For example, the Financial Investment Services and Capital Markets Act, which became effective in February 2009, promotes integration and rationalization of the Korean capital markets and financial investment products industry by permitting a wider range of financial services providers to engage in a broader sphere of financial activities, including depositary services, and has, to a significant extent, removed the regulatory barriers between securities brokerage, asset management, derivative financial services and trust services in favor of creating financial investment companies that may engage in all of the foregoing activities. Accordingly, the Financial Investment Services and Capital Markets Act enables the creation of large financial institutions that can offer both commercial and investment banking and asset management services modeled after the major global financial institutions based in the United States and Europe. Recently, in light of the recent global financial crisis, the Government has subjected Korean financial institutions to stricter regulatory requirements and guidelines in areas of asset quality, capital adequacy, liquidity and residential and other lending practices, which has had a dampening effect on competition. However, there is no assurance that these measures will continue to curb competition or that the Government will not reverse or reduce such measures or introduce other deregulatory measures, which may further intensify competition in the Korean financial services industry.

If we are unable to compete effectively in the changing business and regulatory environment, our profit margin and market share may erode and our future growth opportunities may become limited, which could adversely affect our business, results of operations and financial condition.

We and our subsidiaries need to maintain our capital ratios above minimum required levels, and the failure to so maintain could result in the suspension of some or all of our operations.

We and our subsidiaries in Korea are required to maintain specified capital adequacy ratios. For example, we and our banking subsidiaries in Korea are required to maintain a minimum Tier I capital adequacy ratio of 4.0% and a BIS ratio of 8.0%. These ratios measure the respective regulatory capital as a percentage of risk-weighted assets on a consolidated basis and are determined based on guidelines of the Financial Services

Commission. In addition, our subsidiaries Shinhan Card, Shinhan Life Insurance and Shinhan Investment are required to maintain a consolidated adjusted equity capital ratio of 8.0%, a solvency ratio of 100% and a net operating capital ratio of 150%, respectively.

While we and our subsidiaries currently maintain capital adequacy ratios in excess of the respective required regulatory minimum levels, we or our subsidiaries may not be able to continue to satisfy the capital adequacy requirements for a number of reasons, including an increase in risky assets and provisioning expenses, substitution costs related to the disposal of problem loans, declines in the value of securities portfolios, adverse changes in foreign currency exchange rates, changes in the capital ratio requirements, the guidelines regarding the computation of capital ratios, or the framework set by the Basel Committee on Banking Supervision (the Basel Committee) upon which the guidelines of the Financial Services Commission are based, or other adverse developments affecting our asset quality or equity capital or due to other reasons.

Specifically, beginning on January 1, 2008, the Financial Supervisory Service implemented the new Basel Capital Accord, commonly referred to as Basel II, in Korea, which has affected the measurement of risk by Korean financial institutions, including us and our subsidiaries. Building upon the initial Basel Capital Accord of 1988, commonly referred to as Basel I, which focused primarily on capital adequacy and asset soundness as a measure of risk, Basel II expanded this approach by considering additional risks such as operational risk. Basel II also instituted new measures that require us and our subsidiaries to take into account individual borrower credit risk and operational risk when calculating risk-weighted assets.

In December 2010, the Basel Committee issued final rules in respect of (i) a global regulatory framework for more resilient banks and banking systems and (ii) an international framework for liquidity risk measurement, standards and monitoring, which together are commonly referred to as Basel III. The new minimum capital requirements, including the minimum common equity Tier 1 requirement of 4.5% and additional capital conservation buffer requirement of 2.5%, are scheduled to be implemented in phases during the period from January 2013 to January 1, 2019. Additional countercyclical capital buffer requirements are also expected to be phased in starting in 2016, in parallel with the capital conservation buffer to a maximum level of 2.5% effective on January 1, 2019, although individual jurisdictions may choose to implement larger countercyclical capital buffers. Effective January 1, 2011, the leverage ratio is subject to a supervisory monitoring period as well as a parallel run period from January 1, 2013 lasting to January 1, 2017. Further calibration of the leverage ratio will be carried out in the first half of 2017, with a view to migrating to the minimum regulatory capital requirement of Pillar 1, from January 1, 2018. We are currently in compliance with the Basel Committee s capital requirement for trading book and complex securitization exposures. On January 13, 2011, the Basel Committee issued further minimum requirements to ensure that all classes of capital instruments fully absorb losses at the point of non-viability before taxpayers are exposed to loss. Instruments issued on or after January 1, 2013 may only be included in regulatory capital if the new requirements are met. The capital treatment of securities issued prior to this date will be phased out over a ten-year period commencing January 1, 2013.

The Financial Supervisory Service has announced proposed regulations to implement the capital requirements of Basel III in Korea from September 2012 to November 2012, which regulations were expected to become final in December 2012. Under the Financial Supervisory Service s proposed regulations in respect of Basel III capital, commercial banks in Korea will be required to maintain a minimum total capital adequacy (BIS) ratio of 8.0%, a minimum common equity ratio of 4.5% and a minimum Tier 1 capital ratio of 6.0%, which minimum requirements will be phased in sequentially from January 1, 2013 and become fully effective on January 1, 2016. Starting January 1, 2016, capital conservation buffer requirements will be phased in sequentially through January 1, 2019, at which date commercial banks will be required to maintain a capital conservation buffer of 2.5%. However, in December 2012 the Financial Services Commission announced that it would delay the implementation of Basel III, and therefore the above proposed regulations have been delayed indefinitely. According to this announcement, the timing and other details relating to the implementation of proposed regulations and the actual requirements (including in relation to the capital adequacy ratios) are to be decided in the future in consideration of, among others, how other countries (including the United States and Europe) plan to implement Basel III.

Our holding company is currently in compliance with Basel I requirements and our banking subsidiaries are currently in compliance with Basel II requirements, and we and our banking subsidiaries are actively taking steps

Table of Contents

to comply with the additional requirements under Basel III, as it becomes applicable. There can be no assurance that new requirements under Basel III will not require an increase in our banking subsidiaries credit risk capital requirements in the future, which may require our banking subsidiaries to either improve their asset quality or raise additional capital.

If the capital adequacy ratios of us or our subsidiaries fall below the required levels, the Financial Services Commission may impose penalties ranging from a warning to suspension or revocation of our or our subsidiaries business licenses. In order to maintain the capital adequacy ratios above the required levels, we or our subsidiaries may be required to raise additional capital through equity financing, but there is no assurance that we or our subsidiaries will be able to do so on commercially favorable terms or at all and, even if successful, any such capital raising may have a dilutive effect on our shareholders with respect to their interest in us or on us with respect to our interest in our subsidiaries.

Liquidity, funding management and credit ratings are critical to our ongoing performance.

Liquidity is essential to our business as a financial intermediary, and we may seek additional funding in the near future to satisfy liquidity needs, meet regulatory requirements, enhance our capital levels or fund the growth of our operations as opportunities arise.

For example, Basel III includes an international framework for liquidity risk measurement, standards and monitoring, as noted above, including a new minimum liquidity standard, known as the liquidity coverage ratio (LCR), which is designed to ensure that banks have an adequate stock of unencumbered high quality liquid assets (HQLA) that can be easily and speedily converted into cash in the private marketplace to survive a significant stress scenario lasting 30 calendar days. The LCR is computed as (a) the value of a banking organization s HQLA, divided by (b) its total expected net cash outflows over the next 30 calendar days under stress scenarios. The minimum LCR is 100%. In January 2013, the Basel Committee on Bank Supervision released a revised formulation of the LCR, one of two quantitative liquidity measures approved in December 2010 as part of Basel III. The Basel Committee extended the timetable for full phase-in of the LCR from January 2015 to January 2019. The Financial Supervisory Service is expected to promulgate proposed regulations to implement the liquidity requirements of Basel III.

A substantial part of the liquidity and funding requirements for our banking subsidiaries is met through short-term customer deposits, which typically roll over upon maturity. While the volume of our customer deposits has generally been stable over time, customer deposits have from time to time declined substantially due to the popularity of other, higher-yielding investment opportunities, namely stocks and mutual funds, for example, during times of bullish stock markets. During such times, our banking subsidiaries were required to obtain alternative funding at higher costs. In addition, due to the deregulation of depositary and settlement services as a result of the Financial Investment Services and Capital Markets Act, our banking subsidiaries may experience a decrease in customer deposits due to intensified competition among a more diversified group of financial services providers.

We and our subsidiaries also raise funds in the capital markets and borrow from other financial institutions, the cost of which depends on the market rates and the general availability of credit and the terms of which may limit our ability to pay dividends, make acquisitions or subject us to other restrictive covenants. In addition, during times of sudden and significant devaluations of the Korean Won against the U.S. dollar as was the case recently amid the global liquidity crisis, Korean commercial banks, including our banking and credit card subsidiaries, had temporary difficulties in refinancing or obtaining optimal amounts of foreign currency-denominated funding on terms commercially acceptable to us. While we and our subsidiaries are not currently facing liquidity difficulties in any material respect, if we or our subsidiaries are unable to obtain the funding we need on terms commercially acceptable to us for an extended period of time for whatever reason, we may not be able to ensure our financial viability, meet regulatory requirements, implement our strategies or compete effectively.

Credit ratings affect the cost and other terms upon which we and our subsidiaries are able to obtain funding. Domestic and international rating agencies regularly evaluate us and our subsidiaries, and their ratings of our and our subsidiaries long-term debt are based on a number of factors, including our financial strength as well as conditions affecting the financial services industry generally and in Korea. There can be no assurance that the rating agencies will maintain our current ratings or outlooks. There is no assurance that Shinhan Bank, Shinhan Card, any of our other major subsidiaries or our holding company will not experience a downgrade in their respective credit ratings and outlooks for reasons related to the general Korean economy or reasons specific to such entity. Any downgrade in the credit ratings and outlooks of us and our subsidiaries will likely increase the cost of our funding, limit our access to capital markets and other borrowings, require us to post additional collateral in financial transactions, and could increase the amount of regulatory liquidity we will be required to hold when Basel III liquidity requirements become effective, any of which could adversely affect our liquidity, net interest margins and profitability, and in turn, our business, financial condition and results of operations.

Changes in interest rates, foreign exchange rates, bond and equity prices, and other market factors have affected and will continue to affect our business.

The most significant market risks we face are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realized between lending and borrowing costs. Changes in currency rates, particularly in the Korean Won-U.S. dollar exchange rates, affect the value of our assets and liabilities denominated in foreign currencies, the reported earnings of our non-Korean subsidiaries and income from foreign exchange dealings, and substantial and rapid fluctuations in the exchange rates may cause difficulty in obtaining foreign currency-denominated financing in international financial markets on commercial terms acceptable to us or at all. The performance of financial markets may affect bond and equity prices and, therefore, cause changes in the value of our investment and trading portfolios. While we have implemented risk management systems to mitigate and control these and other market risks to which we are exposed, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on our business, financial condition and results of operations.

A significant or sustained decrease in interest rates could decrease our net interest margin due to a mismatch in our assets and liabilities structures, which could have a material adverse effect on our asset quality and profitability.

Commencing in the second half of 2008, interest rates in Korea declined to historically low levels as the government sought to stimulate the economy through active rate-lowering measures. As the Korean economy showed signs of recovery, the Korean government increased the base interest rate by an aggregate of 125 basis points during the period of 2010 and 2011 from 2.0% in 2010 to 3.25% in 2011; however, as an effort to spur domestic economy amid signs of protracted recession, the Korean government decreased the base interest rate by an aggregate of 50 basis points during the period of 2011 and 2012 from 3.25% in 2011 to 2.75% in 2012 in order to stimulate the economy.

Interest rate movements, in terms of magnitude and timing as well as their relative impacts on our assets and liabilities, have a significant impact on our net interest margin and profitability, particularly with respect to our financial products that are sensitive to such movements. For example, if the interest rates applicable to our loans (which are recorded as assets) decrease or increase at a slower pace or by a thinner margin than the interest rates applicable to our deposits (which are recorded as liabilities), our net interest margin will shrink and our profitability will be negatively affected. In addition, the relative size and composition of our variable rate loans and deposits (as compared to our fixed rate loans and deposits) may also impact our net interest margin. Furthermore, the difference in the average term of our interest-earning assets (primarily loans) compared to our interest-bearing liabilities (primarily deposits) may also impact our net interest margin. For example, since our deposits tend to have longer terms, on average, than those of our loans, our deposits are on average less sensitive to movements in the base interest rates on which our deposits and loans tend to be pegged, and therefore, an increase in the base interest rates tend to increase our net interest margin while a decrease in the base interest rates tend to have the opposite effect. While we continually manages our assets and liabilities to minimize our exposure to interest rate volatility, such efforts by us may not mitigate the impact of interest rate volatility in a timely or effective manner, and our net interest margin, and in turn our results of operations and financial condition, could suffer significantly.

We cannot assure you when and to what extent the Korean government will in the future raise the base interest rate, to which the market interest rate correlate, as such determination is subject to many policy considerations, including the general economic cycle, inflationary levels, interest rates in other economies and foreign currency exchange rates, among others. If there were to be a significant or sustained increase in interest rates, all else being equal, such movement would lead to a decline in the value of traded debt securities and could also raise our funding costs, while reducing loan demand, especially among retail customers. Rising interest rates may therefore require us to re-balance our assets and liabilities in order to minimize the risk of potential mismatches and maintain our profitability. In additional, rising interest rates may adversely affect the Korean economy and the financial condition of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to deterioration of our credit portfolio. Since most of our retail and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rates will increase the funding costs of our borrowers and could adversely affect their ability to make payments on their outstanding loans.

We may incur losses associated with our counterparty exposures.

We face the risk that counterparties will be unable to honor contractual obligations to us or our subsidiaries. These parties may default on their obligations to us or our subsidiaries due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swaps or other derivative contracts under which counterparties have obligations to make payments to us or our subsidiaries or in executing currency or other trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Counterparty risk has increased especially in light of the global credit crisis and global economic downturn starting in 2008. For example, Shinhan Investment, our securities brokerage subsidiary, recorded losses of 91 billion in 2008 as a result of the bankruptcy filing by Lehman Brothers. There is no guarantee that similar losses to what happened during the global credit crisis of 2008 will not happen in the future, and such occurrence may have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Our Banking Business

We have significant exposure to small- and medium-sized enterprises, and financial difficulties experienced by such enterprises may result in a deterioration of our asset quality.

Our banking activities are conducted primarily through our wholly-owned subsidiary, Shinhan Bank. One of our core banking businesses has historically been and continues to be lending to small- and medium-sized enterprises (as defined in Item 4.B. Business Overview Our Principal Activities Corporate and Investment Banking Services Small- and Medium-sized Enterprises Banking). Our loans to such enterprises amounted to 51,266 billion as of December 31, 2010, 52,268 billion as of December 31, 2011 and 51,324 billion as of December 21, 2012, representing 27.8%, 26.8% and 25.37%, respectively, of our total loan portfolio as of such dates.

Compared to loans to large corporations, which tend to be better capitalized and weather business downturns with greater ease, or loans to individuals and households, which tend to be secured with homes and with respect to which the borrowers are therefore less willing to default, loans to small- and medium-sized enterprises have historically had a relatively higher delinquency ratio. Prior to the onset of the recent global financial crisis, loans to such enterprises were the targets of aggressive lending by Korean banks, including Shinhan Bank, as part of their campaigns to increase their respective market shares. Many small- and medium-sized enterprises represent sole proprietorships or small businesses dependent on a relatively limited number of suppliers or customers and tend to be affected to a greater extent than large corporate borrowers by fluctuations in the Korean and global economy. In addition, small- and medium-sized enterprises often maintain less sophisticated financial records than large corporate borrowers. Therefore, it is generally more difficult for us to judge the level of risk inherent in lending to these enterprises, as compared to large corporations. In addition, many small- and medium-sized enterprises have close business relationships with large corporations in Korea, primarily as suppliers. Any difficulties encountered by those large corporations would likely hurt the liquidity and financial condition of related small- and medium-sized enterprises, including those to which we have exposure, also resulting in an impairment of their ability to repay loans. As large Korean corporations continue to expand into China and other countries with lower labor costs and other expenses through relocating their production plants and facilities to such countries, such development may have a material adverse impact on such small- and medium-sized enterprises.

Financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, recent economic difficulties in Korea and globally and aggressive marketing and intense competition among banks to lend to this segment in recent years, coupled with our efforts to counter asset quality deterioration through conservative lending policy, have led to a fluctuation in the asset quality of our loans to this segment. As of December 31, 2010, 2011 and 2012, under IFRS, Shinhan Bank s delinquent loans to small- and medium-sized enterprises were 492 billion, 597 billion and 487 billion, respectively, representing delinquency ratios (net of charge-offs and loan sales) of 0.86%, 1.04% and 0.89%, respectively. If the ongoing difficulties in Korean or global economy were to be sustained or experience an even more severe downturn, the delinquency ratio for our loans to the small- and medium-sized may rise significantly.

Of particular concern is the significant exposure we have to enterprises in the real estate and leasing and construction industries. As of December 31, 2012, Shinhan Bank had outstanding loans to the real estate and leasing and construction industries (many of which are small- and medium-sized enterprises) of 15,717 billion and 4,898 billion, respectively, representing 9.4% and 2.9%, respectively, of our total loan portfolio as of such date. We also have other exposure to borrowers in these sectors of the Korean economy, including extending guarantees for the benefit of such companies and holding debt and equity securities issued by such companies. In addition, Shinhan Bank has exposure to borrowers in the shipbuilding and shipping industries, which are continuing to experience business downturns.

The enterprises in the real estate development and construction industries in Korea, concentrated in the housing market, are currently experiencing a prolonged downturn characterized by reduced real estate demand and stagnant real estate prices, especially in areas outside of Seoul, largely due to a combination of excessive supply of residential property, sustained efforts by the Korean government to stem speculation in the housing market, ongoing economic sluggishness in Korea and globally and the demographic changes in the Korean population. We also have a limited exposure to real estate project financing, particularly by construction companies that have built residential units in provinces outside the metropolitan Seoul area, which have experienced a relatively low rate of pre-sales, the proceeds from which the construction companies primarily rely on as a source for their liquidity and cash flow.

The delinquency ratio for the small- and medium-sized enterprises in the construction industry may increase significantly if restructuring of troubled companies in this industry intensifies as a result of a Government initiative or concerted efforts by lending institutions to improve their asset quality. For example, in 2009 and 2010, in an effort to curtail further deterioration in the credit quality of troubled companies in certain industries that have been disproportionately affected by the recent global economic crisis, the Government encouraged a swift review of the credit quality of such companies and restructuring of troubled companies by creditor financial institutions, including Shinhan Bank. In accordance with such program, 29 construction companies became subject to workouts in February and March 2009. In addition, in June 2010, the Government announced that, following review of credit risk relating to 1,985 companies in Korea with outstanding debt of 50 billion or more, 65 of such companies would be subject to restructuring in the form of workout, liquidation or court receivership. Of the 65 companies, 16 were construction companies. There is no assurance that credit exposure to companies in the construction or other troubled industries will not increase in the future as a result of an economic downturn or for other reasons, and additional restructuring may follow as a result of a Government initiative or otherwise.

Any of the foregoing developments may result in deterioration in the asset quality of our banking subsidiaries. See Item 4.B. Business Overview Description of Assets and Liabilities Credit Exposures to Companies in Workout, Court Receivership or Composition. According to the annual evaluation conducted pursuant to the Corporate Restructuring Promotion Act in relation to exposure to troubled companies (which examines each large corporation with credit exposure of 50 billion or more and small- to medium enterprises with credit exposure of 5 billion to 50 billion), in 2011 we had an aggregate exposure of 149.3 billion to five conglomerates (for which we set out provisions in the aggregate amount of 15.6 billion) and an aggregate exposure of 113.2 billion to eight small- to medium-sized enterprises (for which we set out provisions in the aggregate amount of 15.9 billion) and in 2012 we had an aggregate exposure of 142.0 billion to four conglomerates (for which we set out provisions in the aggregate amount of 85.6 billion) and an aggregate exposure of 18.5 billion to one small- to medium-sized enterprise (for which we set out provisions in the aggregate amount of 18.5 billion).

We have been taking active steps to curtail delinquency among our small- and medium-sized enterprise customers, including by way of strengthening loan application review processes and closely monitoring borrowers in troubled sectors. Despite such efforts, there is no assurance that the delinquency ratio for our loans to small- and medium-sized enterprises will not rise in the future, especially if the Korean economy were to face renewed difficulties and a subsequent deterioration in the liquidity and cash flow of these borrowers. A significant rise in the delinquency ratios among these borrowers would lead to increased charge-offs and higher provisioning and reduced interest and fee income from this segment in the future, which would have a material adverse effect on our business, financial condition and results of operations.

A decline in the value of the collateral securing our loans or our inability to fully realize the collateral value may adversely affect our credit portfolio.

Most of our mortgage and home equity loans are secured by borrowers homes, other real estate, other securities and guarantees (which are principally provided by the Government and other financial institutions), and a substantial portion of our corporate loans are also secured, including by real estate. As of December 31, 2012, the secured portion of Shinhan Bank s loans amounted to 82,550 billion, or 57.2% of its total loans. There is no assurance that the collateral value will not materially decline in the future. Shinhan Bank s general policy for mortgage and home equity loans is to lend up to 40% to 60% of the appraised value of the collateral and to periodically re-appraise such collateral. However, in light of the sustained downturn in the real estate market in Korea, the value of the collateral may fall below the outstanding principal balance of the underlying mortgage loans. Borrowers of such under-collateralized mortgages or loans may be forced to pay back all or a portion of such mortgage loans or, if unable to meet the collateral requirement through such repayment, sell the underlying collateral, which sales may lead to a further decline in the price of real estate in general and set off a chain reaction for other borrowers due to the further decline in the value of collateral. Declines in real estate prices reduce the value of the collateral securing our mortgage and home equity loans, and such reduction in the value of collateral may result in our inability to cover the uncollectible portion of our secured loans. A decline in the value of the real estate or other collateral securing our loans, or our inability to obtain additional collateral in the event of such decline, may result in the deterioration of our asset quality and require us to make additional loan loss provisions. In Korea, foreclosure on collateral generally requires a written petition to a Korean court. Foreclosure procedures in Korea generally take seven months to one year from initiation to collection depending on the nature of the collateral, and foreclosure applications may be subject to delays and administrative requirements, which may result in a decrease in the recovery value of such collateral. There can be no assurance that we will be able to realize the full value of collateral as a result of, among others, delays in foreclosure proceedings, defects in the perfection of collateral and general declines in collateral value. Our failure to recover the expected value of collateral could expose us to significant losses.

Guarantees received in connection with our real estate financing may not provide sufficient coverage.

Primarily through Shinhan Bank, we, alone or together with other financial institutions, provide financing to real estate development projects, which are concentrated in the construction of residential and, to a lesser extent, commercial complexes. Developers in Korea commonly use project financing to acquire land and pay for related project development costs. As a market practice, lenders in project financing, including Shinhan Bank, generally receive from general contractors a performance guarantee for the completion of projects by the developers as well as a payment guarantee for the loans raised by a special purpose financing vehicle established by the developers in order to procure the construction orders, as the developers tend to be small and highly leveraged. While the general contractors tend to be large and well-established construction companies, given the sustained downturn in the real estate market and the construction industry in general, there is no guarantee that even such companies will have sufficient liquidity to back up their guarantees made for the benefit of the developers if the real estate development projects do not generate sufficient cash flow from pre-sales of the residential or commercial units. This is particularly the case for development projects outside the Seoul metropolitan area, which in recent years have had lower than expected levels of pre-sales. If defaults arise under our loans to real estate development projects and the general contractors fail to pay the guaranteed amount necessary to cover the amount of our financings, this may have a material adverse effect on our business, financial condition and results of operations.

A limited portion of our credit exposure is concentrated in a relatively small number of large corporate borrowers, and future financial difficulties experienced by them may have an adverse impact on us.

Of Shinhan Bank s 20 largest corporate exposures as of December 31, 2012, five were companies that are or were members of the main debtor groups identified by the Governor of the Financial Supervisory Service, which are largely comprised of *chaebols*. As of such date, the total amount of Shinhan Bank s exposures to the main debtor groups was 29,976 billion, or 11.7% of its total exposure. As of that date, Shinhan Bank s single largest outstanding *chaebol* exposure amounted to 3,414 billion, or 1.3% of our total exposures. In September 2012, Woongjin Holdings and Kukdong Engineering & Construction Co., large Korean corporations to which Shinhan Bank had exposure in the amount of 14.9 billion and 44.9 billion, respectively, as of December 31, 2012 filed for court receivership, and accordingly, Shinhan Bank established loan loss provisions for the full amount of such exposures as of December 31, 2012. In addition, in April 2013, as a result of the continued stagnation in the shipbuilding industry, STX Offshore & Shipbuilding, the flagship member company of one of the leading conglomerates STX Group, entered into a voluntary arrangement with its creditors (including Shinhan Bank) to improve its credit situation. If the credit quality of our exposures to these and other large corporations, including those in the main debtor groups, declines, we may be required to record additional loan loss provisions in respect of loans and impairment losses in respect of securities, which would adversely affect our financial condition, results of operations and capital adequacy. We cannot assure you that the allowances we have established against these exposures will be sufficient to cover all future losses arising from such exposures, especially in the case of a prolonged or renewed economic downturn.

In May 2010, creditor financial institutions entered into agreements with eight main debtor groups, largely comprised of *chaebols*, under which such groups agreed to undertake plans to improve their financial conditions, including through the sale of subsidiaries. While Shinhan Bank was not the main creditor financial institution to any of these main debtor groups, Shinhan Bank was one of the creditor financial institutions and has exposure to a limited number of such corporations and main debtor groups. These main debtor groups are making significant efforts to improve their financial conditions, such as by obtaining intragroup loans and entering into agreements to further improve their capital structures. As of December 31 2012, six main debtor groups are subject to the restructuring program. There is no assurance that there will not be future restructuring with major corporate customers or that such restructuring will not result in significant losses to Shinhan Bank with less than full recovery. In addition, bankruptcies or financial difficulties of large corporations, including *chaebol* groups, may have the adverse ripple effect of triggering delinquencies and impairment of our loans to small- and medium-sized enterprises that supply parts or labor to such corporations. If we experience future losses from our exposures to large corporations, including *chaebol* groups, it may have a material adverse impact on our business, financial condition and results of operations. See Item 4.B. Business Overview Description of Assets and Liabilities Loans Loan Portfolio Exposure to Main Debtor Groups.

