SHINHAN FINANCIAL GROUP CO LTD
Form 20-F
June 28, 2010

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As filed with the Securities and Exchange Commission on June 28, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 20-F

(Mark One)

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

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

OR

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

OR

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

Commission File Number: 001-31798

Shinhan Financial Group Co., Ltd.
(Exact name of registrant as specified in its charter)

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

120, 2-Ga, Taepyung-Ro, Jung-Gu
Seoul 100-102, Korea
(Address of principal executive offices)

Sung Hun Yu, +822 6360 3071(T), irshy@shinhan.com, +822 6360 3082 (F), 120, 2- Ga, Taepyung-Ro, Jung-Gu, Seoul 100-102 Korea
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person))

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

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

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

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

None

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

None

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: Yes o No þ

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:
U.S. GAAP þ International Financial Reporting Standards as issued by the International Accounting Standards Board o Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2) of the Exchange Act: Yes o No þ

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court: Yes o No o

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EXPLANATORY NOTE

Acquisition of LG Card

On March 19, 2007, we acquired the controlling equity interest in LG Card, the largest credit card company in Korea. Effective as of September 21, 2007, we completed the acquisition of the remaining LG Card shares, and LG Card became our wholly-owned subsidiary. On October 1, 2007, LG Card assumed all of the assets, liabilities, and contracts of the former Shinhan Card, our then-existing credit card subsidiary, and changed its name to Shinhan Card. On the same date, the former Shinhan Card changed its name to SHC Management Co., Ltd. SHC Management Co., Ltd. is currently in liquidation proceedings. Unless otherwise indicated, statistical and financial information relating to Shinhan Card for the year ended December 31, 2007 include the corresponding information of the former Shinhan Card for the period from January 1, 2007 through September 30, 2007 and the corresponding information of LG Card (renamed Shinhan Card on October 1, 2007) for the period from March 1, 2007 through December 31, 2007. See Item 5. Operating and Financial Review and Prospects Acquisition of LG Card.

CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

Unless otherwise specified or the context otherwise requires:

- the terms we, us, our, Shinhan Financial Group, SFG and the Group mean Shinhan Financial Group C and its consolidated subsidiaries;

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

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

Our fiscal year ends on December 31 of each year. All references to a particular year are to the year ended December 31 of that year.

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

In this annual report, unless otherwise indicated, all references to Won ~~or~~ W are to the currency of The Republic of Korea, and all references to U.S. Dollars, Dollars, $ or US$ are to the currency of the United States of America. Unless otherwise indicated, all translations from Won to Dollars were made at ₩1163.65 to US$1.00, which was the noon buying rate in the City of New York on December 31, 2009 for cable transfers according to the H.10 statistical release of the Federal Reserve Board (the Noon Buying Rate). On June 11, 2010, the Noon Buying Rate was ₩1,245.9 to US$1.00. The Noon Buying Rate has been volatile recently and the U.S. Dollar amounts referred to in this report should not be relied upon as an accurate reflection of our results of operations. We expect this volatility to continue in the near future. No representation is made that the Won or U.S. Dollar amounts referred to in this report could have been or could be converted into Dollars or Won, as the case may be, at any particular rate or at all.

Unless otherwise indicated, the financial information presented in this annual report has been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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

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FORWARD LOOKING STATEMENTS

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

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

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

Not applicable.

ITEM 2. *OFFER STATISTICS AND EXPECTED TIMETABLE*

Not applicable.

ITEM 3. *KEY INFORMATION*

ITEM 3.A. *Selected Financial Data*

The selected consolidated income statement and balance sheet data set forth below for the years ended December 31, 2005, 2006, 2007, 2008 and 2009 have been derived from our consolidated financial statements which have been prepared in accordance with U.S. GAAP. Our consolidated financial statements as of and for the years ended December 31, 2005, 2006, 2007, 2008 and 2009 have been audited by independent registered public accounting firm KPMG Samjong Accounting Corp.

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

Consolidated Income Statement Data

	Year Ended December 31,					
	2005	2006	2007	2008	2009	2009
	(In billions of Won and millions of US$, except per common share data)					
Interest and dividend income	₩ 7,488	₩ 8,893	₩ 12,149	₩ 14,734	₩ 12,597	$ 10,826
Interest expense	4,014	4,912	6,979	8,955	7,376	6,339
Net interest income	3,474	3,981	5,170	5,779	5,221	4,487
Provision (reversal) for credit losses	(183)	226	81	1,437	2,201	1,892
Noninterest income	2,945	3,786	4,738	4,572	5,685	4,885
Noninterest expense	3,641	5,308	6,745	6,726	7,137	6,134
Income tax expense	1,015	650	1,057	695	424	364
Income before extraordinary item and effect of accounting change	1,946	1,583	2,025	1,493	1,144	982
Cumulative effect of a change in accounting principle, net of taxes		(10)				
Net income	₩ 1,946	₩ 1,573	₩ 2,025	₩ 1,493	₩ 1,144	$ 982
Net Income attributable to noncontrolling interest	16	18	95	12	10	8

Net income attributable to the Group	₩	1,930	₩	1,555	₩	1,930	₩	1,481	₩	1,134	$	974
Net income per common shares (in currency unit):												
Net income basic(1)(3)(4)	₩	5,467	₩	3,964	₩	4,250	₩	2,993	₩	1,957	$	1.68
Net income diluted(2)(3)(4)		5,157		3,964		4,172		2,955		1,955		1.67
Weighted average common shares outstanding-basic (in thousands of common shares)		351,496		392,340		403,475		417,673		461,500		
Weighted average common shares outstanding-diluted (in thousands of common shares)		374,212		392,340		417,228		432,394		476,221		

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Notes:

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

(2) Dilutive earnings per share are calculated in a manner consistent with that of basic earnings per share, while giving effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common shares were converted into or exercised for common shares. We have two categories of potentially dilutive common shares: (i) shares issuable upon the exercise of stock options and (ii) shares issuable upon conversion of the redeemable convertible preferred shares. In 2006, there was no dilutive effect on earnings per share due to a change in accounting policy in 2006 which resulted in the use of the number of the outstanding shares as of the beginning of the year and the election by us to grant cash in lieu of stock upon the exercise of stock options by our employees. We may in the future grant shares in lieu of cash upon the exercise of stock options by our employees, which may impact the dilutive earnings per share in the future.

(3) We applied the equity method of accounting for the previous ownership interest of 7.15% in LG Card in conformity with ASC 323 (formerly APB opinion No. 18). Accordingly, the investment, our results of operation and retained earnings were retroactively adjusted as we acquired control over LG Card in 2007.

(4) The computations of basic and diluted earnings per share (EPS) were adjusted retrospectively to include the effects of a discount offered to shareholders in connection with the rights offering in March 2009, which was due to the fact that the shares offered in the rights offering were issued and sold at a discount to the market price.

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Consolidated Balance Sheet Data

	As of December 31,					
	2005	2006	2007	2008	2009	2009
	(In billions of Won and millions of US$, except per common share data)					
Assets:						
Cash and cash equivalents	₩ 2,434	₩ 1,691	₩ 3,580	₩ 1,365	₩ 4,363	$ 3,750
Restricted cash	3,644	6,758	4,745	7,049	7,974	6,853
Interest-bearing deposits	627	725	1,094	1,627	2,164	1,860
Call loans and securities purchased under resale agreements	1,499	1,243	802	3,066	1,346	1,157
Trading assets:						
Trading securities and other	3,573	3,474	8,220	6,724	6,681	5,741
Derivatives assets	934	1,363	1,962	11,977	4,617	3,967
Securities:						
Available-for-sale securities	21,100	16,894	22,626	29,016	27,612	23,729
Held-to-maturity securities	2,963	7,581	8,224	8,696	12,794	10,994
Loans (net of allowance for loan losses of ₩1,512 billion in 2005, ₩1,575 billion in 2006, ₩2,099 billion in 2007, ₩3,201 billion in 2008 and ₩3,638 billion in 2009)	104,447	120,989	149,723	167,308	165,594	142,305
Customers liability on acceptances	1,879	1,417	1,701	2,433	2,780	2,389
Premises and equipment, net	1,876	2,097	2,455	2,412	2,437	2,094
Goodwill and intangible assets	2,957	2,584	6,160	5,571	5,072	4,359
Security deposits	1,078	1,108	1,294	1,334	1,323	1,138
Other assets	6,068	7,163	9,036	12,395	10,153	8,725
Total assets	₩ 155,079	₩ 175,087	₩ 221,622	₩ 260,973	₩ 254,910	$ 219,061
Liabilities and Equity						
Liabilities:						
Deposits:						
Interest-bearing	₩ 83,278	₩ 91,578	₩ 103,241	₩ 119,762	₩ 140,809	$ 121,006
Non-interest-bearing	3,143	3,918	3,162	2,942	2,890	2,483
Trading liabilities	1,048	1,611	2,509	11,831	4,565	3,923
Acceptances outstanding	1,879	1,417	1,701	2,433	2,780	2,389
Short-term borrowings	11,968	10,995	15,801	23,225	9,715	8,349
Secured borrowings	7,502	8,103	11,452	10,226	7,944	6,827
Long-term debt	26,172	32,574	46,496	49,652	44,795	38,495
Future policy benefit	4,778	5,683	6,769	7,260	8,310	7,142

Accrued expenses and other liabilities	7,078	9,244	13,369	15,678	12,553	10,787
Total liabilities	146,846	165,123	204,500	243,009	234,361	201,401
Redeemable convertible preferred stock	368					
Redeemable preferred stock						
Equity:						
Common stock	1,795	1,908	1,981	1,981	2,371	2,038
Redeemable convertible preferred stock			74	74	74	63
Redeemable preferred stock			145	145	145	125
Additional paid-in capital	2,407	2,710	7,147	7,147	8,038	6,907
Retained earnings	3,928	5,205	6,801	7,710	8,621	7,409
Accumulated other comprehensive income, net of taxes	(100)	141	762	595	969	833
Less: treasury stock, at cost	(245)	(162)				
Total Group stockholders equity	7,785	9,802	16,910	17,652	20,218	17,375
Noncontrolling interest	80	162	212	312	331	285
Total equity	7,865	9,964	17,122	17,964	20,549	17,660
Total liabilities, Redeemable Convertible Preferred Stock and equity	₩ 155,079	₩ 175,087	₩ 221,622	₩ 260,973	₩ 254,910	$ 219,061

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Dividends

	Year Ended December 31,				
	2005(1)	2006(1)	2007(1)	2008(1)	2009(1)
	(In Won and US$, except ratios)				
U.S. GAAP:					
Cash dividends per share of common stock:					
In Korean Won	₩ 750	₩ 800	₩ 900	₩ 900	₩
In U.S. dollars	$ 0.74	$ 0.86	$ 0.96	$ 0.71	$
Cash dividends per share of preferred stock					
In Korean Won	₩ 365	₩ 365	₩	₩ 4,928	₩ 5,275
In U.S. dollars	$ 0.36	$ 0.36	$	$ 3.91	$ 4.53
Korean GAAP:					
Cash dividends per share of common stock:					
In Korean Won	₩ 750	₩ 800	₩ 900	₩ 900	₩
In U.S. dollars	$ 0.74	$ 0.86	$ 0.96	$ 0.71	$
Dividend ratio(2)	15.00%	16.00%	18.00%	18.00%	
Cash dividends per share of preferred stock:					
In Korean Won	₩ 1,183	₩ 1,427	₩ 1,389	₩ 3,558	₩ 3,925
In U.S. dollars	$ 1.17	$ 1.54	$ 1.48	$ 2.82	$ 3.37
Dividend ratio(3)	23.66%	28.54%	27.78%	71.16%	78.51%

Notes:

(1) Represents dividends paid on the common shares of Shinhan Financial Group.

(2) Represents dividends paid as a percentage of par value of ₩5,000 per common share of Shinhan Financial Group.

(3) Represents dividends paid as a percentage of par value of ₩5,000 per preferred share of Shinhan Financial Group.

Selected Statistical Information

Profitability Ratios

	Year Ended December 31,				
	2005	2006	2007	2008	2009
	(Percentages)				
Net income attributable to the Group as a percentage of:					

Average total assets(1)	1.29%	0.93%	0.91%	0.60%	0.43%
Average total Group stockholders equity(1)(2)	33.78	17.55	9.73	7.13	5.21
Including redeemable convertible preferred shares(3)	30.64	17.17	9.73	7.13	5.21
Dividend payout ratio(4)	14.41	21.66	18.48		37.24
Net interest spread(5)	2.64	2.55	2.49	2.38	1.99
Net interest margin(6)	2.70	2.75	2.82	2.74	2.31
Efficiency ratio(7)	56.72	68.34	68.08	64.98	65.44
Cost-to-average assets ratio(8)	2.44	3.18	3.17	2.71	2.68
Equity to average asset ratio(9):	3.83	5.31	9.32	8.37	8.16
Including redeemable convertible preferred shares(3)	4.22	5.43	9.32	8.36	8.15

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Notes:

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

(2) Does not include the redeemable preferred shares or the redeemable convertible preferred shares, other than the Series 10 redeemable preferred shares and the Series 11 redeemable convertible preferred shares, which were issued in January 2007 partly as funding for the LG Card acquisition. The information for the Series 10 and Series 11 preferred shares is included in the information for 2007. The terms of the Series 10 redeemable preferred shares are different from those of other redeemable preferred shares issued by us, and the terms of the Series 11 redeemable convertible preferred shares are different from those of other redeemable convertible preferred shares issued by us. Unlike the other preferred shares, the Series 10 and Series 11 preferred shares are treated as stockholders equity under U.S. GAAP. For a description of the Series 10 and Series 11 preferred shares, see Item 10.B. Memorandum and Articles of Incorporation Description of Preferred Stock Redeemable Preferred Stock (Series 10) and Redeemable Convertible Preferred Stock (Series 11).

(3) Prior to the issuance of the Series 10 redeemable preferred shares and the Series 11 redeemable convertible preferred shares, we issued several other series of redeemable preferred shares and redeemable convertible preferred shares in August 2003, as part of the funding for the Chohung Bank acquisition. The redeemable preferred shares other than the Series 10 redeemable preferred shares are treated as debt under U.S. GAAP, and their effects on the profitability ratio are not presented in the table. The redeemable convertible preferred shares other than the Series 11 redeemable convertible preferred shares have characteristics of mezzanine securities and are treated as neither debt nor stockholders equity under U.S. GAAP, and their effects on the profitability ratio are shown in the table above for comparative purposes. For a description of these preferred shares, see Item 10.B. Memorandum and Articles of Incorporation Description of Preferred Stock.

