



Consolidated Financial Statements

**March 31, 2013 and 2012**

(With Independent Auditors' Report Thereon)

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# Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders  
Shinhan Investment Corp.:

We have audited the accompanying consolidated statements of financial position of Shinhan Investment Corp. and its subsidiaries (the "Group") as of March 31, 2013 and 2012 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of March 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

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

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

*KPMG Samjong Accounting Corp.*

KPMG Samjong Accounting Corp.  
Seoul, Korea  
June 18, 2013

This report is effective as of June 18, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Consolidated Statements of Financial Position**  
As of March 31, 2013 and 2012

<i>In millions of won</i>	<u>Note</u>	<u>2013</u>	<u>2012</u>
<b>Assets</b>			
Cash and due from banks	4,24,25,29	₩ 1,739,134	2,164,978
Financial assets at fair value through profit or loss	5,24,25,29	11,695,158	7,592,575
Available-for-sale financial assets	6,24,25,29	1,338,815	1,576,950
Investments in associates	7	32,096	32,362
Loans	8,24,25,29	1,570,237	1,087,371
Property and equipment	9,29	122,698	134,097
Intangible assets	10	43,415	49,000
Investment properties	11	147,685	190,714
Deferred tax assets	27	-	358
Current tax assets		8,130	5,837
Other assets	12,24,25	1,280,220	1,349,925
<b>Total assets</b>		₩ 17,977,588	14,184,167
<b>Liabilities</b>			
Deposits	13,24,25	₩ 959,630	932,194
Financial liabilities at fair value through profit or loss	14,24,25	5,365,993	4,403,739
Borrowings	15,24,25	8,232,947	5,538,072
Provisions	16	9,189	25,028
Deferred tax liabilities	27	33,923	44,333
Current tax liabilities		2,392	13,431
Other liabilities	17,24,25	1,155,376	1,073,578
<b>Total liabilities</b>		15,759,450	12,030,375
<b>Equity</b>			
Capital stock	33	1,296,998	1,296,998
Capital surplus	33	15	15
Capital adjustments	33	184	98
Accumulated other comprehensive income	33	103,905	106,917
Retained earnings	33	817,036	749,764
<b>Total equity</b>		2,218,138	2,153,792
<b>Total liabilities and equity</b>		₩ 17,977,588	14,184,167

See accompanying notes to the consolidated financial statements.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Consolidated Statements of Comprehensive Income**  
For the years ended March 31, 2013 and 2012

*In millions of won*

	<u>Note</u>	<u>2013</u>	<u>2012</u>
<b>Operating revenue:</b>			
Commission income	18	₩ 266,782	367,411
Gain on financial instruments at fair value through profit or loss	24	1,305,243	833,874
Gain on available-for-sale financial assets	24	44,026	5,514
Interest income	19	475,280	394,602
Gain on valuation and sale of loans	24	2,538	105
Gain on foreign transactions	20	15,963	15,923
Others	22	4,956	8,082
		<u>2,114,788</u>	<u>1,625,511</u>
<b>Operating expense:</b>			
Commission expense	18	50,930	55,249
Loss on financial instruments at fair value through profit or loss	24	1,356,921	910,948
Loss on available-for-sale financial assets	24	10,661	18,850
Interest expense	19	216,753	153,641
Loss on valuation and sale of loans	24	4,964	2,648
Loss on foreign transactions	20	16,155	15,035
Selling and administrative expenses	21	348,415	347,494
Others	22	14,773	2,907
		<u>2,019,572</u>	<u>1,506,772</u>
<b>Operating income</b>		95,216	118,739
Non-operating income	23	21,441	25,986
Non-operating expense	23	(9,058)	(11,285)
<b>Profit before income taxes</b>		<u>107,599</u>	<u>133,440</u>
Income tax expense	27	(20,327)	(33,682)
<b>Profit for the period</b>		<u>87,272</u>	<u>99,758</u>
Other comprehensive income (loss) for the period, net of income tax	33	(3,012)	16,499
<b>Total comprehensive income for the period</b>	₩	<u>84,260</u>	<u>116,257</u>

See accompanying notes to the consolidated financial statements.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Consolidated Statements of Changes in Equity**  
For the years ended March 31, 2013 and 2012

*In millions of won*

	<b>Common stock</b>	<b>Capital surplus</b>	<b>Capital adjustments</b>	<b>Accumulated other comprehensive income</b>	<b>Retained earnings</b>	<b>Total</b>
<b>Balance at April 1, 2011</b>	₩ 1,296,998	15	(2)	90,418	670,006	2,057,435
<b>Profit for the year</b>	-	-	-	-	99,758	99,758
<b>Other comprehensive income (loss), net of income tax</b>						
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	16,916	-	16,916
Share of the other comprehensive loss of associates	-	-	-	(1,300)	-	(1,300)
Foreign currency translation differences	-	-	-	883	-	883
<b>Transactions recorded directly in equity</b>						
Dividends	-	-	-	-	(20,000)	(20,000)
Change in share-based payment	-	-	100	-	-	100
<b>Balance at March 31, 2012</b>	₩ <u>1,296,998</u>	<u>15</u>	<u>98</u>	<u>106,917</u>	<u>749,764</u>	<u>2,153,792</u>

	<b>Common stock</b>	<b>Capital surplus</b>	<b>Capital adjustments</b>	<b>Accumulated other comprehensive income</b>	<b>Retained earnings</b>	<b>Total</b>
<b>Balance at April 1, 2012</b>	₩ 1,296,998	15	98	106,917	749,764	2,153,792
<b>Profit for the year</b>	-	-	-	-	87,272	87,272
<b>Other comprehensive income (loss), net of income tax</b>						
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	(2,352)	-	(2,352)
Share of the other comprehensive loss of associates	-	-	-	(373)	-	(373)
Foreign currency translation differences	-	-	-	(287)	-	(287)
<b>Transactions recorded directly in equity</b>						
Dividends	-	-	-	-	(20,000)	(20,000)
Change in share-based payment	-	-	86	-	-	86
<b>Balance at March 31, 2013</b>	₩ <u>1,296,998</u>	<u>15</u>	<u>184</u>	<u>103,905</u>	<u>817,036</u>	<u>2,218,138</u>

See accompanying notes to the consolidated financial statements.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Consolidated Statements of Cash Flows**  
For the years ended March 31, 2013 and 2012

*In millions of won*

	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities</b>		
Profit before income taxes	₩ 107,599	133,440
Adjustment for:		
Interest income	(475,280)	(394,602)
Interest expense	216,753	153,641
Dividend income	(3,897)	(7,258)
Net loss (gain) on valuation of financial assets at fair value through profit or loss	(164,136)	1,328
Net loss on valuation of financial liabilities at fair value through profit or loss	123,771	169,919
Net gain on sales of available-for-sale financial assets	(20,364)	(2,722)
Impairment loss on available-for-sale financial assets	9,145	16,058
Reversal of impairment on available-for-sale	(22,147)	-
Provision for loan loss	4,893	2,648
Net gain on sales of loans	(2,467)	(105)
Net loss (gain) on foreign exchanges translation	(389)	334
Depreciation	11,635	12,534
Amortization of intangible assets	13,085	12,800
Stock-based compensation benefit	(1,861)	(2,503)
Reversal of provision	(413)	(578)
Provision for loss for other assets	6,867	1,881
Net loss (gain) on equity method valuation	439	(7,805)
Net loss (gain) on disposition of property and equipment	(1,260)	47
Impairment loss on investments in associate	58	2,269
Depreciation of investment properties	3,447	3,790
Net gain on disposition of investment properties	(1,452)	-
Impairment loss on intangible assets	380	1,196
Net gain on sale of intangible assets	(549)	-
Provision for litigation	7,231	-
	<u>(296,511)</u>	<u>(37,128)</u>
Changes in assets and liabilities:		
Due from banks	563,726	41,347
Financial assets at fair value through profit or loss	(3,938,448)	(885,755)
Loans	(484,344)	(177,101)
Collective fund for default loss	(998)	429,131
Other assets	91,520	(626)
Deposits	26,233	(285,941)
Financial liabilities at fair value through profit or loss	838,482	1,308,504
Provision	(22,656)	531
Other liabilities	83,503	(493,182)
	<u>(2,842,982)</u>	<u>(63,092)</u>
Income taxes paid	(42,841)	(28,239)
Interests received	473,558	368,962
Interests paid	(243,830)	(149,732)
Dividends received	3,309	8,353
<b>Net cash provided by (used in) operating activities</b>	<u>₩ (2,841,698)</u>	<u>232,564</u>

See accompanying notes to the consolidated financial statements.



SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Consolidated Statements of Cash Flows, Continued**  
For the years ended March 31, 2013 and 2012

*In millions of won*

	<b>2013</b>	<b>2012</b>
<b>Cash flows from investing activities</b>		
Proceed from disposal of available-for-sale financial assets	₩ 5,385,724	2,759,544
Acquisition of available-for-sale financial assets	(5,116,451)	(3,727,864)
Proceed from disposal of investments in associates	50	33
Acquisition of investments in associates	(938)	(5,980)
Proceed from disposal of property and equipment	23,089	2
Acquisition of property and equipment	(8,261)	(8,342)
Proceed from disposal of intangible assets	1,671	-
Acquisition of intangible assets	(9,001)	(6,490)
Proceed from disposal of investment property	27,268	-
Acquisition of investment property	(38)	-
<b>Net cash provided by (used in) investing activities</b>	<u>303,113</u>	<u>(989,097)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	2,745,469	1,126,356
Repayment of borrowings	(50,040)	(102,727)
Dividends paid	(20,000)	(20,000)
<b>Net cash provided by financing activities</b>	<u>2,675,429</u>	<u>1,003,629</u>
<b>Effect of exchange rate fluctuations on cash and cash equivalents held</b>	<u>(239)</u>	<u>354</u>
<b>Net increase in cash and cash equivalents</b>	<u>136,605</u>	<u>247,450</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>380,948</u>	<u>133,498</u>
<b>Cash and cash equivalents at end of period</b>	<u>₩ 517,553</u>	<u>380,948</u>

See accompanying notes to the consolidated financial statements.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended March 31, 2013 and 2012

**1. Reporting entity**

General information of Shinhan Investment Corp. (the "Company") and its subsidiaries included in consolidation (collectively the "Group") are summarized as follows:

**(a) Controlling company**

Shinhan Investment Corp. was established on April 2, 1973 under the name of HyoSeong Securities Co., Ltd. to engage in proprietary trading, underwriting and brokerage services. The Company changed its name from Good Morning Shinhan Securities Co., Ltd. to Shinhan Investment Corp. on August 24, 2009. The Company is wholly owned by Shinhan Financial Group Co., Ltd. and operates through 93 branches and 9 sales offices as of March 31, 2013.

Since December 28, 2005, the Company has been in the trust business pursuant to the Korea Trust Business Law. Assets under trust management amounted to ₩ 8,283,895 million as of March 31, 2013 and the related fee income amounted to ₩ 5,886 million for the year ended March 31, 2013.

**(b) Scope of consolidation**

(i) Subsidiaries

Ownership of Shinhan Investment Corp. and its major consolidated subsidiaries except special purpose entities as of December 31, 2013 are as follows:

Investor	Investee	Country	Closing date	Ownership (%)
Shinhan Investment Corp.	Shinhan Investment America Inc.	USA	March 31	100.0
"	Shinhan Investment Asia Ltd.	Hong Kong	March 31	100.0

(ii) Special purpose entities

As of March 31, 2013, consolidated special purpose entities are summarized as follows:

Parent company	SPE	Location	Reference
Shinhan Investment Corp.	Shinhan Maritime Private Equity Fund I	Rep. of Korea	PEF
Shinhan Maritime Private Equity Fund I	SSTRITON A S.A.	Panama	Ship lending SPC
"	SSTRITON B S.A.	"	"
Shinhan Investment Corp.	KAMCO Value Recreation 11th Securitization Specialty Co., Ltd.	Rep. of Korea	Securitization SPC
"	VALUE PLUS the 8th Co., Ltd.	"	"
"	Busan Education Love BTL Co., Ltd.	"	"
"	Pine Avenue L.L.C.	"	"
"	Samsung Millennium Stock C503	"	Beneficiary certificates unsold
"	Santaclause 98 Short-term Bond Fund 1	"	"
"	G1 Santaclause 98 Short-term Bond Fund 1	"	"
"	Samsunglife New Short Fund B301	"	"
"	Samsunglife New Short Fund A423	"	"
"	Samsung Jinpum Short Fund C501	"	"
"	Samsung Jinpum Short Fund C503	"	"

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended March 31, 2013 and 2012

**1. Reporting entity, Continued**

**(b) Scope of consolidation, continued**

(ii) Special purpose entities, continued

Parent company	SPE	Location	Reference
Shinhan Investment Corp.	Santaclause Long-term Bond Fund 4	Rep. of Korea	Beneficiary certificates unsold
"	Santaclause Long-term Bond Fund 5	"	"
"	Santaclause New Long-term Bond Fund 1	"	"
"	Goodmorning Long-term Gold 3-1 Bond Fund	"	"
"	Goodmorning Long-term Gold 3-2 Bond Fund	"	"
"	Neo Short-term Bond #22	"	"
"	Hanbaguni E-2	"	"
"	Kyobo Tomorrow SGIC-1	"	"
"	KDB Private SH-1	"	"
"	Specific Money Trust	"	Trust

**(c) Changes in subsidiaries**

The list of subsidiaries that were newly acquired or excluded from consolidation for the years ended March 31, 2013 and 2012 were as follows:

2013		
Company	Reason	Invest company
<b>Newly acquired subsidiaries</b>		
VALUE PLUS the 8th Co., Ltd.	Commercial Paper purchase commitments	Shinhan Investment Corp
Busan Education Love BTL Co., Ltd.	Commercial Paper purchase commitments	Shinhan Investment Corp
Pine Avenue L.L.C.	Subordinated bonds	Shinhan Investment Corp
KDB Private SH-1	100% equity	Shinhan Investment Corp
Specific Money Trust	100% equity	Shinhan Investment Corp
<b>Excluded subsidiaries</b>		
Shinhan Investment Europe Ltd.	Liquidating	Shinhan Investment Corp
2012		
Company	Reason	Invest company
<b>Excluded subsidiaries</b>		
Good Invest 2nd Co. Ltd	Liquidation	Shinhan Investment Corp

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended March 31, 2013 and 2012

**1. Reporting entity, Continued**

**(d) Summary of financial information of subsidiaries**

(i) Condensed financial positions of the Company and its subsidiaries as of March 31, 2013 and 2012 were as follows:

Entity	2013			2012		
	Total assets	Total liabilities	Total equity	Total assets	Total liabilities	Total equity
Shinhan Investment Corp.	₩ 17,352,580	15,132,269	2,220,311	14,064,881	11,910,216	2,154,665
Shinhan Investment America Inc.	3,134	65	3,069	4,115	80	4,035
Shinhan Investment Europe Ltd.	-	-	-	4,231	42	4,189
Shinhan Investment Asia Ltd.	1,883	167	1,716	2,730	176	2,554
Shinhan Maritime PEF I (*)	238,906	165,474	73,432	124,353	55,199	69,154
KAMCO Value Recreation 11th Securitization Specialty Co., Ltd.	25,663	32,202	(6,539)	25,663	30,279	(4,616)
VALUE PLUS the 8th Co., Ltd.	22,035	22,034	1	-	-	-
Busan Education Love BTL Co., Ltd.	45,962	46,200	(238)	-	-	-
Pine Avenue L.L.C.	344,075	343,935	140	-	-	-
Beneficiary certificate	4,375	5,030	(655)	5,361	5,542	(181)
Specific Money Trust	336,146	-	336,146	-	-	-
	₩ 18,374,759	15,747,376	2,627,383	14,231,334	12,001,534	2,229,800

(\*) Consolidated financial statement

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended March 31, 2013 and 2012

**1. Reporting entity, Continued**

**(d) Summary of financial information of subsidiaries, continued**

(ii) Condensed comprehensive income statement of the Company and its subsidiaries for the years ended March 31, 2013 and 2012 were as follows:

Entity	2013			2012		
	Operating revenues	Net income	Total	Operating revenues	Net income	Total
			comprehensive income			comprehensive income
Shinhan Investment Corp.	₩ 2,108,423	87,991	85,560	1,627,783	97,656	114,584
Shinhan Investment America Inc.	612	(876)	(876)	1,063	(835)	(835)
Shinhan Investment Europe Ltd.	-	-	-	124	(1,049)	(1,049)
Shinhan Investment Asia Ltd.	681	(782)	(782)	547	(995)	(995)
Shinhan Maritime PEF I (*)	10,510	4,592	4,592	759	(5,347)	(5,347)
KAMCO Value Recreation 11th Securitization Specialty Co., Ltd.	-	(1,923)	(1,923)	-	(2,162)	(2,162)
VALUE PLUS the 8th Co., Ltd.	1,174	-	-	-	-	-
Busan Education Love BTL Co., Ltd.	485	(239)	(239)	-	-	-
Pine Avenue L.L.C.	1,916	135	135	-	-	-
Beneficiary certificate	37	(61)	(24)	232	199	187
Specific Money Trust	1,146	1,146	1,146	-	-	-
	₩ 2,124,984	89,983	87,589	1,630,508	87,467	104,383

(\*) Consolidated financial statement

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended March 31, 2013 and 2012

**2. Basis of preparation**

**(a) Statement of compliance**

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

**(b) Basis of measurement**

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

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value

**(c) Functional and presentation currency**

These consolidated financial statements are presented in Korean won which is the Group's functional currency and the currency of the primary economic environment in which the Group operates. The subsidiaries whose functional currencies are different from the Company's are as follows.