Any deterioration in the asset quality of our guarantees and acceptances will likely have a material adverse effect on our financial condition and results of operations.

In the normal course of banking activities, we make various commitments and incur certain contingent liabilities in the form of guarantees and acceptances. Financial guarantees, which are contracts that require us to make specified payments to reimburse the beneficiary of the guarantee for a loss such beneficiary incurs because the debtor in respect of which the guarantee is given fails to make payments when due in accordance with the terms of the relevant debt instrument, are recognized initially at fair value, and such initial fair value is amortized over the life of the financial guarantee. Other guarantees are recorded as off-balance sheet items in the footnotes to our financial statements and those guarantees that we have confirmed to make payments are recorded on the statements of financial position. As of December 31, 2012, we had aggregate guarantees and acceptances of 14,788 billion, for which we provided allowances for losses of 112 billion. Such guarantees and acceptances include refund guarantees provided by us to shipbuilding companies, which involve guaranteeing a refund payment of the initial cash payment (typically 25% of the contract amount for ship orders) received by shipbuilders from buyers in the event that such shipbuilders are unable to deliver the ships in time or otherwise default under the shipbuilding contracts. In recent years, small- and medium-sized shipbuilding companies have faced increasing financial difficulties due to the global economic downturn and the resulting slowdown in shipbuilding orders, which has increased the risk that they may default on their shipbuilding contracts and we may have to make payments under the refund guarantees. The refund guarantees provided by us to small- and medium-sized shipbuilding companies amounted to approximately 80.7 billion as of December 31, 2012. If there is significant deterioration in the quality of assets underlying our guarantees and acceptances, our allowances may be insufficient to cover actual losses resulting in respect of these liabilities, or the losses we incur on the relevant guarantees and acceptances may be larger than the outstanding principal amount of the underlying loans.

Risks Relating to Our Credit Card Business

Future changes in market conditions as well as other factors, such as stricter regulation, may lead to reduced revenues and deterioration in the asset quality of credit card receivables.

In recent years, credit card and other consumer debt has increased significantly in Korea. As of December 31, 2010, 2011 and 2012, Shinhan Card s interest-earning credit card assets amounted to 19,460 billion, 19,772 billion and 20,027 billion, respectively. Our large exposure to credit card and other consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers in general. For example, a rise in unemployment, an increase in interest rates, a downturn in the real estate market, or a general contraction or other difficulties affecting the Korean economy may lead Korean consumers to reduce spending (a substantial portion of which is conducted through credit card transactions), which in turn leads to reduced earnings for our credit card business, as well as to higher default rates on credit card loans, deterioration in the quality of our credit card assets and increased difficulties in recovering written-off assets from which a significant portion of Shinhan Card s revenues is derived. Any of these developments could have a material adverse effect on our business, financial condition and results of operations.

In addition, recent Government regulations aimed at protecting small- and medium-sized enterprises, such as the reduction of fees chargeable to small- and medium-sized merchants, could have a material adverse effect on our revenues. Starting in 2012, the Government enlarged the definition of a small- and medium-sized merchant to those with annual sales of up to 200 million and lowered fees chargeable to such merchants to 1.8% in January 2012 and further to 1.5% in September 2012. The Government has also recently implemented measures regulating marketing costs in order to control excessive marketing campaigns and curtail undue marketing expenses. While the regulations lowering merchant fees is expected to have a negative impact on Shinhan Card s revenues, we believe that such negative impact will be partially offset by the Government s regulations restricting marketing expenses to reasonable levels. However, the Government may, in the future, impose further reduction in merchant fees chargeable by credit card companies. Furthermore, the Government may also introduce tax incentives and other measures to encourage the use of check cards (akin to debit cards in the United States where all outstanding balances are settled monthly) in lieu of credit cards in an attempt to preempt a potential rise in delinquency among credit card users, and if check cards are widely used in lieu of credit cards, this would reduce interest income from credit cards, which generally have a longer repayment period than that of check cards, and may have an adverse impact on Shinhan Card s revenues and results of operations. In line with industry practice, Shinhan Card restructured certain of its delinquent loan balances. As of December 31, 2012, these restructured loans outstanding amounted to 208 billion.

Competition in the Korean credit card industry is intense and growing market saturation in the credit card sector may adversely affect growth prospects and profitability of Shinhan Card.

Competition in the credit card and consumer finance businesses remains intense as existing credit card companies, commercial banks, consumer finance companies and other financial and mobile telecommunications institutions in Korea have made significant investments and engaged in aggressive marketing campaigns and promotions in these areas, notwithstanding the recent introduction of stricter regulatory measures, such as the reduction of merchant fees chargeable by credit card companies and the regulation of their marketing expenses. While the rapid increase in competition has somewhat subsided due to the less favorable regulatory environment engendered by recent implementation of various new laws such as restrictions on excessive marketing expenses and lowering of certain categories of merchant fees, competition remains intense. The growth, market share and profitability of our credit card subsidiary s operations may decline or become negative as a result of market saturation in this sector, interest rate competition, pressure to lower fee rates and incur higher marketing expenses, as well as Government regulation and social and economic developments in Korea, such as changes in consumer confidence levels, spending patterns or public perception of credit card usage and consumer debt. For example, other credit card issuers may compete with Shinhan Card for customers by offering lower interest rates and fees, higher credit limits, different product offerings and/or better customer service, which may lead to a loss by Shinhan Card of accounts and/or account balances to competing credit card issuers. Customer attrition from any or all of Shinhan Card s products, together with any lowering of interest rates or fees that Shinhan Card might implement to retain customers and higher marketing expenses could reduce its revenues and earnings. As the credit card market further matures and becomes more saturated in terms of the number of cardholders and transaction volume, the average credit quality of Shinhan Card s customers may deteriorate if customers with higher credit quality borrow from our competitors rather than Shinhan Card and it may become more difficult for Shinhan Card to attract and maintain quality customers.

Shinhan Card s ability to maintain its market position and continue its asset growth in the future will depend on, among others, its ability to (i) develop and market new products and services that are attractive to its customers, (ii) generate funding at commercially reasonable rates and in amounts sufficient to support preservation of assets and further asset growth, (iii) develop the personnel and systemic infrastructure necessary to manage its growth and increasingly diversified business operations and (iv) manage increasing delinquencies. In addition, external factors such as competition and Government regulation in Korea may limit Shinhan Card s ability to maintain its growth, and economic and social developments in Korea, such as changes in consumer confidence levels or spending patterns, as well as changes in the public perception of credit card usage and consumer debt, could have an adverse impact on the growth of Shinhan Card s credit card assets in the future. Furthermore, if Shinhan Card fails to simultaneously manage its asset quality and its asset growth or sacrifices asset quality in exchange for asset growth, its delinquency ratio may be adversely affected. If the rate of growth of Shinhan Card s assets declines or becomes negative or its delinquency ratio increases, our business, financial condition and results of operations may be adversely affected.

Shinhan Card may not be able to increase consumer and business spending and borrowing on its card products or manage the costs of its cardholder benefits intended to stimulate such use.

Increasing consumer and corporate spending and borrowing on our card products and growth in card lending balances depend in part on Shinhan Card s ability to develop and issue new or enhanced card and prepaid products and increase revenue from such products and services. Shinhan Card s future earnings and profitability also depend on its ability to attract new cardholders, reduce cardholder attrition, increase merchant coverage and capture a greater share of customers total credit card spending in Korea and overseas. Shinhan Card may not be able to manage and expand cardholder benefits in a cost-effective manner or contain the growth of marketing, promotion and reward expenses to a commercially reasonable level. If Shinhan Card is not successful in increasing customer spending or in containing costs or cardholder benefits, its financial condition, results of operations and cash flow could be negatively affected.

Our customers may become victims to voice phishing , other financial scams or cyber security breaches, for which we may be required to make monetary compensation and suffer damage to our business and reputation.

In recent years, financial scams known as voice phishing have been on the rise in Korea. While voice phishing takes many forms and has evolved over time in terms of sophistication, it typically involves the scammer making a phone call to a victim under false pretenses (for example, the scammer pretending to be a member of law enforcement, an employee of a financial institution or even an abductor of the victim s child) and luring the victim to transfer money to an untraceable account controlled by the scammer. More recently, voice phishing has increasingly taken the form of the scammer hacking or otherwise wrongfully obtaining personal financial information of the victim (such as credit card numbers or Internet banking login information) over the telephone or other means and illegally using such information to obtain credit card loans or cash advances through automated telephone banking or Internet banking. Reportedly, a substantial number of such scammers belong to international criminal syndicates with bases overseas, such as China, with operatives in Korea.

In response to the growing incidents of voice phishing, regulatory authorities have undertaken a number of steps to protect consumers against voice phishing and other financial scams. However, there is no assurance however that the regulatory activities will have the desired effect of substantially eradicating or even containing the incidents of voice phishing or other financial scams. In addition, in November and December 2011, the Financial Supervisory Service conducted an investigation of major credit card companies, including Shinhan Card, in relation to card loan-related voice phishing, with a focus on whether these companies are in compliance with the related Financial Supervisory Service regulations and the scope of damage suffered by their customers as a result of voice phishing. No official results of such investigation have been made available to us or Shinhan Card to-date.

Pursuant to guidelines set forth by the Credit Finance Association of Korea, credit card companies in Korea, including Shinhan Card, adopted a standard compensation scheme for victims of voice phishing, under which the credit card companies would compensate up to 50% of the damage suffered by such victims, depending on the nature of the victims (for example, more compensation if the victim is handicapped or at the lowest income bracket) and the level of precautionary steps undertaken by the relevant credit card company before approving the credit card loans or cash advances in connection with voice phishing; provided that if the applicant personally made the application, for example, through an ATM terminal or an outcall procedure was undertaken to confirm the personal identity of the applicant, no compensation would be made. The compensation scheme applies to claims of voice phishing received for the period from January 1, 2011 to December 8, 2011. Although the financial institutions are often not legally at fault for the damage suffered by victims of voice phishing, the compensation scheme was adopted largely in consideration of social responsibility among financial institutions and that the financial institutions were not required to, and therefore in many instances did not, confirm the personal identity of the card loan or cash advance applicants prior to the adoption of such scheme. On December 8, 2011, Shinhan Card began implementing a mandatory outcall procedure to verify the personal identity of applicants for card loans and cash advances if not requested in person. In January 2012 financial institutions, Financial Supervisory Service, police and other related institutions formed a joint committee to prevent voice phishing incidents and implemented preventive measures such as enforcing a 10 minute delay for withdrawal of credit card loans of 3 million or more from an automated teller machine.

In 2012, Shinhan Card received 1,361 customer claims in relation to voice phishing in the aggregate amount of 9.5 billion. In 2012, Shinhan Card reserved as other provisioning 0.4 billion to cover potential liability.

Other than voice phishing, the cyber security risks relating to our businesses primarily involve the potential security breaches of our customers personal and financial information and illegal use thereof through system-wide hacking or other means. We are fully committed to maintaining the highest standards of cyber security and consumer protection measures and upgrading them continually. We believe that our ISO 27001-certified security management system is among the best-in-class in the industry. Our security management system continuously monitors for signs of potential cyber attacks, and is designed to provide early warning alerts to enable prompt actions on our part. We also actively provide employee training on cyber security and have adopted advanced security infrastructure for online financial services such as mandatory website certification and keyboard security functions. In addition, in compliance with applicable regulations we have recently obtained insurance to cover cyber security breaches up to 2 billion in relation to our banking business, 3 billion for our securities investment business and 1 billion for our credit card business. In addition, in light of the growing use of smartphones and other mobile devices to access financial services, we have implemented security measures to provide a secure mobile banking service as well as to prevent illegal leakage or sharing of customer data and otherwise enhance customer privacy.

We do not believe that the currently outstanding claims in relation to voice phishing will have a material adverse impact on our business, financial condition or results of operations. Additionally, other than voice phishing incidents and the recent cyber security attacks as discussed above, we have not experienced any material security breaches in the past. Furthermore, we are actively taking steps to implement preventive and other steps recommended or required by the regulatory authorities in relation to actual and potential financial scams. However, major financial institutions in Korea, including us, have fallen victim to cyber security attacks in the past, and given the unpredictable and continually evolving nature of cyber security threats due to advances in technology or other reasons, we cannot assure you that, notwithstanding our best efforts at maintaining the best-in-class cyber security systems, we will not be vulnerable to major cyber security attacks in the future, which may have a material adverse effect on our business, financial condition and results of operations. In addition, we may be required to incur substantial costs in terms of compensation to victims of cyber security attacks and compliance costs with the present and future regulatory restrictions as well as suffer reputational costs as well as reparation and other costs related to system malfunction in the case of a widespread cyber security breach.

Risks Relating to Our Other Businesses

We may incur significant losses from our investments and, to a lesser extent, trading activities due to market fluctuations.

We enter into and maintain large investment positions in fixed income products, primarily through our treasury and investment operations. We describe these activities in Item 4.B. Business Overview Our Principal Activities Corporate and Investment Banking Services. We also maintain smaller trading positions, including equity and equity-linked securities and derivative financial instruments as part of our operations. Taking these positions entails making assessments about financial market conditions and trends. The revenues and profits we derive from many of these positions and related transactions are dependent on market prices, which are beyond our control. When we own assets such as debt or equity securities, a decline in market prices, for example as a result of fluctuating market interest rates or stock market indices, can expose us to trading and valuation losses. If market prices move in a way that we have not anticipated, we may experience losses. In addition, when markets are volatile and subject to rapid changes in the price directions, the actual market prices may be contrary to our assessments and lead to lower than anticipated revenues or profits, or even result in losses, with respect to the related transactions and positions.

We may generate losses from brokerage and other commission- and fee-based business.

We, through our investment and other subsidiaries, currently provide, and seek to expand the offerings of, brokerage and other commission- and fee-based services. Downturns in stock markets typically lead to a decline in the volume of transactions that we execute for our customers and, therefore, to a decline in our non-interest revenues. In addition, because the fees that we charge for managing our clients portfolios are often based on the size of the assets under management, a downturn in the stock market which has the effect of reducing the value of our clients portfolios or increasing the amount of withdrawals also generally reduces the fees we receive from our securities brokerage, trust account management and other asset management services. Even in the absence of a market downturn, below-market performance by our securities, trust account or asset management subsidiaries may result in increased withdrawals and reduced cash inflows, which would reduce the revenue we receive from these businesses. In addition, protracted declines in asset prices can reduce liquidity for assets held by us and lead to material losses if we cannot close out or otherwise dispose of deteriorating positions in a timely way or at commercially reasonable prices.

Other Risks Relating to Us

Our ability to continue to pay dividends and service debt will depend on the level of profits and cash flows of our subsidiaries.

We are a financial holding company with minimal operating assets other than the shares of our subsidiaries. Our primary source of funding and cash flow is dividends from, or disposition of our interests in, our subsidiaries or our cash resources, most of which are currently the result of borrowings. Since our principal assets are the outstanding capital stock of our subsidiaries, our ability to pay dividends on our common and preferred shares and service debt will mainly depend on the dividend payments from our subsidiaries.

Companies in Korea are subject to certain legal and regulatory restrictions with respect to payment of dividends. For example, under the Korean Commercial Code, dividends may only be paid out of distributable income, which is calculated by subtracting the aggregate amount of a company s paid-in capital and certain mandatory legal reserves from its net assets, in each case as of the end of the prior fiscal year. In addition, financial companies in Korea, including banks, credit card companies, securities companies and life insurers, such as our subsidiaries, must meet minimum capital requirements and capital adequacy ratios applicable to their respective industries before dividends can be paid. For example, under the Banking Act, a bank also is required to credit at least 10% of its net profit to a legal reserve each time it pays dividends on distributable income until such time when this reserve equals the amount of its total paid-in capital, and under the Banking Act, the Specialized Credit Financial Business Act and the regulations promulgated by the Financial Services Commission, if a bank or a credit card company fails to meet its required capital adequacy ratio or is otherwise subject to the management improvement measures imposed by the Financial Services Commission, then the Financial Services Commission may restrict the declaration and payment of dividend by such a bank or credit card company. In addition, if our or our subsidiaries capital adequacy ratios fall below the required levels, our ability to pay dividends may be restricted by the Financial Services Commission.

Damage to our reputation could harm our business.

We are one of the largest and most influential financial institutions in Korea by virtue of our financial track records, market share and the size of our operations and customer base. Our reputation is critical to maintaining our relationships with clients, investors, regulators and the general public. Our reputation can be damaged in numerous ways, including, among others, employee misconduct (including embezzlement), cyber or other security breaches, litigation, compliance failures, corporate governance issues, failure to properly address potential conflicts of interest, the activities of customers and counterparties over which we have limited or no control, prolonged or exacting scrutiny from regulatory authorities and customers regarding our trade practices, or uncertainty about our financial soundness and our reliability. If we are unable to prevent or properly address these concerns, we could lose our existing or prospective customers and investors, which could adversely affect our business, financial condition and results of operations.

Our risk management policies and procedures may not be fully effective at all times.

In the course of our operations, we must manage a number of risks, such as credit risks, market risks and operational risks. Although we devote significant resources to developing and improving our risk management policies and procedures and expect to continue to do so in the future, our risk management techniques may not be fully effective at all times in mitigating risk exposures in all market environments or against all types of risk, including risks that are unidentified or unanticipated. For example, from time to time, a limited number of our and our subsidiaries personnel have engaged in embezzlement of substantial amounts for an extended period of time before such activities were detected by our risk management systems. In response to these incidents, we have strengthened our internal control procedures by, among others, implementing a real-time monitoring system, but there is no assurance that such measures will be sufficient to prevent similar employee misconducts in the future. Management of credit, market and operational risk requires, among others, policies and procedures to record properly and verify a large number of transactions and events, and we cannot assure you that these policies and procedures will prove to be fully effective at all times against all the risks we face.

Legal claims and regulatory risks arise in the conduct of our business.

In the ordinary course of our business, we are subject to regulatory oversight and potential legal and administrative liability risk. We are also subject to a variety of other claims, disputes, legal proceedings and government investigations in Korea and other jurisdictions where we are active. These types of proceedings expose us to substantial monetary damages and legal defense costs, injunctive relief, criminal and civil penalties and the potential for regulatory restrictions on our businesses. The outcome of these matters cannot be predicted and they could adversely affect our future business.

Due to a global economic slowdown and a deteriorating Korean stock market in the second half of 2008, investment funds whose performance was tied to domestic and foreign stock market indices experienced a sharp

Table of Contents

fall in their rates of return. Consequently, investors in these funds brought lawsuits against commercial banks in Korea that sold such investment fund products based on the allegation that such banks used defective sales practices in selling such products, such as failing to comply with disclosure requirements or unfairly inducing them to invest in such products. For example, in 2009, we, like other commercial banks that sold similar products, became a defendant in lawsuits in connection with the sale of foreign currency derivatives products known as KIKOs, which stands for knock-in knock-out, to certain of our customers comprised mostly of small- and medium-sized enterprises. The KIKOs, which are intended to be hedging instruments, operate so that if the value of Korean Won increases to a certain level, we are required to pay the purchasers a certain amount, and if the value of Korean Won falls below a certain level, the purchasers of KIKOs are required to pay us a certain amount. As the Korean Won significantly depreciated against the U.S. dollar in the second half of 2008, purchasers of KIKOs were required under the relevant contracts to make large payments to us, and some of such purchasers filed lawsuits to nullify their obligations under the allegation that we did not sufficiently disclose the risks in investing in KIKOs and unfairly induced them to make such investments. As of December 31, 2012, we had won 26 out of 37 KIKO-related cases, lost seven at the lower court level and four cases are pending in the lower court level. If we lose our cases on appeal, the court may nullify the contracts under which KIKO products were sold and order us to return payments received from the customers. As of December 31, 2012, the aggregate amount of the outstanding KIKO-related claims was 205.9 billion, for which we set aside 24.4 billion as allowance. While it is difficult to predict the outcome of each lawsuit against us, as it will ultimately depend on the specific facts and circumstances underlying such lawsuit, if the courts rule against us, the lawsuits may have a material adverse effect on our business, financial condition and results of operations.

In addition to the KIKO-related claims, we have also faced complaints and, to a lesser extent, litigation from customers based on claims of (i) inadequate disclosure of risk related to the potential loss of principal when we sold currency forward contracts designed to hedge against currency risks in overseas mutual fund investments, (ii) approval of customer applications for purchases of our investment products with missing information without first confirming such missing items with customers and (iii) our discretionary liquidation of small-size investment funds as permitted under the Financial Investment Services and Capital Markets Act but without first seeking customer approval. In connection with the foregoing claims, we were defendants in two court proceedings for an aggregate claim amount of 0.8 billion as of December 31, 2012, for which we set aside a minimal amount as allowance. The amount claimed may increase in the course of litigation and there may be other lawsuits that may be brought against us based on similar allegations.

While we plan to rigorously defend our positions in the foregoing lawsuits, it is difficult to predict the final outcome of litigation. The total amount in dispute may increase during the course of litigation and other lawsuits may be brought against us based on similar allegations. Accordingly, these lawsuits, especially if the courts finally rule against us, may have a material adverse effect on our business, financial condition and results of operations. In addition, while in response to the foregoing claims we have implemented extensive employee training and other operational processes and procedures to provide adequate disclosure, prevent unfair inducement and otherwise comply with all relevant laws and regulations, we cannot assure you that, despite due training and other preventive measures, all of our employees in charge of such sales have not breached disclosure requirements, engaged in unfair inducement or committed similar acts or will not do the same in the future and, as a result, we may face additional claims or litigation in the future, which may have a material adverse effect on our business, reputation, financial condition and results of operations.

We may experience disruptions, delays and other difficulties relating to our information technology systems.

We rely on our information technology systems for our daily operations, including billing, online and offline financial transactions settlement and record keeping. We also upgrade from time to time our group-wide customer data-sharing and other customer relations management systems. We may experience disruptions, delays, cyber or other security breaches or other difficulties relating to our information technology systems, and may not timely upgrade our systems as currently planned. Any of these developments may have an adverse effect on our business and adversely impact our customers confidence in us.

Table of Contents

Our activities are subject to cyber security risk.

Our activities have been, and will continue to be, subject to an increasing risk of cyber attacks, the nature of which is continually evolving. Cyber security risks include unauthorized access to privileged and sensitive customer information, including passwords and account information of our retail and corporate customers. For example, many of our customers increasing rely on our Internet banking services for various types of transactions and while such transactions are protected by encryption and other security programs, they are not free from security breaches. We have made substantial investments to build systems and defenses to address threats from cyber attacks. In March 2013, we experienced a temporary interruption in providing online financial services due to large-scale cyber attacks on the security systems of major broadcasting networks and financial institutions in Korea by sources that have yet to be identified. The interruption of our online financial services lasted approximately 90 minutes, after which our online system resumed without further malfunction. The Financial Supervisory Service is currently conducting an investigation into the incident. We do not believe such incident resulted in any material loss or leakage of customer information or other sensitive data. However, there is no assurance that such or similar incident may not recur in the future, which would result in such material loss or leakage and materially harm our business and reputation.

Risks Relating to Law, Regulation and Government Policy

We are a heavily regulated entity and operate in a legal and regulatory environment that is subject to change, and violations could result in penalties and other regulatory actions.

As a financial services provider, we are subject to a number of regulations that are designed to maintain the safety and soundness of Korea s financial system, to ensure our compliance with economic and other obligations and to limit our risk exposure. These regulations may limit our activities, and changes in these regulations may increase our costs of doing business. Regulatory agencies frequently review regulations relating to our business and implement new regulatory measures, including increasing the minimum required provisioning levels or capital adequacy ratios applicable to us and our subsidiaries from time to time. We expect the regulatory environment in which we operate to continue to change. Changes in regulations applicable to us, our subsidiaries and our or their business or changes in the implementation or interpretation of such regulations could affect us and our subsidiaries in unpredictable ways and could adversely affect our business, results of operations and financial conditions.

For example, under the Financial Investment Services and Capital Markets Act, which became effective as of February 4, 2009, financial institutions, including us and our subsidiaries, may offer a broader range of investment products with novel and complex structures, including by way of hedge funds and private equity funds. Such products may involve greater counterparty risks as well as compliance risks associated with inadequate disclosure of investment risks. In addition, upon implementation of the Financial Consumer Protection Act, which is currently being considered by the Financial Services Commission and Financial Supervisory Service, customers of financial services will be entitled to heightened investor protection measures, including additional remedies in the case of imperfect sales of financial products based on inadequate disclosure or unfair inducement, such as mandatory compensatory damages, right of rescission, class action eligibility and double damages in case of a statutory violation. Furthermore, in an effort to curb the substantial rise recently in retail loans in Korea, the regulators may adopt measures and guidelines designed to limit further growth of our retail lending, in particular mortgage and home equity loans that are deemed to be high-risk (namely, mortgage and home equity loans of over 50 million (i) whose principal and interest are due at maturity, (ii) whose interest is due periodically over the term of the loan but whose principal is due at maturity, or (iii) whose borrower has more than three mortgage and home equity loans from financial institutions). We may also become subject to other restrictions on our operations as a result of future changes in laws and regulations, including the more stringent liquidity and capital requirements under Basel III, which will be adopted in phases in Korea in consideration of, among others, the pace and scope of international adoption of such requirements. Any of these regulatory developments may have a material adverse effect on our ability to expand operations or adequately manage our risks and liabilities.