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

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

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

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

	Year Ended December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
	(In billions of Won, except percentages)				
Non-interest expense(A)	₩ 3,641	₩ 5,308	₩ 6,745	₩ 6,726	₩ 7,137
Divided by					
The sum of net interest income and noninterest income(B)	6,419	7,767	9,908	10,351	10,906
Net interest income	3,474	3,981	5,170	5,779	5,221
Noninterest income	2,945	3,786	4,738	4,572	5,685

Efficiency ratio ((A) as a percentage of(B))	56.72%	68.34%	68.08%	64.98%	65.44%

(8) Represents the ratio of noninterest expense to average total assets.

(9) Represents the ratio of average stockholders equity (not including the redeemable preferred shares or the redeemable convertible preferred shares, other than the Series 10 redeemable preferred shares and the Series 11 redeemable convertible preferred shares) to average total assets.

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Asset Quality Ratios

	As of December 31,				
	2005	2006	2007	2008	2009
	(In billions of Won, except percentages)				
Total gross loans	₩ 105,848	₩ 122,446	₩ 151,818	₩ 170,541	₩ 169,255
Total allowance for loan losses	1,512	1,575	2,099	3,201	3,638
Allowance for loan losses as a percentage of total loans	1.43%	1.29%	1.38%	1.88%	2.15%
Total non-performing loans(1)	₩ 1,594	₩ 1,253	₩ 1,322	₩ 1,357	₩ 1,415
Non-performing loans as a percentage of total loans	1.51%	1.02%	0.87%	0.80%	0.84%
Non-performing loans as a percentage of total assets	1.03%	0.72%	0.60%	0.52%	0.56%
Impaired loans(2)	₩ 2,285	₩ 1,375	₩ 1,487	₩ 2,178	₩ 2,326
Allowance for impaired loans	704	865	909	1,181	1,350
Impaired loans as a percentage of total loans	2.16%	1.12%	0.98%	1.28%	1.37%
Allowance for impaired loans as a percentage of impaired loans	30.81%	62.91%	61.13%	54.22%	58.04%

Notes:

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

(2) Impaired loans include loans that are classified as substandard or below according to the asset classification guidelines of the Financial Services Commission, loans that are past due more than 90 days and loans that qualify as troubled debt restructurings under U.S. GAAP.

Capital Ratios

	As of December 31,				
	2005	2006	2007	2008	2009
	(Percentages)				
Requisite capital ratio(1)	132.81%	139.28%	N/A	N/A	N/A
BIS ratio(1)	N/A	N/A	9.85%	10.19%	12.60%
Total capital adequacy ratio of Shinhan Bank(2)	12.23	12.01	12.09	13.43	15.13
Tier I capital adequacy ratio	8.16	7.81	7.64	9.30	11.61
Tier II capital adequacy ratio	4.07	4.20	4.45	4.13	3.52
	17.68	17.47	25.31	20.32	26.73

Adjusted equity capital ratio of Shinhan Card(3)					
Solvency ratio for Shinhan Life Insurance(4)	232.12	232.60	226.05	209.47	212.40

N/A = Not available

Notes:

(1) We were restructured as a financial holding company on September 1, 2001, and until 2006, were required to maintain minimum capital as measured by the requisite capital ratio as set forth under the guidelines issued by the Financial Services Commission applicable to financial holding companies. For 2005 and 2006, the minimum requisite capital ratio applicable to us as a holding company was 100%. Starting 2007, under the revised guidelines, the minimum requisite capital ratio applicable to us changed to the Bank for International Settlement (BIS) ratio of 8%. The requisite capital ratio is computed as the ratio of the net aggregate amount of our equity capital to the aggregate amounts of requisite capital. This computation is based on our consolidated financial statements in accordance with Korean GAAP. See Item 4.B. Business Overview

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Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

(2) For 2005, represents information of former Shinhan Bank prior to its merger into Chohung Bank in 2006. For 2005, the total capital adequacy ratio, Tier I capital adequacy ratio and Tier II capital adequacy ratio of Chohung Bank was 10.94%, 6.52% and 4.42%, respectively. The information for 2006 and thereafter represents the information of the surviving entity following the merger.

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

The information as of December 31, 2005 includes the information of former Shinhan Card and does not include the information of the credit card division of Chohung Bank. The information as of December 31, 2006 represents the information of former Shinhan Card (including that of the credit card division of Chohung Bank, which was split-merged into former Shinhan Card on April 3, 2006). The information as of December 31, 2007 represents the information for LG Card, renamed as Shinhan Card on October 1, 2007 (including that of the assets and liabilities of former Shinhan Card, which were transferred to LG Card on October 1, 2006). This information as of December 31, 2008 and 2009 represents the information of Shinhan Card.

For comparison, the adjusted equity capital ratio of LG Card as of December 31, 2005 and 2006 was 25.55% and 34.25%, respectively.

(4) Solvency ratio is the ratio of the solvency margin to the standard amount of solvency margin as defined and computed in accordance with the guidelines issued by the Financial Services Commission for life insurance companies. Under these guidelines, Shinhan Life Insurance is required to maintain a minimum solvency ratio of 100%. Shinhan Life Insurance s solvency ratio as of the end of its latest fiscal year on March 31, 2010 was 223.1%. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

The Financial Services Commission regulations require that the computation of the capital ratios be based on our consolidated financial statements under Korean GAAP and regulatory guidelines, which vary in certain significant respects from U.S. GAAP. The following table sets forth our capital ratios computed on the basis of our consolidated financial statements under Korean GAAP and the regulatory guidelines of the Financial Services Commission.

	As of December 31,		
	2007	**2008**	**2009**
	(In millions of Won, except percentages)		
Risk-weighted assets	₩ 161,849,385	₩ 183,741,412	₩ 179,083,070
Tier 1 capital	8,334,072	9,822,433	14,087,789
Tier 2 capital	8,334,072	9,822,433	9,520,300
Adjustment(1)	(852,710)	(921,405)	(1,035,959)

Total risk-adjusted capital	₩	15,815,434	₩	18,723,461	₩	22,572,130
Capital adequacy ratio (%)		9.77%		10.19%		12.60%
Tier 1 capital ratio (%)		5.15%		5.35%		7.87%

Note:

(1) Represents the subtraction from the capital line item of capital contributions to Shinhan Life Insurance and Cardif Life Insurance Company pursuant to the Financial Supervisory Service guidelines.

Exchange Rates

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

Year Ended December 31,	At End of Period	Average(1)	High	Low
	(Won per US$1.00)			
2005	1,010.0	1,023.2	1,059.8	997.0
2006	930.0	950.1	1,002.9	913.7
2007	935.8	928.0	950.2	903.2
2008	1,262.0	1,105.3	1,507.9	935.2
2009	1,163.7	1,270.0	1,532.8	1,163.7
2010 (through June 11)	1,245.9	1,148.2	1,253.2	1,104.0
January	1,158.7	1,138.2	1,163.1	1,120.0
February	1,159.0	1,155.7	1,170.0	1,144.0
March	1,131.2	1,136.1	1,153.0	1,128.0
April	1,108.0	1,115.5	1,126.3	1,104.0
May	1,194.5	1,164.8	1,253.2	1,115.0
June (through June 11)	1,245.9	1,227.3	1,250.4	1,198.5

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

Note:

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

We have translated certain amounts in Korean Won, which appear in this annual report, into dollars for convenience. This does not mean that the Won amounts referred to could have been, or could be, converted into U.S. dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, translations of Won amounts to U.S. dollars are based on the Noon Buying Rate in effect on December 31, 2009, which was ₩1,163.65 to US$1.00. On June 11, 2010, the Noon Buying Rate in effect was ₩1,245.9 to US$1.00.

ITEM 3.B. ***Capitalization and Indebtedness***

Not applicable.

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

Not applicable.

ITEM 3.D. ***Risk Factors***

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

Risks Relating to the Recent Economic and Market Crisis

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

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

The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. In recent years, the global economy and financial markets experienced hardship, which also had a significant adverse impact on the Korean economy and in turn on our business and profitability. During the second and third quarters of 2007, credit markets in the United States and globally began to experience significant difficulties and turbulence as a result of uncertainties in the U.S. subprime mortgage market, which then spread to markets involving highly leveraged structured financial products. In September and October 2008, liquidity concerns increased dramatically with the bankruptcy or acquisition of, and/or government assistance to, several major financial institutions based in the United States and Europe, including Lehman Brothers. These developments led to reduced liquidity in the credit markets, greater volatility in financial markets in general and an economic downturn in many of the world s major economies, including Korea. In response to such adversity, governments in the United States, Europe and many other countries, including Korea, have implemented a number of initiatives designed to stabilize the financial markets and the economy in general, including fiscal stimulus measures, reduction of base interest rates and direct and indirect assistance to distressed financial institutions. In part due to such initiatives, the Korean and global economy have shown growing signs of recovery since the second half of 2009. However, there can be no assurance that there will not be further difficulties resulting from the recent financial and economic crisis. For example, in November 2009, the Dubai government announced a moratorium on the outstanding debt of Dubai World, a government-affiliated investment company. In addition, many governments worldwide, in particular in Greece, Spain, Hungary and other countries in Europe, are showing increasing signs of fiscal stress and difficulties meeting debt burdens, which have resulted in turbulences in the financial markets in Europe and elsewhere in the world. The stability of Korean financial markets is also affected in part by the actual and perceived military threats from North Korea. In March 2010, a Korean navy ship sunk allegedly as a result of a covert attack by a North Korean submarine, and this incident has further escalated the level of political and military tension in the Korean peninsula and added to the volatility of the Korean financial markets. Any of these or other developments could potentially trigger another financial and economic crisis, which could have a material impact on our business and profitability.

Furthermore, while many governments worldwide are considering or are in the process of implementing exit strategies in the form of reduced government spending, higher interest rates or otherwise, there can be no guarantee that such strategies will have the desired effect, and such strategies may, for reasons related to timing, magnitude or other factors, have the unintended consequences of prolonging or worsening economic and financial difficulties. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on our business and profitability.

In particular, difficulties in financial and economic conditions could result in significant deterioration in the quality of our assets and accumulation of higher provisioning, allowances for loan losses and charge-offs as an increasing number of our corporate and retail customers declare bankruptcy or insolvency or otherwise face increasing difficulties in meeting their debt obligations. During the recent global financial crisis, our delinquent and non-performing loans increased significantly before returning largely to pre-crisis levels due in part to our preemptive measures and improvements in the general economy. For example, Shinhan bank s delinquent loans (loans with principal payments overdue by one day or more or interest payments overdue for 14 days or more) under Korean GAAP increased during the recent global crisis but decreased as the economy showed signs of recovery, and likewise, Shinhan Bank s delinquency ratio (total delinquent loans to total outstanding loans) under Korean GAAP increased from 0.62% in 2007 to 0.79% in 2008 but decreased to 0.59% in 2009. However, as was the case during the recent global financial crisis, depending on the nature of the difficulties in the financial markets and general economy, we may be forced to scale back certain of our core lending activities and other operations and/or borrow money at a higher funding cost or face a tightening in the net interest spread, any of which may have a negative impact on our earnings and profitability. Furthermore, while we and our principal subsidiaries currently maintain a capital adequacy ratio at a level higher than the required regulatory minimum, there is no guarantee that an even higher capital requirement will not be imposed by the Government in case of a deepening or renewed crisis.

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

Risks Relating to Our Overall Business

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

Competition in the Korean financial services industry is, and is likely to remain, intense. In the banking sector, Shinhan Bank competes principally with other major Korean commercial banks and major global banks operating in Korea, as well as Government-run banks, specialized banks and regional banks. In the credit card services factor, Shinhan Card competes principally with existing monoline credit card companies, credit card divisions of commercial banks, consumer finance companies, other financial institutions and, recently, mobile telecommunications service providers in Korea. In other financial services sectors, our other subsidiaries also compete in a highly fragmented market. Some of our competitors, particularly the major global financial institutions, have greater experience and resources than we do.

In the small- and medium-sized enterprise and retail banking segments, which have been Shinhan Bank s traditional core businesses, competition has increased significantly and is expected to increase further. Most Korean banks have been focusing on small- and medium-sized enterprises and retail customers in recent years through aggressive marketing campaigns and other investments, although they have begun to increase their exposure to large corporate borrowers and focus on developing fee income businesses, including bancassurance and investment products, as increasingly important sources of revenue. The competition and market saturation resulting from this common focus may make it more difficult for Shinhan Bank to secure retail and small- and medium-sized corporate customers with the credit quality and on credit terms necessary to maintain or increase its income and profitability. In particular, Shinhan Bank has been pursuing, and intends to continue to pursue, a strategy of maintaining or enhancing its margins where possible and avoid, to the extent possible, entering into price competition. If other banks and financial institutions adopt a strategy of expanding market share through interest rate competition, Shinhan Bank may suffer customer attrition. In addition, Shinhan Bank may in the future decide to compete to a greater extent based on interest rates, which could lead to a decrease in its net interest margins. Any future decline in Shinhan Bank s customer base or its net interest margins as a result of its future competition strategy could have an adverse effect on its results of operations and financial condition.

In the credit card sector, competition has been intensifying and the market has seen further signs of saturation as existing and new credit card service providers have made significant investments and engaged in aggressive marketing campaigns and promotions to acquire new customers and target customers with high credit quality. In addition, other credit card issuers may compete with Shinhan Card for customers by offering lower interest rates and fees, higher credit limits and more attractive promotions and incentives. As a result, Shinhan Card may experience customer attrition or lose service opportunities to competing credit card issuers and/or incur higher marketing expenses. Customer attrition, together with any lowering of interest rates or fees and/or more extensive marketing and promotional campaigns that Shinhan Card might implement to acquire and retain customers, could reduce its revenues and earnings.

Potential consolidation among our rival institutions may make the competitive landscape more adverse to us. For example, in June 2008, the Government announced its plans to privatize Korea Development Bank, one of the Government s key policy banks, and in January 2010, the Government announced that it intends to sell its controlling stake in Woori Financial Group, one of the top three financial holding companies in Korea in terms of assets as of December 31, 2009, to another major bank or financial holding company. If Woori Financial Group were to be acquired by one of our major competitors, the consolidated entity will have a greater scale of operations, including a larger customer base, and financial resources than us, which may hurt our ability to compete effectively. Moreover, Lone Star Funds is seeking to sell its controlling stake in Korea Exchange Bank, potentially to a major domestic or international financial institution, and there are market rumors related to a potential merger among our rival financial institutions. Any of these developments, if materialized, may place us at a competitive disadvantage.

Furthermore, as the Korean economy further develops and new business opportunities arise, more competitors may enter the financial services industry. For example, in 2009, SK Telecom acquired an equity interest in Hana

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Card and Korea Telecom has expressed an interest in acquiring an equity interest in BC Card and both SK Telecom and Korea Telecom have begun to actively provide mobile phone payment services using advanced mobile phone technology. As these two companies are the two largest telecommunications service providers in Korea serving a substantial majority of the Korean population, a widespread consumer acceptance of mobile phone payment services in lieu of credit card services could pose a serious competitive threat to the existing credit card service providers, including our credit card subsidiary.