Subsidiaries	Functional Currency
Shinhan Investment America Inc.	USD
Shinhan Investment Asia Ltd.	HKD
SS TRITON A S.A.	USD
SS TRITON B S.A.	USD

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
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**2. Basis of preparation, Continued**

**(d) Use of estimates and judgements**

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

(i) Income taxes

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

(ii) Fair value of financial instruments

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

(iii) Allowances for loss

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

(iv) Provisions

The Group recognizes a provision considering inevitable risks and an uncertainty under the given circumstance of the event. At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognize.

(v) Impairment on available-for-sale equity instruments

When there is a significant or prolonged decline in the fair value of an investment in an equity instrument below its original cost, there is objective evidence that available-for-sale equity investments are impaired. Accordingly, the Group considers the decline in the fair value of more than 30% against the original cost as "significant decline" and the status when the market price for marketable equity less than the carrying amounts of instruments for a six consecutive months as a "prolonged decline".

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended March 31, 2013 and 2012

**2. Basis of preparation, Continued**

**(e) Approval of the consolidated financial statements**

These consolidated financial statements have been approved by the Board of Directors on May 16, 2013, which will be submitted for approval to the shareholder's meeting to be held on June 27, 2013.

**3. Significant accounting policies**

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

**(a) Basis of consolidation**

(i) Subsidiaries

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

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

(ii) Special purpose entities

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

(iii) Intra-group transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

(iv) Non-controlling interests

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



SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended March 31, 2013 and 2012

**3. Significant accounting policies, Continued**

**(a) Basis of consolidation, continued**

- (v) Changes in the Parent Company's ownership interest in a subsidiary.

Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognized in profit or loss. The difference between the consideration and the adjustments made to non-controlling interest is recognized directly in equity attributable to the owners of the Parent Company.

**(b) Associates and jointly controlled entities (collectively "associates")**

An associate is those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

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

The investment in associates and jointly controlled entities is accounted for using the equity method and is initially recognized at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

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

**(c) Foreign currency transactions**

- (i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined, while those measured at historical cost are retranslated at the exchange rate at the date of transaction.

Foreign currency differences arising on retranslation of monetary items are recognized in profit or loss. On the other hand, foreign currency difference arising on retranslation of non-monetary items is recognized in other comprehensive profit or loss / profit and loss, if profit and loss arising on the asset is recognized in other comprehensive profit and loss / profit and loss.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended March 31, 2013 and 2012

**3. Significant accounting policies, Continued**

**(c) Foreign currency transactions, Continued**

(ii) Foreign operations

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

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to won at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to won at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

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

(iii) Hedge of net investment in foreign operations

The Group applies hedge accounting to foreign currency differences arising between the functional currency of the foreign operations and the parent entity's functional currency (Korean won), regardless of whether the net investment is held directly or through an intermediate parent.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

**(d) Cash and cash equivalents**

Cash and cash equivalents comprise balances with cash in hand, deposits held at call with banks and other short-term highly liquid investments with insignificant risk of changes in their fair value. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.

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**Notes to the Consolidated Financial Statements**  
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**3. Significant accounting policies, Continued**

**(e) Non-derivative financial assets**

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

***Financial assets at fair value through profit or loss (the "Financial assets at FVTPL")***

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

***Held-to-maturity investments***

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

***Loans and receivables***

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

***Available-for-sale financial assets***

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

When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
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**3. Significant accounting policies, Continued**

**(e) Non-derivative financial assets, continued**

***Available-for-sale financial assets, continued***

The group has designated some of its debt securities as available-for-sale financial assets. As of March 31, 2013 and 2012, the amounts designated as available-for-sale financial assets were ₩920 million and ₩21,379 million, respectively.

***Derecognition of financial assets***

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

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

***Offsetting between financial assets and financial liabilities***

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

**(f) Derivative financial instruments**

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

***Separable embedded derivatives***

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met: (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

***Other non-trading derivatives***

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

The Group does not hold any derivatives designated as hedging derivatives as of March 31, 2013 and 2012.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
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**3. Significant accounting policies, Continued**

**(g) Impairment of financial assets**

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

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

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

***Loans***

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

If there is objective evidence that an impairment loss on loans 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).

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**3. Significant accounting policies, Continued**

**(g) Impairment of financial assets, continued**

***Loans, continued***

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

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

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

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

***Financial assets carried at cost***

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

***Available-for-sale financial assets***

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

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
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**3. Significant accounting policies, Continued**

**(h) Property and equipment**

Property and equipment initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Property and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property and equipment is depreciated over its separate useful life.

The estimated useful lives of the Group's assets are in the asset are as follows:

Descriptions	Useful lives
Buildings	40~60 years
Vehicles	4 years
Furniture and fixtures	4 years
Other tangible assets	15 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. The change is accounted for as a change in an accounting estimate.

**(i) Intangible assets**

Intangible assets are measured initially at cost and after initial recognition are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which memberships and Settlement system right of use are expected to be available for use, these intangible assets are determined as having indefinite useful lives and not amortized.

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**3. Significant accounting policies, Continued**

**(i) Intangible assets, continued**

Descriptions	Useful lives
Computer software	4 years
Other	5 years
Memberships	Indefinite useful lives
Settlement system right of use	Indefinite useful lives

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

**(j) Investment property**

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

The estimated useful lives and depreciation methods of the Group's assets in the current year and prior year are as follows.

Description	Useful life	Depreciation method
Buildings	40~60 years	Straight-line method



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**3. Significant accounting policies, Continued**

**(k) Impairment of non-financial assets**

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

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

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

**(l) Non-derivative financial liabilities**

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

***Financial liabilities at fair value through profit or loss (the "Financial liabilities at FVTPL")***

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

***Other financial liabilities***

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

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

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**3. Significant accounting policies, Continued**

**(m) Equity capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

A preference share that do not provide for redemption or at the option of the issuer and when distributions to holders of a preference shares are at the discretion of the issuer, is classified as equity. Dividends are recognized when approved by a general meeting of shareholders. Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

**(n) Employee benefits**

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

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

(iii) Retirement benefits: defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

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**3. Significant accounting policies, Continued**

**(n) Employee benefits, continued**

(iv) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

**(o) Share-based payment transactions**

The Group has granted shares or share options to its employees and other parties. For equity-settled share-based payment transactions, the Group measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot reliably estimate the fair value of the goods or services received, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Group measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest.

For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period.

**(p) Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

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

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**3. Significant accounting policies, Continued**

**(q) Financial income and financial expense**

(i) Interest

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

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

(ii) Fees and commission

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

Other fees and commission income, including underwriting commissions, management fees on wrap accounts and asset management are recognized as the related services are performed.

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

(iii) Dividends

Dividend income is recognized when the right to receive income is established.

**(r) Income taxes**

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

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

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

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**3. Significant accounting policies, Continued**

**(r) Income taxes, continued**

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

**(s) Leases**

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

**(i) Finance leases**

At the commencement of the lease term, the Group recognizes as finance assets and finance liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

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**3. Significant accounting policies, Continued**

**(s) Leases, Continued**

(i) Finance leases, continued

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased asset may be impaired.

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

**(t) Operating segments**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Group has five reportable segments which consist of retail, wholesale, investment bank (IB), trading, and others, as described in note 26.

**(u) Reclassification of accounts**

The Group has reclassified certain prior year accounts to confirm with the classification in the current period. There is no effect on reported net asset or net income of prior period due to the reclassification.

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**3. Significant accounting policies, Continued**

**(v) New standards and interpretations not yet adopted**

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

(i) K-IFRS No.1110, 'Consolidated Financial Statements'

The standard introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Management believes the impacts of the amendments on the Group's consolidated financial statements will not be significant.

(ii) K-IFRS No.1112, 'Disclosure of Interests in Other Entities'

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

(iii) K-IFRS No. 1113 'Fair Value Measurement'

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

(iv) Amendments to K-IFRS No. 1001, 'Presentation of Financial Statements'

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

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**4. Cash and due from banks**

(a) Details of cash and due from banks as of March 31, 2013 and 2012 were summarized as follows:

		2013	2012
Cash and cash equivalents	Cash on hand	₩ 96	103
	Current deposits	2,518	2,386
	Demand deposits	18,387	10,761
	Time deposits	445,000	314,950
	Others	-	25,500
	Foreign currency deposits	51,552	27,248
		<u>517,553</u>	<u>380,948</u>
Due from banks in won	Time deposits	871,467	1,626,286
	Reserve for claims of customers' deposits	4,600	1,400
	Subscription deposits	69	102
	Securities borrowed	-	10,403
	Guarantee deposits for stock borrowing for KSFC	1,834	1,872
	Guarantee deposits for KSFC trading	-	4,500
	Others	123,162	23,343
			<u>1,001,132</u>
Due from banks in foreign currency	Reserve for claims of customers' deposits	210,114	107,136
	Others	10,335	8,988
		<u>220,449</u>	<u>116,124</u>
		<u>₩ 1,739,134</u>	<u>2,164,978</u>



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**4. Cash and due from banks, Continued**

(b) Restricted due from banks as of March 31, 2013 and 2012 were as follows:

	Placed at		2013	2012	Restriction
Time deposits	Woori Bank	₩	1,098	1,279	collateral for the sales of beneficiary certificates
	Shinhan Bank		17,000	17,000	collateral for a bank overdraft facility
	Kyongnam Bank		50,000	-	collateral for loan on deposit
	Shinhan Bank		5,000	5,000	collateral for the small amount of payment
	Shinhan Bank and others		50,000	-	collateral for the issue of ELS (Equity Linked Securities)
Reserve for claims on customers' deposits	Korean Securities Finance Corporation		214,714	108,536	(*)
Reserve for claims on customers' deposits (trust)	Korean Securities Finance Corporation		1,224,086	1,118,828	(*)(**)
Subscription Deposits	Woori Investment & Securities Co., Ltd.		69	102	deposits for public subscription
Securities borrowed	Korean Securities Depository		-	10,403	deposit for loan transaction
Guarantee deposits for stock borrowing for KSFC	Korean Securities Finance Corporation		1,834	4,500	guarantee deposits for stock borrowing for KSFC
Guarantee deposits for KSFC trading	Korean Securities Finance Corporation		-	1,872	guarantee deposits for KSFC trading
Other deposits in won	Shinhan Bank and others		64	64	deposit for checking accounts
Other deposits in foreign currency	MAREX Financial Limited and others		8,876	8,959	collateral for trading the foreign futures
	Korea Exchange		1,430	-	collateral for trading the domestic futures
	Hong Kong Exchange and Clearing Limited		29	29	collateral for trading securities
		₩	<u>1,574,200</u>	<u>1,276,572</u>	

(\*) Pursuant to the Regulation on Financial Investment Business, the Group is required to deposit certain portions of customers' deposits with the Korean Securities Finance Corporation ("KSFC") or banks to ensure repayment of customer deposits.

(\*\*) Reserve for claims on customers' deposits (trust) is recognized in financial assets at fair value through profit or loss.

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**5. Financial assets at fair value through profit or loss**

(a) Details of financial assets at fair value through profit or loss as of March 31, 2013 and 2012 were summarized as follows:

	2013	2012
Trading financial assets	₩ 8,629,879	5,495,352
Financial assets designated at fair value through profit or loss	2,798,644	2,000,893
Derivative assets	266,635	96,330
	₩ <u>11,695,158</u>	<u>7,592,575</u>

(b) Details of trading financial assets as of March 31, 2013 and 2012 were summarized as follows:

	2013	2012
Trading financial assets in won		
Government bonds	₩ 2,588,887	555,360
Local bonds	50,390	41,374
Financial bonds	3,728,449	2,819,714
Corporate bonds	1,463,343	1,672,961
Stocks	136,479	33,895
Collective investment securities	141,126	22,736
Others	380,408	270,663
	<u>8,489,082</u>	<u>5,416,703</u>
Trading financial assets in foreign currency		
Bonds	137,521	78,649
Stocks	524	-
Others	2,752	-
	<u>140,797</u>	<u>78,649</u>
	₩ <u>8,629,879</u>	<u>5,495,352</u>

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**5. Financial assets at fair value through profit or loss, Continued**

(c) Details of financial assets designed at fair value through profit or loss as of March 31, 2013 and 2012 were summarized as follows:

	2013	2012
Hybrid instruments		
Derivatives-combined securities	₩ 542,368	341,619
Management and performance evaluation on a fair value basis		
Reserve for claims of customers' deposit (trust)	1,224,086	1,118,828
Bonds	980,492	507,490
Stocks	51,698	32,956
	2,256,276	1,659,274
	₩ 2,798,644	2,000,893

(d) Details of derivative assets as of March 31, 2013 and 2012 were summarized as follows:

	2013	2012
Derivatives in won		
Over the counter:		
Interest rate	₩ 51,579	19,804
Equity	168,610	58,459
Credit	1,304	-
Others	9,418	2,538
	230,911	80,801
Exchange traded:		
Equity options	19,119	7,165
	250,030	87,966
Derivatives in foreign currency		
Over the counter:		
Currency	3,109	7,769
Others	7,586	274
	10,695	8,043
Exchange traded:		
Commodity futures	5,910	321
	16,605	8,364
	₩ 266,635	96,330

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**6. Available-for-sale financial assets**

Details of available-for-sale financial assets as of March 31, 2013 and 2012 were summarized as follows:

	2013	2012
Debt securities		
Government bonds	₩ 178,135	21,482
Financial bonds	216,832	482,841
Corporate bonds	763,530	856,593
Bonds with warrants	920	2,238
Corporate commercial paper	4,103	24,028
	1,163,520	1,387,182
Equity securities		
Stocks(*)	150,723	162,364
Investments in partnerships(*)	10,450	10,762
Collective investment securities	3,451	6,085
Securities in foreign currency(*)	1,198	2,083
	165,822	181,294
Collective fund for default loss	9,473	8,474
	₩ 1,338,815	1,576,950

(\*) Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at cost amounting ₩2,302 million and ₩5,269 million as of March 31, 2013 and 2012, respectively.