In addition, violations of law and regulations could expose us to significant liabilities and sanctions. For example, the Financial Services Commission conducts periodic audits on us and, from time to time, we have received institutional warnings from the Financial Services Commission. If the Financial Services Commission determines as part of such audit or otherwise that our financial condition, including the financial conditions of our operating subsidiaries, is unsound or that we have violated applicable law or regulations, including Financial Services Commission orders, or if we or our operating subsidiaries fail to meet the applicable requisite capital ratio or the capital adequacy ratio, as the case may be, set forth under Korean law, the Financial Services Commission may order, among others, at the level of the holding company or that of the relevant subsidiary, capital increases or reductions, suspension of officers from performing their duties and appointment of custodians, stock cancellations, consolidations, transfers of business, sales of assets, closures of branch offices, mergers with other financial institutions and/or suspensions of a part or all of our business operations. To date, Shinhan Bank has received two institutional warnings in the past three years. If it receives another institutional warning within a three-year period, it may become subject to aggravated regulatory sanctions, including suspension of part of its business. If any of such measures is imposed on us or on our subsidiaries as a result of unsound financial condition or failure to comply with minimum capital adequacy requirements or for other reasons, it will have a material adverse effect on our business, financial condition and results of operations.

For further details on the principal laws and regulations applicable to us as a holding company and our principal subsidiaries, see Item 4.B. Business Overview Supervision and Regulation.

Increased government involvement in the economy and tighter regulation of the financial services industry in Korea in response to a financial crisis or economic downturn could impose greater restrictions on our business and hurt our profitability.

During the global financial crisis and the ensuing economic downturn starting in 2008, many governments worldwide, including the Government, became involved in providing assistance, including by direct investment, to troubled financial institutions and corporations, typically in exchange for increased government monitoring and guidance of the operations of such entities. In Korea, for example, in 2008 and 2009 several major commercial banks, including Shinhan Bank, applied for Government-backed credit lines, which if drawn down would have imposed greater Government monitoring of their operations. While no drawdown has been made and these programs have since terminated, there is no assurance that if the Korean or global economy were to experience another severe crisis, financial institutions in Korea, including us and our subsidiaries, will not require special assistance from the Government, which would generally impose greater government monitoring and restrictions on our business and operations and may have a material adverse effect on our business, results of operations and financial condition.

In light of the widely held perception that the recent global liquidity crisis is at least partly attributable to deficiencies in the risk management systems and capital adequacy of financial institutions, many governments worldwide have taken or are considering taking measures to increase regulatory oversight in these and other areas. Examples of such measures currently being considered by the Government include proposals to further regulate capital and liquidity of financial institutions in line with Basel II and Basel III. There can be no assurance that such measures will have the desired consequences or not have unintended adverse consequences which could hurt our business, results of operations and financial condition or profitability.

The Korean government may encourage targeted lending to and investment in certain sectors in furtherance of policy initiatives, and we may take this factor into account.

The Government has encouraged and may in the future encourage lending to or investment in the securities of certain types of borrowers and other financial institutions in furtherance of government initiatives. The Government, through its regulatory bodies such as the Financial Services Commission, has in the past announced lending policies to encourage Korean banks and financial institutions to lend to or invest in particular industries or customer segments, and, in certain cases, has provided lower cost funding through loans made by the Bank of Korea for further lending to specific customer segments. While all of our loans or securities investments are reviewed in accordance with our internal credit review policies or internal investment guidelines and regulations, we, on a voluntary basis, may factor the existence of such policies and encouragements into consideration in making loans or securities investments. In addition, while the ultimate decision whether to make loans or securities investments remains with us and is made based on our internal credit approval procedures and risk management systems independently of Government policies, the Government may in the future request financial institutions in Korea, including us, to make investments in or provide other forms of financial support to particular sectors of the Korean economy as a matter of policy, which financial institutions, including us, may be required to make or may otherwise decide to accept. For example, the Government has taken and is taking various initiatives to support small- and medium-sized enterprises, which were disproportionately affected by the recent downturn in the Korean and global economy.

As an example of such initiatives, Shinhan Bank, like other commercial banks in Korea, entered into a memorandum of understanding in April 2009 with the Financial Supervisory Service under which Shinhan Bank would make efforts to, among others, provide greater liquidity into the general economy by extending a sizable volume of loans to and facilitating export financing for small- and medium-sized enterprises in exchange for government guarantee of a certain amount of foreign currency-denominated borrowings by Shinhan Bank. The memorandum of understanding was terminated on December 31, 2009.

In addition, under the rules of the Bank of Korea, when commercial banks (including Shinhan Bank) make Won-denominated loans to certain start-up, venture, innovative and other strategic small- and medium-sized enterprises specially designated by the Bank of Korea as priority borrowers , the Bank of Korea will provide the underlying funding to these banks at concessionary rates for up to 50% of all such loans made to priority borrowers subject to a monthly-adjusted limit prescribed by the Bank of Korea (currently 5 trillion), provided that if such loans to priority borrowers made by all commercial banks exceed the prescribed limit for a given month, the concessionary funding for the following month will be allocated to each commercial bank in proportion to such bank s lending to priority borrowers two months prior to the time of such allocation, which has the effect that, if a particular bank lags other banks in making loans to priority borrowers, the amount of funding such bank can receive from the Bank of Korea at concessionary rates will be proportionately reduced.

In tandem with providing additional loans to small- and medium-sized enterprises under the memorandum of understanding, Shinhan Bank has taken active steps to mitigate the potential adverse impacts from making bad loans to enterprises with high risk profiles as a result of the foregoing arrangements, such as by strengthening its loan review and post-lending monitoring processes. However, we cannot assure you that the arrangements contemplated under the memorandum of understanding did not or will not, or similar or other government-led initiatives in the future will not, result in a suboptimal allocation of our loan portfolio from a risk-reward perspective compared to what we would have allocated based on purely commercial decisions in the absence of such initiatives. The government may implement similar or other initiatives in the future to spur the overall economy or encourage the growth of targeted industries, particularly in light of the fact that bolstering the role of, and providing additional support to, small- to medium-sized enterprises has been a major campaign pledge and accordingly is likely to become a significant policy initiative of the recently elected presidential administration in Korea. Specifically, the government may introduce lending-related initiatives or enforce existing ones in a heightened fashion during times when small- and medium-sized enterprises on average are facing an increased level of financial distress or vulnerability due to an economic downturn, which makes lending to them in the volume and the manner suggested by the government even riskier and less commercially desirable. Accordingly, making loans to small- and medium-sized enterprises in furtherance of the government-led initiatives may result in enhanced difficulties for us in terms of risk management, deterioration of our asset quality and reduced earnings, compared to what would have been in the absence of such initiatives.

In addition, in light of the sizable non-performing assets from project financings (mostly related to real estate project financings suffering from the persistent slump in the real estate market) by commercial banks (mostly in the lower tier) and merchant banks, in June 2011, the Government established the United PF 1st Recovery Private Equity Fund (the Fund), a joint-stock private equity fund sponsored by United Asset Management Company Ltd. (UAMCO), a government-invested enterprise and the largest purchaser in Korea of non-performing financial assets generally, and eight major commercial and policy banks, namely Woori Bank, Kookmin Bank, Nonghyup Bank, Shinhan Bank, Hana Bank, Korea Exchange Bank, Korea Development Bank and Industrial Bank of Korea.

Shinhan Bank does not have any involvement in the management or day-to-day operations of the Fund. While Shinhan Bank holds a 10.65% equity interest in the Fund, Shinhan Bank is designated as a limited partner, and under the Fund s articles of organization the management and day-to-day operations of the Fund are specifically delegated to a general partner designated as the managing partner for the Fund, which is currently UAMCO, a limited liability company established under Korean law whose shareholders are the six banks that have made capital contributions to the Fund. The scope of such delegated management activities are as follows: (i) management and operating of the Fund s assets and liabilities, (ii) selection of investment targets and exercise of investment decisions and redemption decisions, (iii) exercise of rights over investment assets, (iv) issuance and distribution of beneficiary certificates underlying the investment assets, (v) distribution of Fund assets, (vi) accounting and recordkeeping, (vii) payment of expenses and liabilities related to the operation of the Fund and (viii) ancillary activities related to the foregoing. Under the Fund s articles of organization, the activities of the general partner acting as the managing partner are subject to supervision by an advisory committee consisting of representatives of each of the limited partners (which may not be a general partner), and the advisory committee may express a view on the activities of the managing partner. The advisory committee s view is not binding, and serves only as a recommendation with respect to certain activities over which the managing partner is authorized to exercise its discretion under the Financial Investment Services and Capital Markets Act. However, in the event the managing partner breaches law or material articles of the Fund s articles of incorporation, the advisory committee, with the consent from members representing two-thirds or more of the equity interests in the Fund, may suspend (and if applicable, restore) such managing partner s activities relating to the operation and management of the Fund.

The Fund is funded with capital contributions and loans from the aforesaid nine sponsors in the aggregate amount of 1,828 billion (consisting of 1,400 billion in capital contributions and 428 billion in loans) as of December 31, 2012. Of such amounts, under the fund organization documents, Shinhan Bank is obligated to make capital contributions up to 149 billion (representing a 10.65% equity interest in the Fund in the form of common shares) and loans of 19.4 billion (representing 4.5% of the total loans made by the sponsors) as of December 31, 2012, and Shinhan Bank, together with other sponsors, may be requested to make, on a prorated basis based on their relative shareholdings, additional capital contributions and loans upon further purchase by the Fund of non-performing assets from project financings. The amount of funding obligation is proportionate to each sponsor s relative asset size and its exposure to project financings. As of December 31, 2012, Shinhan Bank made capital contributions in the aggregate amount of 118.7 billion and has fulfilled its capital contribution obligations. As for the capital contributions made by Shinhan Bank to-date, these have not been subject to impairment since the underlying assets of the Fund, which primarily consist of impaired loans, are purchased at fair value, and profits have subsequently been realized thereon either in the form of recovery from enhanced collection measures or capital gains upon resale thereof. Shinhan Bank currently does not plan to make additional capital contributions. The terms of the loans, including the interest rate and redemption provisions, are subject to further negotiation among the sponsors.

The objective of the Fund is to purchase non-performing assets from project financing companies, professionally manage such assets and later sell them at a profit once these assets have normalized. By doing so, the Fund is expected to enhance the asset quality of financial institutions with significant exposure to unsound project financings by transferring a part of such exposure from such institutions to the Fund, as well as help to normalize the project financing industry. The Fund is not backed by any government guarantee, and the Fund operates based on mutual agreement of the sponsors. The term of the Fund is five years, which may be extended at a general meeting of the sponsors. Upon liquidation of the Fund, each sponsor will be entitled to a share in the net assets of the Fund at the time of liquidation in proportion to their respective contributions to the Fund.

Following the establishment of the Fund in June 2011 and as of December 31, 2012, Shinhan Bank has sold non-performing project financing assets in the aggregate amount of 179.1 billion to the Fund and recognized from such sales an aggregate loss of 56.2 billion before applying allowance for loan losses allocated to such assets and an aggregate profit of 7.7 billion after applying allowance for loan losses allocated to such assets. Under IFRS, the sale of non-performing project financing assets to the Fund is classified as a true sale, and therefore, gain or loss from such sale is recognized at the time of sale, and no gain or loss is recognized after the time of sale. Subject to market conditions, Shinhan Bank may sell additional non-performing project financing assets to the Fund and use all or part of the proceeds for its future capital contribution or loan requirements. However, given the generally poor asset quality of its non-performing project financing assets, there is no assurance that Shinhan Bank will be able to sell such assets held by it on commercially reasonable terms or that the Fund will be able to attain its objective of selling the purchased project financing assets at a profit, in which case Shinhan Bank may not be able to recoup its investment in, or be repaid the loans to, the Fund fully or at all.

The level and scope of government oversight of our lending business, particularly regarding mortgage and home equity loans, may change depending on the economic or political climate.

Curtailing excessive speculation in the real estate market has historically been a key policy initiative for the Government, and it has in the past adopted several regulatory measures, including in relation to retail banking, to affect such policy. Some of the measures undertaken in the past include requiring financial institutions to impose stricter debt-to-income ratio and loan-to-value ratio requirements for mortgage loans for real property located in areas deemed to have engaged in a high level of speculation, raising property tax on real estate transactions for owners of multiple residential units, adopting a ceiling on the sale price of newly constructed housing units and recommending that commercial banks restrain from making further mortgage and home equity lending, among others.

The Government may from time to time take measures to regulate the housing market in order to preempt undue speculation, including by way of imposing restrictions on retail lending, including mortgage and home equity lending. For example, in September 2009, in light of the growing concerns about the rising level of household debt in Korea, which is in large part secured by residential property, the Financial Supervisory Service announced that it would apply stricter debt-to-income ratios for mortgage and home equity lending, and on April 3, 2013, the Financial Services Commission announced that it would adopt measures to curb rapid growth of retail lending and increase the percentage of long-term fixed rate mortgage and home equity lending. Any measure by the Government that is designed to stimulate or curb growth in the real property sector may be premature, result in unintended consequences or contribute to substantial future declines in real estate prices in Korea, which will reduce the value of the collateral securing our mortgage and home equity loans. See Risks Relating to Our Banking Business A decline in the value of the collateral securing our loans or our inability to fully realize the collateral value may adversely affect our credit portfolio. Such measures may also have the effect of limiting the growth and profitability of our retail banking business, especially in the area of mortgage and home equity lending.

Korea s legislation allowing class action suits related to securities transactions may expose us to additional litigation risk.

The Act on Class Actions regarding Securities allows class action suits to be brought by shareholders of companies listed on the Korea Exchange, including ours, for losses incurred in connection with the purchase and sale of securities and other securities transactions arising from (i) false or inaccurate statements provided in registration statements, prospectuses and business reports; (ii) insider trading and (iii) market manipulation. This law permits 50 or more shareholders who collectively hold 0.01% or more of the shares of a company at the time when the cause of such damages occurred to bring a class action suit against us and our subsidiaries and our and their respective directors and officers. It is uncertain how the courts will apply this law, however, as this law has been enacted relatively recently and there are few precedents. Litigation can be time-consuming and expensive to resolve, and can divert valuable management time and attention from the operation of a business. We are not aware of any basis for such suit being brought against us, nor, to our knowledge, are there any such suits pending or threatened. Any such litigation brought against us could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Korea

Unfavorable financial and economic conditions in Korea and globally may have a material adverse impact on our asset quality, liquidity and financial performance.

We are incorporated in Korea, where most of our assets are located and most of our income is generated. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea, and our business, results of operations and financial condition are substantially dependent on developments relating to the Korean economy. As Korea s economy is highly dependent on the health and direction of the global economy, and investor s reactions to developments in one country can have adverse effects on the securities price of companies in other countries, we are also subject to the fluctuations of the global economy and financial markets. Factors that determine economic and business cycles in the Korean or global economy are for the most part beyond our control and inherently uncertain. In addition to discussions of recent developments regarding the global economic and market uncertainties and the risks relating to us as provided elsewhere in this section, factors that could hurt Korea s economy in the future include, among others:

- further deterioration of the fiscal and financial crisis in Europe, downgrades in the sovereign or other credit ratings of the governments and financial institutions in Europe and the United States, as well as the slowdown of the Chinese economy, which could have adverse effects on the global, and in turn Korean, credit and financial markets;
- inflation levels, volatility in foreign currency reserve levels, commodity prices (including coal, oil, LNG prices), exchange rates (including fluctuation of U.S. dollar exchange rates or revaluation of the Renminbi), interest rates, and stock markets and inflows and outflows of foreign capital, either directly, into the stock markets, through derivatives or otherwise;
- increased reliance on exports to service foreign currency debts, which could cause friction with Korea s trading partners;
- adverse developments in the economies of countries to which Korea exports goods and services (such as the United States, China and Japan), or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;
- the continued emergence of China, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and relocation of the manufacturing base from Korea to China);
- social and labor unrest or declining consumer confidence or spending resulting from layoffs, increasing unemployment and lower levels of income;
- uncertainty and volatility in real estate prices arising, in part, from the Government s policy-driven tax and other regulatory measures;
- a decrease in tax revenues and a substantial increase in the Government s expenditures for unemployment compensation and other social programs that together could lead to an increased Government budget deficit;
- political uncertainty or increasing strife among or within political parties in Korea, including as a result of the increasing polarization of the positions of the ruling conservative party and the progressive opposition;
- a deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy; and
- any other developments that has a material adverse effect in the global economy, such as an act of war, a terrorist act, a breakout of an epidemic such as SARS, avian flu or swine flu or natural disasters such as the earthquake and tsunami in Japan in March 2011 and the resulting leakage of nuclear materials, and the related disruptions in the economies of Japan and other countries.

Any future deterioration of the Korean economy could have an adverse effect on our business, financial condition and results of operations.

Tensions with North Korea could have an adverse effect on us, the price of our common stock and our American depositary shares.

Relations between Korea and North Korea have been tense throughout Korea s modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events.

Table of Contents

In recent years, there have been heightened security concerns stemming from North Korea s nuclear weapons and long-range missile programs and increased uncertainty regarding North Korea s actions and possible responses from the international community. In April 2009, after launching a long-range rocket over the Pacific Ocean, which led to protests from the international community, North Korea announced that it would permanently withdraw from the six-party talks that began in 2003 to discuss Pyongyang s path to denuclearization. On May 25, 2009, North Korea conducted its second nuclear testing by launching several short-range missiles. In response to such actions, the Republic decided to join the Proliferation Security Initiative, an international campaign aimed at stopping the trafficking of weapons of mass destruction, over Pyongyang s harsh rebuke and threat of war. After the United Nations Security Council passed a resolution on June 12, 2009, to condemn North Korea s second nuclear test and impose tougher sanctions such as a mandatory ban on arms exports, North Korea announced that it would produce nuclear weapons and take resolute military actions against the international community.

There recently has been increased uncertainty about the future of North Korea s political leadership and its implications for the economic and political stability of the region. Shortly after the death of Kim Jong-il, a long-standing former ruler of North Korea, in December 2011 his son, reported to be in his late twenties, Kim Jong-eun, was named North Korea s Supreme Commander of the Armed Forces. Whether Kim Jong-eun will successfully solidify his political power or whether he will implement policies that will successfully assist North Korea in withstanding the many challenges it faces, however, remains uncertain. In addition, North Korea s economy also faces severe challenges. For example, in November 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 as part of a currency reform undertaken in an attempt to control inflation and reduce income gaps. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea.

Since the death of the North Korean ruler Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea s political leadership and concern regarding its implications for political and economic stability in the region. However, the eventual outcome of such leadership transition remains uncertain. Furthermore, only limited information is available outside of North Korea about Kim Jong-eun, who is reported to be in his late twenties, and it is unclear which individuals or factions, if any, will share political power with Kim Jong-eun or assume the leadership if the transition is not successful. Accordingly, there is significant uncertainty regarding the policies, actions and initiatives that North Korea might pursue in the future, as North Korea has recently announced its plan to test long-distance missiles, Kwang-myong Sung No. 3, despite the sanction from the United Nations Security Council and objection from the international society including the Nuclear Security Summit which was held in Seoul on March 22 and 23, 2012.

Furthermore, there have been recent military conflicts on the Korean peninsula. On March 26, 2010, the *Cheonan*, a Korean navy ship, sank off the western coast of Korea killing 46 soldiers. An investigation carried out by the Joint Civilian-Military Investigation Group, consisting of investigators from Korea, the United States, Australia, the United Kingdom and Sweden, concluded that the *Cheonan* was sunk by a North Korean torpedo. Also, on November 23, 2010, the North Korean military fired artillery shells onto the Korean island of Yeonpyeong, killing two Korean soldiers and two civilians which set off an exchange of fire between the two sides. Around the end of 2010, the International Criminal Court tentatively concluded that North Korea s sinking of the *Cheonan* and shelling of the island of Yeonpyeong constituted a war crime, and launched a preliminary investigation regarding such incidents.

On August 22, 2011, North Korea unilaterally declared that it will legally dispose of all Korean-owned real estate, equipment and raw materials it seized in April 2010 within the Mt. Geumgang resort area (the Geumgang area), concurrent with its seizure and embargo of Korean supplies and assets and its exit order of all employees who were dispatched from Korea (the 2011 Declaration). It is estimated that the value of the assets, including the real estate, owned by the Government, the Korea Tourism Organization and other private Korean companies in the Geumgang area amount to approximately 484 billion. Tourism in the Geumgang area has effectively been discontinued since a Korean tourist was shot and killed by a North Korean soldier on July 11, 2008. Currently, the Government is in the process of considering various options, including legal and diplomatic measures, in response to the 2011 Declaration. On April 13, 2012, North Korea conducted a test of a long-range missile against the protests of many in the international community, including Korea, Japan and the United States. Although the test failed, it has raised tensions on the Korean peninsula. The United Nations Security Council has strongly condemned the tests and the United States has cut off food aid to North Korea. North Korea has responded by issuing a statement that it is free to take necessary retaliatory measures. After Korea announced on October 7, 2012, that it would extend the range of its ballistic missiles from 185 to 500 miles, a distance which could hit the northeast corner of North Korea from launch sites in central Korea, the National Defense Commission (which is the top military body of North Korea) announced it was ready to wage war on the United States and its allies and threatened to launch nuclear weapons in the event the United States or its allies use nuclear weapons against North Korea. On February 12, 2013, North Korea conducted a third nuclear test following the previous two rounds of nuclear tests on October 9, 2006 and May 25, 2009. The regime also heralded further actions after the nuclear test and mentioned a potential fourth nuclear test. In response, the Korean government announced its statement that North Korea s nuclear test was in clear violation of the U.N. resolution and Korea would strengthen the coordination with the international community in order to deter the regime from being armed with nuclear weapons. Further, on February 14, 2013, the National Assembly of Korea adopted a resolution to denounce Pyongyang for its nuclear test. On April 3, 2013, North Korea blocked South Koreans from entering the Kaesong Industrial Complex, an economic cooperation zone within North Korea and on April 26, 2013 South Korea decided to withdraw its workers from the complex. It remains unclear whether or when such complex will resume operation. There can be no assurance that the level of tension and instability in the Korean peninsula will not escalate in the future, or that the political regime in North Korea may not suddenly collapse. Any further increase in tension or uncertainty relating to the military, political or economic stability in the Korean peninsula, including a breakdown of diplomatic negotiations over the North Korean nuclear program, occurrence of military hostilities, heightened concerns about the stability of North Korea s political leadership, a leadership crisis or a breakdown of high-level contacts, could have a material adverse effect on our business, financial condition and results of operations and could lead to a decline in the market value of our common shares and our American depositary shares.

Risks Relating to Our American Depositary Shares

There are restrictions on withdrawal and deposit of common shares under the depositary facility.

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the depositary bank s custodian in Korea and obtain American depositary shares, and holders of American depositary shares may surrender American depositary shares to the depositary bank and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of American depositary shares (including deposits in connection with the initial and all subsequent offerings of American depositary shares and stock dividends or other distributions related to these American depositary shares) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. We have consented to the deposit of outstanding shares of common stock as long as the number of American depositary shares outstanding at any time does not exceed 40,432,628. As a result, if you surrender American depositary shares and withdraw shares of common stock, you may not be able to deposit the shares again to obtain American depositary shares.

Ownership of our shares is restricted under Korean law.

Under the Financial Holding Companies Act, any single shareholder (together with certain persons in a special relationship with such shareholder) may acquire beneficial ownership of up to 10% of the total issued and outstanding shares with voting rights of a bank holding company controlling national banks such as us. In addition, any person, except for a non-financial business group company (as defined below), may acquire in excess of 10% of the total voting shares issued and outstanding of a financial holding company which controls a national bank, provided that a prior approval from the Financial Services Commission is obtained each time such person s aggregate holdings exceed 10% (or 15% in the case of a financial holding company controlling regional banks only), 25% or 33% of the total voting shares issued and outstanding of such financial holding company. The Government and the Korea Deposit Insurance Corporation are exempt from this limit. Furthermore, certain non-financial business group companies (i.e., (i) any same shareholder group with aggregate net assets of all non-financial business companies belonging to such group of not less than 25% of the aggregate net assets of all members of such group; (ii) any same shareholder group with aggregate assets of all non-financial business companies belonging to such group of not less than 2 trillion; or (iii) any mutual fund in which a same shareholder group identified in (i) or (ii) above owns more than 4% of the total shares issued and outstanding of such mutual fund) may not acquire beneficial ownership in us in excess of 4% of our outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of up to 10% of our outstanding voting shares with the approval of the Financial Services Commission under the condition that such non-financial business group companies will not exercise voting rights in respect of such shares in excess of the 4% limit. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restrictions on Financial Holding Company Ownership. To the extent that the total number of shares of our common stock that you and your affiliates own together exceeds these limits, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Services Commission may order you to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in a fine of up to 50 million, plus an additional charge of up to 0.03% of the book value of such shares per day until the date of disposal.

Holders of our ADSs will not have preemptive rights in certain circumstances.

The Korean Commercial Code and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the depositary bank, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The depositary bank, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

- a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or
- the offering and sale of those shares is exempt from or is not subject to the registration requirements of the U.S. Securities Act.

We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission. If a registration statement is required for you to exercise preemptive rights but is not filed by us, you will not be able to exercise your preemptive rights for additional shares and you will suffer dilution of your equity interest in us.

The market value of your investment in our ADSs may fluctuate due to the volatility of the Korean securities market.

Our common stock is listed on the KRX KOSPI Division of the Korea Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the Stock Market Division of the Korea Exchange. The Stock Market Division of the Korea Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the Stock Market Division of the Korea Exchange has prescribed a fixed range in which share prices are permitted to move on a daily basis. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

The Korean government has the potential ability to exert substantial influence over many aspects of the private sector business community, and in the past has exerted that influence from time to time. For example, the Korean government has promoted mergers to reduce what it considers excess capacity in a particular industry and has also encouraged private companies to publicly offer their securities. Similar actions in the future could have the effect of depressing or boosting the Korean securities market, whether or not intended to do so. Accordingly, actions by the government, or the perception that such actions are taking place, may take place or has ceased, may cause sudden movements in the market prices of the securities of Korean companies in the future, which may affect the market price and liquidity of our common stock and ADSs.

Your dividend payments and the amount you may realize upon a sale of your ADSs will be affected by fluctuations in the exchange rate between the U.S. dollar and the Won.

Investors who purchase the American depositary shares will be required to pay for them in U.S. dollars. Our outstanding shares are listed on the Korea Exchange and are quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the American depositary shares will be paid to the depositary bank in Won and then converted by the depositary bank into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the amounts a registered holder or beneficial owner of the American depositary shares will receive from the depositary bank in respect of dividends, the U.S. dollar value of the proceeds which a holder or owner would receive upon sale in Korea of the shares obtained upon surrender of American depositary shares and the secondary market price of the American depositary shares.