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

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

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

We and our subsidiaries in Korea are required to maintain specified capital adequacy ratios. For example, we and our banking subsidiaries in Korea are required to maintain a minimum Tier I capital adequacy ratio of 4.0% and a BIS ratio of 8.0%, each on a consolidated Korean GAAP basis. These ratios measure the respective regulatory capital as a percentage of risk-weighted assets on a consolidated basis and are determined based on guidelines of the Financial Services Commission. In addition, our subsidiaries Shinhan Card, Shinhan Life Insurance and Shinhan Investment are required to maintain a consolidated adjusted equity capital ratio of 8.0%, a solvency ratio of 100% and a net operating capital ratio of 150%, respectively.

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

Specifically, beginning on January 1, 2008, the Financial Supervisory Service implemented the new Basel Capital Accord, commonly referred to as Basel II, in Korea, which has affected the measurement of risk by Korean financial institutions, including us and our subsidiaries. Building upon the initial Basel Capital Accord of 1988, commonly referred to as Basel I, which focused primarily on capital adequacy and asset soundness as a measure of risk, Basel II expanded this approach by considering additional risks such as operational risk. Basel II also instituted new measures that require us and our subsidiaries to take into account individual borrower credit risk and operational risk when calculating risk-weighted assets. Recently, in order to further bolster the soundness of the banking sector in light of the recent global financial crisis, the Basel Committee on Banking Supervision has recently proposed measures, commonly known as Basel III, to further enhance the Basel II framework. While not finalized, these proposals, which are targeted to be implemented by the end of 2012, include, among others, narrowing the scope of Tier 1 capital, further strengthening capital requirements and introducing leverage ratio requirements. Our holding company is currently in compliance with Basel I requirements and our banking subsidiaries are currently in compliance with Basel II requirements, and we and our banking subsidiaries are taking active steps to comply with the additional requirements under the more advanced Basel levels, as applicable. However, there can be no assurance that the additional requirements under the more advanced Basel level will not require in the future an increase in our or our subsidiaries risk capital and liquidity requirements, among others, which may require us or our subsidiaries to improve asset quality or raise additional capital.

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

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

Liquidity is essential to our business as a financial intermediary, and we may seek additional funding in the near future to satisfy liquidity needs, meet regulatory requirements, enhance our capital levels or fund the growth of our operations as opportunities arise. A substantial part of the liquidity and funding requirements for our banking subsidiaries is met through short-term customer deposits. While the volume of our customer deposits has generally been stable over time, there have been times when customer deposits declined substantially due to the popularity of other, higher-yielding investment opportunities, namely stocks and mutual funds, during times of bullish stock markets. During such times, our banking subsidiaries were required to obtain alternative funding at higher costs. In addition, following the deregulation of depositary and settlement services as a result of the Financial Investment Services and Capital Markets Act, our banking subsidiaries may experience a decrease in customer deposits due to intensified competition. We and our subsidiaries also raise funds in the capital markets and borrow from other financial institutions, the cost of which depends on the market rates and the general availability of credit and the terms of which may limit our ability to pay dividends, make acquisitions or subject us to other restrictive covenants. In addition, during times of sudden and significant devaluations of Korean Won against the U.S. dollar as was the case recently amid the global liquidity crisis, Korean commercial banks, including our banking and credit card subsidiaries, had temporary difficulties in refinancing or obtaining optimal amounts of foreign currency-denominated funding on terms commercially acceptable to us. While our subsidiaries are not currently facing liquidity difficulties in any material respect, if we or our subsidiaries are unable to obtain the funding we need on terms commercially acceptable to us for an extended period of time for reasons of Won devaluation or otherwise, we may not be able to ensure our financial viability, meet regulatory requirements, implement our strategies or compete effectively.

Credit ratings affect the cost and other terms upon which we and our subsidiaries are able to obtain funding. Domestic and international rating agencies regularly evaluate us and our subsidiaries and their ratings of our and our subsidiaries long-term debt are based on a number of factors, including our financial strength as well as conditions affecting the financial services industry generally and Korea. In light of the ongoing difficulties in the financial services industry and the financial markets, there can be no assurance that the rating agencies will maintain our current ratings or outlooks. Currently, Shinhan Bank maintains credit ratings of A2, A and A- from Moody s Investor Service (Moody s), Fitch and S&P, respectively, and Shinhan Card maintains credit ratings of A- and BBB+ from Fitch and S&P, respectively. There is no assurance that Shinhan Bank, Shinhan Card, any of our major subsidiaries or our holding company will not experience a downgrade in their respective credit ratings and outlooks for reasons related to the general Korean economy or reasons specific to such institutions. Additional downgrades in the credit ratings and outlooks of us and our subsidiaries will likely increase the cost of our funding, limit our access to capital markets and other borrowings, and require us to post additional collateral in financial transactions, any of which could adversely affect our liquidity, net interest margins and profitability, and in turn, our business, financial condition and results of operation.

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

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

A significant increase in interest rates could decrease the value of our debt securities portfolio and raise our funding costs while reducing loan demand and the repayment ability of our borrowers, which could have a material adverse effect on our asset quality and profitability.

Commencing in the second half of 2008, interest rates in Korea have declined to historically low levels as the government has sought to stimulate the economy through active rate-lowering measures. However, as the Korean government is reportedly in discussions to increase base interest rates as part of the exit strategy from the recent global financial crisis, there is no assurance that the market interest rates will not significantly rise in the near future. The vast majority of debt securities we hold pay interest at a fixed rate. However, a considerable increase in interest rates in the future could lead to a decline in the value of the debt securities in our portfolio. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. A considerable rise in interest rates may therefore require us to rebalance our assets and liabilities in order to minimize the risk of potential mismatches and maintain our profitability. In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to deterioration of our credit portfolio. Since most of our retail and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of our retail and corporate borrowers and could adversely affect their ability to make payments on their outstanding loans.

We may incur losses associated with our counterparty exposures.

We face the risk that counterparties will be unable to honor contractual obligations to us or our subsidiaries. These parties may default on their obligations to us or our subsidiaries due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swaps or other derivative contracts under which counterparties have obligations to make payments to us or our subsidiaries or in executing currency or other trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Counterparty risk has increased especially in light of the recent credit crisis and global economic downturn. For example, Shinhan Investment, our securities brokerage subsidiary, recorded losses of ₩91 billion in 2008 as a result of the bankruptcy filing by Lehman Brothers. Similar losses in the future may have a material adverse effect on our business, financial condition and results of operation.

Risks Relating to Our Banking Business

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

Our banking activities are conducted primarily through our wholly-owned subsidiary, Shinhan Bank. One of our core banking businesses has historically been and continues to be lending to small- and medium-sized enterprises (as defined in Item 4.B. Business Overview Our Principal Activities Corporate Banking Services Small- and Medium-sized Enterprises Banking). Our loans to such enterprises increased from ₩62,296 billion as of December 31, 2007 to ₩71,212 billion as of December 31, 2008 and ₩69,571 billion

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as of December 31, 2009, representing 41.0%, 41.8% and 41.1%, respectively, of our total loan portfolio as of such dates.

Compared to loans to large corporations, which tend to be better capitalized and weather business downturns with greater ease, or loans to individuals and households, which tend to be secured with homes and with respect to which the borrowers are therefore less willing to default, loans to small- and medium-sized enterprises have historically had a relatively higher delinquency ratio. In recent years, loans to such enterprises have been the target of aggressive lending by Korean banks, including Shinhan Bank, as part of their campaigns to increase their respective market shares. As of December 31, 2007, 2008 and 2009, under Korean GAAP, Shinhan Bank s delinquent loans to small- and medium-sized enterprises were ₩453 billion, ₩820 billion and ₩578 billion, respectively, representing delinquency ratios (net of charge-offs and loan sales) of 0.85%, 1.33% and 0.98%, respectively. If Korean or global economy were to experience another economic downturn, the delinquency ratio for our loans to the small- and medium-sized may rise significantly.

Of particular concern is the significant exposure we have to enterprises in the real estate and leasing industry and the construction industry. As of December 31, 2009, our loans to the real estate and leasing industry and the construction industry was ₩18,530 billion and ₩6,675 billion, representing 10.9% and 3.9%, respectively, of our total loan portfolio. The enterprises in the real estate development and construction industries are concentrated in the housing market, which has been particularly affected by declining asset prices largely as a result of sustained efforts by the Government to stem speculation in the housing market. We also have a limited exposure to real estate project financing, particularly by construction companies that have built residential units in provinces outside the metropolitan Seoul area, which have experienced a relatively low rate of pre-sales, the proceeds from which the construction companies primarily rely on as a source for their liquidity and cash flow. In addition, we also have a limited exposure to the shipping and shipbuilding industries, which were disproportionately hurt by the recent economic downturn following a particularly robust period and are currently experiencing slow recovery.

The delinquency ratio for the small- and medium-sized enterprises in the construction, shipbuilding and shipping industries may increase significantly if restructuring of troubled companies in these industries intensifies as a result of a Government initiative or concerted efforts by lending institutions to improve their asset quality. Specifically, in December 2008, the Government announced that it would promote swift restructuring of troubled companies in certain industries that have been disproportionately affected by the then ongoing economic difficulties, such as construction and shipbuilding industries. These restructurings have been supervised primarily by major commercial banks that are creditor financial institutions of such companies, with the Government having an oversight role. In accordance with such program, 29 construction companies and eight shipbuilding companies became subject to workouts in February and March 2009, following review by their creditor financial institutions (including Shinhan Bank) and the Korean government. Currently, 10 construction companies and two shipbuilding companies remain under our supervision in connection with such program. In addition, on June 25, 2010, the Government announced that, following review of credit risk relating to 1,985 companies in Korea with outstanding debt of ₩50 billion or more, 65 of such companies will be subject to restructuring in the form of workout, liquidation or court receivership. Of the 65 companies, 16 are construction companies, three are shipbuilding companies and one is a shipping company. According to the Government s announcement, such restructuring is expected to have a limited impact on the asset quality of the commercial banks in Korea given the relatively strong level of capital adequacy and financial position of commercial banks in Korea to absorb potential losses in respect of these troubled companies, if any. However, there is no assurance that the credit exposure to these trouble companies will not increase in the future as a result of an economic downturn or for other reasons, and additional restructuring may follow as a result of a Government initiative or otherwise. Any of the foregoing developments may result in deterioration in the asset quality of Shinhan Bank.

We are taking active steps to curtail delinquency among our small- and medium-sized enterprise customers, including by way of strengthening loan application review processes and closely monitoring borrowers in troubled sectors. Despite such efforts, there is no assurance that the delinquency ratio for our loans to the small- and medium-sized enterprises will not rise in the future. The current adverse economic developments, which may deepen in terms of length and severity, are likely to cause deterioration in the liquidity and cash flow of these enterprises and result in higher delinquency and impairment of loans. Furthermore, adverse structural changes or macroeconomic trends in the Korean economy may further hurt the ability of such enterprises to generate revenues or service debt. A significant rise in the delinquency ratios among these borrowers would have a material adverse effect on our business, financial condition and results of operation.

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

Most of our home and mortgage loans are secured by borrowers homes, other real estate, other securities and guarantees (which are principally provided by the Government and other financial institutions), and a substantial portion of our corporate loans are also secured, including by real estate. As of December 31, 2009, under Korean GAAP, the secured portion of Shinhan Bank s loans amounted to ₩74,564 billion, or 61.3% of its total loans. Shinhan Bank s general policy for home and mortgage loans is to lend up to 40% to 60% of the appraised value of collateral and to periodically re-appraise its collateral. However, in light of the sustained downturn in the residential property market in Korea, the value of the collateral may fall below the outstanding principal balance of the underlying loans. Declines in real estate prices reduce the value of the collateral securing our mortgage and home equity loans, and such reduction in the value of collateral may result in our inability to cover the uncollectible portion of our secured loans. A decline in the value of the real estate or other collateral securing our loans, or our inability to obtain additional collateral in the event of such declines, may result in the deterioration of our asset quality and require us to make additional loan loss provisions. In Korea, foreclosure on collateral generally requires a written petition to a Korean court. Foreclosure procedures in Korea generally take seven months to one year from initiation to collection depending on the nature of the collateral, and foreclosure applications may be subject to delays and administrative requirements, which may result in a decrease in the recovery value of such collateral. There can be no assurance that we will be able to realize the full value of collateral as a result of, among others, delays in foreclosure proceedings, defects in the perfection of collateral and general declines in collateral value. Our failure to recover the expected value of collateral could expose us to significant losses.

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

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

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

Of our 20 largest corporate exposures as of December 31, 2009, seven were companies that are or were members of the main debtor groups identified by the Governor of the Financial Supervisory Service, which are largely comprised of *chaebols*. As of such date, the total amount of our exposures to the main debtor groups was ₩22,658 billion, or

6.33% of our total exposure. As of that date, our single largest outstanding *chaebol* exposure amounted to ₩3,974 billion, or 1.1% of our total exposures. See Item 4.B. Business Overview Description of Assets and Liabilities Loans Loan Portfolio Exposure to Main Debtor Groups. If the credit quality of our exposures to large corporations declines, we may be required to record additional loan loss provisions in respect of loans and impairment losses in respect of securities, which would adversely affect our financial condition, results of operations and capital adequacy. We cannot assure you that the allowances we have established against these exposures will be sufficient to cover all future losses arising from such exposures, especially in light of the possibility of another economic downturn. Specifically, starting in April 2009, the major creditor financial institutions to large corporations with outstanding unsecured debt of ₩50 billion conducted credit review on 433 such corporations under the supervision of the Government as part of a campaign to promote swift restructuring in the Korean corporate sector, and on June 11, 2009, the Financial Supervisory Service reportedly announced that, after the credit review, 22 and 11 of such corporations will become subject to workouts and liquidation, respectively.