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**7. Investments in associate**

(a) Details of investments in associates as of March 31, 2013 and 2012 were as follows:

	Ownership(%)	2013		2012
		Acquisition cost	Book value	Book value
The Asia Pacific Capital Fund II L.P	21.90%	₩ 25,125	31,269	32,147
KoFC Shinhan Frontier Champ 2010-4 PEF(*)	8.50%	880	827	-
Special Short Term 8	49.80%	-	-	59
Special Middle Term 2	46.10%	-	-	156
		₩ 26,005	32,096	32,362

(\*) As a general partner, the Group has significant influence over the investee.

(b) Changes in investments in associates for the years ended March 31, 2013 and 2012 were as follows:

	2013						
	Beginning balance	Acquisition (disposal)	Equity method loss	Impairment	Changes in accumulated other comprehensive loss	Others	Ending balance
The Asia Pacific Capital Fund II L.P(*)	₩ 32,147	-	(386)	-	(492)	-	31,269
KoFC Shinhan Frontier Champ 2010-4 PEF	-	938	(53)	(58)	-	-	827
Special Short Term 8	59	(50)	-	-	-	(9)	-
Special Middle Term 2	156	-	-	-	-	(156)	-
	₩ 32,362	888	(439)	(58)	(492)	(165)	32,096

  

	2012						
	Beginning balance	Acquisition (disposal)	Equity method income	Impairment	Changes in accumulated other comprehensive loss	Ending balance	
The Asia Pacific Capital Fund II L.P(*)	₩ 22,314	3,711	7,805	-	(1,683)	32,147	
KoFC Shinhan Frontier Champ 2010-4 PEF	-	2,269	-	(2,269)	-	-	
Special Short Term 8	59	-	-	-	-	59	
Special Middle Term 2	189	(33)	-	-	-	156	
	₩ 22,562	5,947	7,805	(2,269)	(1,683)	32,362	

(\*) The Group accounted for its investment by using the equity method of accounting based on financial statements of December 31, 2012.

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**7. Investments in associate, Continued**

(c) Condensed financial information of major associate as of March 31, 2013 and 2012 and for the years ended March 31, 2013 and 2012 were as follows:

	2013		2012		2013		2012	
	Assets	Liabilities	Assets	Liabilities	Operating revenue	Net income	Operating revenue	Net income
The Asia Pacific Capital Fund II L.P	151,563	8,456	154,761	7,969	-	(1,769)	35,119	35,627
KoFC Shinhan Frontier Champ 2010-4 PEF	12,554	2,816	2,500	887	54	(412)	-	(25,039)
	<u>₩ 164,117</u>	<u>11,272</u>	<u>157,261</u>	<u>8,856</u>	<u>54</u>	<u>(2,181)</u>	<u>35,119</u>	<u>10,588</u>

**8. Loans**

(a) Details of loans as of March 31, 2013 and 2012 were as follows:

	2013	2012
Broker's loans	₩ 735,509	758,149
Loans purchased	501,787	128,147
Loans for housing	14,959	15,091
Advances for customers	4,849	15,796
Call loan	6,380	6,380
Bonds purchased under repurchase agreements	121,350	249,800
Private placement bonds	5,282	5,405
Other loans	287,082	15,659
	<u>1,677,198</u>	<u>1,194,427</u>
Allowance for credit loss	(104,488)	(104,520)
Present value discount	(1,635)	(1,842)
Deferred loan origination costs	(838)	(694)
	<u>₩ 1,570,237</u>	<u>1,087,371</u>

(b) Changes in the allowance for credit loss for the years ended March 31, 2013 and 2012 were as follows:

		2013		
		Loans	Other assets	Total
Beginning balance	₩	104,520	15,890	120,410
Provision for allowance		4,893	6,867	11,760
Reclassification		(501)	501	-
Sale of loans		(4,424)	(11,439)	(15,863)
Ending balance	₩	<u>104,488</u>	<u>11,819</u>	<u>116,307</u>

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**8. Loans, Continued**

		2012		
		Loans	Other assets	Total
Beginning balance	₩	101,869	14,009	115,878
Provision for allowance		2,648	1,881	4,529
Recoveries		3	-	3
Ending balance	₩	<u>104,520</u>	<u>15,890</u>	<u>120,410</u>

(c) Changes in deferred loan origination fees for the years ended March 31, 2013 and 2012 were as follows:

		2013	2012
Beginning balance	₩	<u>694</u>	<u>-</u>
Loan originations		1,300	1,000
Amortization		(1,156)	(306)
Ending balance	₩	<u>838</u>	<u>694</u>

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**9. Property and equipment**

(a) Details of property and equipment as of March 31, 2013 and 2012 were as follows:

		2013		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	55,468	-	55,468
Buildings		56,346	(7,231)	49,115
Others		95,335	(77,220)	18,115
	₩	<u>207,149</u>	<u>(84,451)</u>	<u>122,698</u>
		2012		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	64,180	-	64,180
Buildings		54,585	(4,794)	49,791
Others		116,833	(96,707)	20,126
	₩	<u>235,598</u>	<u>(101,501)</u>	<u>134,097</u>

(b) Changes in property and equipment for the years ended March 31, 2013 and 2012 are as follows:

		2013			
		Land	Buildings	Others	Total
Beginning balance	₩	64,180	49,791	20,126	134,097
Acquisition		-	-	8,261	8,261
Disposal		(16,141)	(5,021)	(667)	(21,829)
Depreciation		-	(2,029)	(9,605)	(11,634)
Transferred from investment property		7,429	6,374	-	13,803
	₩	<u>55,468</u>	<u>49,115</u>	<u>18,115</u>	<u>122,698</u>
		2012			
		Land	Buildings	Others	Total
Beginning balance	₩	65,585	53,912	22,183	141,680
Acquisition		-	-	8,342	8,342
Disposal		-	-	(50)	(50)
Depreciation		-	(2,185)	(10,349)	(12,534)
Transferred to investment property		(1,405)	(1,936)	-	(3,341)
	₩	<u>64,180</u>	<u>49,791</u>	<u>20,126</u>	<u>134,097</u>



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**10. Intangible assets**

Changes in intangible assets for the years ended March 31, 2013 and 2012 were as follows:

		2013				
		Finite useful lives		Infinite useful lives		Total
		Software	Others	Membership	Settlement system right of use	
Beginning balance	₩	21,771	269	7,264	19,696	49,000
Acquisition		4,677	-	4,324	-	9,001
Disposals		-	-	(1,121)	-	(1,121)
Depreciation		(12,993)	(92)	-	-	(13,085)
Impairment		-	-	(380)	-	(380)
Ending balance	₩	13,455	177	10,087	19,696	43,415

		2012				
		Finite useful lives		Infinite useful lives		Total
		Software	Others	Membership	Settlement system right of use	
Beginning balance	₩	28,800	360	7,650	19,696	56,506
Acquisition		5,680	-	810	-	6,490
Depreciation		(12,709)	(91)	-	-	(12,800)
Impairment		-	-	(1,196)	-	(1,196)
Ending balance	₩	21,771	269	7,264	19,696	49,000

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**11. Investment property**

(a) Details of investment property as of March 31, 2013 and 2012 were as follows:

		2013		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	74,836	-	74,836
Buildings		83,237	(10,388)	72,849
	₩	<u>158,073</u>	<u>(10,388)</u>	<u>147,685</u>
		2012		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	100,618	-	100,618
Buildings		98,887	(8,791)	90,096
	₩	<u>199,505</u>	<u>(8,791)</u>	<u>190,714</u>

(b) Changes in investment property for the years ended March 31, 2013 and 2012 were as follows:

		2013		
		Land	Buildings	Total
Beginning balance	₩	100,618	90,096	190,714
Acquisition		38	-	38
Disposals		(18,391)	(7,426)	(25,817)
Depreciation		-	(3,447)	(3,447)
Transferred to property and equipment		(7,429)	(6,374)	(13,803)
Ending balance	₩	<u>74,836</u>	<u>72,849</u>	<u>147,685</u>
		2012		
		Land	Buildings	Total
Beginning balance	₩	99,213	91,950	191,163
Depreciation		-	(3,790)	(3,790)
Transferred from property and equipment		1,405	1,936	3,341
Ending balance	₩	<u>100,618</u>	<u>90,096</u>	<u>190,714</u>

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**11. Investment property, Continued**

(c) Details of gain (loss) on investment property for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Rental income	₩ 16,760	16,980
Direct operating expenses for investment property that generated rental income	3,447	3,790

(d) The fair value of investment property as of March 31, 2013 and 2012 were as follows:

	2013	2012
Fair value	₩ 157,704	201,720

**12. Other assets**

Details of other assets as of March 31, 2013 and 2012 were as follows:

	2013	2012
Leasehold rights	₩ 43,151	39,378
Receivables	1,009,460	985,597
Accrued income	90,386	94,771
Prepaid expenses	10,891	9,777
Deposits for guarantees	32,978	32,911
Advance payments	70,560	146,591
Prepaid income tax	34	87
Receivables from inter-bank fund transfer	36,612	59,017
Others	4,558	4,477
	<u>1,298,630</u>	<u>1,372,606</u>
Allowance for credit loss (Note 8)	(11,819)	(15,890)
Present value discount	(6,591)	(6,791)
	<u>₩ 1,280,220</u>	<u>1,349,925</u>

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**13. Deposits**

Details of deposits as of March 31, 2013 and 2012 were as follows:

	2013	2012
Customers' deposits		
Customers' deposits for brokerage	₩ 460,130	485,771
Customers' deposits for exchange-traded derivatives trading	264,513	309,647
Customers' deposits for subscription	-	1
Customers' deposits for savings	2,947	2,846
Customers' deposits for other securities	73	68
Customers' deposits for foreign securities	222,880	121,430
	<u>950,543</u>	<u>919,763</u>
Guarantee deposits		
Deposits for margin loans	9,087	12,431
	<u>₩ 959,630</u>	<u>932,194</u>

**14. Financial liabilities at fair value through profit or loss**

(a) Details of financial liabilities at fair value through profit or loss as of March 31, 2013 and 2012 were as follows:

	2013	2012
Trading financial liabilities	₩ 246,156	288,301
Financial liabilities designated at fair value through profit or loss	4,766,698	3,915,993
Derivative liabilities	353,139	199,445
	<u>₩ 5,365,993</u>	<u>4,403,739</u>

(b) Details of trading liabilities as of March 31, 2013 and 2012 were as follows:

	2013	2012
Securities sold		
Stocks	₩ 118,273	26,202
State and local bonds	124,148	258,154
Others	3,735	3,945
	<u>₩ 246,156</u>	<u>288,301</u>

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**14. Financial liabilities at fair value through profit or loss, Continued**

(c) Details of financial liabilities designated at fair value through profit or loss as of March 31, 2013 and 2012 were as follows:

	2013	2012
Hybrid instruments		
Equity linked securities sold	₩ 3,598,721	3,493,472
Others derivatives-combined securities sold	1,100,276	422,521
	<u>4,698,997</u>	<u>3,915,993</u>
Management and performance evaluation on a fair value basis		
Securities sold	67,701	-
	<u>₩ 4,766,698</u>	<u>3,915,993</u>

(d) Details of derivative liabilities as of March 31, 2013 and 2012 were as follows:

	2013	2012
Derivatives in won		
Over the counter:		
Interest rate	₩ 64,695	19,637
Equity	248,395	165,186
Credit	3,724	995
Other	1,775	416
	<u>318,589</u>	<u>186,234</u>
Exchange traded:		
Equity options	<u>19,108</u>	<u>7,658</u>
Derivatives in foreign currency		
Over the counter:		
Currency	2,107	4,967
Other	5,864	316
	<u>7,971</u>	<u>5,283</u>
Exchange traded:		
Commodity futures	7,471	270
	<u>₩ 353,139</u>	<u>199,445</u>

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**15. Borrowings**

(a) Details of borrowings as of March 31, 2013 and 2012 were as follows:

		2013	2012
Debt securities issued	₩	17,432	67,425
Borrowings		8,215,515	5,470,647
	₩	<u>8,232,947</u>	<u>5,538,072</u>

(b) Details of debt securities issued as of March 31, 2013 and 2012 were as follows:

	maturity	Interest rate (%)		2013	2012
Good Morning Shinhan 17th	2012.7.23	5.69	₩	-	50,000
Other	2013.5.20	5.20		17,432	17,432
Discount on debentures				-	(7)
			₩	<u>17,432</u>	<u>67,425</u>

(c) Details of borrowings as of March 31, 2013 and 2012 were as follows:

	2013		2012	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Call money	2.70~2.87	₩ 646,500	3.32~3.35	₩ 647,100
Notes payable	2.79~2.82	480,000	3.55	100,000
Bank overdrafts	4.94	9,500	-	-
Bonds sold under repurchase agreements (won)	1.00~3.00	6,121,755	1.00~4.50	4,377,316
Bonds sold under repurchase agreements (foreign currency)	0.30~1.10	53,654	0.30~1.30	12,305
Borrowings from KSFC	3.03~3.53	32,301	3.40~5.71	117,701
Borrowings from Banks	3.45	50,000	-	-
Borrowings in foreign currency	Libor 3 month +3.90	164,134	Libor 3 month +3.90	49,305
Borrowings from affiliated company	4.11	100,000	4.11	100,000
	3.84	100,000	-	-
Others	-	457,671	-	66,920
		<u>₩ 8,215,515</u>		<u>₩ 5,470,647</u>

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**16. Provisions**

Details of provisions as of March 31, 2013 and 2012 are as follows:

		2013			
		Asset retirement obligation(*1)	Allowance for litigation(*2)	Other allowances	Total
Beginning balance	₩	3,084	21,942	2	25,028
Provision		662	-	-	662
Transfer		-	7,231	-	7,231
Reversal		(413)	-	-	(413)
Provision used		-	(23,486)	-	(23,486)
Others		169	-	(2)	167
Ending balance	₩	<u>3,502</u>	<u>5,687</u>	<u>-</u>	<u>9,189</u>
		2012			
		Asset retirement obligation(*1)	Allowance for litigation(*2)	Other allowances	Total
Beginning balance	₩	3,132	21,942	2	25,076
Provision		822	-	-	822
Reversal		(578)	-	-	(578)
Provision used		(403)	-	-	(403)
Other		111	-	-	111
Ending balance	₩	<u>3,084</u>	<u>21,942</u>	<u>2</u>	<u>25,028</u>

(\*1) Asset retirement obligation liabilities represent the estimated costs to restore the existing leased properties which are discounted to the present value using the appropriate discount rate at the end of the reporting period. Disbursements of such costs are expected to incur at the end of the lease contract. Such costs are reasonably estimated using the average lease year and the average restoration expenses. The average lease year is calculated based on the past three -year historical data of the expired leases. The average restoration expense is calculated based on the actual costs incurred for the past three years using the three-year average inflation rate.