If the Government deems that certain emergency circumstances are likely to occur, it may restrict the depositary bank from converting and remitting dividends in Dollars.

If the Government deems that certain emergency circumstances are likely to occur, it may impose restrictions such as requiring foreign investors to obtain prior Government approval for the acquisition of Korean securities or for the repatriation of interest or dividends arising from Korean securities or sales proceeds from disposition of such securities. These emergency circumstances include any or all of the following:

- sudden fluctuations in interest rates or exchange rates;
- extreme difficulty in stabilizing the balance of payments; and
- a substantial disturbance in the Korean financial and capital markets.

The depositary bank may not be able to secure such prior approval from the government for the payment of dividends to foreign investors when the Government deems that there are emergency circumstances in the Korean financial markets.

Other Risks

We are generally subject to Korean corporate governance and disclosure standards, which differ in significant respects from those in other countries.

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which differ in many respects from standards applicable in other countries, including the United States. As a reporting company registered with the Securities and Exchange Commission and listed on the New York Stock Exchange, we are, and in the future will be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002. However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the New York Stock Exchange. For significant differences, see Item 16.G. Corporate Governance. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in less than satisfactory corporate governance practices or disclosure to investors in certain countries.

You may not be able to enforce a judgment of a foreign court against us.

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this annual report reside in Korea, and all or a significant

35

Table of Contents

portion of the assets of our directors and officers and other persons named in this annual report and substantially all of our assets are located in Korea. As a result, it may not be possible for holders of the American depository shares to affect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

We may become a passive foreign investment company (PFIC), which could result in adverse U.S. tax consequences to U.S. investors.

Based upon the past and projected composition of our income and valuation of our assets, we do not believe that we were a PFIC for 2012, and we do not expect to be a PFIC in 2013 or to become one in the foreseeable future, although there can be no assurance in this regard. If, however, we become a PFIC, such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. For example, if we become a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. Our PFIC status is determined on an annual basis and depends on the composition of our income and assets. Specifically, we will be classified as a PFIC for U.S. tax purposes if either: (i) 75% or more of our gross income in a taxable year is passive income, or (ii) the average percentage of our assets by value in a taxable year which produce or are held for the production of passive income (which generally includes cash) is at least 50%. Special rules treat certain income earned by a non-U.S. corporation engaged in the active conduct of a banking business as non-passive income. See Item 10.E. Taxation Certain United States Federal Income Tax Consequences Passive Foreign Investment Company Rules. We cannot assure you that we will not be a PFIC for 2013 or any future taxable year.

ITEM 4. *INFORMATION ON THE COMPANY*

ITEM 4.A. History and Development of the Company

Introduction

Incorporated on September 1, 2001, Shinhan Financial Group is the first privately-held financial holding company to be established in Korea. Since inception, we have developed and introduced a wide range of financial products and services in Korea and aim to deliver comprehensive financial solutions to clients through a convenient one-portal network. According to reports by the Financial Supervisory Service, we are one of the three largest financial services providers in Korea as measured by total assets as of December 31, 2012 and operate the third largest banking business (as measured by consolidated total assets as of December 31, 2012) and the largest credit card business (as measured by the total credit purchase volume as of December 31, 2012) in Korea.

We have experienced substantial growth through several mergers and acquisitions. Most notably, our acquisition of Chohung Bank in 2003 has enabled us to have one of the three largest banking operations in Korea and enhanced our banking client base by adding Chohung Bank s large corporate clients to our traditional client base of small- and medium-sized enterprises. In addition, our acquisition in March 2007 of LG Card, the then and now largest credit card company in Korea, has significantly expanded our non-banking business capacity and helped us to achieve a balanced business portfolio.

We currently have 13 direct subsidiaries and 18 indirect subsidiaries offering a wide range of financial products and services, including commercial banking, corporate banking, private banking, credit card, asset management, brokerage and insurance services. We believe that such breadth of services will help us to meet the diversified needs of our present and potential clients. We currently serve approximately 18.9 million active customers, which we believe is the largest customer base in Korea, through approximately 20,983 employees at approximately 1,450 network branches group-wide. While substantially all of our revenues have been historically derived from Korea, we aim to serve the needs of our clients through a global network of our 65 offices in the United States, Canada, the United Kingdom, Japan, the People s Republic of China, Germany, India, Hong Kong, Vietnam, Cambodia, Kazakhstan and Singapore.

Table of Contents

Our registered office and corporate headquarters are located at 120, 2-Ga, Taepyung-Ro, Jung-Gu, Seoul 100-102, Korea, and our telephone number is +822 6360 3000.

Our Strategy

Since our inception in 2001, we have pursued the following objectives as the core of our long-term strategy: (i) balanced growth in our banking and non-banking businesses, (ii) continued creation of value by identifying new business opportunities and gaining a competitive edge through differentiating our business model from that of our competitors; and (iii) becoming the market leader in Korea and a world-class financial holding company through enhancement of our management systems and core competencies.

While the immediate ripple effects from the global financial crisis of 2008 and 2009 have somewhat subsided, we believe the world economy, and in turn the Korean economy, continue to face an environment of uncertainty marked by generally low growth among businesses and the continuing volatility in the global financial markets due to the resilient fiscal and financial difficulties in Europe. We believe that this environment has engendered negative popular sentiment against major financial service providers in general, as evidenced by the Occupy Wall Street and similar movements in major urban centers in the world and greater calls for regulatory scrutiny and restrictions in relation to financial activities. In addition, advances in mobile and other technologies are renewing challenges for financial service providers to continually reexamine their existing business models. Combined, these developments require that we continue to seek opportunities to foster customer trust, enhance our social capital and quickly adapt ourselves to the constant changes in our business environment. Accordingly, as a general strategic objective we are striving to re-create ourselves to meet the challenges and capitalize on opportunities presented by the new business environment through selectively identifying new growth opportunities, strengthening risk management, efficient use of resources and encouraging more personalized interaction with our customers.

More specifically, we believe that the recent global financial crisis has engendered a new business environment with the following defining features: (i) stricter financial regulations, (ii) less tolerance for risk in financial products, (iii) demand for reduced debt levels, (iv) greater market acceptability of a business model based on stable growth even if this would result in relatively low levels of return, (v) political demand for greater social responsibility and accountability of financial institutions, and (vi) widespread recognition of the growing importance of emerging markets, particularly in Asia, in world economy.

In recognition of these trends in our business environment, which we expect to continue for the foreseeable future, we have also realigned our mid- to long-term strategic priorities to focus on becoming Korea s number one financial brand by 2015 through emphasis on creation of value to our customers and fostering good growth. We believe that establishing ourselves firmly as the market leader in Korea is critical to realizing our ultimate objective of becoming a world-class financial institution, and our new strategic priority reflects our renewed commitment to sustainable growth, stable profitability and best-class core competencies.

More specifically, we plan to focus on achieving the following four initiatives by 2015:

- *Solidify our market position as the local best in our core businesses.* Currently, our two core businesses of banking and credit cards rank as number one in their respective industries (banking in terms of profitability and credit cards in terms of market share and the number of customers). We seek to solidify our brand and market position in these fields as the indisputable local best in both quantitative and qualitative terms by offering our customers quality service that clearly differentiates us from our competitors. To this end, in our banking business, we will seek to offer a variety of products and services tailored to each customer segment, enhance service capabilities that do not require customers physical presence in our branch offices and increase its distribution network outside the Seoul metropolitan area. As for our credit card business, we seek to further solidify our market leadership position and generate further revenue growth by offering new differentiated services and exploring opportunities in the emerging arena of strategic convergence between financial services providers and telecommunication service providers as well as other potential business opportunities on a selective basis, as well as further improve our cost structure.

Strengthen fee-earnings businesses. While we will continue to focus on our core, interest income generating business of banking and credit card services, in order to attain a more balanced overall business portfolio as well as in anticipation of a potential rise in interest rates and cost of capital, we plan to strengthen our businesses that generate non-interest fee income, such as asset management, insurance and securities. To this end, our asset management business will focus on building the Shinhan brand through continued customer-oriented product development, our securities business will support our asset management business through developing and distributing new investment products and enhancing marketing channels, and our insurance business will seek to join the top tier in the industry through organic growth.

Enhance synergy through shared focus on the customer. We plan to renew our commitment to our founding principle of emphasizing customer-oriented service by streamlining our business lines to provide a comprehensive financial services package tailored to each customer, as well as enhancing customer access to our diverse product offerings through a more customer-friendly one portal financial service platform. To that end, we are developing a group-wide customer relationship and wealth management systems tailored to customer-specific lifestyles and spending patterns, diversifying customer access channels that do not require customers physical presence to enhance convenience to the customer and encouraging our subsidiaries to increase use of the group-wide shared service platform in order to reduce our overall general and administrative costs.

Gain competitiveness in strategic growth areas. In light of the increasing maturation of the domestic financial services sector, we intend to seek new business opportunities at the group level by sharing group-wide management resources to identify and develop potential strategic growth areas. In particular, we plan to enhance the competitiveness of our investment banking business so as to be on par with our group-wide market leadership by redefining its business model and selectively entering into international markets, with an initial focus on Asia. In addition, we will explore selectively entering into strategic alliances with telecommunications service providers and retail grocery and department store chains to take advantage of new business opportunities generated by technological developments and the growing prominence of retail chains in the distribution of financial services.

In order to effectively achieve the foregoing strategic objectives, we plan to continue to enhance our business fundamentals in the following areas:

continual upgrades to optimize our operation management system;

increased investment in employee training and professional development, with a focus on nurturing leaders for the next generation;

brand promotion and bolstering a unified corporate culture that stresses flexibility and open-mindedness to new objectives and challenges;

balanced risk-return management;

enhancement of our customer relationship management system for better customization of our product offerings to the individual needs of our customers; and

bolstering customer confidence and building up social capital through enhancement of our corporate governance and addressing demand for greater social responsibility by financial institutions.

At the subsidiary level, we plan to implement the following strategies with respect to our core business lines:

in commercial banking, our primary objective is to strengthen our competitive position and become the leading bank in Korea by enhancing customer satisfaction, locking in the loyalty of our existing banking customers and further enlarging our customer base. To this end, we plan to fully leverage the scale of our banking operation afforded by our extensive branch network, emphasize cross-selling non-banking products at our banking network, offer total financial service packages, bolster our brand image and further upgrade our customer service infrastructure, risk management systems and other operating processes. We also intend to enter, on a selective basis, into promising new businesses by strengthening our investment banking, private banking and other fee-based businesses, making significant inroads into the retirement pension market, and offering differentiated wealth management strategies and portfolios.

in credit card business, our primary objective is to further solidify our market leadership as the largest credit card service provider in Korea through differentiated and tailored customer service based on a strategy that emphasizes soft and smart aspects of enhancing customer loyalty, brand recognition and revenue expansion. We will also emphasize further optimizing our risk management through preemptive risk prevention, creating new synergy opportunities through collaboration with our other Shinhan affiliates and enhanced use of the group-wide customer relationship management system. As a way of identifying and exploring new potential growth areas, we are also exploring, on a selective basis, entering into strategic alliances with telecommunications service providers and retail grocery and department store chains for further expansion of our distribution network.

in securities business, our primary objective is to establish a solid platform for providing leading brokerage and financial advisory services in Korea in light of the recent deregulations of the securities industries in Korea. We aim to selectively develop competitive business models and capture promising business opportunities, including wealth management and investment advisory services. We have recently merged our investment advisory affiliates to promote economy of scale and solidify our brand recognition in this market. Our near-term strategic objective is to promote cross-selling, and in order to achieve this end, we have implemented strategies to enhance our research and preemptive risk management capabilities and maximize our group-wide synergy base.

in life insurance business, our primary objective is to enhance our market position as one of the leading insurers in Korea. To that end, we aim to maximize the use of our group-wide distribution channels, particularly in banking and credit card businesses, in order to foster direct interaction with customers. We also aim to train specialists and offer differentiated products targeting the fast-growing senior citizen population in Korea.

Our History and Development

On September 1, 2001, we were formed as a financial holding company under the Financial Holding Companies Act, as a result of acquiring all of the issued shares of the following four entities from their former shareholders in exchange for shares of our common stock: (i) Shinhan Bank, a nationwide commercial bank listed on the Korea Exchange, (ii) Shinhan Securities Co., Ltd., a securities brokerage company listed on the Korea Exchange, (iii) Shinhan Capital Co., Ltd., a leasing company listed on the Korea Exchange Korean Securities Dealers Automated Quotations (KRX KOSDAQ), and (iv) Shinhan Investment Trust Management Co., Ltd., a privately held investment trust management company. On September 10, 2001, the common stock of our holding company was listed on what is currently the KRX KOSPI Market.

Table of Contents

Since our inception, we have expanded our operations, in large part, through strategic acquisitions or formation of joint ventures. Our key acquisitions and joint venture formations are described as below:

Date of Acquisition	Entity	Principal Activities	Method of Establishment
April 2002	Jeju Bank	Regional banking	Acquisition from Korea Deposit Insurance Corporation
July 2002	Shinhan Investment Corp.(1)	Securities and investment	Acquisition from the SsangYong Group
August 2002	Shinhan BNP Paribas Investment Trust Management Co., Ltd.(2)	Investment advisory	50:50 joint venture with BNP Paribas
August 2003	Chohung Bank	Commercial banking	Acquisition from creditors
December 2005	Shinhan Life Insurance	Life insurance services	Acquisition from shareholders
March 2007	LG Card	Credit card services	Acquisition from creditors
January 2012	Tomato Mutual Savings Bank(3)	Savings bank	Purchase and assumption of assets and liabilities from creditors
January 2013	Yehanbyoul Savings Bank	Savings bank	Acquisition from Korea Deposit Insurance Corporation

Notes:

(1) Renamed as Shinhan Investment Corp. from Goodmorning Shinhan Securities Co., Ltd. effective August 2009.

(2) In January 2009, SH Asset Management Co., Ltd. and Shinhan BNP Paribas Investment Trust Management merged to form Shinhan BNP Paribas Asset Management Co., Ltd.

(3) Shinhan Hope Co., Ltd. was established on December 12, 2011, to purchase and assume certain assets and liabilities of Tomato Mutual Savings Bank. On December 28, 2011, Shinhan Hope Co., Ltd. obtained a savings bank license, changed its name to Shinhan Savings Bank and became our direct subsidiary.

We list below some of the recent developments relating to our organizational structure.

In March 2012, Shinhan-KT Mobile Card Co., Ltd., a wholly-owned subsidiary of Shinhan Card which had been established to secure the leadership position in the emerging market for mobile phone payment services, was liquidated due to lower than expected consumer demand for mobile payment services and slower than expected development of infrastructure necessary to support such services.

In November 2012, Shinhan Financial Group acquired a 99.79% interest in Shinhan AITAS Co., Ltd., a fund administrator and a former wholly-owned subsidiary of Shinhan Bank, for 49.7 billion from Shinhan Bank in order to promote efficient management and synergy effect on a group-wide level.

In December 2012, we entered into a share purchase agreement with Indonesia s Bank Metro Express an Indonesian commercial bank to acquire a 40% interest of Bank Metro Express. Bank Metro Express holds a foreign exchange license and has 19 branches in Indonesia. Currently, we received approval from the Financial Services Commission and are in the process of obtaining the approval of the transaction by Indonesia s financial supervisory authorities. We expect to receive such approval by the end of 2013.

Table of Contents

In January 2013, we entered into a share purchase agreement with Korea Deposit Insurance Corporation for the acquisition of Yehanbyoul Savings Bank, a savings bank located in Korea, and received regulatory approval to merge Yehanbyoul Savings Bank, a savings bank located in Korea, into our existing subsidiary Shinhan Saving Bank. On April 1, 2013, Shinhan Savings Bank and Yehanbyoul Savings Bank merged into a single entity, with Yehanbyoul Savings Bank being the surviving entity and the newly merged bank named Shinhan Savings Bank.

ITEM 4.B. Business Overview

Unless otherwise specifically mentioned, the following business overview is presented on a consolidated basis under IFRS.

Our Principal Activities

We provide comprehensive financial services, principally consisting of the following:

- commercial banking services, consisting of:
  - retail banking, which primarily focuses on making loans to or receiving deposits from individual customers (including high net-worth individuals and families) and, to a lesser extent, not-for-profit institutions such as hospitals, airports and schools;
  - corporate and investment banking services, which primarily focuses on making loans to or receiving deposits from for-profit corporations, including small- and medium-sized enterprises;
  - international banking, which primarily focuses on management of overseas subsidiaries and branch operations and other international businesses, as well as internal asset and liability management, trading of securities and derivatives, investment portfolio management and other related activities; and
  - other banking, which primarily focuses on administration of banking operations.
- credit card services;
- securities brokerage services;
- life insurance services;
- savings banking services, which are provided to higher-risk customer segments who would not generally qualify for or otherwise do not seek our commercial banking services;
- asset management services, including brokerage and trading of various securities, related margin lending and deposit and trust services, and other asset management services; and

other services, including leasing and equipment financing, investment trust management, regional banking, investment banking advisory and loan collection and credit reporting.

In addition to the above-mentioned business activities, we have a corporate center at the holding company level whose primary function is to support the cross-divisional management of our organization.

Our principal business activities are not subject to any material seasonal trends. While we have a number of overseas branches and subsidiaries, substantially all of our assets are located, and substantially all of our revenues are generated, in Korea.

Deposit-Taking Activities

Principally through Shinhan Bank, we offer many deposit products that target different customer segments with features tailored to each segment s financial and other profile. Our deposit products consist principally of the following:

Demand deposits. Demand deposits do not accrue interest or accrue interest at a lower rate than time or savings deposits and allow the customer to deposit and withdraw funds at any time. If interest-bearing, demand deposits have interest accruing at a fixed or variable rate depending on the period and the amount of deposit. Demand deposits constituted approximately 12.7%, 12.1% and 12.6% of our total deposits as of December 31, 2010, 2011 and 2012, respectively. Our demand deposits paid average interest of 0.70%, 0.72% and 0.72% in 2010, 2011 and 2012, respectively.

Savings deposits. Savings deposits allow the customer to deposit and withdraw funds at any time and accrue interest at an adjustable interest rate, which is typically lower than the rate applicable to time or installment deposits. Saving deposits constituted approximately 22.3%, 21.1% and 20.5% of our total deposits as of December 31, 2010, 2011 and 2012, respectively, and paid average interest of 0.98% in each of 2010, 2011 and 2012.

Time deposits. Time deposits generally require the customer to maintain a deposit for a fixed term during which the deposit accrues interest at a fixed rate or a variable rate based on certain financial indexes, including Cost of Funds Index (COFIX). If the deposit is withdrawn prior to the end of the fixed term, the customer is paid a lower interest rate than that originally offered. The term typically ranges from one month to five years. Time deposits constituted approximately 62.6%, 65.0% and 66.1% of our total deposits as of December 31, 2010, 2011 and 2012, respectively, and paid average interest of 3.50%, 3.61% and 3.61% in 2010, 2011 and 2012, respectively.

Other deposits. Other deposits consist mainly of certificates of deposit. Certificates of deposit typically have maturities from 30 days to five years. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market interest rates. Certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificates of deposit. Certificates of deposit constituted approximately 2.4%, 1.8% and 0.8% of our total deposits as of December 31, 2010, 2011 and 2012, respectively. Our certificates of deposit paid average interest of 4.32%, 3.40% and 3.71% in 2010, 2011 and 2012, respectively.

We also offer deposits which provide the customer with preferential rights to housing subscriptions under the Housing Law, and eligibility for mortgage and home equity loans. These products include:

Housing subscription time deposits. These deposit products are special purpose time deposits providing the customer with a preferential right to subscribe for new private apartment units under the Housing Law. This law provides various measures supporting the purchase of houses and the supply of such houses by construction companies. If a potential home-buyer subscribes for these deposit products and holds them for a certain period of time set forth in the Housing Law, such deposit customer obtains the right to subscribe for new private apartment units on a priority basis. Such preferential rights are neither transferable nor marketable in the open market. These products accrue interest at a fixed rate for one year and at an adjustable rate after one year, which are consistent with other time deposits. Required deposit amounts per account range from 2 million to 15 million depending on the size and location of the dwelling unit. These deposit products target high- and middle-income households as customers.

Housing subscription installment savings deposits. These deposit products are monthly installment savings products providing the customer with a preferential subscription right for new private apartment units under the Housing Law. Such preferential rights are neither transferable nor marketable in the open market. These deposits require monthly installments of 50,000 to 500,000, have maturities between three and five years and accrue interest at fixed rates depending on the term, which are consistent with other installment savings deposits. These deposit products target low- and middle-income households as customers. For information on our deposits in Korean Won based on the principal types of deposit products we offer, see Description of Assets and Liabilities Funding Deposits.

We offer a range of interest rates on our deposit products depending on average funding costs, the rate of return on our interest-earning assets, prevailing market interest rates among financial institutions and other major financial indicators.

We also offer court deposit services for litigants in Korean courts, which involve providing effectively an escrow service for litigants involved in certain types of legal or other proceedings. Chohung Bank historically was a dominant provider of such services since 1958, and following the acquisition of Chohung Bank, we

42

continue to hold a dominant market share in these services. Such deposits typically carry interest rates lower than the market rates (by approximately 1% per annum) and amounted to 5,888 billion, 6,103 billion and 6,150 billion as of December 31, 2010, 2011 and 2012, respectively.

The Monetary Policy Committee of the Bank of Korea imposes a reserve requirement on Won currency deposits of commercial banks which ranges from 0% to 7%, based generally on the term to maturity and the type of deposit instrument. See Supervision and Regulation Principal Regulations Applicable to Banks Liquidity.

The Depositor Protection Act provides for a deposit insurance system where the Korea Deposit Insurance Corporation guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of 50 million per depositor per bank. See Supervision and Regulation Principal Regulations Applicable to Banks Deposit Insurance System.

Retail Banking Services

Overview

We provide retail banking services primarily through Shinhan Bank, and, to a significantly lesser extent, through Jeju Bank, a regional commercial bank. The retail loans, excluding credit card receivables, amounted to 74,053 billion as of December 31, 2012.

Retail banking services include mortgage and home equity lending and retail lending as well as demand, savings and fixed deposit-taking, checking account services, electronic banking and ATM services, bill paying services, payroll and check-cashing services, currency exchange and wire fund transfer. We believe that providing modern and efficient retail banking services is important to maintaining our public profile and as a source of fee-based income. We believe that our retail banking services and products will become increasingly important in the coming years as the domestic banking sector further develops and becomes more complex.

Retail banking has been and will continue to remain one of our core businesses. Our strategy in retail banking is to provide prompt and comprehensive services to retail customers through increased automation and improved customer service, as well as a streamlined branch network focused on sales. The retail segment places an emphasis on targeting high net worth individuals.

Retail Lending Activities

We offer various retail loan products, consisting principally of household loans, which target different segments of the population with features tailored to each segment s financial profile and other characteristics, including each customer s profession, age, loan purpose, collateral requirements and the duration of the customer s relationship with Shinhan Bank. Retail loans consist principally of the following:

- *Mortgage and home equity loans,* which are mostly comprised of mortgage loans that are used to finance home purchases and are generally secured by the home being purchased; and

- *Other retail loans,* which are loans made to customers for any purpose other than mortgage and home equity loans and the terms of which vary based primarily upon the characteristics of the borrower and which are either unsecured or secured, or guaranteed by deposits or a third party.

As of December 31, 2012, our mortgage and home equity loans and other retail loans accounted for 62.29% and 37.71%, respectively, of our retail loans (excluding credit card loans).

For secured loans, including mortgage and home equity loans, our policy is to lend up to 40% to 60% of the appraisal value of the collateral, after taking into account the value of any lien or other security interest that is prior to our security interest (other than petty claims). The loan-to-value ratio of secured loans is updated on a monthly basis using the most recent appraisal value of the collateral. As of December 31, 2012, the loan-to-value ratio of mortgage and home equity loans of Shinhan Bank was approximately 49.1%. As of December 31, 2012, substantially all of our mortgage and home equity loans were secured by residential property.

Under the Regulation on the Supervision of the Banking Business currently in effect, our banking subsidiaries are (i) subject to limits on loan-to-value ratios ranging from 50% to 60% when extending home

mortgage loans, depending on the collateral value, loan period, and whether the home provided as collateral is located in the Greater Seoul Metropolitan area; and (ii) required to comply with a limit on debt-to-income ratios ranging from 40% to 75% in making mortgage and home equity loans exceeding 100 million for the purchase of new homes located in Seoul, Incheon and Gyeonggi province, depending on the location of the property, the credit score of the borrower, whether the loan is being repaid on an installment basis, and whether the loan carries interest at a fixed rate or at a floating rate.

In addition, the supervising authorities from time to time issue administrative instructions to banks, which have the effect of regulating the access of borrowers to housing loans and, as such, demand for real estate properties. For example, the Financial Supervisory Service issued administrative instructions to financial institutions to (except in limited circumstances) verify the borrower s ability to repay based on proof of income prior to making a mortgage and home equity loan regardless of the type or value of the collateral or the location of the property, which has had the effect of practically barring the grant of any new mortgage and home equity loans to borrowers without verifiable income.

Our banking subsidiaries are currently extending mortgage and home equity loans in compliance with the applicable regulations and administrative instructions by the relevant supervising authorities.

The following table sets forth the portfolio of our retail loans.

	As of December 31,		
	2010	**2011**	**2012**
	(In billions of Won, except percentages)		
Retail loans(1)			
Mortgage and home-equity loans	40,073	44,399	46,128
Other retail loans(2)	24,901	25,052	27,925
Percentage of retail loans to total gross loans	35.26%	35.61%	36.61%

Notes:

(1) Before allowance for loan losses and excludes credit card accounts.

(2) In Korea, construction companies typically require buyers of new homes (including apartment units) to make installment payments of the purchase price well in advance of the title transfer. Commercial banks, including Shinhan Bank, provide advance loans, on an unsecured basis for the time being, to retail borrowers where the use of proceeds is restricted to financing of home purchases. A significant portion of these loans are guaranteed by third parties, which may include the construction company receiving the installment payments, until construction of the home is completed. Once construction is completed and the titles to the homes are transferred to the borrowers, which may take several years, these loans become secured by the new homes purchased by these borrowers. In recognition of the unsecured nature of such loans, we classify such loans as other retail loans.