In addition, the creditor financial institutions also entered into agreements with nine main debtor groups, largely comprised of *chaebols*, under which such groups will undertake plans to improve their financial conditions, including through sale of subsidiaries. Detailed information regarding the exposure to the foregoing corporations and main debtor groups is not publicly available. While Shinhan Bank is not the main creditor financial institution to any of these main debtor groups, Shinhan Bank is one of the creditor financial institutions and has exposure to a limited number of such corporations and main debtor groups. In particular, Shinhan Bank had significant exposure (including loans and guarantees related to project financing) to Kumho Asiana in the amount of ₩706 billion as of December 31, 2009. Kumho Asiana, an airline company and a flagship member of the Kumho group, recently faced liquidity difficulties as a result of a put option which Kumho Industrial Co. Ltd., also a member of the Kumho group, in a consortium with Kumho Asiana provided to certain financial investors in connection with the acquisition of Daewoo Construction in 2006. Kumho Asiana is currently negotiating the terms of the put option with the financial investors and the Kumho group is currently negotiating with the creditors, led by Korea Development Bank, as to the liquidity issues facing the Kumho group, including Kumho Asiana, including an offer to sell certain of the group s core assets, but there is no guarantee that such negotiations will be successfully completed. If Kumho Asiana or other companies to which Shinhan Bank has substantial exposure are in or in the future enter into a workout, restructuring or liquidation, Shinhan Bank may not be able to make full recoveries against such companies. Bankruptcies or financial difficulties of large corporations, including *chaebol* groups, may have the adverse ripple effect of triggering delinquencies and impairment of our loans to small- and medium-sized enterprises that supply parts or labor to such corporations. If we experience future losses from our exposures to large corporations, including *chaebol* groups, it may have a material adverse impact on our business, financial condition and results of operation. See Item 4.B. Business Overview Description of Assets and Liabilities Loans Loan Portfolio Exposure to Main Debtor Groups.

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

In the normal course of banking activities, we make various commitments and incur certain contingent liabilities in the form of guarantees and acceptances. Certain guarantees issued or modified after December 31, 2002 which are not derivative contracts have been recorded on our consolidated balance sheet at their fair value at inception. Other guarantees are recorded as off-balance sheet items in the footnotes to our financial statements and those guarantees that we have confirmed to make payments on become acceptances, which are recorded on the balance sheet. As of December 31, 2009, we had aggregate guarantees and acceptances of ₩17,823 billion, for which we provided allowances for losses of ₩322 billion. Such guarantees and acceptances include refund guarantees provided by us to shipbuilding companies, which involve guaranteeing a refund payment of the initial cash payment (typically 25% of the contract amount for ship orders) received by shipbuilders from buyers in the event that such shipbuilders are unable to deliver the ships in time or otherwise default under the shipbuilding contracts. Recently, small- and medium-sized shipbuilding companies have faced increasing financial difficulties due to the global economic downturn and the resulting slowdown in shipbuilding orders, which has increased the risk that they may default on their shipbuilding contracts and we may have to make payments under the refund guarantees. The refund guarantees provided by us to small- and medium-sized shipbuilding companies amounted to approximately ₩950 billion as of December 31, 2009. If there is significant deterioration in the quality of assets underlying our guarantees and acceptances, our allowances may be insufficient to cover actual losses resulting in respect of these liabilities, or the losses we incur on the relevant guarantees and acceptances may be larger than the outstanding principal amount of the underlying loans.

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Risks Relating to Our Credit Card Business

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

As of December 31 2007, 2008 and 2009, Shinhan Card s credit card assets amounted to ₩8,600 billion, ₩8,578 billion and ₩10,941 billion, respectively, on a reported basis and ₩14,066 billion, ₩14,011 billion and ₩14,569 billion, on a managed basis. Our large exposure to credit card and other consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers in general. For example, a rise in unemployment, an increase in interest rates and other difficulties affecting the Korean economy may lead Korean consumers to reduce spending (a substantial portion of which is conducted through credit card transactions), which in turn leads to reduced earnings for our credit card business, as well as to higher default rates on credit card loans, deterioration in the quality of our credit card assets and increased difficulties in recovering written-off assets from which a significant portion of Shinhan Card s revenues is derived. Any of these developments could have a material adverse effect on our business, financial condition and results of operation.

Growing market saturation in the credit card sector may adversely affect growth prospects and profitability of Shinhan Card.

In recent years, substantially all commercial banks and financial institutions in Korea have focused their businesses on, and engaged in aggressive marketing campaigns in, the credit card sector. The growth, market share and profitability of our credit card subsidiary s operations may decline or become negative as a result of growing market saturation in this sector, intensified interest rate competition, pressure to lower the fee rates and incur higher marketing expenses, as well as Government regulation and social and economic developments in Korea, such as changes in consumer confidence levels, spending patterns or public perception of credit card usage and consumer debt. As the credit card market further saturates with increasing maturation in terms of the number of cardholders and transaction volume, it may become difficult for Shinhan Card to attract and maintain qualified customers.

Shinhan Card s ability to continue its asset growth in the future will depend on, among others, its ability to develop and market new products and services that are attractive to its customers, to source sufficient funding on commercially reasonable terms, to develop the personnel and systemic infrastructure necessary to manage its growing and increasingly diversified business operations and to more effectively handle delinquencies. In addition, external factors such as competition and Government regulation in Korea may limit Shinhan Card s ability to maintain its growth, and economic and social developments in Korea, such as changes in consumer confidence levels or spending patterns, as well as changes in the public perception of credit card usage and consumer debt, could have an adverse impact on the growth of Shinhan Card s credit card assets and the level of delinquency in its assets in the future, any of which could have a material adverse affect on our business, financial condition and results of operation.

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

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

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Risks Relating to Our Other Businesses

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

We enter into and maintain large investment positions in fixed income products, primarily through our treasury and investment operations. We describe these activities in Item 4.B. Business Overview Our Principal Activities Treasury and Securities Investment. We also maintain smaller trading positions, including equity and equity-linked securities and derivative financial instruments as part of our operations. Taking these positions entails making assessments about financial market conditions and trends. The revenues and profits we derive from many of these positions and related transactions are dependent on market prices, which are beyond our control. When we own assets such as debt securities, a decline in market prices, for example as a result of fluctuating market interest rates, can expose us to trading and valuation losses. In addition, when markets are volatile and subject to rapid changes in the price directions, the actual market prices may be contrary to our assessments and lead to lower than anticipated revenues or profits, or even result in losses, with respect to the related transactions and positions.

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

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

Other Risks Relating to Us

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

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

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

Damage to our reputation could harm our business.

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

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

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

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

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

In 2009, we became a defendant in individual and collective lawsuits in connection with the sale of foreign currency derivatives products known as KIKOs, which stands for knock-in knock-out, to certain of our customers comprised mostly of small- and medium-sized enterprises. The KIKOs, which are intended to be hedging instruments, operate so that if the value of Korean Won increases to a certain level, then we are required to pay the purchasers a certain amount, and if the value of Korean Won falls below a certain level, then the purchasers of KIKOs are required to pay us a certain amount. As the Korean Won significantly depreciated against the U.S. dollar in the second half of 2008, purchasers of KIKOs were required under the relevant contracts to make large payments to us, and some of such purchasers have filed lawsuits to nullify their obligations. The aggregate amount of such claims as of December 31, 2009 was ₩21 billion, which may increase if the Korean Won depreciates against the U.S. dollar. While we have won a limited number of preliminary injunction cases at the lower court level, other cases are pending and additional cases may be filed against us. Other commercial banks facing similar claims have lost some of their preliminary injunction cases. If we lose any of these cases, the relevant court may nullify the contracts under which KIKO products were sold and order us to return payments received from the customers. On February 8, 2010, Woori Bank and Citibank won the first case on the merits in respect of KIKOs. While the facts of the cases to which Shinhan Bank is a party are similar to those of the case ruled in favor of Woori Bank and Citibank, the actual outcomes of the cases to which Shinhan Bank is a party remain uncertain. While the final outcome of such

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litigation is uncertain and we plan to rigorously defend our position, the lawsuits, especially if the courts finally rule against us, may have a material adverse effect on our business, financial condition and results of operations.

In addition, due to the recent global economic slowdown and a deteriorating Korean stock market in the second half of 2008, investment funds whose performance was tied to domestic and foreign stock market indexes experienced a sharp fall in their rates of return. Consequently, investors in these funds brought lawsuits against commercial banks in Korea that sold such investment fund products based on the allegation that such banks used defective sales practices in selling such funds, such as failing to comply with disclosure requirements or unfairly inducing them to invest in the funds. There have been cases in which the courts required the banks to compensate their customers for inadequate disclosure and unfair inducement. We cannot assure you that, despite due training, all of our employees in charge of such sales have not breached disclosure requirements, engaged in unfair inducement or committed similar acts or will not do the same in the future. As of December 31, 2009, there were 32 cases filed against Shinhan Bank in an aggregate amount of ₩5.0 billion. The total amount in dispute may increase during the course of litigation and other lawsuits may be brought against us based on similar allegations. While it is difficult to predict the outcome of each lawsuit against us as it will ultimately depend on the specific facts and circumstances underlying such lawsuit, if the courts rule against us, the lawsuits may have a material adverse effect on our business, financial condition and results of operations.

We may incur significant costs in preparing for and complying with the new IFRS accounting standards, we may not be able to fully comply with such standards within the prescribed timeline, and the IFRS may significantly impact the results of our financial reporting.

In March 2007, the Government announced that all companies listed on the Korea Exchange, including us, would be required to comply with the International Financial Reporting Standards (IFRS) by 2011. The IFRS is the financial reporting standard adopted in more than 110 countries and has requirements that are substantially different from those under Korean GAAP or U.S. GAAP. We have established a task force team and built out a financial reporting system upgrade and other infrastructure to assist in the preparation for our IFRS compliance. Such preparation, as well as actual compliance with IFRS, may result in significant costs for us and may have a material adverse effect on our results of operations. In addition, we may not be able to comply with the IFRS requirements within the prescribed timeline, and such non-compliance may result in regulatory sanctions and harm to our reputation. Furthermore, compared to our current reporting standards under Korean GAAP or U.S. GAAP, the IFRS provides for differing reporting requirements with respect to the scope of consolidation, goodwill valuation, allowance for losses, revenue recognition and determination of employee compensation, which may make it difficult for our shareholders and other investors to compare our reported financial results under the IFRS to our reported financial results under the existing Korean GAAP or U.S. GAAP and thereby make their investment decisions on a sufficiently informed basis.

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

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

Risks Relating to Law, Regulation and Government Policy

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

As a financial services provider, we are subject to a number of regulations that are designed to maintain the safety and soundness of Korea s financial system, to ensure our compliance with economic and other obligations and to limit our risk exposure. These regulations may limit our activities, and changes in these regulations may

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increase our costs of doing business. Regulatory agencies frequently review regulations relating to our business and implement new regulatory measures, including increasing the minimum required provisioning levels, capital ratios or capital adequacy ratios applicable to us and our subsidiaries from time to time. We expect the regulatory environment in which we operate to continue to change. Changes to regulations applicable to us and our business or changes in their implementation or interpretation could affect us in unpredictable ways and could adversely affect our business, results of operations and financial conditions.

In addition, violations of law and regulations could expose us to significant liabilities and sanctions. For example, If the Financial Services Commission determines that our financial condition, including the financial conditions of our operating subsidiaries, is unsound, or if we or our operating subsidiaries fail to meet the applicable requisite capital ratio or the capital adequacy ratio, as the case may be, set forth under Korean law, the Financial Services Commission may order, among others, at the level of the holding company or that of the relevant subsidiary, capital increases or reductions, stock cancellations or consolidations, transfers of business, sales of assets, closures of branch offices, mergers with other financial institutions, or suspensions of a part or all of our business operations. If any of such measures is imposed on us or on our subsidiaries as a result of unsound financial condition or failure to comply with minimum capital adequacy requirements or for other reasons, it will have a material adverse effect on our business, financial condition and results of operation.

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

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

In response to the recent global financial crisis and the ensuing economic downturn, many governments worldwide, including the Government, have played a more active role in the economy through a variety of fiscal and macroeconomic measures, including increased government spending and lowering of base interest rates. In addition, the governments at times became directly involved in providing assistance, by direct investment otherwise, to troubled financial institutions and corporations, typically in exchange for increased government monitoring and guidance of the operations of such entities. In Korea, for example, in November 2008, in response to the high volatility in foreign exchange rates, several major commercial banks, including Shinhan Bank, entered into a memorandum of understanding with the Government under which they would accept greater government monitoring of their operations if they were to receive government guarantees for foreign currency-denominated borrowings. In addition, in the first half of 2009, in response to the tightened market liquidity, several major commercial banks, including Shinhan Bank, applied for a Government-backed credit line designed to ensure greater liquidity and capital adequacy, which however would impose, upon a drawdown, greater Government scrutiny of bank operations and conditionality on the use of proceeds. Shinhan Bank did not make actual use of either program, and as the volatility in foreign exchange rates and the liquidity crisis have abated to a large extent, both programs have since been terminated. However, there can be no assurance that if the Korean or global economy were to experience another severe crisis, the commercial banks in Korea, including Shinhan Bank, will not require similar or more stringent forms of Government assistance, or that the Government would be able or willing to provide assistance to the extent required. In addition, even if available, receipt of Government assistance may result in heightened Government scrutiny and guidance of bank operations to the extent that it may have a material adverse effect on Shinhan Bank s business, results of operations and financial condition.

Currently, as the global economy shows growing signs of recovery, many governments worldwide, including the Korean government, have implemented or are considering implementing exit strategies, including reduced government spending and an increase of base interest rates. There can be no assurance that the implementation of such strategies will have the desired effect on the economy, and depending on the timing and magnitude, such strategies may result in a prolonged or more severe economic downturn, which would have a material adverse effect on our business, results of operations and financial condition.

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

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

The Government has encouraged and may in the future encourage lending to or investment in the securities of certain types of borrowers and other financial institutions in furtherance of government initiatives. The Government, through its regulatory bodies such as the Financial Services Commission, has in the past announced lending policies to encourage Korean banks and financial institutions to lend to or invest in particular industries or customer segments, and, in certain cases, has provided lower cost funding through loans made by the Bank of Korea for further lending to specific customer segments. While all of our loans or securities investments are reviewed in accordance with our credit review policies or internal investment guidelines and regulations, we, on a voluntary basis, may factor the existence of such policies and encouragements into consideration in making loans or securities investments. In addition, while the ultimate decision whether to make loans or securities investments remains with us and is made based on our internal credit approval procedures and risk management systems independently of Government policies, the Government may in the future request financial institutions in Korea, including us, to make investments in or provide other forms of financial support to particular sectors of the Korean economy as a matter of policy, which financial institutions, including us, may be required to make or may otherwise decide to accept. For example, the Government took various initiatives to support small- and medium-sized enterprises, which were disproportionately affected by the recent downturn in the Korean and global economy. As part of such initiatives, Shinhan Bank, like other commercial banks in Korea, entered into a memorandum of understanding in April 2009 with the Government under which Shinhan Bank would make efforts, among others, to provide greater liquidity into the general economy by extending a sizable volume of loans to small- to medium-sized enterprises. We may incur costs or losses as a result of providing such financial support.