(\*2) See footnote 31

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**17. Other liabilities**

Details of other liabilities as of March 31, 2013 and 2012 are as follows:

	2013	2012
Accounts payable	₩ 933,521	923,455
Accrued expenses	56,199	50,722
Unearned income	2,746	2,462
Deposits for rent	34,535	39,431
Domestic exchanges payable	38,087	41,663
Account for agency business	384	304
Withholding income taxes	18,412	15,474
Others	73,611	2,436
	<u>1,157,495</u>	<u>1,075,947</u>
Present value discount	(2,119)	(2,369)
	<u>₩ 1,155,376</u>	<u>1,073,578</u>

**18. Net commission income**

Net commission income for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Commission income		
Brokerage commissions	₩ 209,374	309,856
Brokerage commissions on collective investment securities	10,783	12,036
Underwriting commissions	14,706	22,093
Consulting commissions	11,383	6,461
Commissions on entrusted investments	3,775	4,737
Trust fees and commissions received from trust account	5,886	6,287
Others	10,875	5,941
	<u>266,782</u>	<u>367,411</u>
Commission expense		
Trading commissions	(18,387)	(21,338)
Commission on securities borrowed	(3,508)	(2,650)
Commission on Shinhan Group brand	(9,315)	(7,434)
Partnership commission	(5,426)	(7,287)
Others	(14,294)	(16,540)
	<u>(50,930)</u>	<u>(55,249)</u>
Net commission income	<u>₩ 215,852</u>	<u>312,162</u>



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**19. Net interest income**

Net interest income for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Interest income		
Interest on deposits	₩ 67,744	74,006
Interest on financial assets designated at fair value through profit or loss	24,690	18,992
Interest on trading financial assets	247,006	179,181
Interest on available-for-sale financial assets	47,913	44,064
Interest on loans	67,330	69,971
Others	20,597	8,388
	<u>475,280</u>	<u>394,602</u>
Interest expense		
Interest on customers' deposits	(10,224)	(8,146)
Interest on borrowings	(23,276)	(4,152)
Interest on bonds sold under repurchase agreements	(159,164)	(115,298)
Interest on call money	(16,128)	(19,752)
Interest on debentures	(3,208)	(4,118)
Others	(4,753)	(2,175)
	<u>(216,753)</u>	<u>(153,641)</u>
Net interest income	₩ <u>258,527</u>	<u>240,961</u>

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**20. Net gain (loss) on foreign transactions**

Net gain (loss) on foreign transactions for the years ended March 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Gain on foreign transactions		
Gain on foreign currency transactions	₩ 12,802	12,619
Gain on foreign exchange translations	3,161	3,304
	<u>15,963</u>	<u>15,923</u>
Loss on foreign transactions		
Loss on foreign currency transactions	(13,383)	(11,397)
Loss on foreign exchange translations	(2,772)	(3,638)
	<u>(16,155)</u>	<u>(15,035)</u>
Net gain (loss) on foreign transactions	₩ <u>(192)</u>	<u>888</u>

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**21. Selling and administrative expenses**

Selling and administrative expenses for the years ended March 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Personnel expenses		
Salary and other benefits for employees	₩ 212,393	207,357
Early retirement	1,364	6,385
Severance pay	13,649	14,342
	<u>227,406</u>	<u>228,084</u>
Depreciation	11,635	12,534
Amortization of intangible assets	13,085	12,800
Others		
Rental expense	16,966	15,905
Entertainment expense	5,467	5,664
Advertising expense	11,249	13,093
Computer system operation expense	12,615	9,828
Research and study expense	5,386	5,320
Communication expense	8,291	8,580
Maintenance and repairs expense	4,449	4,266
Tax and dues	19,658	18,849
Others	12,208	12,571
	<u>96,289</u>	<u>94,076</u>
	<u>₩ 348,415</u>	<u>347,494</u>

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**22. Other operating revenues and expenses**

Other operating revenues and expenses for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Other operating revenues		
Dividends income	₩ 3,897	7,258
Reversal of assets retirement obligation	413	578
Others	646	246
	₩ 4,956	8,082
Other operating expenses		
Provision for loss for other assets	₩ (6,867)	(1,881)
Deposit insurance premium	(536)	(17)
Contribution to provisions for legal	(7,231)	-
Others	(139)	(1,009)
	₩ (14,773)	(2,907)

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**23. Non-operating incomes and expenses**

Non-operating incomes and expenses for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Non-operating incomes		
Gain on equity method valuation	₩ -	7,805
Rental income	16,760	16,980
Gain on disposition of property and equipment	1,458	-
Gains on disposition of investment properties	1,878	-
Gains on disposition of intangible assets	605	-
Others	740	1,201
	₩ 21,441	25,986
Non-operating expenses		
Loss on equity method valuation	₩ 439	-
Impaired loss on investments in associates	58	2,269
Depreciation on investment properties	3,447	3,790
Donations	1,081	2,913
Loss on disposition of property and equipment	198	47
Loss on disposition of investment properties	426	-
Loss on disposition of intangible assets	56	-
Impairment losses on intangible assets	380	1,196
Others	2,973	1,070
	₩ 9,058	11,285

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**24. Financial instrument classification by category**

(a) Detail of financial instruments' book value as of March 31, 2013 and 2012 were as follows:

		2013							
		Trading assets	Financial asset designated at FVTPL	Available-for-sale financial assets	Loans and receivables	Trading liabilities	Financial liabilities designated at FVTPL	Financial liabilities measured at amortized cost	Total
Assets:									
Cash and due from banks	₩	-	-	-	1,739,134	-	-	-	1,739,134
Financial assets at FVTPL		8,896,514	2,798,644	-	-	-	-	-	11,695,158
Available-for-sale financial assets		-	-	1,338,815	-	-	-	-	1,338,815
Loans		-	-	-	1,570,237	-	-	-	1,570,237
Other financial assets		-	-	-	1,196,822	-	-	-	1,196,822
	₩	<u>8,896,514</u>	<u>2,798,644</u>	<u>1,338,815</u>	<u>4,506,193</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,540,166</u>
Liabilities:									
Deposits	₩	-	-	-	-	-	-	959,630	959,630
Financial liabilities at FVTPL		-	-	-	-	599,295	4,766,698	-	5,365,993
Borrowings		-	-	-	-	-	-	8,232,947	8,232,947
Other financial liabilities		-	-	-	-	-	-	1,060,607	1,060,607
	₩	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>599,295</u>	<u>4,766,698</u>	<u>10,253,184</u>	<u>15,619,177</u>

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**24. Financial instrument classification by category, Continued**

		2012							
		Trading assets	Financial asset designated at FVTPL	Available-for-sale financial assets	Loans and receivables	Trading liabilities	Financial liabilities designated at FVTPL	Financial liabilities measured at amortized cost	Total
Assets:									
Cash and due from banks	₩	-	-	-	2,164,978	-	-	-	2,164,978
Financial assets at FVTPL		5,591,682	2,000,893	-	-	-	-	-	7,592,575
Available-for-sale financial assets		-	-	1,576,950	-	-	-	-	1,576,950
Loans		-	-	-	1,087,371	-	-	-	1,087,371
Other financial assets		-	-	-	1,191,050	-	-	-	1,191,050
	₩	<u>5,591,682</u>	<u>2,000,893</u>	<u>1,576,950</u>	<u>4,443,399</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,612,924</u>
Liabilities:									
Deposits	₩	-	-	-	-	-	-	932,194	932,194
Financial liabilities at FVTPL		-	-	-	-	487,746	3,915,993	-	4,403,739
Borrowings		-	-	-	-	-	-	5,538,072	5,538,072
Other financial liabilities		-	-	-	-	-	-	1,053,205	1,053,205
	₩	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>487,746</u>	<u>3,915,993</u>	<u>7,523,471</u>	<u>11,927,210</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
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**24. Financial instrument classification by category, Continued**

(b) Gains or losses of financial instruments for the years ended March 31, 2013 and 2012 are as follows:

	2013	2012
Trading assets		
Gain on valuation	₩ 40,568	11,539
Gain on sales	153,183	72,977
Loss on valuation	(7,396)	(4,494)
Loss on sales	(98,177)	(101,721)
	₩ <u>88,178</u>	<u>(21,699)</u>
Derivatives		
Gain on valuation of derivatives	₩ 269,578	94,083
Gain on derivatives transactions	606,677	438,539
Loss on valuation of derivatives	(197,333)	(139,326)
Loss on derivatives transactions	(416,458)	(431,112)
	₩ <u>262,464</u>	<u>(37,816)</u>
Financial assets designated at fair value through profit or loss		
Gain on valuation	₩ 74,803	47,811
Gain on sales	32,957	31,482
Loss on valuation	(16,084)	(10,926)
Loss on sales	(6,417)	(26,820)
	₩ <u>85,259</u>	<u>41,547</u>
Available for sale financial instruments		
Gain on sales	₩ 21,879	5,514
Reversal of impairment	22,147	-
Loss on sales	(1,516)	(2,792)
Impaired loss	(9,145)	(16,058)
Gain on valuation	(3,104)	25,680
	₩ <u>30,261</u>	<u>12,344</u>



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**24. Financial instrument classification by category, Continued**

	2013	2012
Loans and receivables		
Gain on sales of loans	₩ 2,538	105
Provision for loan loss	(4,893)	(2,648)
Loss on sales of loans	(71)	-
Provision for loss for other assets	(6,867)	(1,881)
	₩ <u>(9,293)</u>	<u>(4,424)</u>
Trading financial liabilities		
Gain on valuation	₩ 4,315	1,113
Gain on redemption	24,462	21,989
Loss on valuation	(6,254)	(3,029)
Loss on redemption	(41,869)	(26,375)
	₩ <u>(19,346)</u>	<u>(6,302)</u>
Financial liability designated at fair value through profit or loss		
Gain on valuation	₩ 93,059	100,881
Gain on redemption	5,641	13,460
Loss on valuation	(214,891)	(67,725)
Loss on redemption	(352,042)	(99,420)
	₩ <u>(468,233)</u>	<u>(52,804)</u>

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**25. Financial risk management**

(a) General information of risk management

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

(i) Risk management principles

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

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

(ii) Risk management framework

The Group has established the Group Risk Management Committee, the Group Risk Management Council and the Group Risk Management Team at the holding company level and the Risk Management Committees and the Risk Management Team of the relevant subsidiary at the subsidiary level.

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

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**25. Financial risk management, Continued**

(a) General information of risk management, Continued

Group Risk Management Council consists of the Group's chief risk officer, head of risk management team, and risk officers from each subsidiary. The Group Risk Management Council holds meetings for risk management executives from each subsidiary to discuss the Group's groupwide risk management guidelines and strategy in order to maintain consistency in the groupwide risk policies and strategies. Specifically, the Group Risk Management Council deliberates on the following: (i) changes in risk management policies and strategies for each subsidiary, (ii) matters warranting discussion of risk management at the Group level and cooperation among the subsidiaries, (iii) the effect of external factors on the groupwide risk, (iv) determination of the risk appetite for the Group as a whole and for each of the subsidiaries, (v) risk limits of the Group as a whole and for each of the subsidiaries, (vi) operation of risk measuring systems for the Group as a whole and for each of the subsidiaries, (vii) matters requiring joint deliberation in relation to group-wide risk management and (viii) matters related to providing funds to the subsidiaries. The Group Risk Management Council has a sub-council consisting of working-level risk management officers to discuss the above-related matters in advance.

(b) Credit risk

(i) Maximum exposure to credit risk

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

Details of the Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as of March 31, 2013 and 2012 were as follows:

		2013	2012
Due from banks and loans(*)	₩	3,309,275	3,252,246
Banks		1,640,151	2,294,473
Retail		695,148	707,641
Mortgage lending		13,305	13,230
Other		681,843	694,411
Government		346	545
Corporate		973,630	249,587
Large company		506,780	145,735
Small business		466,850	103,852
Trading financial assets			
Debt securities		7,968,590	5,168,058
Financial assets designated at fair value through profit or loss			
Debt securities		1,522,860	849,109
Available-for-sale financial assets			
Debt securities		1,163,520	1,387,182

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**25. Financial risk management, Continued**

(b) Credit risk, Continued

	2013	2012
Derivative assets	266,635	96,330
Other financial assets	1,196,822	1,191,050
	<u>15,427,702</u>	<u>11,943,975</u>
ABCP purchase agreement	142,100	132,860
Loan commitment	110,000	-
	<u>252,100</u>	<u>132,860</u>
	<u>₩ 15,679,803</u>	<u>12,076,835</u>

(\*) Cash on hand is excluded from due from banks.

(ii) Due from banks and loans

Details of due from banks and loans as of March 31, 2013 and 2012 were as follows:

		2013					
		Banks	Customers			Sub total	Total
			Retail	Government	Corporate		
Neither past due nor impaired	₩	1,640,151	694,574	346	961,614	1,656,534	3,296,685
Past due but not impaired		-	577	-	36	613	613
Impaired		-	1,585	-	114,879	116,464	116,464
		<u>1,640,151</u>	<u>696,736</u>	<u>346</u>	<u>1,076,529</u>	<u>1,773,611</u>	<u>3,413,762</u>
Less : allowance		-	(1,588)	-	(102,899)	(104,487)	(104,487)
	₩	<u>1,640,151</u>	<u>695,148</u>	<u>346</u>	<u>973,630</u>	<u>1,669,124</u>	<u>3,309,275</u>
		2012					
		Banks	Customers			Sub total	Total
			Retail	Government	Corporate		
Neither past due nor impaired	₩	2,294,473	707,259	545	204,486	912,290	3,206,763
Past due but not impaired		-	385	-	144	529	529
Impaired		-	1,690	-	147,784	149,474	149,474
		<u>2,294,473</u>	<u>709,334</u>	<u>545</u>	<u>352,414</u>	<u>1,062,293</u>	<u>3,356,766</u>
Less : allowance		-	(1,693)	-	(102,827)	(104,520)	(104,520)
	₩	<u>2,294,473</u>	<u>707,641</u>	<u>545</u>	<u>249,587</u>	<u>957,773</u>	<u>3,252,246</u>

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**25. Financial risk management, Continued**

(b) Credit risk, Continued

Details of due from banks and loans, net of allowance, that are neither past due nor impaired as of March 31, 2013 and 2012 were as follows:

		2013					
		Banks	Customers			Sub total	Total
			Retail	Government	Corporate		
Grade 1	₩	1,640,060	-	346	509,845	510,191	2,150,251
Grade 2		91	694,574	-	451,769	1,146,343	1,146,434
Allowance		-	(3)	-	(6,967)	(6,970)	(6,970)
	₩	<u>1,640,151</u>	<u>694,571</u>	<u>346</u>	<u>954,647</u>	<u>1,649,564</u>	<u>3,289,715</u>
Fair value of collateral	₩	121,350	691,064	-	738,991	1,430,055	1,551,405

  

		2012					
		Banks	Customers			Sub total	Total
			Retail	Government	Corporate		
Grade 1	₩	2,294,455	-	545	128,255	128,800	2,423,255
Grade 2		18	707,259	-	76,231	783,490	783,508
Allowance		-	(3)	-	-	(3)	(3)
	₩	<u>2,294,473</u>	<u>707,256</u>	<u>545</u>	<u>204,486</u>	<u>912,287</u>	<u>3,206,760</u>
Fair value of collateral	₩	249,800	705,294	-	62,054	767,348	1,017,148

Credit quality of due from banks and loans were classified based on the internal credit rating.