The total mortgage and home equity loans in the amount of 46,128 billion outstanding as of December 31, 2012 consisted of amortizing loans (where part of the installment payments thereon is applied toward repaying the principal amount of the loans) in the amount of 32,747 billion and non-amortizing loans in the amount of 13,381 billion. In addition, as of December 31, 2012, there were lines of credit in the aggregate outstanding amount of 528 billion for non-amortizing loans.

Pricing

The interest rates on retail loans made by Shinhan Bank are either periodically adjusted floating rates (based on a base rate determined for three-month, six-month or twelve-month periods derived using an internal transfer price system, which reflects the cost of funding in the market, as further adjusted to account for expenses related to lending and the profit margin of the relevant loan products) or fixed rates that reflect the cost of funding, as further adjusted to account for expenses related to lending and the profit margin. Fixed rate loans currently have maturities of 15 years or less and are offered only on a limited basis and at a premium to floating rate loans. For unsecured loans, which we provide on a floating or fixed rate basis, the interest rates thereon take into account a

44

margin based on, among other things, the borrower s credit score as determined during our loan approval process. For secured loans, the credit limit is based on the type of collateral, priority with respect to the collateral and the loan-to-value ratio. We can adjust the pricing of these loans to reflect the borrower s current and/or expected future contribution to Shinhan Bank s profitability. The interest rate on our loan products may become adjusted at the time the loan is extended. If a loan is terminated prior to its maturity, the borrower is obligated to pay us an early termination fee of approximately 0.5% to 3.0% of the outstanding principal amount of and accrued and unpaid interest on the loan, depending on the timing of termination, the nature of the loan and the loan amount.

As of December 31, 2012, Shinhan Bank s three-month, six-month and twelve-month base rates were approximately 2.89%, 2.88% and 2.89%, respectively. As of December 31, 2012, Shinhan Bank s fixed rates for mortgage and home equity loans with a maturity of one year, two years and three years were 6.60%, 7.10% and 7.20%, respectively, and Shinhan Bank s fixed rates for other retail loans with a maturity of one year ranged from 6.75% to 13.25%, depending on the credit scores of its customers.

As of December 31, 2012, approximately 76.7% of Shinhan Bank s total retail loans were floating rate loans and approximately 23.3% were fixed rate loans. As of the same date, approximately 75.7% of Shinhan Bank s retail loans with maturity of more than one year were floating rate loans and approximately 24.3% was fixed rate loans.

Prior to February 2010, major commercial banks in Korea, including Shinhan Bank, principally used the certificate of deposit, or CD, rates in determining the base rate for secured housing loans, which represent the substantial majority of retail loans. However, amid concerns that the CD rates do not accurately represent the banks cost of capital as certificates of deposit constitute relatively a minor fraction of the banks liabilities and in light of the substantial variance in recent periods between the CD rates and the actual market rates, beginning in February 2010, the Korean Federation of Banks has published the cost of funding index , or COFIX, which is computed based on the weighted average interest of select funding products (including time deposits, housing and other installment savings deposits, repos, discounted bills and senior non-convertible financial debentures) of nine major Korean banks (comprised of Kookmin Bank, Shinhan Bank, Woori Bank, Hana Bank, Korea Exchange Bank, NH Bank, Industrial Bank of Korea, Citibank Korea and Standard Chartered Bank). Each bank then independently determines the interest rate applicable to its respective customers by adding a spread to the COFIX based on the difference between the COFIX and such bank s general funding costs, administration fees, the customer s credit score, the maturity of the loan and other customer-specific premiums and discounts based on the customer relationship with such bank. These interest rates are typically adjusted on a monthly basis.

Private Banking

Historically, we have focused on customers with high net worth. Our retail banking services include providing private banking services to high net worth customers who seek personal advice in complex financial matters. Our aim in private banking is to help enhance wealth accumulation by, and increase the financial sophistication of, our high net-worth clients by offering them portfolio and fund management, tax consulting and real estate management services, among others.

As of December 31, 2012, Shinhan Bank operated 24 private banking centers nationwide, including 18 in Seoul, two in the suburbs of Seoul and four in cities located in other regions in Korea. As of December 31, 2012, Shinhan Bank had approximately 5,529 private banking customers, who are typically required to have 500 million in deposit with us to qualify for private banking services.

Corporate and Investment Banking Services

Overview

We provide corporate banking services, primarily through Shinhan Bank, to small- and medium-sized enterprises, including enterprises known as SOHO, or small office, home office , which are small enterprises operated by individuals or households, and, to a lesser extent, to large corporations, including corporations that are affiliated with *chaebols*. We also lend to government-controlled enterprises.

Table of Contents

The following table sets forth the balances and percentage of our total lending attributable to each category of our corporate lending business as of the dates indicated.

	As of December 31,					
	2010		2011		2012	
	(In billions of Won, except percentages)					
Small- and medium-sized enterprises loans(1)	51,266	27.82%	52,268	26.80%	51,324	25.37%
Large corporate loans	33,128	17.98%	34,413	17.64%	33,713	16.67%
Others	17,234	9.35%	21,043	10.79%	25,331	12.52%
Total corporate loans	101,628	55.15%	107,724	55.23%	110,368	54.56%

Note:

(1) Represents the principal amount of loans extended to corporations meeting definition of small- and medium-sized enterprises under the Basic Act on Small- and Medium-sized Enterprises and its Presidential Decree.

Shinhan Bank also engages in treasury and securities investment business, which involves, among other things, treasury, or internal asset and liability management, securities investment trading and derivatives trading.

Small- and Medium-sized Enterprises Banking

Under the Basic Act on Small- and Medium-sized Enterprises and its Presidential Decree, in order to qualify as a small- and medium-sized enterprise, (i) the number of regular employees of the enterprise must be less than 1,000, (ii) the enterprise s total assets at the end of the immediately preceding fiscal year must be less than 500 billion, (iii) the enterprise s paid-in capital at the end of the immediately preceding fiscal year must be less than 100 billion, (iv) the enterprise s average sales revenues for the most recent three fiscal years must be less than 150 billion, (v) the enterprise must meet the standards prescribed by the Presidential Decree applicable to the type of its main business, and (vi) the enterprise must meet the standards of management independence from ownership as prescribed by the Presidential Decree, including non-membership in a conglomerate as defined in the Monopoly Regulations and Fair Trade Act. Furthermore, as of January 26, 2012, non-profit enterprises with a number of regular employees not exceeding 300 and revenue of less than 30 billion that satisfy certain requirements prescribed in the Basic Act on Small- and Medium-sized Enterprises and its Presidential Decree may qualify as a small- and medium-sized enterprise. As of December 31, 2012, we made loans to 173,379 small- and medium-sized enterprises for an aggregate amount 51,324 billion.

Our small- and medium-sized enterprises banking business has traditionally been and is expected to remain one of our core businesses, subject to prevailing market conditions. For example, since the onset of the global financial crisis and economic downturns in Korea starting in 2008, we have sharply reduced new lending to the small- and medium-sized enterprises and are currently focusing on maintaining the asset quality of existing loans to these enterprises. Depending on the level and scope of economic recovery, we may seek to focus on asset growth for these enterprises on a selective basis.

We believe that Shinhan Bank, whose traditional focus has been on small- and medium-sized enterprises lending, is well-positioned to succeed in the small- and medium-sized enterprises market in light of its marketing capabilities (which we believe have provided Shinhan Bank with significant customer loyalty) and its prudent risk management practices, including conservative credit rating system for credit approval. To maintain or increase its market share of small- and medium-sized enterprises lending, Shinhan Bank:

has positioned itself based on accumulated expertise as to customers and products. We believe Shinhan Bank has a good understanding of the credit risks embedded in this market segment and to develop loan and other products specifically tailored to the needs of this market segment;

operates a relationship management system to provide targeted and tailored customer service to small-and medium-sized enterprises. Shinhan Bank currently has relationship management teams in 145 banking branches, of which two are corporate banking branches and 143 are hybrid banking branches

46

Table of Contents

designed to serve retail customers and, to a limited extent, corporate customers. These relationship management teams market products and review and approve smaller loans that pose less credit risks; and

continues to focus on cross-selling loan products with other products. For example, when Shinhan Bank lends to small- and medium-sized enterprises, it also explores opportunities to cross-sell retail loans or deposit products to the employees of these enterprises or to provide financial advisory services.

Large Corporate and Investment Banking

Large corporate customers consist primarily of member companies of *chaebols* and financial institutions. Our large corporate loans amounted to 33,713 billion as of December 31, 2012. As large corporate customers tend to have better credit profiles than small- and medium-sized enterprises, since the onset of the global financial crisis and economic downturns in Korea starting in 2008, Shinhan Bank has focused on attracting and retaining large corporate customers as part of its risk management policy.

Shinhan Bank aims to be a one-stop financial solution provider and partner with its corporate clients in their corporate expansion and growth endeavors. To this end and in order to take advantage of the deregulation in the Korean financial industry as a result of the adoption of the Financial Investment Services and Capital Markets Act, Shinhan Bank provides investment banking services, including real estate financing, overseas real estate project financing, large development project financing, infrastructure financing, structured financing, equity investments/venture investments, mergers and acquisitions consulting, securitization and derivatives services, including securities and derivative products and foreign exchange trading. Shinhan Bank, through Shinhan Asia Limited, a subsidiary in Hong Kong, also arranges financing for, and offers consulting services to, Korean companies expanding their business overseas, particularly in Asia.

Electronic Corporate Banking

Shinhan Bank offers to corporate customers a web-based total cash management service through Shinhan Bizbank. Shinhan Bizbank supports all types of banking transactions from basic transaction history inquiries and fund transfers to opening letters of credit, trade finance, payment management, collection management, sales settlement service, acquisition settlement service, business-to-business settlement service, sweeping and pooling. In addition, Shinhan Bank provides customers with integrated and advanced access to its financial services through its Inside Bank program, which combines internet banking, capital management services and enterprise resource planning to better serve corporate customers. The Inside Bank program also seeks to provide customized financial services to meet the comprehensive needs of target corporate customers ranging from conglomerates to small enterprises in various industries, with the goal of enhancing convenience to our corporate customers in accessing our financial services as well as assisting them to strategically manage their funds.

Corporate Lending Activities

Our principal loan products for corporate customers are working capital loans and facilities loans. Working capital loans, which include discounted notes and trade financing, are generally loans used for general working capital purposes. Facilities loans are provided to finance the purchase of equipment and construction of manufacturing plants. As of December 31, 2012, working capital loans and facilities loans amounted to 53,786 billion and 25,518 billion, respectively, representing 67.82% and 32.18% of Shinhan Bank s total Won-denominated corporate loans. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three years in the case of unsecured loans and five years in the case of secured loans. Facilities loans have a maximum maturity of ten years and are typically repaid in installments of at least twice a year, subject to a grace period for the first repayment of not less than one-third of the loan term; provided that facilities loans with a term of three years or less may be paid in full at maturity.

Loans to corporations may be unsecured or secured by real estate, deposits or guaranty certificates. As of December 31, 2012, secured loans and guaranteed loans (including loans secured by guaranty certificates issued by credit guarantee insurance funds) accounted for 56.59% and 10.39%, respectively, of Shinhan Bank s Won-denominated loans to small- and medium-sized enterprises. Approximately 41.61% of the corporate loans were secured by real estate.

When evaluating whether to extend loans to corporate customers, Shinhan Bank reviews their creditworthiness, credit score, value of any collateral and/or third party guarantee. The value of collateral is computed using a formula that takes into account the appraised value of the collateral, any prior liens or other claims against the collateral and an adjustment factor based on a number of considerations including, with respect to property, the average value of any nearby property sold in a court-supervised auction during the previous year. Shinhan Bank revalues collateral when a secured loan is renewed or if a trigger event occurs with respect to the loan in question.

Pricing

Shinhan Bank determines the price for its corporate loan products based principally on their respective cost of funding and the expected loss rate based on the borrower s credit risk. As of December 31, 2012, 62.24% of Shinhan Bank s corporate loans with outstanding maturities of one year or more had interest rates that were not fixed but were variable by reference to their market rates.

More specifically, the interest rate on Shinhan Bank s corporate loans is generally determined as follows:

Interest rate = (Shinhan Bank s periodic market floating rate *or* reference rate) *plus* transaction cost *plus* a credit spread *plus* risk premium *plus or minus* a discretionary adjustment rate.

Depending on the market condition and the agreement with the borrower, Shinhan Bank may use either its periodic market floating rate or the reference rate as the base rate in determining the interest rate for the borrower. As of December 31, 2012, Shinhan Bank s periodic market floating rates (which are based on a base rate determined for three-month, six-month, one-year, two-year, three-year or five-year periods derived using Shinhan Bank s market rate system) were 2.89% for three months, 2.88% for six months, 2.90% for one year, 2.99% for two years, 3.07% for three years and 3.21% for five years. As of the same date, Shinhan Bank s reference rate was 8.75%. The reference rate refers to the base lending rate used by Shinhan Bank. The reference rate is determined annually by Shinhan Bank s Asset & Liability Management Committee based on, among others, Shinhan Bank s funding costs, cost efficiency ratio and discretionary margin.

Transaction cost is added to reflect the standardized transaction cost assigned to each loan product and other miscellaneous costs, including contributions to the Credit Guarantee Fund, and education taxes. The Credit Guarantee Fund is a statutorily created entity that provides credit guarantees to loans made by commercial banks and is funded by mandatory contributions from commercial banks in the amount of approximately 0.2% of all loans made by them.

The credit spread is added to the periodic floating rate to reflect the expected loss based on the borrower s credit rating and the value of any collateral or payment guarantee. In addition, Shinhan Bank adds a risk premium which takes into account the potential of unexpected loss that may exceed the expected loss from the credit rating assigned to a particular borrower.

A discretionary adjustment rate is added or subtracted to reflect the borrower s current and/or future contribution to Shinhan Bank s profitability. If additional credit is provided by way of a guarantee of another loan, the adjustment rate is subtracted to reflect such change in the credit spread. In addition, depending on the price and other terms set by competing banks for similar borrowers, Shinhan Bank may reduce the interest rate to compete more effectively with other banks.

Treasury

Shinhan Bank s treasury division provides funds to all of Shinhan Bank s business operations and ensures the liquidity of its operation. To secure stable long-term funds, Shinhan Bank uses fixed and floating rate notes, debentures, structured financing, and other advanced funding methods. As for overseas funding, Shinhan Bank closely monitors the feasibility of raising funds in currencies other than the U.S. dollar, such as the Japanese Yen and the Euro. In addition, Shinhan Bank makes call loans and borrows call money in the short-term money market. Call loans are short-term lending among banks and financial institutions in either Korean Won or foreign currencies with a minimum transaction amount of 100 million and maturities of typically one day.

Table of Contents

Securities Investment and Trading

Shinhan Bank invests in and trades securities for its own accounts in order to maintain adequate sources of liquidity and to generate interest income, dividend income and capital gains. Shinhan Bank s trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Korean government agencies, local governments or certain government-invested enterprises, debt securities issued by financial institutions and equity securities listed on the KRX KOSPI Market and KRX KOSDAQ Market of the Korea Exchange. For a detailed description of our securities investment portfolio, see Description of Assets and Liabilities Investment Portfolio.

Derivatives Trading

Shinhan Bank provides to its customers, and to a limited extent trades for its proprietary accounts, a range of derivatives products, which include:

interest rate swaps, options, and futures relating to Korean Won interest rate risks and LIBOR risks, respectively;

cross-currency swaps largely for Korean Won against U.S. dollars, Japanese Yen and Euros;

equity and equity-linked options;

foreign currency forwards, swaps and options;

commodity forwards, options and swaps;

credit derivatives; and

KOSPI 200 indexed equity options.

Shinhan Bank s outstanding derivatives commitments in terms of notional amount was 242,984 billion, 165,879 billion and 135,976 billion in 2010, 2011 and 2012, respectively. Such derivative operations generally focus on addressing the needs of Shinhan Bank s corporate clients to hedge their risk exposure and back-to-back derivatives entered into to hedge Shinhan Bank s risk exposure that results from such client contracts.

Shinhan Bank also enters into derivative trading contracts to hedge the interest rate and foreign currency risk exposures that arise from its own assets and liabilities. In addition, to a limited extent, Shinhan Bank engages in proprietary trading of derivatives within our regulated open position limits. See Description of Assets and Liabilities Derivatives.

International Business

Shinhan Bank also engages in treasury and investment activities in international capital markets, principally including foreign currency-denominated securities trading, foreign exchange trading and services, trade-related financial services, international factoring services and foreign banking operations through its overseas branches and subsidiaries. Shinhan Bank aims to become a leading bank in Asia and expand its international business by focusing on further bolstering its overseas network, localizing its overseas operations and diversifying its product offerings, particularly in terms of asset management, in order to meet the various financing needs of its current and potential customers overseas.

Trust Account Management Services

Overview

Shinhan Bank s trust account management services involve management of trust accounts, primarily in the form of money trusts. Trust account customers are typically individuals seeking higher rates of return than those offered by bank account deposits. Because deposit reserve requirements do not apply to deposits held in trust accounts as opposed to deposits held in bank accounts, and regulations governing trust accounts tend to be less strict, Shinhan Bank is generally able to offer higher rates of return on trust account products than on bank deposit products. However, in recent years, due to the ongoing low interest environment, Shinhan Bank has not been able to offer attractive rates of return on its trust account products.

Trust account products generally require higher minimum deposit amounts than those required by comparable bank account deposit products. Unlike bank deposit products, deposits in trust accounts are invested primarily in securities (consisting principally of debt securities and beneficiary certificate for real estate financing) and, to a lesser extent, in loans, as the relative shortage of funding sources require that trust accounts be invested in a higher percentage of liquid assets.

Under the Banking Act, the Financial Investment Services and Capital Markets Act and the Trust Act, assets accepted in trust accounts are required to be segregated from other assets of the trustee bank and are not available to satisfy the claims of the depositors or other creditors of such bank. Accordingly, trust accounts are accounted for and reported separately from the bank accounts. See Supervision and Regulation. Trust accounts are regulated by the Trust Act and the Financial Investment Services and Capital Markets Act, and most national commercial banks offer similar trust account products. Shinhan Bank earns income from trust account management services, which is recorded as net trust management fees.

As of December 31, 2010, 2011 and 2012, Shinhan Bank had total trust assets of 33,240 billion, 30,563 billion and 29,243 billion, respectively, comprised principally of real property investments of 10,104 billion, 10,683 billion and 9,511 billion, respectively; securities investments of 6,274 billion, 5,759 billion and 5,266 billion, respectively; and loans with an aggregate principal amount of 527 billion, 566 billion and 560 billion, respectively. Securities investments consisted of corporate bonds, government-related bonds and other securities, primarily commercial paper. As of December 31, 2010, 2011 and 2012, debt securities accounted for 17.6%, 17.2% and 16.3%, respectively, and equity securities constituted 1.3%, 1.6% and 1.7%, respectively, of Shinhan Bank s total trust assets. Loans made by trust accounts are similar in type to those made by bank accounts, except that they are made only in Korean Won. As of December 31, 2010, 2011 and 2012, approximately 61.6%, 58.5% and 51.9%, respectively, of the amount of loans from the trust accounts were collateralized or guaranteed. In making investment from funds received for each trust account, each trust product maintains investment guidelines applicable to each such product which set forth, among other things, company-, industry- and security-specific limitations.

Trust Products

In Korea, trust products typically take the form of money trusts, which are discretionary trusts over which (except in the case of a specified money trust) the trustees have investment discretion subject to applicable law and is commingled and managed jointly for each type of trust account. The specified money trusts are established on behalf of customers who give specific directions as to how their trust assets should be invested.

Money trusts managed by Shinhan Bank s trust account business amounted to 11,920 billion, 14,000 billion and 15,453 billion as of December 31, 2010, 2011 and 2012, respectively.

Shinhan Bank offers variable rate trust products through its retail branch network. As of December 31, 2010, 2011 and 2012, Shinhan Bank s variable rate trust accounts amounted to 8,553 billion, 10,814 billion and 12,289 billion, respectively, of which principal guaranteed variable rate trust accounts amounted to 3,366 billion, 3,185 billion and 3,163 billion, respectively. Variable rate trust accounts offer their holders variable rates of return on the principal amount of the deposits in the trust accounts and do not offer a guaranteed return on the principal of deposits, except in the limited cases of principal guaranteed variable rate trust accounts, for which payment of the principal amount is guaranteed. Shinhan Bank charges a lump sum or a fixed percentage of the assets held in such trusts as a management fee, and, depending on the trust products, is also entitled to additional fees in the event of early termination of the trusts by the customer. Korean banks, including Shinhan Bank, are currently allowed to guarantee the principal of the following types of variable rate trust account products: (i) existing individual pension trusts, (ii) new individual pension trusts, (iii) existing retirement pension trusts, (iv) new retirement pension trusts, (v) pension trusts and (vi) employee retirement benefit trusts. Shinhan Bank also offers an insignificant amount of guaranteed fixed rate trust products (amounting to 1.0 billion, 1.0 billion and 1.0 billion as of December 31, 2010, 2011 and 2012, respectively), which provide to its holders a guaranteed return of the principal as well as a guaranteed fixed rate of return.

Table of Contents

Credit Card Services

Overview

We currently provide our credit card services principally through our credit card subsidiary, Shinhan Card, and to a limited extent, Jeju Bank. Former Shinhan Card was originally formed as a result of the spin-off of Shinhan Bank s credit card business in June 2002. In April 2006, the credit card division of Chohung Bank was split and merged into former Shinhan Card concurrently with the merger of Chohung Bank and Shinhan Bank. Prior to the merger of former Shinhan Bank and Chohung Bank in April 2006, Chohung Bank had an active credit card business division. Chohung Bank was a member of BC Card Co., Ltd. (BC Card), which is owned by consortium banks. Shinhan Card currently holds an 1.0% equity interest in BC Card. BC Card issues credit cards under the names of the member banks, substantially all of which are licensed to use MasterCard, Visa or JCB. This enables holders of BC Card to use their cards at any establishment which accepts MasterCard, Visa or JCB, as the case may be.

In March 2007, we acquired the controlling equity interest in LG Card. On October 1, 2007, LG Card assumed all of the assets and liabilities of former Shinhan Card and changed its name to Shinhan Card. We believe that the acquisition of LG Card, which was the largest credit card company in Korea in terms of the number of cardholders, has contributed to our having the largest market share in the Korean credit card industry and diversifying our revenue sources by reducing our reliance on our banking operations.

Products and Services

Shinhan Card offers a wide range of credit card and other services, principally consisting of the following:

- *credit card services*, which involve providing cardholders with credit up to a preset limit to purchase products and services. Payment must be made either (i) in full at the end of a monthly billing cycle (the Lump-sum Basis) or (ii) on a revolving basis subject to a minimum monthly payment which is the lesser of (x) 5% to 20% of the amount outstanding (depending on the cardholder s credit) or (y) 30,000. Currently (the Revolving Payment Basis), the remaining outstanding balance generally accrues interest at the effective annual rates of approximately 6.34% to 25.94%.

- *cash advances*, for which payment must be made either on a lump-sum basis or a revolving basis. Currently, the lump-sum cash advances generally accrue interest at the effective annual rates of approximately 7.8% to 28.4% and the revolving cash advances generally accrue interest at a minimum rate of 5% to 20% of the outstanding balance (depending on the cardholder s credit). Cash advances may be made at ATM machines and bank branches.

- *installment purchases*, which provide customers with an option to purchase products and services from select merchants on an installment basis for which payments must be made in equal amounts over a fixed term ranging from two months to 36 months. Currently, the outstanding installment purchase balances generally accrue interest at the effective annual rates of approximately 10.9% to 21.8%.

- *card loans*, which provide customers with generally unsecured loans. Payment must be made generally by (i) repaying principal and interest in equal amounts on an installment basis over a fixed term of two to 36 months, (ii) repaying the principal and interest amounts in full at maturity, or (iii) making interest-only payments during the initial grace period of typically three months and repaying the principal and interest amounts on a monthly installment basis over the remaining period of typically two to 24 months. Currently, the outstanding card loan balances generally accrue interest at the effective annual rates of approximately 7.6% to 26.9%. Delinquent credit card receivables can also be restructured into loans, which we classify as card loans, and these loans generally accrue interest at the effective annual rates of approximately 17.0% to 27.8% over a fixed term whose maximum is 60 months.

Shinhan Card derives revenues from annual membership fees paid by credit cardholders, interest charged on credit card balances, fees and interest charged on cash advances and card loans, interest charged on late and deferred payments and merchant fees paid by retail and service establishments. Merchant fees and interest on cash advances constitute the largest source of revenue.

The annual membership fees for credit cards vary depending on the type of credit card and the benefits offered thereunder. For its standard credit cards, Shinhan Card charges an annual membership fee ranging from 2,000 to 1,000,000 per credit card, depending on the type of the card and the cardholder profile. Annual membership fees for various affinity and co-branded cards vary from 2,000 to 1,000,000. Shinhan Card also charges cardholders fees charged by financial institutions for cash advances provided through each such financial institution s ATMs.

Any accounts that are unpaid when due are deemed to be delinquent accounts, for which Shinhan Card levies a late charge in lieu of the interest rates applicable prior to default. The late charge bears interest ranging from 23.0% to a maximum rate of 29.5% per annum.

Merchant discount fees, which are processing fees Shinhan Card charges to the merchants, can be up to 2.7% of the purchased amount depending on the merchant used, with the average charge being 1.93% in 2012.

Although making payments on a revolving basis is more common in many other countries, this payment method is still in its early stages of development in Korea. Cardholders in Korea are generally required to repay their purchases within approximately 14 to 44 days of purchase depending on their payment cycle, except in the case of installment purchases where the repayment term is typically three to six months. Accounts that remain unpaid after this period are deemed to be delinquent, and Shinhan Card levies late charges on and closely monitors such accounts. For purchases made on an installment basis, Shinhan Card charges interest on unpaid amounts at rates that vary according the terms of repayment.