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

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

In light of the deepening slump in the housing market, the Government took or considered taking various initiatives to support the economy, such as deregulating the real estate sector and lowering tax rates. However, if the housing market shows signs of recovery, the Government may from time to time take measures to regulate the housing market in order to preempt undue speculation, including by way of imposing restrictions on retail lending, including mortgage and home equity lending. For example, in September 2009, in light of the growing concerns about the rising level of household debt in Korea, which is in large part secured by residential property, the Financial Supervisory Service announced that it will apply stricter debt-to-income ratios for mortgage and home equity lending. Any measures by the Government that is designed to stimulate or curb growth in the real property sector may be premature, result in unintended consequences or contribute to substantial future declines in real estate prices in Korea, which will reduce the value of the collateral securing our mortgage and home equity loans. See Risks Relating to Our Banking Business A decline in the value of the collateral securing our loans or our inability to fully realize the collateral value may adversely affect our credit portfolio. Such measures may also have the effect of limiting the growth and profitability of our retail banking business, especially in the area of mortgage and home equity lending.

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

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

Risks Relating to Korea

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

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

volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (particularly against U.S. dollar), interest rates and stock markets;

increased reliance on exports to service foreign currency debts, which could cause friction with Korea s trading partners;

adverse developments in the economies of countries to which Korea exports goods and services (such as the United States, China and Japan), or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;

the continued emergence of China, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and relocation of the manufacturing base from Korea to China);

social and labor unrest or declining consumer confidence or spending resulting from lay-offs, increasing unemployment and lower levels of income;

uncertainty and volatility in real estate prices arising, in part, from the Government s policy-driven tax and other regulatory measures;

a decrease in tax revenues and a substantial increase in the Government s expenditures for unemployment compensation and other social programs that together could lead to an increased Government budget deficit;

political uncertainty or increasing strife among or within political parties in Korea, including as a result of the increasing polarization of the positions of the ruling conservative party and the progressive opposition;

a deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy; and

any other developments that has a material adverse effect in the global economy, such as an act of war, a terrorist act or a breakout of an epidemic such as SARS, avian flu or swine flu.

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

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

Relations between Korea and North Korea have been tense throughout Korea s modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea s nuclear weapons and long-range missile programs and uncertainty regarding North Korea s actions and possible responses from the international community. In April 2009, after launching a long-range rocket over the Pacific Ocean which led to protests from the international community, North Korea announced that it would permanently withdraw from the six-party talks that began in 2003 to discuss Pyongyang s path to denuclearization. On May 25, 2009, North Korea conducted its second nuclear testing by launching several short-ranged missiles. In response to such actions, the Republic decided to join the Proliferation Security Initiative, an international campaign aimed at stopping the trafficking of weapons of mass destruction, over Pyongyang s harsh rebuke and threat of war. After the United Nations Security Council passed a resolution on June 12, 2009, to condemn North Korea s second nuclear test and impose tougher sanctions such as a mandatory ban on arms exports, North Korea announced that it would produce nuclear weapons and take resolute military actions against the international community. In addition, the military and political tension in the Korean peninsula may further escalate as a result of allegations of a covert involvement by a North Korean submarine in the sinking of a Korean navy ship in March 2010.

There recently has been increased uncertainty about the future of North Korea s political leadership and its implications for the economic and political stability of the region. In June 2009, American and South Korean officials announced that Kim Jong-il, the North Korean ruler who reportedly suffered a stroke in August 2008, designated his third son, who is reportedly to be in his twenties, to become his successor. The succession plan, however, remains uncertain. In addition, North Korea s economy faces severe challenges. For example, on November 30, 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 in an attempt to control inflation and reduce income gaps. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea, and in turn the entire Korean peninsula.

There can be no assurance that the level of tension and instability in the Korean peninsula will not escalate in the future, or that the political regime in North Korea may not suddenly collapse. Any further increase in tension or uncertainty relating to the military or economic stability in the Korean peninsula, including a breakdown of diplomatic negotiations over the North Korean nuclear program, occurrence of military hostilities or heightened concerns about the stability of North Korea s political leadership, could have a material adverse effect on our business, financial condition and results of operation and could lead to a decline in the market value of our common shares and our

American depositary shares.

Risks Relating to Our American Depositary Shares

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

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the depositary bank s custodian in Korea and obtain American depositary shares, and holders of American depositary shares may surrender American depositary shares to the depositary bank and receive shares of our common stock.

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However, under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of American depositary shares (including deposits in connection with the initial and all subsequent offerings of American depositary shares and stock dividends or other distributions related to these American depositary shares) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. We have consented to the deposit of outstanding shares of common stock as long as the number of American depositary shares outstanding at any time does not exceed 20,216,314. As a result, if you surrender American depositary shares and withdraw shares of common stock, you may not be able to deposit the shares again to obtain American depositary shares.

The value of your investment may be reduced by future conversion of our redeemable convertible preferred shares.

As part of the financing for the LG Card acquisition, we issued to 12 entities in Korea an aggregate of 14,721,000 redeemable convertible preferred shares, which are convertible into 3.01% of our total issued common shares on a fully diluted basis. These redeemable convertible preferred shares may be converted into our common shares at any time from January 26, 2008 through January 25, 2012. Currently, we do not know when or what percentage of our redeemable convertible preferred shares will be converted, or disposed of following the conversion. Accordingly, we cannot currently predict the impact of such conversion or disposal.

Ownership of our shares is restricted under Korean law.

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

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

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

a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or

the offering and sale of those shares is exempt from or is not subject to the registration requirements of the U.S. Securities Act.

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

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

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

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

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

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

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

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

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

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

Holders of American depositary shares may be required to pay a Korean securities transaction tax upon withdrawal of underlying common shares or the transfer of American depositary shares.

Under Korean tax law, a securities transaction tax (including an agriculture and fishery special surtax) is imposed on transfers of shares listed on the Korea Exchange, including our common shares, at the rate of 0.3% of the sales price if traded on the Korea Exchange. According to a tax ruling issued by Korean tax authorities, securities transaction tax could be imposed on the transfer of American depositary shares. In May 2007, the Seoul Administrative Court held that depositary receipts do not constitute share certificates subject to the securities transaction tax. The case was upheld by the Seoul High Court, and the Supreme Court in 2008 dismissed the tax authorities appeal against the Seoul High Court decision, rendering the Seoul High Court s decision final. However, having dismissed the tax authorities appeal without ruling on the substantive law, it is unclear how much precedential value the Supreme Court s ruling will have on this subject. Even if depositary receipts, including the ADSs, constitute share certificates subject to securities transaction tax under the Securities Transaction Tax Law, capital gains from a transfer of depositary receipts listed on the New York Stock Exchange, the NASDAQ National Market or other qualified foreign exchanges are exempt from the securities transaction tax. See Item 10.E. Taxation Korean Taxation.

Other Risks

We do not prepare interim financial information on a U.S. GAAP basis.

We, including our subsidiaries such as Shinhan Bank and Shinhan Card, are not required to and do not prepare interim financial information on a U.S. GAAP basis. U.S. GAAP differs in significant respects from Korean GAAP, particularly with respect to the establishment of provisions and loan loss allowance and determination of the scope of consolidation. See Item 5.B. Liquidity and Capital Resources Selected Financial Information under Korean GAAP and Reconciliation with Korean Generally Accepted Accounting Principles.

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

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

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

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

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

Based upon the past and projected composition of our income and valuation of our assets, we do not believe that we were a PFIC for 2009, and we do not expect to be a PFIC in 2010 or to become one in the foreseeable future, although there can be no assurance in this regard. If, however, we become a PFIC, such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. For example, if we become a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. Our PFIC status is determined on an annual basis and depends on the composition of our income and assets. Specifically, we will be classified as a PFIC for U.S. tax purposes if either: (i) 75% or more of our gross income in a taxable year is passive income, or (ii) the average percentage of our assets by value in a taxable year which produce or are held for the production of passive income (which generally includes cash) is at least 50%. Special rules treat certain income earned by a non-U.S. corporation engaged in the active conduct of a banking business as non-passive income. We cannot assure you that we will not be a PFIC for 2010 or any future taxable year.

ITEM 4. *INFORMATION ON THE COMPANY*

ITEM 4.A. *History and Development of the Company*

Introduction

Incorporated on September 1, 2001, Shinhan Financial Group is the first privately-held financial holding company to be established in Korea. Since inception, we have developed and introduced a wide range of financial products and services in Korea and aimed to deliver comprehensive financial solutions to clients through a convenient one-portal network. According to reports by the Financial Supervisory Service, we are one of the three largest financial services providers in Korea as measured by total assets as of December 31, 2009 and operate the third largest banking business (as measured by total assets as of December 31, 2009) and the largest credit card business (as measured by the total credit purchase volume as of December 31, 2009) in Korea.

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

We currently have 12 direct subsidiaries and 20 indirect subsidiaries offering a wide range of financial products and services, including commercial banking, corporate banking, private banking, credit card, asset management, brokerage and insurance services. We believe that such breadth of services will help us to meet the diversified needs of our present and potential clients. We currently serve approximately 16.5 million active customers, which we believe is the largest customer base through approximately 17,300 employees at approximately 1,400 network branches groupwide. While substantially all of our revenues have been historically derived from Korea, we aim to serve the needs of our clients through a global network of our 52 offices in the United States, Canada, the United

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Kingdom, Japan, the People s Republic of China, Germany, India, Hong Kong, Vietnam, Cambodia, Kazakhstan and Singapore.

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

Our Strategy

Prior to the recent global financial crisis, we primarily focused on increasing our market share in the domestic financial services industry and achieving an economy of scale in our major business operations, including through acquisition of Chohung Bank and LG Card, and seeking synergy opportunities therefrom. However, in the face of the recent global financial crisis, we adopted a more conservative back-to-basics approach by strengthening our business fundamentals and competitive sustainability, primarily through enhanced risk management and programs designed to heighten customer retention.

We believe that the preemptive steps we undertook at the outset of the recent global financial crisis have been instrumental to our successfully overcoming the immediate challenges created by the crisis. However, significant uncertainties remain in the aftermath of the recent global financial crisis. While Korean economy has experienced a relatively speedy recovery, there is significant risk for another worldwide recession, including as a result of the ongoing fiscal crisis in select European countries. On the regulatory front, the recent global financial crisis is likely to usher in heightened regulatory scrutiny over key operational aspects of the financial sector as well as and more stringent capital adequacy and liquidity requirements. Furthermore, competition in the Korean financial services sector may intensify as a result of further industry consolidation and privatization in the banking sector and the introduction of mobile phone payment services by leading telecommunication companies in Korea, which services, if widely adopted, may potentially replace existing credit card services.

Notwithstanding these and other challenges, we believe we must cautiously realign our strategic priorities in order to capture available opportunities and strengthen our platform for sustained future growth so that we may attain our long-term objectives of becoming the number-one leading financial brand in Korea and a world-class financial service provider in terms of customer value creation. More specifically, our realigned strategic priorities include the following:

Secure the leading position in our core businesses. We plan to increase our market share and otherwise achieve quantitative growth in our banking and credit card businesses through quality customer service that is tailored to meet the varying needs of our diverse customer segments and is differentiated from that offered by our competitors.

Strengthen non-interest income generating businesses. While we will continue to focus on our core, interest-income generating businesses of banking and credit card services, in order to attain a more balanced overall business portfolio we plan to strengthen our non-interest income generating businesses such as asset management, insurance and securities investment by enhancing brand awareness, economy of scale and product development and distribution capabilities with respect to these businesses. We believe that this approach will help us to generate our overall revenues and earnings more consistently by reducing our interest rate exposure and we believe that such approach is timely in light of the anticipated impending end of the low interest rate environment as part of the Government s exit strategy, which development is likely to drive up funding costs in general.

Enhance groupwide synergy with focus on the customer. In light of the wide range of financial services offered by our many subsidiaries, we believe a key driver to our future growth is to provide our customers with enhanced access to our diverse product offerings and greater incentives to use them through a more customer-friendly, one-portal financial service platform. To that end, we are developing a groupwide customer relationship management system tailored to the lifestyle and spending patterns of each customer, in order to facilitate the sharing of customer data and product distribution channels among our member companies and further strengthen our groupwide product recommendation systems for cross-selling and up-selling opportunities such as wealth management. We also seek to reduce cost at a groupwide level by encouraging our operating subsidiaries to share a common platform for general and administrative services.

Gain competitiveness in strategic growth areas. We intend to seek new business opportunities by sharing management and other resources groupwide to identify and develop potential strategic growth areas. We also plan to enhance our competitiveness in the investment banking business by redefining its business strategy at the group level. To further strengthen our foundation to become a leading global financial institution, we plan to increase our presence in select Asian markets.

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

Operational management system. We plan to optimize the use of our groupwide resources by streamlining our corporate governance and organizational structure and enhancing our operational management system, establishing of a fairer and more accurate performance-based compensation system and further encouraging collaboration among our various business units.

Employee training. In order to attract highly qualified new recruits which are vital to sharpening our competitive edge, we plan to enhance groupwide training programs and introduce other career development programs such as the accelerated promotion of local hires in our overseas offices.

Brand promotion and corporate culture. In order to further upgrade our brand image and foster a culture of unity among our employees and synergy across our various business units in servicing our common customers, we plan to introduce a centralized brand management system, reinforce our social responsibility initiatives and encourage greater interaction and communication among staffs of our different business units.

Balanced risk-return management. In a continuing effort to attain a healthy and balanced risk-return profile, we will promote growth within the pre-defined risk tolerance level by further fine-tuning our risk management system, selectively seeking further business opportunities and strengthening our capital adequacy and liquidity groupwide.

At the subsidiary level, the following outlines in greater detail our specific strategies for our core business lines:

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

in credit card business, our primary objective is to further solidify our market leadership as the largest credit card service provider in Korea through differentiated and tailored customer service based on a strategy that emphasizes soft and smart aspects of enhancing customer loyalty, brand recognition and revenue expansion. We will also emphasize further optimizing our risk management through preemptive risk prevention, creating new synergy opportunities through collaboration with our other Shinhan affiliates and enhanced use of the groupwide customer relationship management system, and identifying and developing new potential growth areas.

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

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

Our History and Development

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

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

Date of Acquisition	Entity	Principal Activities	Method of Establishment
April 2002	Jeju Bank	Regional banking	Acquisition from Korea Deposit Insurance Corporation
July 2002	Shinhan Investment Corp.(1)	Securities and investment	Acquisition from the SsangYong Group
August 2002	Shinhan BNP Paribas Investment Trust Management Co., Ltd.(2)	Investment advisory	50:50 joint venture with BNP Paribas
August 2003	Chohung Bank(3)	Commercial banking	Acquisition from creditors
December 2005	Shinhan Life Insurance	Life insurance services	Acquisition from shareholders
March 2007	LG Card(4)	Credit card services	Acquisition from creditors

Notes:

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

(2) In August 2002, we signed a joint venture agreement with BNP Paribas Asset Management, the asset management arm of BNP Paribas, in respect of Shinhan Investment Trust Management. In October 2002, we sold to BNP Paribas Asset Management 3,999,999 shares of Shinhan Investment Trust Management, representing 50% less one share, which was subsequently renamed as Shinhan BNP Paribas Investment Trust Management Co., Ltd. (Shinhan BNP Paribas Investment Trust Management). In January 2009, SH Asset Management Co., Ltd. (SH Asset Management) and Shinhan BNP Paribas Investment Trust Management merged to form Shinhan BNP Paribas Asset Management Co., Ltd. (Shinhan BNP Paribas Asset Management).