Details of due from banks and loans that were past due but not impaired as of March 31, 2013 and 2012 were as follows:

		2013					
		Banks	Customers			Sub total	Total
			Retail	Government	Corporate		
Within 30 days	₩	-	577	-	36	613	613
30~60 days		-	-	-	-	-	-
60~90 days		-	-	-	-	-	-
More than 90 days		-	-	-	-	-	-
	₩	<u>-</u>	<u>577</u>	<u>-</u>	<u>36</u>	<u>613</u>	<u>613</u>
Fair value of collateral	₩	-	577	-	36	613	613

  

		2012					
		Banks	Customers			Sub total	Total
			Retail	Government	Corporate		
Within 30 days	₩	-	385	-	144	529	529
30~60 days		-	-	-	-	-	-
60~90 days		-	-	-	-	-	-
More than 90 days		-	-	-	-	-	-
	₩	<u>-</u>	<u>385</u>	<u>-</u>	<u>144</u>	<u>529</u>	<u>529</u>
Fair value of collateral	₩	-	385	-	144	529	529

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**25. Financial risk management, Continued**

(b) Credit risk, Continued

Details of impaired due from banks and loans as of March 31, 2013 and 2012 were as follows:

		2013					
		Banks	Customers			Sub total	Total
			Retail	Government	Corporate		
Impaired amounts	₩	-	1,585	-	114,879	116,464	116,464
Allowance		-	(1,585)	-	(95,932)	(97,517)	(97,517)
	₩	-	-	-	18,947	18,947	18,947
Fair value of collateral	₩	-	-	-	18,947	18,947	18,947

  

		2012					
		Banks	Customers			Sub total	Total
			Retail	Government	Corporate		
Impaired amounts	₩	-	1,690	-	147,784	149,474	149,474
Allowance		-	(1,690)	-	(102,827)	(104,517)	(104,517)
	₩	-	-	-	44,957	44,957	44,957
Fair value of collateral	₩	-	-	-	44,957	44,957	44,957

(iii) Credit rating

Details of credit rating of trading financial assets, financial assets designated at fair value through profit or loss and available-for-sale financial assets as of March 31, 2013 and 2012 were as follows:

		2013			
		Trading financial assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Total
AAA	₩	4,948,689	342,275	238,406	5,529,370
AA- to AA+		2,018,578	214,602	154,172	2,387,352
A- to A+		665,883	605,509	463,903	1,735,295
Lower than A-		330,650	360,474	252,784	943,908
Unrated		4,790	-	54,255	59,045
	₩	7,968,590	1,522,860	1,163,520	10,654,970
Neither past due nor impaired	₩	7,968,590	1,522,860	1,114,288	10,605,738
Impaired		-	-	49,232	49,232
	₩	7,968,590	1,522,860	1,163,520	10,654,970

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**25. Financial risk management, Continued**

(b) Credit risk, Continued

		2012			
		Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Total
AAA	₩	1,950,005	187,960	231,556	2,369,521
AA- to AA+		2,375,078	146,953	247,069	2,769,100
A- to A+		552,171	319,094	583,041	1,454,306
Lower than A-		290,804	195,102	294,737	780,643
Unrated		-	-	30,779	30,779
	₩	<u>5,168,058</u>	<u>849,109</u>	<u>1,387,182</u>	<u>7,404,349</u>
Neither past due nor impaired	₩	5,168,058	849,109	1,363,529	7,380,696
Impaired		-	-	23,653	23,653
	₩	<u>5,168,058</u>	<u>849,109</u>	<u>1,387,182</u>	<u>7,404,349</u>

(iv) Concentration by location

Details of concentration by location of due from banks and loans as of March 31, 2013 and 2012 were as follows:

		2013				
		Banks	Retail	Government	Corporate	Total
Korea	₩	1,606,759	695,148	346	733,199	3,035,452
USA		2,985	-	-	2,860	5,845
UK		38	-	-	296	334
Other		30,369	-	-	237,275	267,644
	₩	<u>1,640,151</u>	<u>695,148</u>	<u>346</u>	<u>973,630</u>	<u>3,309,275</u>

  

		2012				
		Banks	Retail	Government	Corporate	Total
Korea	₩	2,278,639	707,641	545	234,582	3,221,407
USA		3,401	-	-	12,658	16,059
UK		3,879	-	-	778	4,657
Other		8,553	-	-	1,570	10,123
	₩	<u>2,294,472</u>	<u>707,641</u>	<u>545</u>	<u>249,588</u>	<u>3,252,246</u>

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**25. Financial risk management, Continued**

(b) Credit risk, Continued

(v) Concentration by industry sector

Details of concentration by industry sector of due from banks and loans as of March 31, 2013 and 2012 were as follows:

	2013				
	Banks	Retail	Government	Corporate	Total
Finance and insurance	₩ 1,640,151	-	346	305,676	1,946,173
Manufacturing	-	-	-	3,260	3,260
Retail and wholesale	-	-	-	4,880	4,880
Real estate and service	-	-	-	336,667	336,667
Construction	-	-	-	2,065	2,065
Other	-	-	-	321,082	321,082
Retail customers	-	695,148	-	-	695,148
	₩ 1,640,151	695,148	346	973,630	3,309,275

  

	2012				
	Banks	Retail	Government	Corporate	Total
Finance and insurance	₩ 2,294,472	-	545	132,557	2,427,574
Manufacturing	-	-	-	7,832	7,832
Retail and wholesale	-	-	-	3,388	3,388
Real estate and service	-	-	-	44,226	44,226
Construction	-	-	-	12,442	12,442
Other	-	-	-	49,143	49,143
Retail customers	-	707,641	-	-	707,641
	₩ 2,294,472	707,641	545	249,588	3,252,246



## SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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(Unaudited)

#### 25. Financial risk management, Continued

##### (c) Market risk

##### (i) Trading position Value at Risk (VaR)

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

The Group assesses its market risks using a variety of criteria such as standard methods that measure market risk exposure, risk valuation criteria (VaR: Value at Risk) and others, and report it daily.

Overall authority for market risk is vested in The Risk Management Committee. The Risk Management Practical Committee which is composed of the Group's financial officer, agenda initiative executive, executives of major operation departments and the Risk Management Officer (Chief Risk Officer) set risk management policy and investment limits. The Risk Management Practical Committee monitors operation departments and reports regularly to The Risk Management Committee. Operation departments which possess and manage trading assets also perform risk management on their own process.

The Group uses risk valuation techniques to evaluate, assess and control market risk, including the following measurement methods:

Risk valuation is calculated by multiplying risk weight to value of assets. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

The Group primarily uses the one-day 99.9% confidence level-based VaR for managing market risk as this is the norm in the securities industry in Korea. However, since its VaR computation is based on parametric normal distribution, the Group also calculates the ten-day 99.9% VaR by multiplying the one-day 99.9% VaR by the square root of ten and uses such VaR on a supplemental basis for internal management purposes. Shinhan Investment is currently using a variance-covariance methodology called "delta-gamma method" for its overall VaR calculation.

Limitation of market risk is set within total risk limitation and calculated by multiplying the Group's average VaR with a multiplier. The Group uses this risk to manage its capital structure.

The Risk Management Department manages risk limits given by the Risk Management Committee and Risk Management Practical Committee. Risk limits are comprised of transaction limits, risk limits, stop loss, and instrument limits. If limits are exceeded, the operating unit manager reports that fact, reason, and solution to the Risk Management Department head. This procedure is stipulated well, therefore the risk can be treated effectively in an emergency situation.

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**25. Financial risk management, Continued**

(c) Market risk, Continued

An analysis of trading positions VaR as of and for the years ended March 31, 2013 and 2012 were as follows:

		2013			At March
		Average	Maximum	Minimum	31, 2013
Interest rate	₩	8,974	15,797	2,532	10,246
Equities		4,229	12,672	921	6,331
Foreign exchange		2,625	10,825	117	756
Option volatility		3,935	11,812	364	941
Portfolio diversification		(10,997)	(20,771)	(3,037)	(12,104)
	₩	<u>8,766</u>	<u>30,335</u>	<u>897</u>	<u>6,170</u>
		2012			At March
		Average	Maximum	Minimum	31, 2012
Interest rate	₩	11,703	19,249	5,500	7,132
Equities		4,402	15,042	882	1,334
Foreign exchange		1,392	5,563	23	2,206
Option volatility		2,443	9,757	129	1,702
Portfolio diversification		(7,643)	(22,920)	(1,599)	(6,488)
	₩	<u>12,297</u>	<u>26,691</u>	<u>4,935</u>	<u>5,886</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
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**25. Financial risk management, Continued**

(c) Market risk, Continued

(ii) Non-trading position VaR

The principal market risk from non-trading activities of the Group is interest rate risk, which affects the Group's earnings and the economic value of the Group's net assets:

- Earnings: interest rate fluctuations have an effect on the Group's net interest income by affecting its interest-sensitive operating income and expenses and EaR (Earnings at Risk) is a commonly used risk management measurement technique.
- Economic value of net assets: interest rate fluctuations influence the Group's net worth by affecting the present value of cash flows from the assets, liabilities and other transactions of the Group and interest rate VaR is a commonly used risk management measurement technique.

Accordingly, the Group measures and manages interest rate risk for non-trading activities by taking into account effects of interest rate changes on both its income and net asset value.

Interest rate VaR and EaR of non-trading positions as of March 31, 2013 and 2012 were as follows:

		2013	2012
Interest rate VaR	₩	22,907	38,326
Interest rate EaR		132,360	77,144

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**25. Financial risk management, Continued**

(c) Market risk, Continued

(iii) Foreign exchange risk

Foreign exchange risk is the risk of loss that occurs due to fluctuations in future cash flows or fair values as a result of fluctuations in foreign exchange rates. Foreign exchange risk is due to differences between foreign currency denominated assets and liabilities, and is also from forward positions. The Group sets a limit for net open positions by currency.

The Group does not have of foreign currency denominated assets and liabilities that are applied to hedge accounting.

Exposures to foreign exchange risk of foreign currency denominated assets and liabilities as of March 31, 2013 and 2012 were as follows:

		2013				Total
		USD	JPY	EUR	Other	
<b>Assets</b>						
Cash and due from banks	₩	259,525	1,841	2,127	8,507	272,000
Loans		242,810	-	-	-	242,810
Trading financial assets		139,968	142	-	687	140,797
Available-for-sale financial assets		1,040	-	-	158	1,198
Other financial assets		61,845	-	5	1,009	62,859
		<u>705,188</u>	<u>1,983</u>	<u>2,132</u>	<u>10,361</u>	<u>719,664</u>
<b>Liabilities</b>						
Deposits		221,294	1,757	1,290	6,246	230,587
Borrowings		217,788	-	-	-	217,788
Other financial liabilities		32,994	-	5	731	33,730
		<u>472,076</u>	<u>1,757</u>	<u>1,295</u>	<u>6,977</u>	<u>482,105</u>
Net assets		233,112	226	837	3,384	237,559
Off-balance sheet derivative exposure		(238,787)	-	(570)	-	(239,357)
Net position	₩	<u>(5,675)</u>	<u>226</u>	<u>267</u>	<u>3,384</u>	<u>(1,798)</u>

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**25. Financial risk management, Continued**

(c) Market risk, Continued

		2012				Total
		USD	JPY	EUR	Other	
<b>Assets</b>						
Cash and due from banks	₩	130,140	2,130	728	10,374	143,372
Loans		5,405	-	-	-	5,405
Trading financial assets		78,649	-	-	-	78,649
Available-for-sale financial assets		1,040	-	-	1,043	2,083
Other financial assets		77,715	-	78	556	78,349
		<u>292,949</u>	<u>2,130</u>	<u>806</u>	<u>11,973</u>	<u>307,858</u>
<b>Liabilities</b>						
Deposits		121,798	2,082	723	3,822	128,425
Borrowings		61,611	-	-	-	61,611
Other financial liabilities		24,038	-	78	566	24,682
		<u>207,447</u>	<u>2,082</u>	<u>801</u>	<u>4,388</u>	<u>214,718</u>
Net assets		85,502	48	5	7,585	93,140
Off-balance derivative exposure		(172,471)	-	-	-	(172,471)
Net position	₩	<u>(86,969)</u>	<u>48</u>	<u>5</u>	<u>7,585</u>	<u>(79,331)</u>

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

In addition to liquidity risk management under the normal market situations, the Group has contingency plans to effectively cope with a possible liquidity crisis. A liquidity crisis could arise if the Group is not able to effectively manage its liquidity needs with its normal sources of funds, an epidemic financial markets crisis occurs or an abrupt deterioration of the Group's credit occurs. The Group's contingency plans correspond to the following different stages of a liquidity crisis: "liquidity risk limits", "early warning indicators" and "monitoring indicators".

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

- maintain an appropriate level of liquidity risk through liquidity risk management based on liquidity gap or debt-to-equity ratio at each maturity date;
- assess and monitor net cash flows by currency and by maturity and continuously evaluate available sources of funds and possibility of disposal of any liquid assets;
- diversify source and uses of funds by product and by maturity to prevent excessive concentration in certain periods or products; and
- prepare contingency plans to cope with a liquidity crisis.

The Group manages its liquidity risk within the limits set on won and foreign currency by using various analysis methods such as liquidity gap and various indices including risk limits, early warning index, and monitoring index.

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**25. Financial risk management, Continued**

(d) Liquidity risk, Continued

(i) Contractual maturities for financial instruments

Contractual maturities for financial instruments including cash flows of principal and interest and off balance as of March 31, 2013 and 2012 were as follows:

	2013						Total
	Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	
<b>Assets:</b>							
Cash and due from bank	₩ 658,149	443,279	299,014	351,979	-	92	1,752,513
Trading financial assets	183,305	231,169	484,860	61,087	410,489	370,250	1,741,160
Financial asset designated at FVTPL	8,629,878	-	-	-	-	-	8,629,878
Derivative assets	266,635	-	-	-	-	-	266,635
Available-for-sale financial assets	2,262,956	31,666	57,992	56,752	392,248	-	2,801,614
Loans	9,398	1,113,617	-	-	1,414	222,288	1,346,717
Other financial assets	1,093,321	23,354	21,489	26,780	28,519	21,769	1,215,232
	<u>13,103,643</u>	<u>1,843,085</u>	<u>863,355</u>	<u>496,598</u>	<u>832,670</u>	<u>614,399</u>	<u>17,753,750</u>
<b>Liabilities:</b>							
Deposits	960,538	-	-	-	-	-	960,538
Trading financial liabilities	246,157	-	-	-	-	-	246,157
Financial liabilities designated at FVTPL	147,524	208,806	171,170	662,644	3,420,224	156,328	4,766,696
Derivative liabilities	353,139	-	-	-	-	-	353,139
Borrowings	7,424,463	18,840	12,420	66,747	618,521	170,431	8,311,422
Debt securities issued	73	17,481	-	-	-	-	17,554
Other financial liabilities	988,808	17,335	4,221	37,080	14,571	712	1,062,727
	<u>10,120,702</u>	<u>262,462</u>	<u>187,811</u>	<u>766,471</u>	<u>4,053,316</u>	<u>327,471</u>	<u>15,718,233</u>
Net position	₩ <u>2,982,941</u>	<u>1,580,623</u>	<u>675,544</u>	<u>(269,873)</u>	<u>(3,220,646)</u>	<u>286,928</u>	<u>2,035,517</u>

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**25. Financial risk management, Continued**

(d) Liquidity risk, Continued

		2012						
		Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	Total
Assets:								
Cash and due from bank	₩	293,656	519,815	318,508	1,061,391	9,904	93	2,203,367
Trading financial assets		5,495,352	-	-	-	-	-	5,495,352
Financial asset designated at FVTPL		1,690,105	4,881	5,018	16,737	287,891	-	2,004,632
Derivative assets		96,330	-	-	-	-	-	96,330
Available-for-sale financial assets		7,034	1,356,403	-	-	7,488	210,816	1,581,741
Loans		312,426	271,495	442,025	9,417	5,555	174,027	1,214,945
Other financial assets		1,090,335	8,479	18,771	40,598	28,090	27,458	1,213,731
		<u>8,985,238</u>	<u>2,161,073</u>	<u>784,322</u>	<u>1,128,143</u>	<u>338,928</u>	<u>412,394</u>	<u>13,810,098</u>
Liabilities:								
Deposits		932,885	-	-	-	-	-	932,885
Trading financial liabilities		288,301	-	-	-	-	-	288,301
Financial liabilities designated at FVTPL		170,211	179,739	94,411	441,792	2,999,583	30,257	3,915,993
Derivative liabilities		199,445	-	-	-	-	-	199,445
Borrowings		5,267,773	1,625	101,106	2,524	133,350	66,919	5,573,297
Other financial liabilities		978,659	19,052	6,572	30,688	19,892	711	1,055,574
		<u>7,837,274</u>	<u>200,416</u>	<u>202,089</u>	<u>475,004</u>	<u>3,152,825</u>	<u>97,887</u>	<u>11,965,495</u>
Net position	₩	<u>1,147,964</u>	<u>1,960,657</u>	<u>582,233</u>	<u>653,139</u>	<u>(2,813,897)</u>	<u>314,507</u>	<u>1,844,603</u>

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**25. Financial risk management, Continued**

(d) Liquidity risk, Continued

(ii) Contractual maturities for off balance sheet items

Contractual maturities for off balance sheet items as of March 31, 2013 and 2012 were as follows;

		2013					
		Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	Total
ABCP purchase agreement	₩	142,100	-	-	-	-	142,100
Loan commitment		110,000	-	-	-	-	110,000
	₩	<u>252,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>252,100</u>
		2012					
		Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	Total
ABCP purchase agreement	₩	132,860	-	-	-	-	132,860



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**25. Financial risk management, Continued**

(e) Capital risk management

(i) Capital management

The objective of capital management is to maintain a competitive credit rating for maximizing Group value and support its going concern.