Cardholders are required to settle their outstanding balances in accordance with the terms of the credit cards they hold. Accountholders may choose the monthly settlement date. Settlement dates around the end of each month are the most popular since salaries are typically paid at the end of the month. A cardholder is required to select a settlement date when the account is opened. The cardholder may change the settlement date after the account has been opened but no more than once every two months.

In addition to credit card services, Shinhan Card also offers check cards, which are similar to debit cards in the United States and many other countries, to its individual retail customers as well as corporate customers. A check card can be used at any of the merchants that accept credit cards issued by Shinhan Card and the amount charged to a check card is directly debited from the cardholder s designated bank account. Check cards have a low risk of default and there are no procurement costs. Although Shinhan Card does not charge annual membership fees on check cards, merchants are charged fees on the amount purchased using check cards at a rate between 1.0% and 1.85%, depending on the type of business, which is lower than the corresponding fee charged for credit card use.

Credit Card Products

Shinhan Card offers a wide range of credit card products tailored for credit cardholders lives and to satisfy their preferences and needs. Credit card products offered by Shinhan Card include:

- cards that provide additional benefits such as frequent flyer miles and reward program points that can be redeemed by the customer for complementary services, prices and cash;
- gold cards, platinum cards and other preferential members cards, which have higher credit limits and provide additional services in return for higher annual membership fees;
- cards with new features to preferred customers, such as revolving credit cards, travel services and insurance;
- cards with fraud detection and security systems to prevent the misuse of credit cards and to encourage the use of credit cards over the Internet;
- corporate and affinity cards that are issued to employees or members of particular companies or organizations; and

mobile phone cards allowing customers to conduct wireless credit card transactions with their mobile phones using 3G or more advanced technology.

Customers and Merchants

In addition to internal growth through cross-selling, we also seek to enhance our market position by selectively targeting new customers with high net worth and solid credit quality through the use of a sophisticated and market-oriented risk management system. Shinhan Card screens its credit card applicants and sets individualized credit limits for such applicants according to internal guidelines based on a comprehensive credit scoring system.

The following table sets forth the number of customers of Shinhan Card and the number of merchants at which Shinhan Card can be used for purchases as of the dates indicated.

	As of December 31,		
	2010	2011	2012
	(In thousands, except percentages)		
Shinhan Card:			
Number of credit card holders(1)	15,299	15,540	15,182
Personal accounts	15,183	15,424	15,070
Corporate accounts	116	116	112
Active ratio(2)	79.6%	81.5%	83.6%
Number of merchants	2,552	2,669	2,755

Notes:

(1) Represents the number of cardholders not subject to suspension or termination as of the relevant date.

(2) Represents the ratio of accounts used at least once within the last six months to the total accounts as of year-end.

Installment Finance

Shinhan Card provides installment finance services to customers in connection with purchases of durable consumer goods such as new and used cars, appliances, computers and other home electronics products. Revenues from installment finance operations accounted for 2.3% of Shinhan Card s total operating revenue in 2012. Shinhan Card pays the merchants when Shinhan Card s customers purchase such goods, and the customers remit monthly installment payments to Shinhan Card over a number of months, generally up to 36 months (and, in the case of installment financings for automobile purchases, up to 72 months), as agreed with the customers. For installment finance products for new cars, Shinhan Card charges, in addition to interest, an initial financing fee of up to 9.9% of the purchase price, depending on the customer s credit score, the installment period and installment amount. Shinhan Card has installment financing arrangements with over 10,000 merchants in Korea, including major car dealers, manufacturers and large retailers with nationwide networks, such as electronics goods stores.

Shinhan Card promptly processes installment financing applications and, based on the extensive credit information it possesses or can access, it is able to offer flexible installment payment terms tailored to individual needs of the customers. Shinhan Card also devotes significant efforts to develop and maintain its relationships with merchants, which are the most important source of referrals for installment finance customers. Shinhan Card has developed a system of prompt payments to merchants for goods purchased by the installment finance customers.

Auto Lease

Shinhan Card currently provides auto leasing financing to retail customers and corporations. Revenues from auto lease operations accounted for 1.0% of Shinhan Card s total operating revenue in 2012.

Securities Brokerage Services

Overview

Through Shinhan Investment, we provide a wide range of financial investment services to our diversified customer base including corporations, institutional investors, governments and individuals. Financial investment

Table of Contents

services offered by Shinhan Investment range from securities brokerage to our retail and institutional customers, investment advice and financial planning services to our retail customers, as well as investment banking services such as underwriting and M&A advisory services to our institutional customers.

As of December 31, 2012, according to internal data, Shinhan Investment s annual market share of Korean equity brokerage market was 4.92% (consisting of 2.35% in the retail segment, 0.71% in the institutional segment and 1.86% in the international segment) in terms of total brokerage volume, ranking third among securities firms in Korea, excluding discount brokers such as Mirae Asset Securities and Kiwoom Securities. As of the same date, according to internal data, Shinhan Investment held the fourth largest annual market share in options brokerage segments and the largest annual market share in the KOSPI 200 futures of 4.87% and 6.07%, respectively, in terms of total brokerage volume with respect to these products.

Following the implementation of the Financial Investment Services and Capital Markets Act in 2009, Shinhan Investment has obtained requisite approvals for its existing businesses in investment banking services, securities brokerage services, trust services, investment advisory services and discretionary account asset management services, as well as existing and new derivatives businesses, which enables Shinhan Investment to provide not only its existing services in equity- and stock index-linked derivatives sales and brokerage, but also proprietary trading and brokerage services for futures involving interest rates, currency and commodities as well as foreign exchange margin trading. Shinhan Investment currently provides all of the foregoing services, subject to prevailing market conditions.

Products and Services

Shinhan Investment provides principally the following services:

- *retail client services.* These services include equity and bond brokerage, investment advisory and financial planning services to retail customers, with a focus on high net worth individuals. The fees generated include brokerage commissions for the purchase and sale of securities, asset management fees, interest income from credit extensions (including in the form of stock subscription loans), margin transaction loans and loans secured by deposited securities.

- *institutional client services:*

  - *brokerage services.* These services include brokerage of stocks, corporate bonds, futures and options provided to Shinhan Investment s institutional and international customers and sale of institutional financial products. These services are currently supported by a team of 77 research analysts that specialize in equity, bonds and derivatives research.

  - *investment banking services.* These services include a wide array of investment banking services to Shinhan Investment s corporate customers, such as domestic and international initial public offerings, mergers and acquisitions advisory services, bond issuances, underwriting, capital increase, asset-backed securitizations, issuance of convertible bonds and bonds with warrants, structured financing, issuance of asset-backed commercial papers and project financings involving infrastructure, real estate and shipbuilding.

Shinhan Investment also engages, to a limited extent, in proprietary trading in equity and debt securities, derivative products and over-the-counter market products.

With respect to brokerage services, in the face of intense competition in the domestic brokerage industry, Shinhan Investment primarily focuses on strengthening profitability through service differentiation and efficient management of its distribution network rather than enlarging its market share indiscriminately through lowering fees and commissions. Shinhan Investment s service differentiation efforts include offering its customers opportunities to purchase stocks in a wide range of countries (currently more than 25 countries), leveraging synergy opportunities afforded by affiliation with other Shinhan entities such as offering brokerage accounts maintained at Shinhan Bank and Shinhan Capital.

With respect to investment banking services, Shinhan Investment provides such services through five divisions consisting of equity capital markets, debt capital markets, private equity, project finance and mergers and acquisitions, as well as four overseas service centers in Hong Kong, Shanghai, Tokyo and Ho Chi Minh City.

Table of Contents

Life Insurance Services

We provide life insurance products and services primarily through Shinhan Life Insurance. Shinhan Life Insurance provides its services through diversified distribution channels consisting of financial planners, telemarketers, agency marketers and bancassurance specialists. As of the end of calendar years ended December 31, 2010, December 31, 2011 and December 31, 2012, Shinhan Life Insurance had total assets of 11,975 billion, 13,977 billion and 16,942 billion and net profits of 213 billion, 237 billion and 209 billion, respectively. During its calendar year 2012, among 24 life insurance companies in Korea, Shinhan Life Insurance ranked fifth in terms of net profit and fifth in terms of insurance premium received, principally due to increased sales force, stable asset portfolio management and prudent risk management. We expect the insurance premium received by Shinhan Life Insurance to increase as a result of growing demands for both investment and annuity products and potential synergy effects from cross-selling between Shinhan Life Insurance and our banking and other subsidiaries.

Asset Management Services

In addition to personalized wealth management services provided as part of our private banking and securities brokerage services, we also provide asset management services through Shinhan BNP Paribas Asset Management, a joint venture with BNP Paribas Investment Partners, of which we and BNP Paribas Investment Partners hold 65:35 interests, respectively. Shinhan BNP Paribas Asset Management was formed on January 1, 2009 through the merger of Shinhan BNP Paribas Investment Trust Management, our 50:50 joint venture with BNP Paribas Investment Partners, and SH Asset Management, our wholly-owned subsidiary, in order to streamline our asset management services capabilities. Shinhan BNP Paribas Asset Management ranked fourth among asset managers in Korea in terms of assets under management as of December 31, 2012, and provides a wide range of investment products, including traditional equity/fixed income funds as well as alternative investment products, to retail and institutional clients. As a joint venture with BNP Paribas Investment Partners, we believe Shinhan BNP Paribas Asset Management has significantly benefited from BNP Paribas s global network of investment professionals and expertise in the asset management industry. As of December 31, 2012, Shinhan BNP Paribas Asset Management had assets under management amounting to approximately 33 trillion. To a limited extent, Shinhan Investment also provides asset management services for discretionary accounts, see Securities Brokerage Services.

In 2013, we expect the activity level in the asset management industry, including fund formation activities, to remain similar to 2012 due to uncertainties surrounding the domestic and international economy, with the exception of the discretionary investment market, which is expected to continue to grow due to expanded use of such services by large institutional investors, such as the National Pension Service.

Other Services

Through our other subsidiaries, we also provide leasing and equipment financing, regional banking and investment banking, advisory services, collective investment management services, private equity investment advisory services, savings banking and system development services.

Leasing and Equipment Financing

We provide leasing and equipment financing services to our corporate customers mainly through Shinhan Capital. Established as a leasing company in 1991, Shinhan Capital provides customers with leasing, installment financing and new technology financing, equipment leasing, and corporate credit financing. Shinhan Capital s strength has traditionally been in leasing of ships, printing machines, automobiles and other specialty items, but also offers other leasing and financing services, such as corporate restructuring services for financially troubled companies and financing provided to real estate development projects and infrastructure investments, and corporate leasing and equipment financing.

Regional Banking Services

We provide regionally focused commercial banking services, primarily in Jeju Island of Korea, through a majority-owned banking subsidiary, Jeju Bank. Jeju Bank provides retail banking, corporate banking, treasury and trust account management services, and has a network of 39 branches as of December 31, 2012.

Table of Contents

Other Investment Banking and Advisory Services

In addition to the investment banking services provided by Shinhan Bank and Shinhan Investment, during the first half of 2010, we also provided a variety of investment banking and advisory services through Shinhan Macquarie Financial Advisory, a 51:49 joint venture with Macquarie Bank of Australia. The advisory services offered by Shinhan Macquarie Financial Advisory included project and infrastructure finance, capital and debt raising, corporate finance advisory, structured finance, mergers and acquisitions, cross-border leasing and infrastructure and specialized fund management advisory services. On July 16, 2010, we decided to disaffiliate Shinhan Macquarie Financial Advisory. On August 19, 2010, we disposed of all our investments in Shinhan Macquarie Financial Advisory through the retirement of shares.

Loan Collection and Credit Reporting

We centralize credit collection and credit reporting operations for our subsidiaries through Shinhan Credit Information Co. Ltd., which also provides similar services to third party customers. We plan to expand Shinhan Credit Information s services to other areas such as credit inquiry, credit card rating, civil application/petition services, lease and rental research and advisory and consulting services related to non-performing loan management.

Collective Investment Administration Services

We provide integrated collective investment administration services through Shinhan AITAS Co., Ltd. which was established in 2000. Shinhan AITAS provides general management service, asset management systems, accounting systems and trading systems to asset management companies and institutional investors. The target customers for our collective investment administration services are asset managers, investment advisors and institutional investors, and we seek to provide Shinhan AITAS a comprehensive service package including the computation of the reference value for funds, evaluation of fund performance, provision of trading systems and fund-related legal administrative services.

Private Equity Investment Advisory Services

We provide investment advisory services in the areas of private equity investments through Shinhan Private Equity Investment Management, which was established in 2004.

Savings Banking

We provide savings banking services in accordance with the Mutual Savings Bank Act to customers that generally would not, due to their credit profile, qualify for our commercial banking services or who seek higher returns on their deposits than those offered by our commercial banking subsidiaries, through Shinhan Savings Bank, which was established in December 2011. Shinhan Savings Bank offers savings and other deposit products with relatively higher interest rates and loans (usually in relatively small amounts and on customer-tailored terms and including loans for which we receive credit support from the Government) primarily to small- to medium-sized enterprises and low income households who would not generally qualify for our commercial banking services. Shinhan Savings Bank has assumed the assets and liabilities of Tomato Savings Bank, which we acquired in January 2012, and has merged into Yehanbyoul Savings Bank, which we acquired in March 2013, with Yehanbyoul Savings Bank as the surviving entity with its name changed to Shinhan Savings Bank. Both Tomato Savings Bank and Yehanbyoul Savings Bank were facing liquidity troubles due to difficulties in the real estate project financing business as a result of the prolonged slump in the Korean real estate market at the time we acquired them. We closely monitor the business activities and product offerings of Shinhan Savings Bank to ensure its financial soundness.

Financial System Development Services

We provide financial system development services through Shinhan Data Systems, which was established in 1991 and offers system integration, system management, IT outsourcing, business process outsourcing and IT consulting services.

Table of Contents

Our Distribution Network

We offer a wide range of financial services to retail and corporate customers through a variety of distribution networks and channels established by our subsidiaries. The following table presents the geographical distribution of our distribution network based on the branch offices and other distribution channels of our principal subsidiaries, as of December 31, 2012.

***Distribution Channels in Korea*(1)**

	Shinhan Bank	Jeju Bank	Shinhan Card	Shinhan Investment	Shinhan Life Insurance	Total
Seoul metropolitan	408	2	10	53	79	552
Kyunggi province	210		7	15	45	277
Six major cities:	175	1	10	19	70	275
Incheon	59		2	3	20	84
Busan	41	1	3	6	17	68
Kwangju	13		1	2	9	25
Taegu	28		2	4	9	43
Ulsan	13		1	2	3	19
Taejon	21		1	2	12	36
Sub-total	793	3	27	87	194	1,104
Others	166	37	13	18	32	266
Total	959	40	40	105	226	1,370

Note:

(1) Includes our main office and those of our subsidiaries.

Banking Service Channels

Our banking services are primarily provided through an extensive branch network, specializing in retail and corporate banking services, as complemented by self-service terminals and electronic banking, as well as an overseas services network.

As of December 31, 2012, Shinhan Bank s branch network in Korea comprised of 949 service centers, consisting of 768 retail banking service centers, 11 corporate banking service centers primarily designed to serve large corporate customers and 170 hybrid banking branches designed to serve retail as well as small-business corporate customers. Shinhan Bank s banking branches are designed to provide one-stop banking services tailored to their respective target customers.

Retail Banking Channels

In Korea, many retail transactions are conducted in cash or with credit cards, and conventional checking accounts are generally not offered or used as widely as in other countries such as the United States. As a result, an extensive retail branch network plays an important role for Korean banks as customers generally handle most transactions through bank branches. Recently, one of the key initiatives at Shinhan Bank has been to target high net worth individuals through private banking. Our private banking services are provided principally through private banking relationship managers who, within target customer groups, assist clients in developing individual investment strategies. We believe that such relationship managers help us foster enduring relationships with our clients. Private banking customers also have access to Shinhan Bank s retail branch network and other general banking products Shinhan Bank offers through its retail banking operations.

Corporate Banking Channels

Shinhan Bank currently provides corporate banking services through corporate banking service centers primarily designed to serve large corporate customers and hybrid banking branches designed to serve retail as

Table of Contents

well as small-business corporate customers. Small- and medium-sized enterprises have traditionally been Shinhan Bank s core corporate customers and we plan to continue to maintain Shinhan Bank s strength vis-à-vis these customers.

Self-Service Terminals

In order to complement its banking branch network, Shinhan Bank maintains an extensive network of automated banking machines, which are located in branches and in unmanned outlets. These automated banking machines consist of ATMs, cash dispensers and passbook printers. As of December 31, 2012, Shinhan Bank had 333 cash dispensers and 7,423 ATMs. Shinhan Bank has actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. We believe that use of Shinhan Bank s automated banking machines has increased in recent years. In 2012, automated banking machine transactions accounted for a substantial portion and a majority of total deposit and withdrawal transactions of Shinhan Bank in terms of the number of transactions and fee revenue generated, respectively.

Electronic Banking

Shinhan Bank s Internet banking services are more comprehensive than those available at the counter, including such services as 24-hour account balance posting, real-time account transfer, overseas remittance and loan requests. Shinhan Bank also offers mobile banking services in order to enable customers to make speedy, convenient and secure banking transactions using mobile phones. As the purpose of electronic banking is primarily cost-saving rather than profit generation, the substantial majority of Shinhan Bank s electronic banking transactions do not generate fee income.

Overseas Distribution Network

The table below sets forth Shinhan Bank s overseas banking subsidiaries and branches as of December 31, 2012.

Business Unit	**Location**	**Year Established or Acquired**
Subsidiaries		
Shinhan Asia Ltd.	Hong Kong SAR, China	1982
Shinhan Bank Europe GmbH	Germany	1994
Shinhan Bank America	New York, U.S.A.	2003
Shinhan Bank (China) Limited	Beijing, China	2008
Shinhan Khmer Bank Limited	Cambodia	2007
Shinhan Bank Kazakhstan Limited	Kazakhstan	2008
Shinhan Bank Canada	Toronto, Canada	2009
Shinhan Bank Japan(1)	Tokyo, Japan	2009
Shinhan Bank Vietnam Ltd.(2)	Ho Chi Minh City, Vietnam	2011
Branches		
New York	U.S.A.	1989
Singapore	Singapore	1990
London	United Kingdom	1991
Mumbai	India	1996
Hong Kong	China	2006
New Delhi	India	2006
Vellore	India	2010
Representative Offices		
Mexico Representative Office	Mexico City, Mexico	2008
Uzbekistan Representative Office	Tashkent, Uzbekistan	2009

58

Notes:

(1) While Shinhan Bank established the subsidiary in Japan in 2009, Shinhan Bank has provided banking services in Japan through a branch structure since 1986.

(2) On November 28, 2011, two of Shinhan Bank s wholly-owned banking subsidiaries in Vietnam, Shinhan Vina and Shinhan Vietnam, merged to form Shinhan Bank Vietnam. Shinhan Vina, prior to its merger with Shinhan Vietnam, was a 50-50 joint venture established in 2000 between Shinhan Bank and Vietcombank, a state-owned bank of Vietnam. On November 11, 2011, Shinhan Bank acquired Vietcombank s 50% interest in Shinhan Vina to facilitate the merger. Shinhan Vietnam was established in 2009. Shinhan Bank has been providing banking services in Vietnam through a branch since 1995.

Currently, our overseas subsidiaries and branches are primarily engaged in trade financing and local currency funding for Korean companies and Korean nationals in the overseas markets, as well as providing foreign exchange services in conjunction with Shinhan Bank s headquarters. On a limited basis, these overseas branches and subsidiaries also engage in investment and trading of securities of foreign issuers. In the future, as part of our globalization efforts, we plan to expand our coverage of local customers in the overseas markets by providing a wider range of services in retail and corporate banking, and to that end, we have increasingly established subsidiaries in lieu of branches in select markets and in 2011 merged two of our Vietnam banking subsidiaries in order to enhance our presence and enable a greater flexibility in our service offerings in these markets.

Credit Card Distribution Channels

Shinhan Card primarily uses three distribution channels to attract new credit card customers: (i) the banking and credit card branch network, (ii) sales agents, and (iii) business partnerships and affiliations with vendors.

The branch network for our credit card operations consisted of 949 branches as of December 31, 2012 of Shinhan Bank and 12 card sales branches, eight debt collection branches and 16 combined operations branches (which includes card, installment and debt collection services) of Shinhan Card. The use of the established distribution network of Shinhan Bank is part of the group-wide cross-selling efforts of selling credit card products to existing banking customers. In 2012, the number of new cardholders acquired through our banking distribution network accounted for approximately 16.5% of the total number of new cardholders. We believe that the banking distribution network will continue to provide a stable and low-cost venue for acquiring high-quality credit cardholders.

The sales agents represented the most significant source of Shinhan Card s new cardholders in 2012, and the number of new cardholders acquired through sales agents accounted for approximately 62.0% of the total number of Shinhan Card s new cardholders in 2012. As of December 31, 2012, Shinhan Card had 5,408 sales agents, of which 5,008 were independent contractors and 400 were sales agents of Shinhan Card s business partners and affiliates. These sales agents assist prospective customers with the application process and customer service. Compensation of these sales agents is tied to the transaction volume and the repayment patterns of the customers introduced by them, and we believe this system helps to minimize credit risk and enhance profitability.

As a way of acquiring new cardholders, Shinhan Card also has business partnership and affiliation arrangements with a number of vendors, including gas stations, major retailers, airlines and telecommunication and Internet service providers. Shinhan Card plans to continue to leverage its alliances with such vendors to attract new cardholders.

Securities Brokerage Distribution Channels

Our securities brokerage services are conducted principally through Shinhan Investment. As of December 31, 2012, Shinhan Investment had 103 service centers nationwide, and two overseas subsidiaries based in New York and Hong Kong to service our corporate customers.

Approximately 62% of our brokerage branches are located in the Seoul metropolitan area with a focus on attracting high net worth individual customers as well as enhancing synergy with our retail and corporate banking branch network. We plan to continue to explore new business opportunities, particularly in the corporate customer segment, through further cooperation between Shinhan Investment and Shinhan Bank.

Table of Contents

Insurance Sales and Distribution Channels

We sell and provide our insurance services primarily through Shinhan Life Insurance. Shinhan Life Insurance, in addition to distributing bancassurance products through our bank branches, also distributes a wide range of life insurance products through its own branch network, an agency network of financial planners and telemarketers, as well as through the Internet. As of December 31, 2012, Shinhan Life Insurance had 225 branches and 13 customer support centers. These branches are staffed by financial planners, telemarketers, agent marketers and bancassurance to meet the various needs of our insurance and lending customers. Our group-wide customer support centers arrange for policy loans (namely loans secured by the cash surrender value of the underlying insurance policy) for our insurance customers and, to a limited extent, other loans to other customers, and also handle insurance payments.

Information Technology

We dedicate substantial resources to maintaining a sophisticated information technology system to support our operations management and provide high quality customer service. In 2008 we developed a single group-wide enterprise information technology system known as enterprise data warehouse in order to maximize the synergy between our subsidiaries. The enterprise data warehouse, which is being continuously upgraded, serves as the foundation to our enhanced customer relations management capabilities, our risk management system as well as our new data processing center currently under development for target completion by the end of 2014. Since 2009, we have operated our information and technology system at a group-wide level (rather than the previous subsidiary-specific level) based on a comprehensive group-wide information collection and processing.

In addition, we are currently continuing to upgrade the information technology systems for each of our subsidiaries to enhance the quality of our customer service specific to such subsidiary. We have completed the implementation of improved systems for Shinhan Life Insurance in November 2008 and Shinhan Investment in August 2009, and completed the IT integration for LG Card and former Shinhan Card in August 2008. With respect to Shinhan Bank, we have completed upgrading its electronic banking system in February 2012 and have been providing online consultation, expand sales services and customized informational services. In addition, we have enhanced our smartphone banking service by providing a more convenient and secure mobile platform. In addition, we are continuing to upgrade the information technology systems of Shinhan Bank s subsidiaries, on a global basis, to enhance the quality of the customer service specific to each such subsidiary, including the AITHER System, which has been implemented in Shinhan Bank s subsidiaries in Japan, China, the United States, Europe, India, Khmer, Kazakhstan, Canada and Vietnam.

Following the completion of upgrade in October 2012, Shinhan Card s information technology offers greater operational efficiency through enhanced software programs and data processing capabilities and quicker response time to on-floor requests.

During 2010, our information technology initiatives included installing a financial reporting system to comply with IFRS standards, which commenced on January 1, 2011, and is currently monitored to ensure stable operation. Since July 2011, we have operated a group-wide security control tower to enhance the security features of our information management systems on a group-wide level. In addition, in September 2011, we obtained for us and each of our subsidiaries the ISO 27001 certification, which certifies that we meet the international security standards for information management. Our current information technology initiatives include improving our group-wide security management system to further ensure secure financial transactions for our customers. Although we believe our ISO 27001 certified security management system is one of the most sophisticated in the industry, we are continuously upgrading our group-wide security monitoring system in order to preempt and counter evolving external cyber invasions such as distributed denial of service , or DDoS, attacks and security breaches such as that experienced by Nonghyup Bank. In March 2013, we experienced a temporary interruption in providing online financial services due to a large-scale cyber attack on the security systems of major broadcasting networks and financial institutions in Korea by sources that have yet to be identified. Interruption of our online financial services lasted approximately 90 minutes, after which our online system resumed without further malfunction. The Financial Supervisory Service is currently conducting an investigation into the incident, and we plan to adopt additional safety measures once the causes of such cyber attacks are identified. We do not believe such incident resulted in any material loss or loss of customer information or other sensitive data. Since 2008, our efforts to improve our information technology security capabilities on a group-wide level include upgrading our security guidelines, establishing an information technology security center, which includes a security help desk open 24 hours, seven days a week, creating a team dedicated to responding to security breaches, increasing investment in our security management system and strengthening our team of security experts. We plan to implement such upgrades in each of our business segments. We regularly diagnose and take appropriate measures to protect our system from potential security threats and maintain a dedicated team for this purpose.