(3) In August 2003, we acquired 80.04% of common shares of Chohung Bank, a nationwide commercial bank in Korea. We subsequently acquired the remaining interest in Chohung Bank through a series of transactions and delisted Chohung Bank from the Korea Exchange in July 2004. We merged former Shinhan Bank and Chohung Bank in April 2006, with Chohung Bank becoming the legal surviving entity. The newly merged bank then changed its name to Shinhan Bank.

(4) In June 2002, the credit card division of Shinhan Bank was split off and established as our wholly-owned subsidiary, Shinhan Card Co., Ltd. In April 2006, concurrently with the merger of former Shinhan Bank and Chohung Bank, we also split off Chohung Bank s credit card business and merged it into the former Shinhan

Card. In March 2007, we acquired from the creditor committee and other shareholders of LG Card the controlling equity interest in LG Card following a public tender offer. After our further acquisition of shares in July 2007 following a second public tender offer and a share swap with our shares in September 2007, LG Card became our wholly-owned subsidiary. On October 1, 2007, LG Card assumed all of the assets and liabilities of former Shinhan Card, and changed its name to Shinhan Card. On the same date, former Shinhan Card changed its name to SHC Management Co., Ltd. and commenced its liquidation process on October 1, 2009.

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

In January 2009, Shinhan BNP Paribas Investment Trust Management Co., Ltd. and SH Asset Management, two our asset management subsidiaries, were merged, with Shinhan BNP Paribas Investment Trust Management Co., Ltd. Being the surviving legal entity and renamed as Shinhan BNP Paribas Asset Management Co., Ltd. Shinhan BNP Paribas Investment Trust Management was a 50:50 joint venture with BNP Paribas S.A., and SH Asset Management was our wholly-owned subsidiary. Following the merger, we and BNP Paribas own 65% and 35% equity interest in Shinhan BNP Paribas Asset Management, respectively.

In June 2009, we sold 3,290,002 common shares, or approximately 35%, of Cardif Life Insurance Company (formerly SH&C Life Insurance Co., Ltd.), a 50:50 joint venture with BNP Paribas Assurance (formerly known as Cardif S.A.), to BNP Paribas Assurance for ₩23 billion. Following this transaction, BNP Paribas Assurance owns approximately 85% equity interest in Cardif Life Insurance Company. In consideration of our extensive business partnership with BNP Paribas and Shinhan Bank s role in selling the bancassurance products, we transferred a 15% equity interest in Cardif Life Insurance Company to Shinhan Bank for ₩7.26 billion. Following this transaction, Cardif Life Insurance Company is no longer our subsidiary.

In September 2009, Shinhan Bank established Shinhan Bank Japan as its wholly-owned subsidiary to provide banking services in Japan, which were formerly provided at a branch level.

In October 2009, Shinhan Bank established Shinhan Vietnam Bank as its wholly-owned subsidiary to provide banking services in Vietnam, which were formerly provided at a branch level.

In December, 2009, Shinhan Capital made a capital contribution of ₩10 billion to form Petra PEF, a private equity fund specializing in equity investments, in which Shinhan Capital holds a 23.8% equity interest.

In January 2010, Shinhan Data System, an information technology service provider which was formerly a subsidiary of Shinhan Bank, became a direct subsidiary of Shinhan Financial Group in order to integrate and promote efficiency in information technology operations at the groupwide level.

On June 4, 2010, CHB Valuemeet 2001 First SPC, a special purpose company wholly owned by Shinhan Bank, was disaffiliated from Shinhan Financial Group. CHB Valuemeet 2001 First SPC was established by Shinhan Bank to securitize its impaired loan assets.

Rights Offering

On February 2, 2009, our board of directors decided to issue 78,000,000 new common shares, or approximately 19.7% of our then outstanding common shares, to our existing shareholders in order to, among others, enhance our capital position to prepare for potential contingencies that might result from the prevailing economic environment, notwithstanding that we and our subsidiaries had fully satisfied (as also is the case now) the capital adequacy ratios required under applicable laws and regulations and were not (as also is the case now) facing any significant liquidity constraints or financial distress. The subscription price per share was determined as ₩16,800 based on a pricing formula prescribed by the rules of the Financial Services Commission. On March 19, 2009, the offering was completed with substantially all of the rights shares subscribed by our existing shareholders, and following settlement on March 24, 2009, the newly issued shares were listed on the Korea Exchange on March 30, 2009. The aggregate proceeds from the rights offering was approximately ₩1,310,400,000,000 (prior to adjustments for underwriting commissions and other offering expenses). The rights offering resulted in a capital increase by approximately 16.4%. The proceeds from the rights offering were used to support our existing business operations and other general corporate purposes.

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ITEM 4.B. *Business Overview*

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

Our Principal Activities

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

- commercial banking services, consisting of:
  - retail banking services;
  - corporate banking services, primarily consisting of:
  - small- and medium-sized enterprises banking; and
  - large corporate banking;
  - treasury and securities investment;
  - other banking services, including trust account management services provided by Shinhan Bank;
- credit card services;
- securities brokerage services;
- insurance services, primarily consisting of:
  - life insurance services; and
  - bancassurance;
- asset management services, including brokerage and trading of various securities, related margin lending and deposit and trust services, and other asset management services; and
- other services, including leasing and equipment financing, investment trust management, regional banking, investment banking advisory and loan collection and credit reporting.

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

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

Deposit-Taking Activities

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

Demand deposits. Demand deposits do not accrue interest or accrue interest at a lower rate than time or savings deposits and allow the customer to deposit and withdraw funds at any time. If interest-bearing, demand deposits have interest accruing at a fixed or variable rate depending on the period and the amount of deposit. Demand deposits constituted approximately 7.8% and 7.3% of our total deposits as of December 31, 2008 and 2009, respectively. Our demand deposits paid average interest of 0.78% and 0.45% in 2008 and 2009, respectively.

Savings deposits. Savings deposits allow the customer to deposit and withdraw funds at any time and accrue interest at an adjustable interest rate, which is typically lower than the rate applicable to time or installment deposits. In 2009, the interest rate on savings deposits ranged from zero to 3.31%. Saving deposits constituted approximately 25.6% of our total deposits as of December 31, 2008 and paid average interest of 2.32% in 2008, and approximately 26.1% of our total deposits as of December 31, 2009 and paid average interest of 1.22% in 2009.

Certificates of deposit. Certificates of deposit typically have maturities from 30 days to five years. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market interest rates. Certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificates of deposit. Certificates of deposit constituted approximately 11.3% and 5.4% of our total deposits as of December 31, 2008 and 2009, respectively. Our certificates of deposit paid average interest of 5.94% and 5.48% in 2008 and 2009, respectively.

Other time deposits. Other time deposits generally require the customer to maintain a deposit for a fixed term during which the deposit accrues interest at a fixed rate or a variable rate based on certain financial indexes, including the Korea Composite Stock Price Index (KOSPI). If the deposit is withdrawn prior to the end of the fixed term, the customer is paid a lower interest rate than that originally offered. The term typically ranges from one month to five years. Other time deposits constituted approximately 55.1% and 61.1% of our total deposits as of December 31, 2008 and 2009, respectively, and paid average interest of 4.94% and 3.91% in 2008 and 2009, respectively.

Mutual installment deposits. Mutual installment deposits generally require the customer to make periodic deposits of a fixed amount over a fixed term (usually six months to five years) during which the deposit accrues interest at a fixed rate. If the deposit is withdrawn prior to the end of the fixed term, the customers are paid a lower interest rate than that originally offered. Mutual installment deposits constituted approximately 0.2% and 0.1% of our total deposits as of December 31, 2008 and 2009, respectively, and paid average interest of 3.78% and 3.70% in 2008 and 2009, respectively.

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

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

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

We offer a range of interest rates on our deposit products depending on the rate of return on our interest-earning assets, average funding costs and interest rates offered by other major commercial banks.

We also offer court deposit services for litigants in Korean courts, which involve providing effectively an escrow service for litigants involved in certain types of legal or other proceedings. Chohung Bank historically was a dominant provider of such services since 1958, and following the acquisition of Chohung Bank, we continue to hold a dominant market share in these services. Such deposits typically carry interest rates lower than the market rates

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(by approximately 1% per annum) and amounted to ₩5,167 billion, ₩5,100 billion and ₩5,706 billion as of December 31, 2007, 2008 and 2009, respectively.

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

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

Retail Banking Services

Overview

We provide retail banking services primarily through Shinhan Bank, and, to a significantly lesser extent, through Jeju Bank, a regional commercial bank. The retail loans, excluding credit card receivables, amounted to ₩63,329 billion as of December 31, 2009.

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

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

Retail Lending Activities

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

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

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

As of December 31, 2009, our mortgage and home-equity loans and other retail loans accounted for 63.2% and 36.8%, respectively, of our retail loans (excluding credit card loans).

For secured loans, including mortgage and home equity loans, our policy is to lend up to 40% to 60% of the appraisal value of the collateral, after taking into account the value of any lien or other security interest (other than petty claims) that is prior to our security interest. As of December 31, 2009, the loan-to-value ratio of mortgage and home equity loans, under Korean GAAP, of Shinhan Bank was approximately 46.3%. As of December 31, 2009, substantially all of our mortgage and home equity loans were secured by residential property.

Due to the rapid increase in mortgage and home equity loans in Korea, in 2005 and 2006, the Financial Services Commission implemented stringent regulations and guidelines that are designed to suppress the increase of loans secured by housing. These regulations include restrictions on banks maximum loan-to-value ratios, evaluation of the borrower s debt-to-income ratio, guidelines with respect to appraisal of collateral, internal control and credit approval policy requirements with regard to housing loans as well as provisions designed to discourage commercial banks or other financial institutions from instituting incentive-based marketing and promotion of housing loans. In addition to the existing regulations and guidelines, from the second half of 2005 to the first quarter of 2007, the Financial Services Commission implemented additional guidelines to reduce mortgage and home equity loans and stabilize the real estate market, including (i) restricting the number of extensions on loans secured by the borrower s apartment to one, (ii) reducing the maximum loan-to-value ratio for loans secured by the borrower s apartment in highly speculated areas, (iii) forbidding to extend mortgage or home equity loans to minors and (iv) lowering the minimum loan-to-value ratio to 40% in respect of loans by banks and insurance companies for the purpose of assisting the purchase of apartments located in highly speculated areas with a purchase price of less than ₩600 million. Following the onset of the new administration of President Lee Myung Bak, whose campaign platform included promises of market-oriented deregulation, and in response to the ongoing recession in the housing market, the Government has rolled back some of the restrictive regulatory initiatives, including raising the loan-to-value ratio to 60% except in three designated highly speculative areas. However, in the second half of 2009 amid concerns about the rising level of household debt, of which a substantial majority is secured by residential properties, the Government has expanded the application of the restrictive debt-to-income ratio and the loan-to-value ratio to all metropolitan areas.

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

	As of December 31,		
	2007	**2008**	**2009**
	(In billions of Won, except percentages)		
Retail loans(1)			
Mortgage and home-equity(2)	₩ 31,495	₩ 36,183	₩ 40,022
Other consumer(2)	25,475	25,026	23,307
Percentage of retail loans to total gross loans	37.5%	35.9%	37.4%

Notes:

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

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

Pricing

The interest rates on retail loans made by Shinhan Bank are either floating rates (which are periodically reset based on a base rate determined for three-month, six-month or twelve-month periods derived using an internal transfer price system, which reflects the cost of funding in the market, expenses related to lending and the profit margin) or fixed rates that reflect the cost of funding, expenses related to lending and the profit margin. Fixed rate loans currently have maturities of three years or less and offered only on a limited basis. For unsecured loans, we incorporate into the offered rates a margin based on, among other things, the borrower s credit score as determined during our loan approval process. For secured loans, the credit limit is based on the type of collateral, priority with respect to the collateral and the loan to value ratio. We can adjust the pricing of these loans to reflect the borrower s current and/or expected future contribution to our profitability. The applicable interest rate is determined at the time a loan is extended. If a loan is terminated prior to its maturity, the borrower is obligated to pay us an early termination fee of approximately 0.5% to 2.0% of the loan amount in addition to the accrued interest, depending on the timing, the nature of the credit and the amount.

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As of December 31, 2009, Shinhan Bank s three-month, six-month and twelve-month base rates were approximately 2.85%, 3.49% and 4.05%, respectively. As of December 31, 2009, Shinhan Bank s fixed rates for mortgage and home equity loans with a maturity of one year, two years and three years were 6.60%, 7.10% and 7.20%, respectively, and Shinhan Bank s fixed rates for other retail loans with a maturity of one year were from 9.00% to 13.50%, depending on the retail credit scores of its customers.

As of December 31, 2009, approximately 85.9% of Shinhan Bank s total retail loans were priced based on floating rates and approximately 14.1% were priced based on fixed rates. As of the same date, approximately 96.9% of Shinhan Bank s retail loans with maturity of more than one year were priced based on floating rates and approximately 3.1% were priced based on fixed rates.

Prior to February 2010, major commercial banks in Korea, including Shinhan Bank, principally used the certificate of deposit, or CD, rates set by Bank of Korea, in determining the base rate for secured housing loans, which represent the bulk of retail loans. However, amid concerns that the CD rates do not accurately represent the banks cost of capital as certificates of deposit constitute relatively a minor fraction of the banks assets and in light of the substantial variance in recent periods between the CD rates and the actual market rates, in February 2010 the Korean Federation of Banks began to publish the cost of funding index , or COFIX, which is computed based on the weighted average interest of select funding products (including time deposits, housing and other installment savings deposits, repos, discounted bills and senior non-convertible financial debentures) of nine major Korean banks (comprised of Kookmin Bank, Shinhan Bank, Woori Bank, Hana Bank, Korea Exchange Bank, NH Bank, Industrial Bank of Korea, Citibank Korea and Standard Chartered Korea First Bank). Each bank can then independently determine the interest rate applicable to the end customer by adding a spread to the COFIX based on the difference between the COFIX and such bank s general funding costs, administration fees, the customer s credit score, the maturity of the loan and other customer-specific premiums and discounts based on the customer relationship with such bank. In the case of floating rate notes, the end-user interest rates are adjusted on every three months, six months and 12 months, depending on the reset period of the base rate.