The Group manages capital risk by considering the risk concerning market status change and operating activities. The Group maintains required capital by restricting dividends, increasing capital stock and capital reduction.

(ii) Regulatory Capital Status

Financial Supervisory Service imposes limitations on the Groups net capital ratio (NCR) to maintain at over 150%, otherwise the following measures are taken:

- NCR between 120%~150%: recommending management improvement
- NCR between 100%~120%: demanding management improvement
- NCR less than 100%: ordering management improvement

The Group manages NCR according to its separate financial statements and details of NCR as of March 31, 2013 and 2012 were as follows:

		2013	2012
1. Net capital	₩	1,520,264	1,621,928
Net assets		2,220,311	2,154,665
Adjustment(-)		700,101	532,834
Adjustment(+)		54	97
2. Total risk		257,843	192,545
Market risk		190,483	136,550
Credit risk		49,596	31,965
Operating risk		17,764	24,030
3. Net capital ratio		589.61%	842.36%
: (1/2) X 100 (%)			
4. Surplus capital : (1 - 2)	₩	1,262,421	1,429,383

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**25. Financial risk management, Continued**

(f) Measurement of fair value

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

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

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

(i) Financial instruments measured at amortized cost

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

Type	Measurement methods of fair value
Cash and due from banks	The book value and the fair value for cash are identical and most deposits are floating interest rate deposits or deposits that are a short-term instrument. For this reason, the book value is used as a substitute figure for the fair value.
Loans	The fair value of the loans is measured by discounting the expected cash flows at the market interest rate and credit risk, etc.
Deposits and borrowings	The book value and the fair value for demand deposits that are short-term instruments are identical. The fair value of borrowings is measured by discounting the contractual cash flows at the market interest rate that takes into account the residual risk.

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**25. Financial risk management, Continued**

(f) Measurement of fair value, Continued

The financial instruments measured at amortized cost as of March 31, 2013 and 2012 were as follows:

	2013				
	Book value				Fair value
	Balance	Unamortized balance	Allowance	Total	
<b>Assets</b>					
Cash and due from banks:					
Cash and cash equivalents ₩	517,553	-	-	517,553	517,553
Due from banks	1,221,581	-	-	1,221,581	1,221,581
	<u>1,739,134</u>	<u>-</u>	<u>-</u>	<u>1,739,134</u>	<u>1,739,134</u>
Loans:					
Retail	732,528	(1,635)	(1,588)	729,305	729,305
Corporate	944,669	(838)	(102,899)	840,932	840,932
	<u>1,677,197</u>	<u>(2,473)</u>	<u>(104,487)</u>	<u>1,570,237</u>	<u>1,570,237</u>
Other financial assets	1,215,232	(6,591)	(11,819)	1,196,822	1,209,266
₩	<u>4,631,563</u>	<u>(9,064)</u>	<u>(116,306)</u>	<u>4,506,193</u>	<u>4,518,637</u>
<b>Liabilities</b>					
Deposits ₩	959,630	-	-	959,630	959,630
Borrowings:					
Call money	646,500	-	-	646,500	646,500
Bonds sold under repurchase agreements	6,175,409	-	-	6,175,409	6,175,409
Borrowings	1,393,606	-	-	1,393,606	1,400,361
Debt securities issued	17,432	-	-	17,432	20,097
	<u>8,232,947</u>	<u>-</u>	<u>-</u>	<u>8,232,947</u>	<u>8,242,367</u>
Other financial liabilities	1,062,727	(2,119)	-	1,060,607	1,061,039
₩	<u>10,255,304</u>	<u>(2,119)</u>	<u>-</u>	<u>10,253,184</u>	<u>10,263,036</u>

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**25. Financial risk management, Continued**

(f) Measurement of fair value, Continued

	2012				
	Book value				Fair value
	Balance	Unamortized balance	Allowance	Total	
<b>Assets</b>					
Cash and due from banks:					
Cash and cash equivalents	₩ 380,948	-	-	380,948	380,948
Due from banks	1,784,030	-	-	1,784,030	1,784,030
	<u>2,164,978</u>	<u>-</u>	<u>-</u>	<u>2,164,978</u>	<u>2,164,978</u>
Loans:					
Retail	742,403	(1,842)	(19)	740,542	740,542
Corporate	452,024	(694)	(104,501)	346,829	346,829
	<u>1,194,427</u>	<u>(2,536)</u>	<u>(104,520)</u>	<u>1,087,371</u>	<u>1,087,371</u>
Other financial assets	1,213,731	(6,791)	(15,890)	1,191,050	1,190,264
	<u>₩ 4,573,136</u>	<u>(9,327)</u>	<u>(120,410)</u>	<u>4,443,399</u>	<u>4,442,613</u>
<b>Liabilities</b>					
Deposits	₩ 932,194	-	-	932,194	932,194
Borrowings:					
Call money	647,100	-	-	647,100	647,100
Bonds sold under repurchase agreements	4,389,620	-	-	4,389,620	4,389,620
Borrowings	433,927	-	-	433,927	429,405
Debt securities issued	67,432	(7)	-	67,425	68,298
	<u>5,538,079</u>	<u>(7)</u>	<u>-</u>	<u>5,538,072</u>	<u>5,534,423</u>
Other financial liabilities	1,055,574	(2,369)	-	1,053,205	1,052,890
	<u>₩ 7,525,847</u>	<u>(2,376)</u>	<u>-</u>	<u>7,523,471</u>	<u>7,519,507</u>

(ii) Financial instruments measured at fair value

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

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

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**25. Financial risk management, Continued**

(f) Measurement of fair value, Continued

Details of financial instruments measured at the fair value by the level in the fair value hierarchy into which the fair value measurement is categorized as of March 31, 2013 and 2012 were as follows:

	2013			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Trading financial assets:				
Debt securities	₩ 261,348	399,940	-	661,288
Equity securities	4,613,468	3,355,123	-	7,968,591
	<u>4,874,816</u>	<u>3,755,063</u>	<u>-</u>	<u>8,629,879</u>
Derivative assets:				
Trading purpose	25,029	77,883	163,723	266,635
Financial assets designated at fair value through profit or loss				
Reserve for claims of customers' deposit (trust)	-	1,224,086	-	1,224,086
Debt securities	325,638	654,854	-	980,492
Equity securities	51,698	-	-	51,698
Derivatives-combined securities	-	1,782	540,586	542,368
	<u>377,336</u>	<u>1,880,722</u>	<u>540,586</u>	<u>2,798,644</u>
Available-for-sale financial assets:				
Debt securities	238,406	925,114	-	1,163,520
Equity securities	2,933	3,451	159,438	165,822
Collective fund for default loss	-	9,473	-	9,473
	<u>241,339</u>	<u>938,038</u>	<u>159,438</u>	<u>1,338,815</u>
	<u>₩ 5,518,520</u>	<u>6,651,706</u>	<u>863,747</u>	<u>13,033,973</u>
<b>Liabilities</b>				
Trading financial liabilities:				
Securities sold	₩ 246,156	-	-	246,156
Derivative liabilities:				
Trading purpose	26,579	206,024	120,536	353,139
Financial liabilities designated at fair value through profit or loss:				
Derivatives-combined securities sold	-	23,456	4,675,541	4,698,997
Securities sold	67,581	120	-	67,701
	<u>67,581</u>	<u>23,576</u>	<u>4,675,541</u>	<u>4,766,698</u>
	<u>₩ 340,316</u>	<u>229,600</u>	<u>4,796,077</u>	<u>5,365,993</u>

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**25. Financial risk management, Continued**

(f) Measurement of fair value, Continued

	2012			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Trading assets:				
Debt securities	₩ 1,830,781	3,337,277	-	5,168,058
Equity securities	56,571	270,723	-	327,294
	<u>1,887,352</u>	<u>3,608,000</u>	<u>-</u>	<u>5,495,352</u>
Derivative assets:				
Trading purpose	7,486	26,987	61,857	96,330
Financial assets designated at fair value through profit or loss:				
Reserve for claims of customers' deposit (trust)	-	1,118,828	-	1,118,828
Debt securities	169,815	337,675	-	507,490
Equity securities	32,956	-	-	32,956
Derivatives-combined securities	-	25,196	316,423	341,619
	<u>202,771</u>	<u>1,481,699</u>	<u>316,423</u>	<u>2,000,893</u>
Available-for-sale financial assets:				
Debt securities	231,557	1,155,625	-	1,387,182
Equity securities	2,504	11,073	167,717	181,294
Collective fund for default loss	-	8,474	-	8,474
	<u>234,061</u>	<u>1,175,172</u>	<u>167,717</u>	<u>1,576,950</u>
	<u>₩ 2,331,670</u>	<u>6,291,858</u>	<u>545,997</u>	<u>9,169,525</u>
<b>Liabilities</b>				
Trading financial liabilities:				
Securities sold	₩ 288,301	-	-	288,301
Derivative liabilities:				
Trading purpose	7,929	24,920	166,596	199,445
Financial liabilities designated at fair value through profit or loss:				
Derivatives-combined securities sold	-	207,885	3,708,108	3,915,993
	<u>₩ 296,230</u>	<u>232,805</u>	<u>3,874,704</u>	<u>4,403,739</u>

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**25. Financial risk management, Continued**

(f) Measurement of fair value, Continued

Changes in level 3 of the fair value hierarchy for the years ended March 31, 2013 and 2012 were as follows:

	2013				
	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities designated at fair value through profit or loss	Derivative	Total
Beginning balance	₩ 316,423	167,717	(3,708,108)	(104,739)	(3,328,707)
Total income					
Profit or loss	18,461	(552)	(287,549)	178,909	(90,731)
Other comprehensive income	-	(12,302)	-	-	(12,302)
Purchases and issuances	657,125	4,508	(4,542,407)	(74,199)	(3,954,973)
Sales and settlements	(451,423)	(1,929)	3,862,523	43,216	3,452,387
Transferred to Level 3	-	1,996	-	-	1,996
Ending balance	₩ 540,586	159,438	(4,675,541)	43,187	(3,932,330)

  

	2012				
	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities designated at fair value through profit or loss	Derivative	Total
Beginning balance	₩ 328,329	159,114	(2,395,052)	54,745	(1,852,864)
Total income					
Profit or loss	1,761	(6,756)	33,157	10,478	38,640
Other comprehensive income	-	19,375	-	-	19,375
Purchases and issuances	146,082	4,465	(1,504,383)	128,532	(1,225,304)
Sales and settlements	(159,749)	(8,481)	158,170	(298,494)	(308,554)
Ending balance	₩ 316,423	167,717	(3,708,108)	(104,739)	(3,328,707)

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**25. Financial risk management, Continued**

(f) Measurement of fair value, Continued

(iii) Day 1 profit or loss

In case the fair value of financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data (i.e., over the counter derivatives) and the transaction price are different, the Group recognizes fair value of financial instruments as the transaction price. The differences between fair value of financial instruments and the transaction price are not recognized in profit or loss as incurred, but deferred on a straight-line basis over the maturity of the financial instruments.

Day 1 profit or loss for the years ended March 31, 2013 and 2012 were as follows:

		2013	2012
Beginning balance	₩	(3,522)	(374)
New transactions		(12,285)	(5,265)
Amounts recognized in profit or loss during the period		2,156	2,117
Ending balance	₩	(13,651)	(3,522)

**26. Operating Segments**

(a) Segment information

The general descriptions by operating segments were as follows:

Description	Area of business
Retail group	Loan, deposits and its related activities for retail, institution and WM (Wealth Management) customers
Wholesale group	Large company, small business, overseas operations and work involved
IB group	Loan, deposits and its related activities for IB customers
Trading group	Investing to derivative, securities and work involved
Other	Management supporting, risk management and many other supporting work (including adjustment)



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**26. Operating Segments, Continued**

(b) The following table provides information of operating income and net income for each operating segment for the years ended March 31, 2013 and 2012.

		2013					Total
		Retail	Wholesale	IB	Trading	Other	
<b>Operating revenue</b>	₩	304,643	24,181	47,025	1,525,369	213,570	2,114,788
Commission income		217,547	1,594	30,573	6,798	10,270	266,782
Gain on financial instruments at fair value through profit or loss		24,158	22,456	2,073	1,163,168	93,388	1,305,243
Gain on available-for-sale financial assets		5	-	718	21,093	22,210	44,026
Interest income		62,405	-	11,721	321,242	79,912	475,280
Gain on valuation or sale of loans		-	-	1,334	-	1,204	2,538
Gain on foreign transactions		116	-	197	11,453	4,197	15,963
Others		412	131	409	1,615	2,389	4,956
<b>Operating expense</b>		221,789	36,071	27,676	1,461,869	272,167	2,019,572
Commission expense		15,674	1,650	902	7,050	25,654	50,930
Loss on financial instruments at fair value through profit or loss		23,785	20,998	5,492	1,251,440	55,206	1,356,921
Loss on available-for-sale financial assets		-	-	1,790	6,205	2,666	10,661
Interest expense		10,647	107	7	158,847	47,145	216,753
Loss on valuation or sale of loans		-	-	4,659	-	305	4,964
Loss on foreign transactions		1,858	-	114	12,568	1,615	16,155
General and administrative expenses		169,704	13,227	12,422	21,683	131,379	348,415
Others		121	89	2,290	4,076	8,197	14,773
<b>Operating income (loss)</b>		82,854	(11,890)	19,349	63,500	(58,597)	95,216
Non-operating income (expenses), net		-	-	-	-	12,383	12,383
<b>Profit (loss) before income taxes</b>		82,854	(11,890)	19,349	63,500	(46,214)	107,599
<b>Adjustment(*)</b>		(91,142)	20,551	(4,093)	(12,657)	87,341	-
Income tax expense (benefit)		(2,006)	2,096	2,972	12,304	4,961	20,327
<b>Profit (loss) for the period</b>	₩	(6,282)	6,565	12,284	38,539	36,166	87,272

(\*) Represents intersegment allocation of costs.