Our information technology system for each of our subsidiaries is currently backed up on a real-time basis. We have established a completely duplicative back-up IT system in different locations in Korea, depending on the subsidiary, to provide a back-up system in the event of any system failure of our primary information technology center located in the suburbs of Seoul. See Item 4.D. Properties. Our information technology system at the group level is currently able to fully resume operation within an hour even in the case of a complete disruption of the information technology system at our headquarters.

Competition

Competition in the Korean financial services industry is, and is likely to remain, intense.

In the banking sector, Shinhan Bank competes principally with other national commercial banks in Korea, but also faces competition from a number of additional banking institutions, including branches and subsidiaries of foreign banks operating in Korea, regional banks, government-owned development banks and Korea s specialized banks, such as Korea Development Bank, the Industrial Bank of Korea and the National Association of Agriculture and Fisheries, as well as various other types of financial service providers, including savings institutions (such as mutual savings and finance companies, credit unions and credit cooperatives), investment companies (such as securities brokerage firms, merchant banking corporations and asset management companies) and life insurance companies. As of December 31, 2012, Korea had seven major nationwide domestic commercial banks (including Citibank and Standard Chartered Bank, both of which are domestic commercial banks acquired by global financial institutions), six regional commercial banks and branches and subsidiaries of 39 foreign banks. We believe that foreign financial institutions, many of which have greater experiences and resources than we do, will continue to enter the Korean market and compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions.

In the small- and medium-sized enterprise and retail banking segments, which have been Shinhan Bank s traditional core businesses, competition is expected to increase further, although in a more limited fashion compared to that prior to the recent global financial crisis. Prior to the crisis, most Korean banks, including Shinhan Bank, focused on enlarging their assets through aggressive loan growth from small- and medium-sized enterprises and retail customers and, to a lesser extent, from large corporate borrowers, while developing fee income businesses, including bancassurance and investment products, as complementary sources of revenue. Following the crisis, the Korean banks, including Shinhan Bank, are increasingly focusing on stable asset growth based on quality credit, such as corporate borrowers with high credit ratings, loans to small- and medium-sized and SOHO customers with high levels of collateralization, and mortgage and home equity loans within the limits of the prescribed loan-to-value ratios and debt-to-income ratios, while reducing their credit exposure to small- and medium-sized enterprises. This shift in focus toward stable growth based on less risky assets is likely to result in lower net interest margin and reduced overall profitability, especially as the banks compete for the same pool of quality credit by engaging in price competition or by other means. Shinhan Bank has traditionally focused, and will continue to focus on, enhancing profitability rather than increasing asset size or market share, and has avoided, to the extent practicable, engaging in price competition by way of lowering lending rates. Therefore, if competing financial institutions seek to expand market share by lowering their lending rates, Shinhan Bank may suffer customer loss, especially among customers who select their lenders principally on the basis of lending rates. In response thereto or for other strategic reasons, Shinhan Bank may subsequently lower their lending rates to stay competitive, which could lead to a decrease in its net interest margins and outweigh any positive impact on the net interest margin from a general rise in market interest rates. Any future decline in Shinhan Bank s customer base or its net interest margins could have an adverse effect on its results of operations and financial condition.

Table of Contents

In the credit card sector, Shinhan Card competes principally with existing monoline credit card companies, credit card divisions of commercial banks, consumer finance companies, other financial institutions and, recently, credit card service providers allied with mobile telecommunications service providers in Korea. Competition has been historically intense in this sector and the market has shown signs of saturation as existing and new credit card service providers, such as credit card companies spun off from KB Financial Group, made significant investments and engaged in aggressive marketing campaigns and promotions to acquire new customers and target customers with high credit quality. While competition has subsided somewhat recently due to stricter government regulations, such as curbs on excessive marketing expenses, competition remains intense and credit card issuers may continue to compete with Shinhan Card for customers by offering lower interest rates and fees, higher credit limits, more attractive promotions and incentives and alternative products such as phone cards, gift cards and low-interest consumer loan products. As a result, Shinhan Card may lose customers or service opportunities to competing credit card issuers and/or incur higher marketing expenses. In addition, recent Government regulations mandating lower merchant fees chargeable to small- and medium-sized businesses are likely to reduce the revenues of credit card companies, including Shinhan Card. Customer attrition, together with any further lowering of fees or reduction in base and market interest rates and/or additional expenses from more extensive marketing and promotional campaigns that Shinhan Card might implement to acquire and retain customers, could reduce its revenues and earnings. Furthermore, the average credit quality of Shinhan Card s customers may decline if customers with higher credit quality borrow from Shinhan Card s competitors rather than from Shinhan Card.

In other financial services sectors, our other subsidiaries also compete in highly fragmented markets. Some of our competitors, particularly the major global financial institutions, have greater experience and resources than we do.

Consolidation among our rival institutions may also add competition in the markets in which we and our subsidiaries conduct business. The Korean banking industry may undergo further consolidation either voluntarily or as part of government-led initiatives. Some of the financial institutions resulting from these developments may, by virtue of their increased size, expanded business scope and more efficient operations, provide greater competition for us. For example, the Government plans to eventually privatize Korea Development Bank, one of the Government s key policy banks. In January 2010, the Government announced its intent to sell its controlling stake in Woori Financial Group, one of the top three financial holding companies in Korea in terms of assets as of December 31, 2012 with a similarly ranked banking operation. If Woori Financial Group or any of its major operating subsidiaries were to be acquired by a rival bank or financial holding company, the consolidated entity will have a greater scale of operations, including a larger customer base, and financial resources than us, which may hurt our ability to compete effectively. In addition, in February 2012, Hana Financial Group, which owns and operates Hana Bank, one of the major commercial banks in Korea, received the regulatory approval to acquire a controlling equity interest in Korea Exchange Bank, another major commercial bank in Korea, from Lone Star Funds, and in April 2013 Korea Exchange Bank became a wholly-owned subsidiary of Hana Financial Group and was delisted. In March 2012, the National Agricultural Cooperative Federation, another policy bank of the Government, was reorganized into a holding company structure pursuant to which several of its financial business units were spun off into separate subsidiaries, including banking, life insurance and non-life insurance units. Furthermore, former specialized banking institutions, such as the National Agricultural Cooperative Federation and Industrial Bank of Korea, are in the course of actively expanding their retail operations. Any of these developments may place us at a competitive disadvantage and outweigh any potential benefit to us in the form of opportunities to acquire new customers who are displeased with the level of services at the newly reorganized entities or to provide credit facilities to corporate customers who wish to maintain relationships with a wide range of banks in order to diversify their sources of funding.

As the Korean economy further develops and new business opportunities arise, more competitors may enter the financial services industry. Recently, banks are beginning to compete for new customers and it is likely that competition between bank-operated credit card companies and independent card companies will increase substantially. For example, in 2009, Hana SK Card was launched through a partnership between Hana Financial Group Inc. and SK Telecom. In addition, in November 2011, BC Card became a subsidiary of KT Group while the KDB Group and Korea Post have recently announced their intentions to enter the credit card industry.

Furthermore, large non-financial institutions, such as mobile telecommunications companies, have also been reported to be considering entry into the Korean credit card and consumer finance businesses, by way of convergence with the existing and future mobile telephone networks. SK Telecom, Korea Telecom and LG Uplus have been actively providing mobile phone payment services through payment solutions tailored for smartphones. As these companies are the three largest telecommunications service providers in Korea serving a substantial majority of the Korean population, a widespread consumer acceptance of mobile phone payment services in lieu of credit card services could pose a serious competitive threat to the existing credit card service providers, including our credit card subsidiary.

Competition in the Korean financial services industry may also intensify as a result of deregulation. For example, the Financial Investment Services and Capital Markets Act, which became effective in February 2009, promotes integration and rationalization of the Korean capital markets and financial investment products industry by permitting a wider range of financial services providers to engage in a broader sphere of financial activities, including depositary services, and has, to a significant extent, removed the regulatory barriers between securities brokerage, asset management, derivative financial services and trust services in favor of creating financial investment companies that may engage in all of the foregoing activities. Accordingly, the Financial Investment Services and Capital Markets Act enables the creation of large financial institutions that can offer both commercial and investment banking services modeled after the major global financial institutions based in the United States and Europe. In addition, in 2008, the Korean legislature proposed an amendment to the Bank Act, which would permit certain qualified entities to provide online banking services as their primary business without being required to establish a branch network. Such amendment, if passed, may further intensify competition in the Korean banking industry. Recently, in light of the recent global financial crisis, the Government has subjected Korean financial institutions to stricter regulatory requirements and guidelines in areas of asset quality, capital adequacy, liquidity and residential and other lending practices, which has had a dampening effect on competition. However, there is no assurance that these measures will continue to curb competition or that the Government will not reverse or reduce such measures or introduce other deregulatory measures, which may further intensify competition.

If we are unable to compete effectively in the changing business and regulatory environment, our profit margin and market share may erode and our future growth opportunities may become limited, which could adversely affect our business, results of operations and financial condition. See Item 3.D. Risk Factors Risks Relating to Our Overall Business Competition in the Korean financial services industry is intense, and may further intensify as a result of further deregulation and Item 4.B. Business Overview Supervision and Regulation Financial Investment Services and Capital Markets Act.

Table of Contents

Description of Assets and Liabilities

Loans

As of December 31, 2012, our total gross loan portfolio was 202,275 billion, which represented an increase of 3.70% from 195,055 billion at December 31, 2011. The increase in our portfolio primarily reflects a 2.46% increase in corporate loans and a 3.89% increase in mortgages and home equity loans.

Loan Types

The following table presents our loans by type for the periods indicated. Except where specified otherwise, all loan amounts stated below are before deduction for loan loss allowances. Total loans reflect our loan portfolio, including past due amounts.

	As of December 31,		
	2010	2011	2012
	(In billions of Won)		
Corporate			
Corporate loans(1)	95,835	98,598	101,025
Public and other(2)	2,771	4,930	3,107
Loans to banks(3)	1,467	2,557	4,537
Lease financing	1,555	1,639	1,699
Total Corporate	101,628	107,724	110,368
Retail			
Mortgages and home equity	40,073	44,399	46,128
Other retail(4)	24,901	25,052	27,925
Total Retail	64,974	69,451	74,053
Credit cards	17,647	17,880	17,854
Total loans(5)	184,249	195,055	202,275

Notes:

(1) Consists primarily of working capital loans, general purpose loans, bills purchased and trade-related notes and excludes loans to public institutions and commercial banks.

(2) Consists of working capital loans and loan facilities to public institutions and non-profit organizations.

(3) Consists of interbank loans and call loans.

(4) Consists of general unsecured loans and loans secured by collateral other than housing to retail customers.

(5) As of December 31, 2010, 2011 and 2012, approximately 89.25%, 88.76% and 89.56% of our total gross loans, respectively, were Won-denominated.

Loan Portfolio

The total exposure of us or our banking subsidiaries to any single borrower and exposure to any single group of companies belonging to the same conglomerate is limited by law to 20% and 25%, respectively, of the Net Total Equity Capital (as defined in Supervision and Regulation).

Table of Contents

Twenty Largest Exposures by Borrower

As of December 31, 2012, our 20 largest exposures, consisting of loans, securities and guarantees and acceptances, totaled 45,383 billion and accounted for 17.76% of our total exposures. The following table sets forth our total exposures to these top 20 borrowers as of December 31, 2012.

	Loans in Won Currency	Loans in Foreign Currency	Securities	Guarantees and Acceptances	Total Exposure	Impaired Loans and Guarantees and Acceptances
			(In billions of Won)			
Ministry of Strategy and Finance			8,139		8,139	
The Bank of Korea	2,560		4,628		7,188	
Industrial Bank of Korea	503	44	2,885		3,432	
Hyundai Heavy Industries Co., Ltd.	28	109	538	2,739	3,414	
Korea Development Bank	12	92	3,132		3,237	
Korea Finance Corporation			3,028		3,028	
Korea Deposit Insurance Corporation			2,978		2,978	
Korea Land & Housing Corporation			1,842		1,842	
Samsung Heavy Industries Co., Ltd.		82	61	1,484	1,626	
The Korea Securities Finance Corporation	31		1,329		1,360	
Woori Bank	319	39	956	3	1,318	
Nonghyup Bank	90		910		1,000	
POSCO	36	189	712	28	965	
Songdo Cosmopolitan City Development Inc.	888				888	
Samsung C&T Corporation	41	56	461	304	861	
Korea Electric Power Corporation	1		828	8	837	
The Export-Import Bank of Korea			836		836	
Hana Bank	32	42	760		834	
Kookmin Bank	144	5	678		827	
Hyundai Samho Heavy Industries Co., Ltd.		19	50	704	773	
Total	4,685	677	34,751	5,270	45,383	

65

Table of Contents

Exposure to Main Debtor Groups

As of December 31, 2012, 11.73% of our total exposure was to the 34 main debtor groups, which are largely comprised of *chaebols*. The following table shows, as of December 31, 2012, our total exposures to the ten main debtor groups to which we have the largest exposure.

Main Debtor Groups	Loans in Won Currency	Loans in Foreign Currency	Securities	Guarantees and Acceptances	Others	Total Exposure	Amounts of Impaired Loans and Guarantees and Acceptances
				(In billions of Won)			
Hyundai Heavy Industries	134	207	600	3,731		4,672	
Samsung	338	902	1,196	2,117		4,553	
Hyundai Motors	1,370	1,458	757	334		3,919	
SK	689	774	1,151	1,005		3,618	
LG	1,510	326	275	77		2,188	
POSCO	217	338	830	342		1,726	
Lotte	361	120	684	333	1	1,498	
GS	268	274	227	270		1,040	
LS	189	308	197	309		1,004	
Hyosung	251	463	17	147		878	
Total	5,327	5,170	5,934	8,665	1	25,096	

Loan Concentration by Industry

The following table shows the aggregate balance of our corporate loans by industry concentration as of December 31, 2012.

Industry	Aggregate Loan Balance (In billions of Won)	Percentage of Total Corporate Loan Balance (Percentages)
Manufacturing	33,945	30.77%
Retail and wholesale	13,876	12.57%
Real estate, leasing and service	17,623	15.97%
Construction	4,387	3.97%
Hotel and leisure	4,858	4.40%
Finance and insurance	9,182	8.32%
Transportation, storage and communication	5,562	5.04%
Other service	11,274	10.21%
Other	9,661	8.75%
Total	110,368	100.00%

Table of Contents

Maturity Analysis

The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of December 31, 2012. The amounts below are before deduction of attributable loan loss reserves.

	As of December 31, 2012			
	1 Year or Less	Over 1 Year but Not More Than 5 Years	Over 5 Years	Total
	(In billions of Won)			
Corporate:				
Corporate loans	75,663	20,697	4,665	101,025
Public and other	2,001	990	116	3,107
Loans to banks	3,841	582	114	4,537
Lease financing	617	922	160	1,699
Total corporate	82,122	23,191	5,055	110,368
Retail:				
Mortgage and home equity	8,309	10,547	27,272	46,128
Other retail	22,106	4,020	1,799	27,925
Total retail	30,415	14,567	29,071	74,053
Credit cards	16,360	1,135	359	17,854
Total domestic loans	128,897	38,893	34,485	202,275

We may roll over our corporate loans (primarily consisting of working capital loans and facility loans) and retail loans (to the extent not payable in installments) after we conduct our normal loan reviews in accordance with our loan review procedures. Working capital loans may be extended on an annual basis for an aggregate term of three to five years for unsecured loans and five years for secured loans. Facilities loans, which are generally secured, may generally be extended once for a maximum of five years from the date the relevant loan is initially made. Retail loans may be extended for additional terms of up to 12 months for an aggregate term of ten years for both unsecured loans and secured loans.

Interest Rate Sensitivity

The following table shows our loans by interest rate sensitivity as of December 31, 2012.

	As of December 31, 2012		
	Due Within 1 Year	Due After 1 Year	Total
	(In billions of Won)		
Fixed rate loans(1)	56,585	25,718	82,303
Variable rate loans(2)	69,043	50,929	119,972
Total gross loans	125,628	76,647	202,275

Notes:

(1) Fixed rate loans are loans for which the interest rate is fixed for the entire term of the loan.

(2) Variable or adjustable rate loans are for which the interest rate is not fixed for the entire term of the loan.

For additional information regarding our management of interest rate risk, see Risk Management.

Nonaccrual Loans and Past Due Accruing Loans

Except in the case of repurchased loans, we generally recognize interest income on nonaccrual loans using the rate of interest used to discount the future cash flows of such loans for the purpose of measuring impairment

67

loss. Generally, we discontinue accruing of interest on loans (other than repurchased loans) when payment of interest and/or principal becomes past due by 90 days. Loans (other than repurchased loans) are not reclassified as accruing until interest and principal payments are brought current.

We generally do not request borrowers to make immediate repayment of the whole outstanding principal balances and related accrued interest on loans whose interest payments are past due for one to 14 days in case of commercial loans and one to 30 days in case of retail loans.

Interest foregone is the interest due on nonaccrual loans that has not been accrued in our books of account. In 2010, 2011 and 2012 we would have recorded gross interest income of 145 billion, 131 billion and 163 billion, respectively, on loans accounted for on a nonaccrual basis throughout the respective years, or since origination for loans held for part of the year, had the loans been current with respect to their original contractual terms. The amount of interest income on those loans that was included in our net income in 2010, 2011 and 2012 were 52 billion, 66 billion and 70 billion, respectively.

The following table shows, at the dates indicated, the amount of loans that are placed on a nonaccrual basis and accruing loans which are past due one day or more. The term accruing but past due one day includes loans which are still accruing interest but on which principal or interest payments are contractually past due one day or more. We continue to accrue interest on loans where the total amount of loan outstanding, including accrued interest, is fully secured by cash on deposits.

	As of December 31,		
	2010	2011	2012
	(In billions of Won)		
Loans accounted for on a nonaccrual basis(1)			
Corporate	1,813	1,621	1,642
Retail	155	239	416
Credit cards	155	152	215
Sub-total	2,123	2,012	2,273
Accruing loans which are contractually past due one day or more as to principal or interest			
Corporate	263	224	245
Retail	369	482	354
Credit cards	432	576	633
Sub-total	1,064	1,282	1,232
Total	3,187	3,294	3,505

Note:

(1) Represents either loans that are troubled debt restructuring as defined under IFRS or loans for which payment of interest and/or principal became past due by 90 days or more (adjusting for any overlap due to loans that satisfy both prongs so as to avoid double counting).

Troubled Debt Restructurings

The following table presents, at the dates indicated, our loans which are troubled debt restructurings as defined under IFRS. These loans mainly consist of corporate loans that have been restructured through the process of workout, court receivership and composition. See Credit Exposures to Companies in Workout, Court Receivership and Composition. These loans accrue interest at rates lower than the original contractual terms, or involve the extension of the original contractual maturity as a result of a variation of terms upon restructuring.

	As of December 31,		
	2010	2011	2012
	(In billions of Won)		
Loans classified as troubled debt restructurings (excluding nonaccrual and past due loans)(1)	193	75	173

Table of Contents

Note:

(1) The total amount of loans classified as troubled debt restructurings, including nonaccrual and past due loans, amounted to 1,275 billion, 1,009 billion and 868 billion for the year ended December 31, 2010, 2011 and 2012, respectively.

For the year ended December 31, 2010, 2011 and 2012, interest income that would have been recorded under the original contract terms of restructured loans amounted to 69 billion, 42 billion and 74 billion, respectively, out of which 31 billion, 14 billion and 20 billion was reflected as our interest income, respectively.

The following table presents a breakdown of the outstanding balance and specific allowance for loan losses as of December 31, 2012 of corporate loans classified as troubled debt restructurings under IFRS by the type of restructuring to which such loans are subject. The table provides a breakdown of the total amount of troubled debt restructurings (including nonaccrual and past due loans) for purposes of enhanced disclosure.

	As of December 31,					
	2010		2011		2012	
	Outstanding Balance	Allowance	Outstanding Balance	Allowance	Outstanding Balance	Allowance
	(In billions of Won)					
Corporate loans classified as troubled debt restructurings (1):						
Workout	1,201	651	752	351	683	276
Court receivership & Composition	73	31	250	38	185	20
Others(2)	1	1	7	5		
Total	1,275	683	1,009	394	868	296

Notes:

(1) Includes nonaccrual and past due loans.

(2) Principally consists of loans subject to corporate turnaround or corporate reorganization pursuant to the Debtor Rehabilitation and Bankruptcy Act (also known as the Consolidated Insolvency Act).

With respect to the retail loans (including nonaccrual and past due loans) subject to workouts under the pre-workout program for retail borrowers (which loans are not part of the aforementioned corporate loans and therefore not included in the table above), the outstanding loan balance and specific allowance for loan losses amounted to 70 billion and 58 billion, respectively, as of December 31, 2010, 68 billion and 54 billion, respectively, as of December 31, 2011 and 60 billion and 46 billion, respectively, as of December 31, 2012. For more information on the pre-workout program, see Credit Exposures to Companies in Workout, Court Receivership or Composition Credit Rehabilitation Programs for Delinquent Consumer and Small- and Medium-sized Enterprise Borrowers.

As of December 31, 2010, 2011 and 2012, the amount of restructured loans that are considered impaired and classified as nonaccrual pursuant to our general interest accrual policy as described below was 1,082 billion, 934 billion and 695 billion, respectively. In 2010, 2011 and 2012, the charge-off on restructured loans amounted to 261 billion, 259 billion and 179 billion, respectively, of which 49 billion, 46 billion and 109 billion, respectively, were related to loans converted into equity securities as part of restructuring.

Credit Exposures to Companies in Workout, Court Receivership or Composition

Our credit exposures to restructuring are managed and collected by our Corporate Credit Collection Department. As of December 31, 2012, 0.4% of our total loans, or 868 billion (of which 695 billion was classified as nonaccrual and 173 billion was classified as accruing), was under restructuring. Restructuring of our credit exposures principally takes the legal form of workout, court receivership or composition.

Workout

Under the Corporate Restructuring Promotion Act, which was in effect from August 2007 to April 29, 2011, and became reinstated on May 19, 2011 to remain effective until December 31, 2013, all creditors to borrowers that are financial institutions are required to participate in a creditors committee. The Corporate Restructuring Promotion Act mandatorily applies to a wide range of financial institutions in Korea, which include commercial banks, insurance companies, asset management companies, securities companies, merchant banks, the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation. Under this act, the approval of financial institution creditors holding not less than 75% of the total debt outstanding of a borrower is required for such borrower s restructuring plan, including debt restructuring and provision of additional funds, which plan is binding on all the financial institution creditors of the borrower, provided that any financial institution creditor that disagrees with the final restructuring plan approved by the creditors committee has the right to request the creditors committee to purchase its claims at a mutually agreed price. In the event that the creditors committee and the dissenting financial institution creditor fail to come to an agreement, a mediation committee consisting of seven experts is set up to resolve the matter. There is a risk that these procedures may require us to participate in a plan we do not agree with or may require us to sell our claims at prices that we do not believe are adequate. With respect to any workout for which the lead creditor bank called for a meeting of the creditors committee while the old Corporate Restructuring Promotion Act was still effective, the procedures applicable to such creditors committee and the related workout remain subject to the old Corporate Restructuring Promotion Act until the suspension or conclusion of such workout, provided that such workout became subject to the procedures under the reinstated Corporate Restructuring Promotion Act as of its effective date, as opposed to the old Corporate Restructuring Promotion Act, even if such workout began while the old law was in effect. Under the reinstated Corporate Restructuring Promotion Act, if any of our borrowers becomes subject to corporate restructuring procedures, we may be forced to (i) restructure our credits pursuant to restructuring plans approved by other creditor financial institutions holding 75% or more of the total outstanding debt (and 75% or more of the total outstanding secured debt, if the restructuring plan includes the restructuring of existing secured debt) of the borrower or (ii) dispose of our credits to other creditors on unfavorable terms.

The total loan amount currently undergoing workout as of December 31, 2012 was 683 billion.

Court Receivership and Composition

The Debtor Rehabilitation and Bankruptcy Act, which took effect on April 1, 2006, is designed to consolidate all existing bankruptcy-related laws in Korea, namely the Corporate Reorganization Act, the Composition Act, the Bankruptcy Act and the Individual Debtor Recovery Act. Under the Debtor Rehabilitation and Bankruptcy Act, composition proceedings have been abolished and recovery proceedings have been introduced to replace the court receiverships. In a recovery proceeding, unlike court receivership proceedings where the management of the debtor company was vested in a court appointed receiver, the existing chief executive officer of the debtor company may continue to manage the debtor company, provided, that (i) neither fraudulent conveyance nor concealment of assets existed, (ii) the financial failure of the debtor company was not due to gross negligence of such chief executive officer, and (iii) no creditors meeting was convened to request, based on reasonable cause, a court-appointed receiver to replace such chief executive officer. While a court receivership proceeding was permitted only with respect to joint stock companies (*chushik-hoesa*), the recovery proceeding may be commenced by any insolvent debtor. Furthermore, in an effort to meet the global standards, international bankruptcy procedures have been introduced in Korea under which a receiver of a foreign bankruptcy proceeding may, upon receiving Korean court approval of the ongoing foreign bankruptcy proceeding, apply for or participate in a Korean bankruptcy proceeding. Similarly, a receiver in a domestic recovery proceeding or a bankruptcy trustee is allowed to perform its duties in a foreign country where an asset of the debtor is located to the extent the applicable foreign law permits.

Any composition, corporate reorganization, bankruptcy and rehabilitation proceedings for individual debtors pending as of April 1, 2006, the effective date of the Debtor Rehabilitation and Bankruptcy Act, continue to proceed in accordance with the respective applicable laws.

As of December 31, 2012, the total loan amount subject to composition proceedings was 185 billion. No loan amount was subject to court receivership.

Table of Contents

Loans in the process of workout, court receivership or composition are reported as nonaccrual loans on our statements of financial position as described in Nonaccrual Loans and Past Due Accruing Loans above since generally, they are past due by more than 90 days and interest does not accrue on such loans. Restructured loans that meet the definition of a troubled debt restructuring are included within Troubled Debt Restructurings described above. Such restructured loans are disclosed as either loans or securities on our statements of financial position depending on the type of instrument we receive after the restructuring.