Private Banking

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

As of December 31, 2009, Shinhan Bank operated 19 private banking centers nationwide, including 15 in the greater Seoul metropolitan area, which serviced approximately 4,000 private banking customers. Our private banking customers are typically required to have ₩500 million in deposit with us to qualify for private banking services.

Corporate Banking Services

Overview

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

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

	As of December 31,								
	2007			2008			2009		
	(In billions of Won, except percentages)								
Small- and medium-sized enterprises loans(1)	₩	62,296	41.0%	₩	71,212	41.8%	₩	69,571	41.1%
Large corporate loans(2)		17,871	11.8%		23,483	13.7%		21,238	12.5%
Total corporate loans	₩	80,167	52.8%	₩	94,695	55.5%	₩	90,809	53.6%

Notes:

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

(2) Includes loans to government-controlled companies.

Small- and Medium-sized Enterprises Banking

Under the Basic Act on Small- and Medium-sized Enterprises and its Presidential Decree, small- and medium-sized enterprises are defined as companies which (i) do not have employees, sales, paid-in capital or assets exceeding the number or the amount, as the case may be, specified in the Presidential Decree in accordance with their types of businesses and (ii) do not belong to a conglomerate as defined in the Monopoly Regulations and Fair Trade Act. In order to qualify as a small- and medium-sized enterprise, none of its shareholders holding 30% or more of its total issued and outstanding voting shares can have (i) full-time employees of 1,000 or more and (ii) assets of ₩500 billion or more as of the end of the immediately preceding fiscal year. As of December 31, 2009, we made loans to 186,003 small- and medium-sized enterprises for an aggregate amount ₩69,571 billion.

Our small- and medium-sized enterprises banking business has traditionally been and is expected to remain one of our core businesses, subject to prevailing market conditions. For example, as a result of the adoption of restrictive regulatory measures in 2005 to 2007 designed to curb speculation in the housing market, lending to the small- and medium-sized enterprises was an area of intense competition among the commercial banks in Korea as opportunities to expand home and mortgage loans diminished. However, since the onset of the global financial crisis and economic downturns in Korea starting in the second half of 2008, we have sharply reduced new lending to the small- and medium-sized enterprises and are currently focusing on maintaining the asset quality of existing loans to these enterprises. Depending on the level and scope of economic recovery, we may seek to focus on asset growth on a selective basis.

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

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

operates a relationship management system to provide targeted and tailored customer service to small-and medium-sized enterprises. Shinhan Bank currently has relationship management teams in 142 corporate banking branches, of which 38 are corporate banking branches and 104 are hybrid banking branches designed to serve retail as well as small-business corporate customers. These relationship management teams market products and review and approve smaller loans that pose less credit risks; and

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

Large Corporate Banking

Large corporate customers consist primarily of member companies of *chaebols* and financial institutions. Our large corporate loans amounted to ₩21,238 billion as of December 31, 2009.

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

Electronic Corporate Banking

Shinhan Bank offers to corporate customers a web-based total cash management service through Shinhan Bizbank. Shinhan Bizbank supports all types of banking transactions from basic transaction history inquiries and fund transfers to opening letters of credit, trade finance, payment management, collection management, sales settlement service, acquisition settlement service, B2B settlement service, sweeping and pooling.

Corporate Lending Activities

Our principal corporate loan products are working capital loans and facilities loans. Working capital loans, which include discounted notes and trade financing, are generally loans used for general working capital purposes. Facilities loans are provided to finance the purchase of equipment and construction of manufacturing plants. As of December 31, 2009, working capital loans and facilities loans amounted to ₩45,960 billion and ₩14,754 billion, respectively, representing 75.7% and 24.3% of Shinhan Bank s total Won-denominated corporate loans under Korean GAAP. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three years in the case of unsecured loans and five years in the case of secured loans. Facilities loans, which are generally secured, have a maximum maturity of ten years.

Corporate loans may be unsecured or secured by real estate, deposits or guaranty certificates. As of December 31, 2009, under Korean GAAP, secured loans and guaranteed loans (including loans secured by guaranty certificates issued by credit guarantee insurance funds) accounted for 44.8% and 10.2%, respectively, of Shinhan Bank s Won-denominated loans to small- and medium-sized enterprises. Among total corporate loans, approximately 40% were secured by real estate.

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

Pricing

Shinhan Bank prices its corporate loan products based principally on the cost of funding and the expected loss rate based on the borrower s credit risk. As of December 31, 2009, 80.2% of Shinhan Bank s corporate loans with outstanding maturities of one year or more had variable interest rates.

Shinhan Bank determines the interest rate charged for its corporate loans as the sum of (i) Shinhan Bank s periodic market floating rate or reference rate, (ii) transaction cost, (iii) credit spread and (iv) risk premium, as adjusted by (v) a discretionary adjustment rate.

Depending on the market condition and the agreement with the borrower, Shinhan Bank may use either its periodic market floating rate or the reference rate as the base rate in calculating its pricing. As of December 31, 2009, Shinhan Bank s periodic market floating rates (which are based on a base rate determined for three-month, six-month, one-year, two-year, three-year or five-year periods derived using Shinhan Bank s market rate system) were 2.85% for three months, 3.49% for six months, 4.05% for one year, 4.85% for two years, 5.16% for three years and 5.70% for five years. As of the same date, Shinhan Bank s reference rate was 8.75%.

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

The credit spread is added to the periodic floating rate to reflect the expected loss based on the borrower s credit rating and the value of any collateral or payment guarantee. In addition, Shinhan Bank adds a risk premium that is measured by an unexpected loss that exceeds the expected loss from the credit rating assigned to a particular borrower.

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

Treasury and Securities Investment

Shinhan Bank engages in treasury and securities investment business, which involves, among other things, the following activities:

- treasury;
- securities investment and trading;
- derivatives trading; and
- international business.

Treasury

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

Securities Investment and Trading

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

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Derivatives Trading

Shinhan Bank provides and trades a range of derivatives products, including:

- interest rate swaps, options, and futures relating to Korean Won interest rate risks and LIBOR risks, respectively;
- cross-currency swaps largely for Korean Won against U.S. dollars, Japanese Yen and Euros;
- equity and equity-linked options;
- foreign currency forwards, swaps and options;
- commodity forwards, options and swaps;
- credit derivatives; and
- KOSPI 200 indexed equity options.

Shinhan Bank s trading volume in notional amount was ₩395,015 billion and ₩621,776 billion, in 2008 and 2009, respectively. Such derivative operations generally focus on addressing the needs of Shinhan Bank s corporate clients to hedge their risk exposure and back-to-back derivatives entered into to hedge Shinhan Bank s risk exposure that results from such client contracts.

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

International Business

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

Trust Account Management Services

Overview

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

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

Under the Banking Act of 1950, as amended, assets in trust accounts are required to be segregated from other assets of the trustee bank and are not available to satisfy the claims of the depositors or other creditors of such bank. Accordingly, trust accounts are accounted for and reported separately from the bank accounts. See Supervision and Regulation. Trust accounts are regulated by the Trust Act and the Financial Investment Services and Capital

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Markets Act, and most national commercial banks offer similar trust account products. Shinhan Bank earns income from trust account management services, which is recorded as net trust management fees. See Item 5.A. Operating Results Results of Operation 2009 Compared to 2008 Non-interest Income.

As of December 31, 2008 and 2009, under Korean GAAP, Shinhan Bank had total trust assets of ₩37,123 billion and ₩32,537 billion, respectively, comprised principally of real property investments of ₩9,942 billion and ₩10,030 billion, respectively, securities investments of ₩10,628 billion and ₩7,208 billion, respectively, and loans in the principal amount of ₩744 billion and ₩623 billion, respectively. Securities investments consisted of corporate bonds, government-related bonds and other securities, primarily commercial paper. As of December 31, 2007, 2008 and 2009, equity securities constituted 3.4%, 3.0% and 3.1%, respectively, of Shinhan Bank s total trust assets under Korean GAAP. Loans made by trust accounts are similar in type to those made by bank accounts, except that they are made only in Korean Won. As of December 31, 2007, 2008 and 2009, under Korean GAAP, approximately 60.4%, 64.4% and 61.6%, respectively, of the amount of loans from the trust accounts were collateralized or guaranteed. In making investment from funds received for each trust account, each trust product maintains investment guidelines applicable to each such product which sets forth, among other things, company-, industry- and security-type limitations.

Trust Products

Money trusts managed by Shinhan Bank s trust account business amounted to ₩12,822 billion and ₩9,905 billion as of December 31, 2008 and 2009, under Korean GAAP. In Korea, a money trust is a discretionary trust over which (except in the case of a specified money trust) we have investment discretion subject to applicable law and is commingled and managed jointly for each type of trust account. The specified money trusts are established on behalf of customers who give specific directions as to the investment of trust assets.

Shinhan Bank offers primarily two types of money trust accounts through its retail branch network: guaranteed fixed rate trusts and variable rate trusts.

variable rate trust accounts. Variable rate trust accounts are not entitled to a guaranteed return on the deposits, except in the limited cases of principal guaranteed variable rate trust accounts, for which payment of the principal amount is guaranteed. As of December 31, 2008 and 2009, under Korean GAAP, Shinhan Bank s variable rate trust accounts amounted to ₩9,311 billion and ₩6,425 billion, respectively, and its principal guaranteed variable rate trust accounts amounted to ₩3,510 billion and ₩3,479 billion, respectively. Shinhan Bank charges a lump sum or a fixed percentage of the assets held in such trusts as a management fee, and, depending on the trust products, is also entitled to additional fees in the event of early termination of the trusts by the customer. Korean banks, including Shinhan Bank, are currently allowed to guarantee the principal of the following types of variable rate trust account products: (i) existing individual pension trusts, (ii) new individual pension trusts, (iii) existing retirement pension trusts, (iv) new retirement pension trusts, (v) pension trusts and (vi) employee retirement benefit trusts.

guaranteed fixed rate trust accounts. Guaranteed fixed rate trust accounts are entitled to a guaranteed return of the principal as well as an additional fixed rate of return. Upon termination of these trusts, Shinhan Bank is entitled to investment returns from the management of these trusts, net of the guaranteed returns paid to customers and any related expenses. In the past, Korean commercial banks, including Shinhan Bank, offered two types of guaranteed fixed rate trust products: general unspecified money trusts and development money trusts. However, since January 1999, banks in Korea have been prohibited from offering new guaranteed fixed rate trust products, and the guaranteed fixed rate trust products currently serviced are carryovers from the past and have been dwindling in volume as the products mature. As of December 31, 2008 and 2009, the guaranteed fixed rate trust products maintained by Shinhan Bank amounted to ₩1.0 billion and ₩1.0 billion, respectively, under Korean GAAP. If income from a guaranteed fixed rate trust account is insufficient to pay the guaranteed amount, such deficiency must be satisfied from (i) first, special reserves maintained in such trust accounts, (ii) secondly, trust fees and (iii) lastly, funds transferred from the bank accounts of Shinhan Bank.

Credit Card Services

Overview

We currently provide credit card services through our credit card subsidiary, Shinhan Card.

Former Shinhan Card was originally formed as a result of the spin-off of Shinhan Bank s credit card business in June 2002. In April 2006, the credit card division of Chohung Bank was split and merged into former Shinhan Card concurrently with the merger of Chohung Bank and Shinhan Bank. Following such split-merger, former Shinhan Card had, as of April 3, 2006, ₩3.4 trillion (reported basis) or ₩3.8 trillion (managed basis) in assets, in each case, under Korean GAAP. Prior to the merger of former Shinhan Bank and Chohung Bank in April 2006, Chohung Bank had an active credit card business division. Chohung Bank was a member of BC Card Co., Ltd. (BC Card), which is owned by consortium banks. Shinhan Card currently holds 14.85% equity interest in BC Card. BC Card issues credit cards under the names of the member banks, substantially all of which are licensed to use MasterCard, Visa or JCB. This enables holders of BC Card to use their cards at any establishment which accepts MasterCard, Visa or JCB, as the case may be.

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

Products and Services

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

credit card services, which involve providing cardholders with limited credit to purchase products and services. Cardholders can repay either (i) on a lump-sum basis in full at the end of a monthly billing cycle or (ii) to a lesser extent, on a revolving basis subject to a minimum monthly payment which is the lesser of (x) 5.0% of the amount outstanding or (y) ₩30,000. Currently, the outstanding credit card balance generally accrues interest at an annual rate of approximately 9.8% to 26.9%, depending on the credit profile of the cardholder.

cash advances, for which cardholders can repay either on a lump-sum basis or a revolving basis. Currently, the lump-sum cash advances generally accrue interest at an annual rate of approximately 9.8% to 26.6% and the revolving cash advances generally accrue interest at a minimum rate of 5.0% of the outstanding balance. Cash advances may be obtained from ATM machines and bank branches.

installment purchases, which provides customers with an option to purchase products and services from select merchants on an equal principal installment basis over a fixed term, which ranges from three months to a maximum of 60 months. Currently, the outstanding installment purchase balances generally accrue interest at an annual rate of approximately 5.5% to 26.0%.

card loans, which may be unsecured, and which cardholders must repay on an equal principal installment basis over an initial fixed term of two to 24 months or in full at maturity. Currently, the outstanding principal amount of card loans accrue interest at an annual rate of approximately 7.6% to 25.8% and an upfront fee of up to 1.0% is charged on the principal amount of the loan. For delinquent cardholders, outstanding credit card receivables can also be restructured into loan, which are recorded as card loans and payment for which is made on an installment basis over a maximum term of 60 months.

Shinhan Card also derives fee income in the form of lump-sum fees, installment purchase fees and cash advance fees and, to a lesser extent, annual membership fees and penalty interest on late and deferred payments and fees paid by merchants. Shinhan Card passes onto its customers the transaction fees charged by financial institutions (other than Shinhan Bank) for cash advances made through ATMs of such financial institutions. Any accounts that are unpaid when due are deemed to be delinquent accounts, for which Shinhan Card charges a penalty interest in the range of 25.0% to 29.9% per annum in lieu of the interest rates applicable prior to default.

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The annual membership fees for credit cards vary depending on the type of the card and the benefits offered for such card. For our standard cards, we charge an annual membership fee ranging from ₩3,000 to ₩1,000,000 per card, depending on the type of the credit card and the cardholder profile. Annual membership fees for various affinity and co-branded cards are higher and vary from ₩5,000 to ₩500,000.

Merchant discount fees, which are processing fees Shinhan Card charges to the merchants, can be up to 4.5% of the purchased amount depending on the merchant used, with the average charge being 2.15% in 2009.