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**26. Operating Segments, Continued**

		2012					Total
		Retail	Wholesale	IB	Trading	Other	
<b>Operating revenue</b>	₩	381,864	4,784	43,873	1,033,435	161,555	1,625,511
Commission income		310,109	77	31,493	2,405	23,327	367,411
Gain on financial instruments at fair value through profit or loss		3,616	4,704	1,515	769,623	54,416	833,874
Gain on available-for-sale financial assets		-	-	671	3,411	1,432	5,514
Interest income		67,174	3	9,225	241,278	76,922	394,602
Gain on valuation or sale of loans		-	-	105	-	-	105
Gain on foreign transactions		604	-	331	13,649	1,339	15,923
Others		361	-	533	3,069	4,119	8,082
<b>Operating expense</b>		204,358	18,744	25,618	1,036,654	221,398	1,506,772
Commission expense		20,672	1,302	4,486	5,195	23,594	55,249
Loss on financial instruments at fair value through profit or loss		3,557	4,536	2,133	873,101	27,621	910,948
Loss on available-for-sale financial assets		-	-	30	17,678	1,142	18,850
Interest expense		8,558	-	(5,191)	115,163	35,111	153,641
Loss on valuation or sale of loans		-	-	2,560	-	88	2,648
Loss on foreign transactions		1,476	2	48	10,830	2,679	15,035
General and administrative expenses		169,990	12,904	15,382	14,644	134,574	347,494
Others		105	-	6,170	43	(3,411)	2,907
<b>Operating income (loss)</b>		177,506	(13,960)	18,255	(3,219)	(59,843)	118,739
Non-operating income (expenses)		1,119	(1)	(2,906)	-	16,489	14,701
<b>Profit (loss) before income taxes</b>		178,625	(13,961)	15,349	(3,219)	(43,354)	133,440
<b>Adjustment(*)</b>		(80,452)	18,046	(3,697)	(6,784)	72,887	-
Income tax expense (benefit)		23,758	989	2,820	(2,420)	8,535	33,682
<b>Profit (loss) for the period</b>	₩	74,415	3,096	8,832	(7,583)	20,998	99,758

(\*) Represents intersegment allocation of costs.

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**26. Operating Segments, Continued**

(c) The following table provides information of the main assets for each operating segment as of March 31, 2013 and 2012.

		2013					
		Retail	Wholesale	IB	Trading	Other	Total
Cash and due from banks	₩	6,227	2,986	3,520	11,256	1,715,145	1,739,134
Financial assets at fair value through profit or loss		13,779	90,768	100,565	9,805,080	1,684,966	11,695,158
Available-for-sale financial assets		9,119	-	775,594	335,431	218,671	1,338,815
Investments in associates		-	-	827	31,269	-	32,096
Loans		736,680	-	697,527	114,751	21,279	1,570,237
Total	₩	<u>765,805</u>	<u>93,754</u>	<u>1,578,033</u>	<u>10,297,787</u>	<u>3,640,061</u>	<u>16,375,440</u>

		2012					
		Retail	Wholesale	IB	Trading	Other	Total
Cash and due from banks	₩	6,222	9,847	40	138,994	2,009,876	2,164,979
Financial assets at fair value through profit or loss		606	22,610	94,171	6,062,073	1,413,115	7,592,575
Available-for-sale financial assets		-	-	636,664	725,770	214,516	1,576,950
Investments in associates		-	-	7,195	13,573	11,594	32,362
Loans		759,888	-	27,123	37,202	263,158	1,087,371
Total	₩	<u>766,716</u>	<u>32,457</u>	<u>765,193</u>	<u>6,977,612</u>	<u>3,912,259</u>	<u>12,454,237</u>

(d) Regional financial information

(i) The following table provides information for operating revenues from external customer for the years ended March 31, 2013 and 2012.

		Revenue		Operating expenses		Operating income (loss)	
		2013	2012	2013	2012	2013	2012
Domestic	₩	2,113,495	1,623,777	2,016,621	1,502,159	96,874	121,618
Overseas		1,293	1,734	2,951	4,613	(1,658)	(2,879)
	₩	<u>2,114,788</u>	<u>1,625,511</u>	<u>2,019,572</u>	<u>1,506,772</u>	<u>95,216</u>	<u>118,739</u>

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**26. Operating Segments, Continued**

(ii) Non-current assets as of March 31, 2013 and 2012 were as follows:

		2013	2012
Domestic	₩	313,732	373,573
Overseas		66	238
	₩	<u>313,798</u>	<u>373,811</u>

Non-current assets as of March 31, 2013 and 2012 include property and equipment, intangible assets and investment properties.

**27. Income tax**

(a) The components of income tax expense of the Group for the years ended March 31, 2013 and 2012 were as follows:

		2013	2012
Current income tax expense	₩	33,367	32,353
Income tax refunds		(3,876)	-
Changes in deferred tax arising from temporary differences		(10,052)	9,848
Deferred income tax adjustment charged or credited directly to equity		888	(8,519)
Income tax expense	₩	<u>20,327</u>	<u>33,682</u>

(b) The income tax expense calculated by applying statutory tax rates to the Group's taxable income differs from the actual tax expense in the consolidated statements of comprehensive income for the years ended March 31, 2013 and 2012 for the following reasons:

		2013	2012
Income before income taxes	₩	107,599	102,174
Tax rates		24.20%	24.20%
Income taxes at statutory tax rates		26,039	32,292
Adjustments :			
Non-taxable income		(201)	(289)
Non-deductible expense		1,619	1,358
Consolidated tax return		(3,257)	(723)
Income tax refunds		(3,876)	-
Others		3	1,044
Income tax expense	₩	<u>20,327</u>	<u>33,682</u>
Effective tax rate (%)		<u>18.89%</u>	<u>25.24%</u>

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**27. Income tax, Continued**

(c) Changes in deferred tax assets (liabilities) for the years ended March 31, 2013 and 2012 were as follows:

	2013			
	Beginning balance	Net income	Accumulated other comprehensive income (capital adjustments)	Ending balance
Stocks at fair value through profit or loss	₩ (2)	(1,246)	-	(1,248)
Bonds at fair value through profit or loss	(4,195)	(7,684)	-	(11,879)
Derivatives-combined securities	(491)	839	-	348
Derivatives-combined securities sold	(2,421)	13,979	-	11,558
Exchange traded derivatives	180	987	-	1,167
Over the counter derivatives	11,842	(15,420)	-	(3,578)
Other financial assets at fair value through profit or loss	(316)	(336)	-	(652)
Other financial liabilities at fair value through profit or loss	464	5	-	469
Available-for-sale financial assets	(4,353)	3,776	751	174
Investments in associates	1,170	1,818	165	3,153
Allowance for credit loss	(4,791)	2,517	-	(2,274)
Property and equipment and investment properties	(40,643)	6,654	-	(33,989)
Intangible assets	(2,200)	(974)	-	(3,174)
Accrued income	(12,071)	(1,273)	-	(13,344)
Account payable and accrued expenses	2,974	840	(28)	3,786
Provisions	6,057	2,224	-	8,281
Borrowings	2,117	-	-	2,117
Day 1 profit or loss	852	3,122	-	3,974
Amortization of up-front fee	1,169	435	-	1,604
Net gain(loss) on foreign exchange translations	(326)	5	-	(321)
Others	1,009	(1,104)	-	(95)
	₩ (43,975)	9,164	888	(33,923)

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**27. Income tax, Continued**

	2012			
	Beginning balance	Net income	Accumulated other comprehensive income (capital adjustments)	Ending balance
Stocks at fair value through profit or loss	₩ 93	(95)	-	(2)
Bonds at fair value through profit or loss	(1,286)	(2,909)	-	(4,195)
Derivatives-combined securities	(1,868)	1,377	-	(491)
Derivatives-combined securities sold	21,075	(23,496)	-	(2,421)
Exchange traded derivatives	(3,676)	3,856	-	180
Over the counter derivatives	(10,219)	22,061	-	11,842
Other financial assets at fair value through profit or loss	(221)	(95)	-	(316)
Other financial liabilities at fair value through profit or loss	(110)	574	-	464
Available-for-sale financial assets	(2,050)	6,461	(8,764)	(4,353)
Investments in associates	745	148	277	1,170
Allowance for credit loss	-	(4,791)	-	(4,791)
Property and equipment and investment properties	(37,364)	(3,279)	-	(40,643)
Intangible assets	(1,064)	(1,136)	-	(2,200)
Accrued income	(10,419)	(1,652)	-	(12,071)
Account payable and accrued expenses	3,623	(617)	(32)	2,974
Provisions	5,517	540	-	6,057
Borrowings	1,925	192	-	2,117
Day 1 profit or loss	82	770	-	852
Amortization of up-front fee	255	914	-	1,169
Net gain(loss) on foreign exchange translations	89	(415)	-	(326)
Others	745	264	-	1,009
	₩ <u>(34,128)</u>	<u>(1,328)</u>	<u>(8,519)</u>	<u>(43,975)</u>

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**27. Income tax, Continued**

(d) The deferred tax assets and liabilities that were directly charged or credited to equity for the years ended March 31, 2013 and 2012 were as follows:

	2013				
	Current year	Deferred tax liability	Prior year	Deferred tax liability	Change in deferred tax
Gain on valuation of available-for-sale financial assets	₩ 138,469	(33,509)	141,572	(34,260)	751
Foreign currency translation differences	(189)	(60)	144	(106)	46
Share of the other comprehensive loss of associates	(1,062)	257	(570)	138	119
Stock option (Capital adjustments)	243	(59)	129	(31)	(28)
	₩ <u>137,461</u>	<u>(33,372)</u>	<u>141,275</u>	<u>(34,259)</u>	<u>888</u>

	2012				
	Current year	Deferred tax liability	Prior year	Deferred tax liability	Change in deferred tax
Gain on valuation of available-for-sale financial assets	₩ 141,572	(34,260)	115,892	(25,496)	(8,764)
Foreign currency translation differences	144	(106)	(845)	-	(106)
Share of the other comprehensive loss of associates	(570)	138	1,112	(245)	383
Stock option (Capital adjustments)	129	(31)	(3)	1	(32)
	₩ <u>141,275</u>	<u>(34,259)</u>	<u>116,156</u>	<u>(25,740)</u>	<u>(8,519)</u>

(e) The deductible temporary differences which were not recognized as deferred tax assets as of March 31, 2013 and 2012 were as follows:

	2013	2012
Investments in subsidiaries	₩ 3,320	2,205

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**27. Income tax, Continued**

(f) The taxable temporary differences which were not recognized as deferred tax liabilities as of March 31, 2013 and 2012 were as follows:

	2013	2012
Investments in subsidiaries	₩ -	(687)

(g) The current tax assets (liabilities) and deferred tax assets (liabilities) presented on a gross basis prior to any offsetting as of March 31, 2013 and 2012 were as follows:

	2013	2012
Deferred tax assets	₩ 191,231	130,448
Deferred tax liabilities	(225,154)	(174,423)



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**28. Derivatives**

(a) Details of the notional amounts of derivatives as of March 31, 2013 and 2012 were as follows:

	2013	2012
Interest rates		
Over the counter:		
Interest rate swaps	₩ 16,152,178	8,974,000
Exchange traded:		
Interest rate futures	2,310,793	825,079
Foreign exchange		
Over the counter:		
Currency forwards	349,168	355,262
Currency swaps	76,989	30,000
Currency options	47,479	34,836
	473,636	420,098
Exchange traded:		
Currency futures	20,657	13,242
Equity		
Over the counter:		
Equity swap	2,664,025	2,571,418
Equity options	1,146,653	830,497
	3,810,678	3,401,915
Exchange traded:		
Equity futures	73,943	24,264
Equity options	6,931,071	2,697,946
	7,005,014	2,722,210
Credit		
Over the counter:		
Credit swap	165,789	89,186
TRS Swap	50,278	-
	216,067	89,186
Commodity		
Over the counter:		
Commodity forwards	357,503	25,975
Commodity swaps	608,171	42,145
Commodity options	48,094	66,721
	1,013,768	134,841
Exchange traded:		
Commodity futures	357,503	26,127
	₩ 31,360,294	16,606,698

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**28. Derivatives, Continued**

(b) Details of the gain (loss) on valuation of derivatives for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Interest rates		
Over the counter:		
Interest rate swaps	₩ (12,235)	(2,736)
Exchange traded:		
Interest rate futures	(2,215)	(1,362)
Foreign exchange		
Over the counter:		
Currency forwards	1,449	(1,257)
Currency swaps	(664)	416
Currency options	(384)	(712)
	401	(1,553)
Exchange traded:		
Currency futures	26	(3)
Equity		
Over the counter:		
Equity swap	86,729	(43,596)
Equity options	(5,370)	1,578
	81,359	(42,018)
Exchange traded:		
Equity futures	(365)	(254)
Equity options	(561)	8,474
	(926)	8,220
Credit		
Over the counter:		
Credit swap	808	(1,142)
TRS Swap	(2,743)	-
	(1,935)	(1,142)
Commodity		
Over the counter:		
Commodity forwards	1,723	(42)
Commodity swaps	9,157	(403)
Commodity options	(1,549)	(4,255)
	9,331	(4,700)
Exchange traded:		
Commodity futures	(1,561)	51
	₩ 72,245	(45,243)

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**29. Pledged Assets**

Assets pledged as collateral as of March 31, 2013 and 2012 were as follows:

	2013							
	Pledged for							Total
	ELS/DLS sold	Borrowing	Derivative	Securities borrowed	RP	Lease	Other	
Due from banks	₩ 50,000	17,000	-	-	-	-	56,098	123,098
Trading financial assets	10,027	-	119,227	226,236	6,058,774	-	-	6,414,264
Financial assets designated at fair value through profit or loss	101,506	-	63,344	112,463	-	-	-	277,313
Available-for-sale financial assets	20,090	-	150,917	253,795	457,961	-	-	882,763
Property	-	-	-	-	-	100,134	-	100,134
	₩ <u>181,623</u>	<u>17,000</u>	<u>333,488</u>	<u>592,494</u>	<u>6,516,735</u>	<u>100,134</u>	<u>56,098</u>	<u>7,797,572</u>
2012								
	Pledged for							Total
	ELS/DLS sold	Borrowing	Derivative	Securities borrowed	RP	Lease	Other	
Due from banks	₩ -	17,000	-	-	-	-	6,279	23,279
Trading financial assets	-	-	55,134	226,699	3,970,104	-	-	4,251,937
Financial assets designated at fair value through profit or loss	80,324	-	96,891	-	49,787	-	-	227,002
Available-for-sale financial assets	-	-	271,847	281,674	420,476	-	-	973,997
Property	-	-	-	-	-	100,903	-	100,903
	₩ <u>80,324</u>	<u>17,000</u>	<u>423,872</u>	<u>508,373</u>	<u>4,440,367</u>	<u>100,903</u>	<u>6,279</u>	<u>5,577,118</u>

The carrying amounts of asset pledged that the pledges have the right to repledge regardless of the Group's default as of March 31, 2013 and 2012 were ₩6,516,735 million and ₩4,440,367 million, respectively.

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**30. Share-based payments**

(a) Share-based payments granted.

Details of stock options granted as of March 31, 2013 were as follows

	6th grant	7th grant
Type	Cash-settled share-based payment	Cash-settled share-based payment
Grant date	2007. 3.20	2008.3.19
Exercise price(in won)	₩ 54,560	₩ 49,053
Number of shares granted	166,298	79,544
Vesting period	Within four years after three years from grant date	Within four years after three years from grant date
Changes in number of shares granted:		
Outstanding at April 1, 2012	117,569	56,979
Exercised and etc.	-	-
Outstanding at March 31, 2013	117,569	56,979
Exercisable at March 31, 2013	117,569	56,979
Assumptions used to determine the fair value of options:		
Risk-free interest rate	2.52%	2.52%
Expected exercise period	6 months	1 year
Expected stock price volatility	19.11%	21.31%
Expected dividend yield	1.80%	1.80%
Weighted average fair value per share (in won)	₩28	₩947

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**30. Share-based payments, Continued**

(b) Details of performance shares granted as of March 31, 2013 were as follows:

	Grant in 2010
Type	Equity-settled share-based payment
Service period	2010~2012
Performance conditions	Increase rate of stock price(33.4%) and achievement of target ROE(66.6%)
Number of shares estimated at March 31, 2013	34,548

The amount of cash payment for the Company's equity-settled share-based payment arrangements with performance conditions is determined based on the share price which is an arithmetic mean of weighted average share prices for the past two-months, past one-month and past one-week from the date at four years from the beginning of the fiscal year which includes the grant date. The fair value of cash payment is estimated using the closing share price at the end of reporting period.