Credit Rehabilitation Programs for Delinquent Consumer and Small- and Medium-sized Enterprise Borrowers

In light of the gradual increase in delinquencies in credit card and other consumer credit, the Korean government has implemented a number of measures intended to support the rehabilitation of the credit of delinquent consumer borrowers. These measures may affect the amount and timing of our collections and recoveries on our delinquent consumer credits.

Under the Debtor Rehabilitation and Bankruptcy Act, a qualified individual debtor with outstanding debts in an aggregate amount not exceeding threshold amounts of 500 million of unsecured debt and/or 1 billion of secured debt may restructure his or her debts through a court-supervised debt restructuring that is binding on creditors.

In 2008, in order to support consumer borrowers with low credit scores, the Financial Services Commission established the Credit Rehabilitation Fund to purchase from creditors the loans of such borrowers that are in default and to provide guarantees so that such loans may be refinanced at lower rates. The Credit Rehabilitation Fund provides support to (i) individuals with low credit scores who are in default on loans not exceeding 30 million in principal amount in the aggregate (which requirement will be waived for individuals who are basic living welfare recipients) for a period of three months or more and (ii) individuals with low credit scores ranging from category 7 to 10 who are in default on loans not exceeding 30 million in principal amount in the aggregate (which requirement will be waived for individuals who are basic living welfare recipients) and the interest rate of which is 20% or more. We did not sell any loans to the Credit Rehabilitation Fund in 2012.

In 2008, the Financial Supervisory Service requested Korean banks, including us, to establish a fast track program to provide liquidity assistance to small- and medium-sized enterprises on an expedited basis. Under the fast track program we established, which is effective until the end of 2013, we provided liquidity assistance to small- and medium-sized enterprise borrowers applying for such assistance, in the form of new short-term loans or maturity extensions or interest rate adjustments with respect to existing loans, after expedited credit review and approval by us.

In 2009, the Financial Services Commission requested Korean banks, including us, to establish a pre-workout program, including a credit counseling and recovery service, for retail borrowers with short-term outstanding debt. The pre-workout program is expected to be in operation until April 2013. Our pre-workout program is generally available to retail borrowers meeting all of the following requirements: (i) borrowings from at least two financial institutions not exceeding 500 million in the aggregate; (ii) payment default of more than 30 days but less than 90 days; (iii) all borrowings newly made within six months prior to the application for the pre-workout program not to exceed 30% of the applicant s total outstanding borrowings; (iv) the annual aggregate amount of principal and interest payment obligations being 30% or more of the borrower s annual income; (v) assets in possession of less than 600 million as calculated by the National Tax Service; and (vi) a person deemed by the pre-workout committee to be impaired in his or her ability to repay without a pre-workout arrangement due to layoff, unemployment, business closure, disaster or earnings loss. Retail borrowers who fail any of these requirements, have previously participated in the pre-workout program or have lost eligibility in the course of participating in a previous pre-workout program are ineligible to participate in the pre-workout program.

Once a borrower is deemed to be eligible to participate in the pre-workout program, we promptly sell the collateral underlying such borrower s secured loans to mitigate our losses, and we may restructure such borrower s unsecured loans (regardless of their type) as follows:

- *Extension of maturity*: Based on considerations of the type of loan, the total loan amount, the repayment amount and the probability of repayment, the maturity of the loan may be extended by up to 10 years.

Interest rate adjustment: The interest rate of the loan may be adjusted to 70% of the original interest rate or 5% per annum, whichever is higher; *provided that* if the original interest rate is less than 5% per annum, no adjustment applies. The adjusted interest rate applies to the principal amount following any adjustment thereto as part of the pre-workout program, and no interest accrues on the interest already accrued or fees payable.

Debt forgiveness: Debt forgiveness under the pre-workout program is limited to (i) the default interest accrued prior to the application for the pre-workout program and (ii) the regular and default interest accrued following such application but before the approval of the program.

Deferral: If the foregoing three measures are deemed to be insufficient in terms of providing meaningful assistance to a qualifying borrower due to layoff, unemployment, business closure, disaster or earnings loss, loan repayment may be deferred for a maximum of one year, *provided that* the pre-workout committee may extend such deferral period upon the borrower s application which can be made at a one-month interval. The deferral period is not counted toward the repayment period, and interest accrues at 3% per annum during the deferral period.

In 2010, 2011 and 2012, loans in the aggregate amounts of 70 billion, 70 billion and 60 billion were modified under Shinhan Bank s pre-workout program, respectively. All such modified loans became beneficiaries of maturity extension and interest rate reductions, while a substantially limited portion of such loans also became beneficiaries of debt forgiveness and deferral.

Loan Modification Programs for Loans Under Restructuring

We generally offer the following types of concessions in relation to restructured loans: reduction of interest rate, forgiveness of overdue interest, extension of the term for repayment of principal, conversion of debt into equity or the combination of the foregoing. The nature and degree of such concessions vary depending on, among other things, the creditworthiness of the borrower, the size of loans being restructured, the existing terms of the loans and other factors deemed relevant by the relevant creditors committee. We generally do not restructure an existing loan into multiple new loans (for example, an A Note/B Note structure).

The following table presents a breakdown of the gross amount of loans under restructuring as of December 31, 2010, 2011 and 2012 by our loan modification programs, as further categorized according to the loan category and performing versus nonperforming status.

		2010	
Modification Programs	**Non-performing**	**Performing** **(In billions of Won)**	**Total**
Extension of due date for principal and interest	20	177	197
Reduction of interest rate	155	241	396
Forgiveness of principal			
Equity conversion	15	10	25
Additional lending(1)	3	233	236
Others(2)	51	370	421
Total	244	1,031	1,275

		2011	
Modification Programs	**Non-performing**	**Performing** **(In billions of Won)**	**Total**
Extension of due date for principal and interest	43	340	383
Reduction of interest rate	40	213	253
Forgiveness of principal		1	1
Equity conversion		46	46
Additional lending(1)	1	97	98
Others(2)	63	165	228

Total	147	862	1,009

Modification Programs	Non-performing	2012 Performing (In billions of Won)	Total
Extension of due date for principal and interest	4	142	146
Reduction of interest rate	90	322	412
Forgiveness of principal			
Equity conversion	3		3
Additional lending(1)		179	179
Others(2)	51	77	128
Total	148	720	868

Notes:

(1) Represents additional loans provided to the borrower at favorable terms as part of the restructuring package, which may include extension of the due date or reduction of interest rate, among others.

(2) Principally consists of restructured loans whose restructuring terms were not determined as of December 31, 2012. A loan is deemed to be subject to restructuring upon the commencement of the composition or court receivership proceedings or when the relevant creditors committee or our credit officer determines that the borrower will be subject to workout, and in many cases the restructuring terms for such loans are not determined at the time such loans are deemed to be subject to restructuring.

Debt-to-equity Conversion

We distinguish between loans that we consider to be collectible under modified terms and loans that we consider to be uncollectible regardless of any modification of terms. With respect to a loan that we consider to be uncollectible regardless of any modification of terms, we convert a portion of such loan into equity securities following negotiation with the borrower and charge off the remainder of such loan as further described below. The equity securities so converted are recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable. In 2012, we converted into equity securities restructured loans amounting to 109 billion, of which 84 billion was subsequently treated as charge-off and 25 billion was treated as the new cost basis of the equity securities.

Debt-to-equity conversion has two primary benefits. One, the debt-to-equity conversion reduces the amount of loans and related interest expenses of the borrower, resulting in lesser debt burden and greater liquidity for the borrower, a greater likelihood of its exit from restructuring and the repayment of its obligations to us. Two, in the case of a successful turnaround of the borrower, we are entitled to the upside gains from the increase in the value of the equity securities so converted. Notwithstanding these benefits, however, the resulting impact from the debt-to-equity conversion on our interest income is generally not material as the loans being converted as part of restructuring are generally deemed to be uncollectible regardless any modification of terms. As for the impact on our asset classification, we generally apply the same asset classification standards to both non-restructured and restructured loans. As for restructured loans, we also consider additional factors such as the borrower s adherence to its business plans and execution of the self-help measures, among others, to the extent applicable. In consideration of such criteria, we generally classify loans subject to workout as precautionary . For a general discussion of our loan classifications, see Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

Evaluation of Loan Modification Programs

We currently do not conduct a systematic or quantitative evaluation of the success of any particular concession by type, whether historically, relative to each other or relative to other financial institutions in Korea, although we do monitor on an individual basis the compliance by the borrower with the modified terms of the restructured loans. This is principally due to the following reasons.

One, in the case of large corporations subject to or about to be subject to restructuring, which represents the most significant restructuring cases in Korea, the restructuring process is generally not driven by us, but by a

creditors committee involving several large creditor financial institutions, and in the case of very large corporations or corporations that are members of large business conglomerates, the process frequently involves the guidance of the Government in light of the potential ripple effects of the restructuring on the general economy. Hence, it is difficult for us to collect data that would help us to evaluate the success of a particular concession based on the credit profile of the borrower and the type of concessions offered.

Two, the unavailability of systematic analysis notwithstanding, our general sense is that the restructuring cases in Korea have, to a large part, been successful as measured in terms of the ability of the borrowers to exit restructuring programs relatively quickly and further that the failed cases have not been particularly material. As a result, to date, we have not found it particularly necessary or helpful to expend the time and resources required to conduct a systematic analysis for purposes of evaluating the success of concessions by the type of a particular concession offered.

We do, however, measure the success of concessions in limited ways, that is, principally in terms of how well the borrower complies with the terms and conditions of the restructuring plan as agreed between the borrower and its creditor institutions. A restructuring plan typically includes a business plan and self-help measures to be undertaken by the borrower. We monitor the borrower s compliance with the restructuring plan on a periodic basis (namely, annual, semiannual or quarterly in accordance with the terms of the restructuring plan) and evaluate the success thereof principally in terms of three attributes: (i) the progress in the execution of the business plan, (ii) the progress in the execution of the self-help measures and (iii) other qualitative factors such as major developments in the general economy, the regulatory environment, the competitive landscape, the quality of senior management and personnel, and transparency in management. We also closely monitor the cash inflows and outflows of the borrower, and the creditors committee typically has the right to participate in decision-making related to major spending and borrowings by the borrower.

Accrual Policy for Restructured Loans

For purposes of our accrual policy, we classify restructured loans principally into (i) loans subject to workout pursuant to the Corporate Restructuring Promotion Act and (ii) loans subject to court receivership or composition pursuant to the Debtor Rehabilitation and Bankruptcy Act, which is the comprehensive bankruptcy-related law in Korea. See Credit Exposures to Companies in Workout, Court Receivership or Composition. As for loans subject to workout, our general policy is to discontinue accruing interest on a loan when payment of principal and/or interest thereon becomes past due by 90 days or more, as described above in Nonaccrual Loans and Past Due Accruing Loans. Interest is recognized on these loans on a cash basis (i.e., when collected) from the date such loan is reclassified as non-accruing, and such loans are not reclassified as accruing until the overdue principal and/or interest amounts are paid in full. This general policy also applies to loans subject to workout even if such loans are restructured loans. In the case of loans subject to court receivership or composition, we discontinue accruing interest immediately upon the borrowers becoming subject to court receivership or composition (notwithstanding the absence of delinquency of such loans) in light of the heightened uncertainty regarding the borrower s ability to repay, interest on such loans are recognized on a cash basis and such loans are not reclassified as accruing until the borrower exits court receivership or composition, as the case may be. Accordingly, under to our accrual policy, the number of payments made on a nonaccrual restructured loan is not a relevant factor in determining whether to reinstate such loan to accrual status.

Determination of Performance of Restructured Loans

In determining whether a borrower has satisfactorily performed under the previous terms of the loan, we principally review the payment history of the borrower, namely whether the borrower has been delinquent by one day or more pursuant to our general interest accrual policy. In determining whether a borrower has shown the capacity to continue to perform under the restructured terms, we primarily rely upon the assessment of our credit officers (or the creditors committee in the case of large corporate borrowers with significant outstanding loans) of the likelihood of the borrower s ability to repay under the restructured terms, which assessment takes into account the size of the loans in question, the credit profile of the borrower, the original terms of the loans and other factors deemed relevant by the relevant credit officers. Depending on various factors such as the size of the loans in question and the credit profile of the borrower, we or the relevant creditors committee, as the case may

Table of Contents

be, sometimes engage an outside advisory firm to perform further due diligence in order to supplement the aforementioned assessment. In certain cases, the borrowers also submit self-help proposals to facilitate obtaining the approval for restructuring, which measures are then also taken into consideration by our credit officers or the relevant creditors committees, as the case may be, in determining their future capacity to continue to perform under the restructured terms.

Charge-off of Restructured Loans

As for loans that we consider to be collectible under modified terms (for example, by extending the due date for the payment of principal and/or interest or reducing the interest rate below the applicable interest rate to a rate below the prevailing market rate, or a combination of the foregoing), we generally restructure such loans under the modified terms and do not charge off any portion of such loans.

As for loans that we consider to be uncollectible regardless of any modification of terms, we negotiate with the borrower to have a portion of such loans converted into equity securities (usually common stock) of the borrower in consideration, among others, of (i) the degree to which such conversion will alleviate the debt burdens and liquidity concerns of the borrower, (ii) our potential upside from the gain in the value of the equity securities compared to the likelihood of collection if the loans were not converted into equity securities, and (iii) the borrower s concerns regarding its shareholding structure subsequent to such conversion. We then charge off the remainder of the loans not so converted into equity securities. The value of the equity securities so converted are recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable.

Since we generally do not accrue interest on loans subject to court receivership or composition while we generally accrue interest on loans subject to workout unless past due by 90 days or more, charge-off is not a relevant factor we consider when determining the accrual status of a particular restructured loan.

We continue to accrue interest on restructured loans if we conclude that repayment of interest and principal contractually due on the entire debt is reasonably assured. Such conclusion is reached only after we have carefully reviewed the borrower s ability to repay based on the assessment, among others, of various factors such as the size of the loans in question and the credit quality of the borrower by our credit officer or the relevant creditors committee as supplemented by the due diligence by outside advisory firms, as the case may be.

Potential Problem Loans

During 2012, in order to enable a more systematic and real-time monitoring of loans with a significant potential of non-repayment, we implemented an early warning system . This system enables our management to determine potential problem loans to include all loans which have caused our management to have serious doubt as to the ability of the borrowers to comply with their respective loan repayment terms.

We classify potential problem loans as loans that are designed as early warning loans and reported to the Financial Services Commission. Early warning loans are extended to borrowers that have been (i) identified by our early warning system as exhibiting signs of credit risk based on the relevant borrower s financial data, credit information and/or transactions with banks and, following such identification and (ii) designated by our loan officers as potential problem loans on their evaluation of known information about such borrowers possible credit problems. Such loans are required to be reported on a quarterly basis to the Financial Services Commission. If a borrower s loans are designated as early warning loans pursuant to the process described above and included in our quarterly report to the Financial Services Commission, we consider such borrowers to have serious doubt as to their ability to comply with repayment terms in the near future. As of December 31, 2012, we had 1,691 billion of potential problem loans.

Provisioning Policy

We conduct periodic and systematic detailed reviews of our loan portfolios to identify credit risks and to establish the overall allowance for loan losses. Our management believes the allowance for loan losses reflects the best estimate of the probable loan losses incurred as of the date of each statement of financial position.

We first assess 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 we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

In assessing collective impairment, we rate and classify financial assets based on credit risk assessment or credit rating assessment process that takes into account asset type, industry, regional location, collateral type, delinquency and other relative factors.

Future cash flow of financial assets applicable to collective impairment assessment is estimated by using statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management s judgment as to whether current economic and credit conditions are such that the impairment losses are likely to be greater or less than suggested by historical modeling. In adjusting the future cash flow by historical modeling, the result has to be in line with changes and trends of observable data. Methodologies and assumptions used to estimate future cash flow are evaluated on a regular basis in order to reduce any discrepancy between impairment loss estimation and actual loss. See Item 5.A. Operating Results Critical Accounting Policies Impairment of Financial Assets Allowance for Loan Losses .

Corporate Loans

We review corporate loans annually for potential impairment through a formal credit review. In addition, our loan officers consider the credits for impairment throughout the year if there is an indication that an impairment event has occurred.

Under IFRS, a loan is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and if the loss event had a negative effect on the estimated future cash flows of that asset and can be estimated reliably. We consider, among others, the following loans to be impaired:

- loans whose principal or interest amount is more than 90 days past due;
- loans that by reason of non-performance becomes subject to write-off, charge-off, debt restructuring (including recovery proceedings and work-out) or bankruptcy;
- loans to customers whose credit record shows past instances of delinquency, enforcement of guarantee or subrogation; and
- loans to customers who become finally insolvent by an order to suspend settlement of personal checks, corporate checks or promissory note.

Loan loss allowances for corporate loans are established based on whether a particular loan is impaired. Corporate loans with relatively small balances are evaluated collectively for impairment as they are managed collectively.

Loans individually identified for review and considered impaired

Consistent with the internal credit risk monitoring policies, we evaluate impaired loans with relatively large balances (typically more than 3 billion) individually for impairment. Loan loss allowances for these loans are generally established by discounting the estimated future cash flows (both principal and interest) we expect to receive using the loan s effective interest rate. We consider the likelihood of all possible outcomes in determining our best estimate of expected future cash flows. Management consults closely with individual loan officers and reviews the cash flow assumptions used to ensure these estimates are valid.

We establish allowances for impaired corporate loans when the discounted cash flow of the loan is lower than its carrying amount. The allowance is equal to the difference between the discounted cash flow amount of the loan and its carrying amount.

We may also measure impairment by reference to the loan s observable market price; however this information is not commonly available in Korea.

Loans collectively evaluated for impairment

We also establish allowances for impaired corporate loans with relatively small balances (typically 3 billion or less). We manage these loans on a portfolio basis and therefore collectively evaluate them for impairment since it is impractical to analyze each such loan on an individual basis. The allowance for such loans is determined based on loss factors taking into consideration past performance of the portfolio, previous loan loss history and charge-off information.

In 2010, when we reported our financial results using U.S. GAAP, we identified loss factors through a migration model, which uses a statistical tool to monitor the progression of loans through different classifications and historical losses over a one year look-back period. Beginning in 2011, under IFRS, we use a statistical tool with longer look-back periods based on the discounted cash flow (DCF) model. For impaired corporate loans whose amounts are relatively small, we use the collective DCF model. Under the collective DCF model, cash flow projections for the relevant loans are not individually computed for each borrower, but are collectively computed for a group of loans sharing similar characteristics (for example, retail versus corporate, secured versus unsecured, and so forth), except that, when we discount the projected cash flow at the present value, we apply the interest rate effective prior to impairment specific to each borrower.

Loans not specifically identified as impaired

We establish allowances collectively for non-impaired corporate loans to reflect losses incurred within the portfolio which have not yet been specifically identified as impaired. Under U.S. GAAP in 2010, the historical loss rate on migration analysis was calculated from a transition matrix table based on asset quality classification and took into consideration historical loss rates and recovery rates after charge-off. Under IFRS beginning in 2011, the probability of default / loss-given default method (sophisticated approach), also known as the Advanced Internal Rating-Based approach under Basel II, is calculated via measurable long-term risk factors such as probability of default from risk grading and loss given default based on the Basel II framework.

As for the probability of default-based loan grouping, corporate loans are grouped into different risk classes based on the credit rating assigned by the relevant credit evaluation model, and retail loans are grouped into different risk classes based on the type of the loan, maturity structure and the duration of delinquency.

As for the loss given default-based loan grouping, secured loans are grouped into different risk classes based on the type of collateral, the location of the collateral and the loan-to-value ratio to which they are subject, and unsecured loans are grouped into different risk classes based on the type of the loan.

Retail Loans

We consider the following retail loans to be impaired for an individual assessment of impairment:

- loans whose principal or interest amount is more than 90 days past due;

- loans that by reason of non-performance becomes subject to write-off, charge-off, debt restructuring (including recovery proceedings and work-out) or bankruptcy;

loans to customers whose credit record shows past instances of delinquency, enforcement of guarantee or subrogation; and loans to customers who become finally insolvent by an order to suspend settlement of personal checks, corporate checks or promissory note.

The provisioning policy for retail loans is similar to that for corporate loans, except that different groupings are used for retail loans for purposes of determining probability of default and loss-given default in that all retail loans, regardless of their size, are collectively (rather than individually) assessed due to difficulties in obtaining personal information, such as personal income and assets.

For loan losses for retail loans, we also establish allowances based on loss factors taking into consideration the historical performance of the portfolio, previous loan loss history and charge-off information over a nine-year look-back period for loans secured by real estate and a four-year look-back period for unsecured loans and other secured loans.

We further adjust the loss factors based on factors that may impact loss recognition which have not been adequately captured by our historical analysis. These factors include:

- changes in economic and business conditions such as levels of unemployment and housing price;
- changes in the nature and volume of the portfolio, including any concentration of credits; and
- external factors such as regulatory or government requirements.

Credit Cards

We establish an allowance for the credit card portfolio using a roll-rate model. A roll-rate model is a statistical tool used to monitor the progression of loans based on aging of the balance and established loss rates. The actual loss rates derived from this model are used to project the percentage of losses within each aging category based on performance over a five-year look-back period.

The expected percentage of loss reflects estimates of both default probability within each loan aging category and severity of loss. Generally, loans that are six months or more past due are charged off. We adjust our loan loss rate for severity of loss when considering historical recovery of charged off credits when establishing the allowance.

We segment our credit card portfolio into several product types and perform separate roll-rate analysis for such product types to reflect the different risks and characteristics of each such product type.

We further adjust the results from the roll-rate analysis based on factors that may impact loss recognition which have not been adequately captured by our historical analysis. These factors include:

- delinquency levels of cardholders;
- government policies toward the credit card industry; and
- key retail performance indicators (such as ratios of household debt to disposable income and household liabilities to financial assets).

The actual amount of incurred loan losses may vary from the estimate of incurred losses due to changes in economic conditions or industry or geographic concentrations. We also monitor differences between estimated and actual incurred loan losses through procedures including detailed periodic assessments by senior management of both individual loans and credit portfolios and the models used to estimate incurred loan losses in those portfolios.

We determine whether credit card loans are impaired using criteria similar to those used for corporate loans, except that when the merchants using our credit card services have closed or shut down, the related credit card loans are deemed impaired.

We consider a credit card or card loan to be delinquent if payment on such account is not received when first due and the amount outstanding is greater than 10,000. Our general policy is to be proactive in its collection procedures. We believe that card accounts which are in early stages of delinquency are easier to collect than those accounts which have been delinquent for a longer period of time and, therefore, we emphasize collections at an early stage of delinquency although we increase the level of collection efforts as the delinquency period increases with respect to the relevant account. Efforts to collect from cardholders whose account balances are up to 30 days past due are generally made by our credit support centers at Shinhan Card. Our credit support centers classify delinquent customers based upon three criteria: the expected level of difficulty in collection, the nature of the customer and the customer s contribution to Shinhan Card s profitability. By implementing collection activities tailored to each such category of customers, we seek to maximize efficiency in our collection efforts.

For card accounts with balances that are more than 30 days past due, we generally assign collection to our collection branches. During the first two months of their appointment, these collection branches rely on postal or telephone notice and take measures to locate and provisionally attach accounts receivables or other properties of the delinquent cardholders. After the initial two months period, the collection branches commence compulsory execution procedures against the delinquent cardholders accounts receivables or other properties to secure the amount of outstanding balances. During the entire period managed by branches, we offer restructured card loan and reduction programs. For card accounts that are charged off, we outsource collection to external collection centers such as Shinhan Credit Information, which is our subsidiary, and Mirae Credit Information Services Corp.

Loan Aging Schedule

The following table shows our loan aging schedule (excluding accrued interest) for all loans as of the dates indicated.

As of December 31,	Current Amount	%	Past Due Up to 3 Months Amount	%	Past Due 3-6 Months Amount	%	Past Due More Than 6 Months Amount	%	Total Amount
	(In billions of Won, except percentages)								
2010	181,659	98.59	1,163	0.63	635	0.34	792	0.43	184,249
2011	192,120	98.50	1,519	0.77	597	0.31	819	0.42	195,055
2012	199,017	98.39	1,563	0.77	579	0.29	1,116	0.55	202,275

Non-Performing Loans

Non-performing loans are defined as loans past due by more than 90 days. The following table shows, as of the dates indicated, the amount of the total non-performing loan portfolio and as a percentage of our total loans.

	As of December 31, 2010	2011	2012
	(In billions of Won, except percentages)		
Total non-performing loans	1,427	1,416	1,695
As a percentage of total loans	0.77%	0.73%	0.84%

Table of Contents

Analysis of Non-Performing Loans

The following table sets forth, for the periods indicated, the total non-performing loans by the borrower type.

	As of December 31,								
	2010			2011			2012		
	Total Loans	Non-Performing Loans(1)	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans(1)	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans(1)	Ratio of Non-Performing Loans
	(In billions of Won, except percentages)								
Corporate									
Corporate loans	95,835	816	0.85%	98,598	739	0.75%	101,025	769	0.76%
Public and other	2,771	8	0.29	4,930	8	0.16	3,107	9	0.29
Loans to banks	1,467		0.00	2,557		0.00	4,537		0.00
Lease financing	1,555	10	0.64	1,639	5	0.31	1,699	8	0.47
Total corporate	101,628	834	0.82	107,724	752	0.70	110,368	786	0.71
Retail									
Mortgage and home equity	40,073	30	0.07	44,399	55	0.12	46,128	60	0.13
Other retail	24,901	102	0.41	25,052	164	0.65	27,925	315	1.13
Total retail	64,974	132	0.20	69,451	219	0.31	74,053	375	0.51
Credit cards	17,647	461	2.61	17,880	445	2.49	17,854	534	2.99
Total	184,249	1,427	0.77%	195,055	1,416	0.73%	202,275	1,695	0.84%

Note:

(1) Includes unsecured retail loans and credit card loans past due by more than six months. The number of days past due of restructured credit card loans is calculated from the first date of non-payment regardless of subsequent modification of terms.

Non-Performing Loans by Industry

The following table sets forth a breakdown of our non-performing corporate loans by industry as of December 31, 2012.

Industry