(c) Stock compensations costs (benefits) calculated as of and for the years ended March 31, 2013 were as follows:

	2013		
	Stock options	Performance shares	Total
Compensation costs recorded for the period	₩ (1,238)	(623)	(1,861)
Accrued expenses (benefits) related to compensation cost	57	1,302	1,359

(d) Book value of liabilities and intrinsic value of liabilities regarding share-based payment as of March 31, 2013 are as follows:

	2013	
	Accrued expenses	Intrinsic value
Stock options	₩ 57	-
Performance shares	1,302	1,302
Total	₩ 1,359	1,302

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**31. Commitments and contingencies**

(a) As of March 31, 2013, the Group has faced with pending lawsuits were as follows:

2013			
Lawsuits	Plaintiff	Details	Amount
Guaranteed obligation	Mirae savings bank	A claim for payment of debts to PF constructors	₩ 7,000
Compensation	An individual	A claim for compensation on incomplete sales of CP	1,000
Wages	An individual	Claim for wages for extended work and returning union dues	12
Compensation	Gowell Securitization Specialty Co., Ltd.	A claim for compensation on NPL consultation	2,935
			<u>₩ 10,947</u>

As of March 31, 2013, the Group set aside ₩5,687million as provision for litigation for the lawsuits such as ruled in favor of the plaintiff at the first appeal. Additional losses may be incurred from these legal actions besides the current provision established by the Group, but the amount of loss is not expected to have a material adverse effect on the Bank's financial position or results of operations.

(b) Commercial paper purchase commitments

Company	Underlying asset	Amount	Date of agreements	Date of maturity
Pangyo Welltz the1st, LLC	Pangyo KCC Welltz office PF Loans	17,000	March 29, 2012	June 27, 2014
VALUE PLUS the 7th Co., Ltd.	Account receivables	50,000	March 29, 2012	March 28, 2014
VALUE PLUS the 10th Co., Ltd.	Account receivables	30,000	November 20, 2012	November 20, 2013
VALUE PLUS the 11th Co., Ltd.	Account receivables	20,000	November 20, 2012	November 20, 2013
VALUE PLUS the 12th Co., Ltd.	Account receivables	10,000	November 20, 2012	November 20, 2013
VALUE PLUS the 15th Co., Ltd.	Moahsteel Private placement bonds	15,100	March 28, 2013	February 28, 2015
		<u>₩ 142,100</u>		

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**31. Commitments and contingencies, Continued**

(c) Loan commitments

As of March 31, 2013, the Group has made ₩110,000 million loan commitments with Shinhan Bank and etc.

(d) Obligation to conserve its loss by priority on PEF

As a General partner of Shinhan Maritime Private Equity Fund I, the Group is under an obligation to conserve its loss by priority as much as the amount of money invested by the Company, whose limit is up to 3% of the total amount of the money invested by each party. In addition, as one of the co-general partner of KoFC Shinhan Frontier Champ 2010-4 Private Equity Fund, the Group is obliged to conserve its loss by priority, whose limit is 3% of the its investment to the PEF. Therefore, the amount of the investment collected as a result of liquidation of the PEF is subject to change. Any adjustments which may be caused by the possibility of the change are not booked, because the amount of the obligations cannot be measured reliably.

Meanwhile, a certain amount of administrative fees should be refunded, if accumulated investment of KoFC Shinhan Frontier Champ 2010-4 Private Equity is less than 70% of contracted amount as of the end of the investment period (3-year after establishment). It is, however, unlikely to be refunded as of the end of the period.

(e) Onerous contract

As of March 31, 2013, the Group entered into a guarantee contract with Franklin Templeton Investment Trust Management Co., Ltd. to provide for contingent losses that may result from beneficiary certificates, including guaranteed bonds issued by financially distressed companies, such as the Daewoo Group. The Group's time deposit of ₩1,098 million was pledged as collateral to Franklin Templeton Investment Trust Management Co., Ltd. for the potential losses.

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**32. The transaction as a transfer of financial instruments**

(a) Transfers that do not qualify for derecognition

(i) Bonds sold under repurchase agreements as of March 31, 2013 and 2012 are as follows:

	2013	2012
<b>Transferred assets</b>		
Financial assets designated at fair value through profit or loss	₩ 6,058,774	4,019,891
Available-for-sale financial assets	457,961	420,476
<b>Associated liabilities</b>		
Bonds sold under repurchase agreements	6,175,409	4,389,620

(ii) Securities loaned as of March 31, 2013 and 2012 are as follows:

	2013	2012	Rental Company
Government bonds	₩ 50,548	140,388	Korea Securities Finance

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

There are no financial assets that meet the conditions of the derecognition and in which the Group has continuing involvement as of March 31, 2013 and 2012.



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**33. Equity**

(a) Details of equity as of March 31, 2013 and 2012 are summarized as follows:

	2013	2012
Stockholder's equity		
Common	₩ 1,277,882	1,277,882
Preferred	19,116	19,116
	<u>1,296,998</u>	<u>1,296,998</u>
Capital surplus		
Gain from reduction of capital	15	15
Capital adjustments		
Stock options	184	98
Accumulated other comprehensive income		
Valuation of available-for-sale financial assets	104,959	107,312
Change of investments in a associate	(805)	(432)
Accumulated foreign exchange differences	(249)	37
	<u>103,905</u>	<u>106,917</u>
Retained earnings		
Legal reserve	8,500	6,500
Voluntary reserve (*)	171,113	
Retained earning before appropriation	637,423	743,264
	<u>817,036</u>	<u>749,764</u>
	<u>₩ 2,218,138</u>	<u>2,153,792</u>

(\*) It is consist of revaluation reserve.

(b) Stockholder's equity as of March 31, 2013 and 2012 are summarized as follows:

(Share, in thousand of won)

	2013		2012	
	Common	Preferred	Common	Preferred
Authorized capital	450,000,000	150,000,000	450,000,000	150,000,000
Par value per stock	5	5	5	5
Capital stock	255,576,350	3,823,314	255,576,350	3,823,314
Stockholder's equity	1,277,881,750	19,116,570	1,277,881,750	19,116,570

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**33. Equity, Continued**

(c) Change in accumulated other comprehensive income for the years ended March 31, 2013 and 2012 were as follows:

		2013			
		Valuation of available-for-sale financial assets	Change of investments in a associate	Accumulated foreign exchange differences	Total
Opening balance	₩	107,312	(432)	37	106,917
Change in fair value of available-for-sale financial assets		(2,981)	-	-	(2,981)
Change in impairment		(59)	-	-	(59)
Change in disposal		(63)	-	-	(63)
Effect of change in equity of investee		-	(492)	-	(492)
Effect of exchange rate difference		-	-	(333)	(333)
Deferred tax effect		751	119	46	916
Ending balance	₩	<u>104,960</u>	<u>(805)</u>	<u>(250)</u>	<u>103,905</u>

		2012			
		Valuation of available-for-sale financial assets	Change of investments in a associate	Accumulated foreign exchange differences	Total
Opening balance	₩	90,396	867	(845)	90,418
Change in fair value of available-for-sale financial assets		20,850	-	-	20,850
Change in impairment		5,432	-	-	5,432
Change in disposal		(602)	-	-	(602)
Effect of change in equity of investee		-	(1,682)	-	(1,682)
Effect of exchange rate difference		-	-	988	988
Deferred tax effect		(8,764)	383	(106)	(8,487)
Ending balance	₩	<u>107,312</u>	<u>(432)</u>	<u>37</u>	<u>106,917</u>

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**33. Equity, Continued**

(d) Statements of appropriation of retained earnings.

Statements of appropriation of retained earnings for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Unappropriated retained earnings		
Balance at beginning of the year	₩ 551,747	647,204
Net income for the year	87,991	97,656
	<u>639,738</u>	<u>744,860</u>
Transfer from voluntary reserves		
Voluntary reserve	15,723	-
Appropriation of retained earnings		
Legal reserve	1,000	2,000
Asset revaluation surplus	-	171,113
Dividends		
Cash dividends on common stock	9,664	19,517
Cash dividends on preferred stock	336	483
	<u>11,000</u>	<u>193,113</u>
Unappropriated retained earnings carried over to subsequent year	₩ <u>644,461</u>	<u>551,747</u>

These statements of appropriation of retained earnings were based on the separate financial statements of the Company.

**34. Dividends**

(a) Dividends of common stock for the years ended March 31, 2013 and 2012 were as follows:

	2013		2012	
	Common stock	Preferred stock	Common stock	Preferred stock
Number of issued shares outstanding	255,576,350	3,823,314	255,576,350	3,823,314
Par value per share (in won) ₩	5,000	5,000	5,000	5,000
Dividends per share (in won)	38	88	76	126
Dividends	9,664	336	19,517	483
Dividend rate per share	0.80%	1.80%	1.50%	2.50%

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**35. Leases**

(a) Operating leases

	2013	
	Minimum lease payment	
Not later than 1 year	₩	4,850
1 ~ 5 years		7,176
Later than 5 years		-
	₩	<u>12,026</u>

(b) Future minimum lease payments under non-cancellable operating lease of the Group as lessee as of March 31, 2013 are as follows:

	2013	
	Minimum lease payment	
Not later than 1 year	₩	6,839
1 ~ 5 years		5,877
Later than 5 years		-
	₩	<u>12,716</u>

**36. Cash flows**

Details of significant non-cash activities for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Investment properties transferred from property and equipment	₩ (10,468)	3,341
Valuation gain on available-for-sale financial assets	(3,103)	25,680
Tax effect on valuation gain on available-for-sale financial assets	751	(8,764)
Change of investments in associate	(492)	(1,682)
Tax effect on change of investments in associate	119	383
Foreign currency translation differences	(333)	989
Tax effect on foreign currency translation differences	46	(106)

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**37. Related party transactions**

(a) Significant account balances with related companies as of March 31, 2013 and 2012 were as follows:

Related party	Accounts	2013	2012
Assets:			
Shinhan Financial Group Co.Ltd	Other assets(*1)	₩ 8,130	15
Shinhan Bank	Bank deposits	105,717	325,332
	Accured income	1,843	5,335
	Derivatives assets	819	181
	Other assets(*1)	33,771	25,407
Jeju Bank	Bank deposits	25,080	89,834
	Accured income	608	1,477
Shinhan Card Co., Ltd.	Accured income	-	39
	Other assets(*1)	-	1,874
Shinhan Capital	Other assets(*1)	-	36
KoFC Shinhan Frontier	Accured revenues	177	216
		₩ 176,145	449,746

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**37. Related party transactions, Continued**

(a) Significant account balances with related companies as of March 31, 2013 and 2012 were as follows:

Related party	Accounts	2013	2012
Liabilities:			
Shinhan Financial Group Co., Ltd.	Borrowings	₩ 200,000	100,000
	Accrued expenses	738	700
	Other liabilities(*2)	3,751	16,086
Shinhan Bank	Borrowings	10,801	3,171
	Accrued expenses	77	16
	Derivatives liabilities	1,083	10
	Other liabilities(*2)	22,489	38,573
Shinhan Card Co., Ltd.	Borrowings	-	104,950
	Accrued expenses	-	38
	Other liabilities(*2)	2,680	5,330
Shinhan Private Equity Inc.	Other liabilities(*2)	-	3,078
Shinhan Capital	Other liabilities(*2)	28	-
Shinhan Life Insurance Co., Ltd.	Other liabilities(*2)	1,104	1,250
Shinhan Data System	Borrowings	7,835	-
	Accrued expenses	345	588
Shinhan Aitas Co., Ltd	Borrowings	1,688	-
	Other liabilities(*2)	2	-
Shinhan BNP Paribas Asset Management Co., Ltd.	Other liabilities(*2)	1,119	1,053
SHC Management	Other liabilities(*2)	-	38
Shinhan Saving Bank	Other liabilities(*2)	12,066	-
		₩ 265,806	274,881

(\*1) Includes deposits for guarantees and others.

(\*2) Includes deposits for rent and others.

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**37. Related party transactions, Continued**

(b) Significant transactions with related parties for the years ended March 31, 2013 and 2012 were as follows:

Related party	Accounts	2013	2012
Revenue:			
Shinhan Financial Group Co., Ltd.	Commission	₩ 947	2,504
Shinhan Bank	Interest	8,746	11,604
	Rent	894	341
	Debt securities	-	91
	Derivatives	1,219	223
	Commission	161	60
Shinhan Card Co., Ltd.	Interest	20	922
	Rent	382	570
	Debt securities	-	7
	Commission	141	114
Shinhan Life Insurance Co., Ltd.	Rent	15	5
	Commission	280	2
Shinhan BNP Paribas Asset Management Co., Ltd.	Rent	1,652	1,283
	Commission	16	5
Shinhan Capital	Interest	-	1
	Commission	97	20
Jeju Bank	Interest	2,216	3,108
Shinhan Credit Information Co., Ltd.	Rent	-	5
Shinhan Aitas Co., Ltd	Commission	3	-
Kofc Shinhan Frontier	Commission	516	1,501
Shinhan Saving Bank	Commission	-	1
		₩ 17,305	22,367

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**37. Related party transactions, Continued**

(b) Significant transactions with related parties for the years ended March 31, 2013 and 2012 were as follows:

Related party	Accounts	2013	2012
Expense:			
Shinhan Financial Group Co., Ltd.	Interest	₩ 7,055	5,455
	Commission	9,315	7,434
Shinhan Bank	Interest	1,444	680
	Rent	1,106	839
	Borrowings	12	-
	Derivatives	1,974	37
	Commission	3,187	7,325
Shinhan Card Co., Ltd.	Interest	806	499
	Borrowings	50	119
	Commission	79	5
Shinhan Life Insurance	Interest	7	17
	Rent	8	-
	Commission	107	159
Shinhan BNP Paribas Asset Management Co., Ltd.	Interest	34	30
	Commission	622	-
Shinhan Capital	Interest	-	56
	Borrowings	1	-
Jeju Bank	Interest	1	-
	Commission	3	28
Shinhan Credit Information Co., Ltd.	Commission	29	9
	Rent	4	-
Shinhan Data System	Interest	45	31
	Commission	4,707	4,406
Shinhan Private Equity Inc.	Interest	58	-
	Commission	-	1
SHC Management	Interest	1	56
Shinhan Aitas Co.,Ltd	Interest	80	-
	Commission	11	-
Shinhan Saving Bank	Interest	92	-
	Commission	76	-
		₩ 30,914	27,186



SHINHAN INVESTMENT CORP. AND SUBSIDIARIES  
**Notes to the Consolidated Financial Statements**  
For the years ended March 31, 2013 and 2012

(In millions of won)

**37. Related party transactions, Continued**

(c) Key management personnel compensation for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Salaries and wages	₩ 6,322	5,133
Share-based payments	(1,346)	(2,503)
	<u>₩ 4,976</u>	<u>2,630</u>

**38. Regulatory reserve for loan loss**

In accordance with Regulations for Investment 3-8, if the amount of allowance for credit losses by K-IFRS is smaller than that by Regulations for Investment 3-8, the Group reserves the difference between the allowance for credit losses by K-IFRS and Regulations and discloses the reserve.

There are no amount to be recognized in the regulatory reserve for loan loss as of March 31, 2013 and 2012.