Although making payments on a revolving basis is quite common in many other countries, this payment method is still in its early stages of implementation in Korea. Cardholders in Korea are generally required to repay their purchases within approximately 15 to 45 days of purchase depending on their payment cycle, except in the case of installment purchases. Installment purchases typically have a repayment term of three to six months and charge different rates depending on the duration of the repayment term.

In addition to credit card services, Shinhan Card also offers check cards, which are similar to debit cards in the United States, to its retail customers as well as corporate customers. A check card can be used at any of the merchants that accept credit cards issued by Shinhan Card and the amount charged to a check card is directly debited from the cardholder s designated bank account. Although Shinhan Card does not charge annual membership fees on check cards, merchants are charged fees on the amount purchased using check cards at a rate similar to those used for credit card purchases.

Customers and Merchants

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

The following table sets forth the number of customers and merchants of Shinhan Card as of the dates indicated.

	As of December 31,		
	2007	**2008**	**2009**
	(In thousands, except percentages)		
Shinhan Card:			
Number of credit card holders(1)	13,425	13,718	14,435
Personal accounts	13,346	13,617	14,324
Corporate accounts	79	101	111
Active ratio(2)	69.7%	74.9%	73.7%
Number of merchants	2,154	2,268	2,425

Notes:

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

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

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Financial and Statistical Information

The following table sets forth certain financial and statistical information relating to the credit card, installment sales and leasing operations of Shinhan Card as of the dates or for the period indicated.

	As of or for the Year Ended December 31,		
	2007 Shinhan Card(1)	2008 Shinhan Card(1)	2009 Shinhan Card(1)
	(In billions of Won, except percentages)		
Interest income:			
Installments	₩ 260	₩ 326	₩ 311
Cash advances	547	639	524
Card loans(2)	488	548	506
Revolving	227	240	214
Late payments	8		
Total	₩ 1,530	₩ 1,753	₩ 1,555
Credit card fees:			
Merchant fees(3)	₩ 1,179	₩ 1,309	₩ 1,422
Other fees	2		
Total	₩ 1,181	₩ 1,309	₩ 1,422
Charge volume:(4)			
General purchases	₩ 45,912	₩ 45,624	₩ 51,784
Installment purchases	14,269	17,682	17,814
Cash advances	20,704	23,945	21,143
Total	₩ 80,885	₩ 87,251	₩ 90,741
Outstanding balance (at year end)(5):			
General purchases	₩ 3,018	₩ 3,046	₩ 3,636
Installment purchases	3,833	4,037	4,433
Cash advances	3,086	3,111	2,606
Revolving purchases	1,361	1,410	1,339
Card loans(2)	2,556	2,524	2,672
Others	791	470	391
Total	₩ 14,645	₩ 14,598	₩ 15,077
Average balance	₩ 12,106	₩ 14,458	₩ 13,585
Delinquent balances(6):			
From 1 day to 1 month	₩ 790	₩ 663	₩ 404
Over 1 month:			

From 1 month to 3 months	₩	244	₩	244	₩	113
From 3 months to 6 months		165		171		111
Over 6 months						
Sub-total		409		415		224
Total	₩	1,199	₩	1,078	₩	628

	As of or for the Year Ended December 31,		
	2007 Shinhan Card(1)	2008 Shinhan Card(1)	2009 Shinhan Card(1)
	(In billions of Won, except percentages)		
Delinquency ratios(7):			
From 1 day to 1 month	5.4%	4.5%	2.7%
Over 1 month:			
From 1 month to 3 months	1.7%	1.7%	0.7%
From 3 months to 6 months	1.1%	1.2%	0.7%
Over 6 months(8)			
Sub-total	2.8%	2.9%	1.5%
Total	8.2%	7.4%	4.2%
Rewritten loans(9)	₩ 350	₩ 220	₩ 194
Gross charge-offs	₩ 436	₩ 521	₩ 597
Recoveries	459	509	394
Net charge-offs	₩ (23)	₩ 12	₩ 203
Gross charge-off ratio(10)	3.60%	3.60%	4.39%
Net charge-off ratio(11)	(0.19)%	0.08%	1.49%
Non-performing loan ratio(12) :			
Reported	3.71%	2.91%	3.08%
Managed	2.98%	2.42%	2.53%
Asset securitization(13)	₩ 5,762	₩ 5,666	₩ 3,734
Ratio of total assets securitized to total managed assets	29.4%	29.4%	19.2%

Notes:

(1) The information of Shinhan Card for 2007 includes that of LG Card (renamed as Shinhan Card on October 1, 2007) for the period from March 1, 2007 through December 31, 2007 (including that for the assets and liabilities of former Shinhan Card assumed by LG Card on October 1, 2007) and that of former Shinhan Card for the period from January 1, 2007 through September 30, 2007, presented on an aggregated basis.

(2) Card loans consist of loans that are provided on either a secured or unsecured basis to cardholders according to prior agreement. Payment of principal, fees and interest on such a loan can be due either in one payment or in installments over a fixed period following a grace period.

(3) Merchant fees consist of merchant membership and maintenance fees, charges associated with prepayment by Shinhan Card (on behalf of customers) of sales proceeds to merchants, processing fees relating to sales and membership applications.

(4) Represents the aggregate cumulative amount charged during the year.

(5) Represents amounts before allowance for loan losses.

(6) Includes the unbilled balances of installment purchases.

(7) Represents the ratio of delinquent balances to outstanding balances for the year.

(8) The charge-off policy is generally to charge off credit card balances which are 180 days past due following internal review.

(9) Represents the delinquent credit card balances for credit card purchase and cash advances which are rewritten as credit card loans, thereby reducing the balance of delinquent accounts before the application of Accounting Standard Codification (ASC) 310-30, (formerly SOP 03-3) relating to the acquisition of LG Card, which reduced the outstanding balances by ₩322 billion, ₩165 billion and ₩84 billion as of December 31, 2007, 2008 and 2009, respectively.

(10) Represents the ratio of gross charge-offs for the year to the average balance for the year.

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(11) Represents the ratio of net charge-offs for the year to the average balances for the year.

(12) The reported information is presented on the Korean GAAP basis. The managed information includes, subject to certain adjustments, financial receivables that Shinhan Card has sold in asset-backed securitizations.

(13) Represents credit card balances that were transferred in asset securitization transactions as presented on the Korean GAAP basis. Under U.S. GAAP, most of these transfers are not recognized as sales but are recognized as secured borrowings.

Presentation of Managed Data for Shinhan Card s Asset Securitization transactions

Shinhan Card periodically securitizes and sells credit card receivables to diversify its funding sources. The effect of these transactions under Korean GAAP is to remove such receivables from Shinhan Card s balance sheet although Shinhan Card retains recourse liabilities for ineligible receivables and generally repurchases the securitized receivables upon their maturity. However, under U.S. GAAP, such securitization transactions can be accounted for as sales transactions and be removed from our balance sheet only if certain specific criteria are met. Most of the transactions do not meet those criteria, and thus the removal treatment performed under Korean GAAP is reversed and those receivables are included in our balance sheet. Shinhan Card continues to manage such securitized and sold receivables including billing and payment as well as record keeping, and receives service fees from the securitization vehicles for servicing such receivables. We believe that the disclosure of the credit experience of Shinhan Card s managed portfolio presents a more complete presentation of our credit exposure because the managed data reflects not only on-balance sheet receivables but also securitized assets as to which Shinhan Card retains a risk of loss in the underlying assets, primarily in the form of subordinated retained interests. In addition, because Shinhan Card tends to transfer to securitization vehicles assets which generally are in the higher asset qualification categories, the managed basis figures generally tend to exhibit higher net interest spreads and net interest margins and lower delinquency ratios. The managed financial information and operating data are not audited and are not presented or prepared in accordance with Korean GAAP or on the same basis as the audited financial information included in this offering circular. Managed financial data is derived from an arithmetic summation of Shinhan Card s on-balance sheet receivables together with receivables sold in off-balance sheet transactions subject to certain adjustments. As a result of these adjustments, managed financial data is not the simple sum of the reported accounts and Shinhan Card s off-balance sheet transactions. Accordingly, the financial information contained in the reported accounts and the managed financial data are not directly comparable and should not be so compared. While Shinhan Card prepares managed financial data based upon assumptions and methods it deems reasonable, the managed financial data do not accurately represent its financial condition or results of operations as if it had not conducted any ABS transactions and the managed operating data do not accurately reflect its results of operations.

Securities Brokerage Services

Overview

Through Shinhan Investment, we provide a wide range of financial investment services to our diversified customer base including corporations, institutional investors, governments and individuals. Financial investment services offered by Shinhan Investment range from securities brokerage to our retail and institutional customers, investment advice and financial planning services to our retail customers, as well as investment banking services such as underwriting and M&A advisory services to our institutional customers.

As of December 31, 2009, according to internal data, Shinhan Investment s annual market share of Korean equity brokerage market was 5.39% (consisting of 4.38% in the retail segment, 0.52% in the institutional segment and 0.49%

in the international segment) in terms of total brokerage volume, ranking fourth among securities firms in Korea, excluding discount brokers such as Mirae Asset Securities and Kiwoom Securities. As of the same date, according to internal data, Shinhan Investment held the largest annual market shares in the Kospi200 futures and options brokerage segments of 8.30% and 9.45%, respectively, in terms of total brokerage volume with respect to these products, which we believe will enable Shinhan Investment to further solidify its market position in its futures trading and brokerage services as it expands these services.

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

Products and Services

Shinhan Investment provides principally the following services:

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

institutional client services:

brokerage services. These services include brokerage of stocks, corporate bonds, futures and options provided to Shinhan Investment s institutional and international customers and sale of institutional financial products. These services are currently supported by a team of 62 research analysts that specialize in equity, bonds and derivatives research.

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

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

With respect to brokerage services, in the face of intense competition in the domestic brokerage industry, Shinhan Investment primarily focuses on strengthening profitability through service differentiation and efficient management of its distribution network rather than enlarging its market share indiscriminately through lowering fees and commissions. Shinhan Investment s service differentiation efforts include offerings its customers opportunities to purchase stocks in a wide range of countries (currently more than 20 countries), leveraging synergy opportunities afforded by affiliation with other Shinhan entities such as offering brokerage accounts maintained at Shinhan Bank and Shinhan Capital.

With respect to investment banking services, Shinhan Investment provides such services through four divisions consisting of equity capital markets, corporate finance, project finance and mergers and acquisitions, as well as two overseas service centers in Hong Kong and Shanghai

Insurance Services

Life Insurance

We provide life insurance products and services primarily through Shinhan Life Insurance. Shinhan Life Insurance provides its services through diversified distribution channels consisting of financial planners, telemarketers, agency marketers and bancassurance specialists. As of the end of fiscal years ended March 31, 2009 and March 31, 2010, under Korean GAAP, Shinhan Life Insurance had total assets of ₩8,816.8 billion and ₩10,437 billion and net profits of ₩134.2 billion and ₩190 billion, respectively. During its fiscal year 2009, among 22 life insurance companies in Korea, Shinhan Life Insurance ranked second in terms of net profit and sixth in terms of insurance premium received, principally due to increased sales of health insurance policies, stable asset portfolio management and prudent risk management. We expect the insurance premium received by Shinhan Life Insurance to increase as a result of growing demands for both investment and annuity products and potential synergy effects from cross-selling between Shinhan Life Insurance and our banking and other subsidiaries

Asset Management Services

In addition to personalized wealth management services provided as part of our private banking and securities brokerage services, we also provide asset management services through Shinhan BNP Paribas Asset Management, a joint venture with BNP Paribas Investment Partners, of which we and BNP Paribas Investment Partners hold 65:35 interests, respectively. Shinhan BNP Paribas Asset Management was formed on January 1, 2009 through the merger of Shinhan BNP Paribas Investment Trust Management, our 50:50 joint venture with BNP Paribas Investment Partners, and SH Asset Management, our wholly-owned subsidiary, in order to streamline our asset management services capabilities. Shinhan BNP Paribas Asset Management ranked third among asset managers in Korea in terms of assets under management as of December 31, 2009, and provides a wide range of investment products, including traditional equity/fixed income funds as well as alternative investment products, to retail and institutional clients. As a joint venture with BNP Paribas Investment Partners, we believe Shinhan BNP Paribas Asset Management has significantly benefited from BNP Paribas s global network of investment professionals and expertise in the asset management industry. On January 1, 2010, Shinhan BNP Paribas Asset Management had assets under management amounting to approximately ₩32.4 trillion. To a limited extent, Shinhan Investment also provide asset management services for discretionary accounts See Securities Brokerage Services.

We expect that competition will intensify in the asset management industry as a result of the Financial Investment Services and Capital Markets Act, which became effective in February 2009. Under this Act, a financial investment company , which formerly included securities companies, asset management companies, futures companies and other entities previously engaged in what is currently characterized as financial investment businesses, is now permitted to provide asset management services by obtaining new licenses under the new Act. For more information on the Act, see Supervision and Regulation Financial Investment Services and Capital Markets Act.

Other Services

Through our other subsidiaries, we also provide leasing and equipment financing, regional banking and investment banking and advisory services.

Leasing and Equipment Financing

We provide leasing and equipment financing services to our corporate customers mainly through Shinhan Capital. Established as a leasing company in 1991, Shinhan Capital provides customers with leasing, installment financing and new technology financing, equipment leasing, and corporate credit financing. Shinhan Capital s strength has traditionally been in leasing of ships, printing machines, automobiles and other specialty items, but also offers other leasing and financing services, such as corporate restructuring services for financially troubled companies and financing provided to real estate development projects and infrastructure investments, and following a business transfer from Shinhan Card in November 2007, corporate leasing and equipment financing.

Regional Banking Services

We provide regionally focused commercial banking services, primarily in Jeju Island of Korea, through a majority-owned banking subsidiary, Jeju Bank. Jeju Bank provides retail banking, corporate banking, treasury and trust account management services, and has a network of 40 branches as of December 31, 2009.

Investment Banking and Advisory Services

In addition to the investment banking services provided by Shinhan Bank and Shinhan Investment, we also provide a variety of investment banking and advisory services through Shinhan Macquarie Financial Advisory, a

51:49 joint venture with Macquarie Bank of Australia. The advisory services offered by Shinhan Macquarie Financial Advisory include project and infrastructure finance, capital and debt raisings, corporate finance advisory, structured finance, mergers and acquisitions, cross-border leasing and infrastructure and specialized fund management advisory services. Since its inception Shinhan Macquarie Financial Advisory has grown to become one of the leading infrastructure-related financial advisory companies in Korea.

Loan Collection and Credit Reporting

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

Our Distribution Network

We offer a wide range of financial services to retail and corporate customers through a variety of distribution networks and channels established by our subsidiaries. The following table presents the geographical distribution of our distribution network based on the branch offices and other distribution channels of our principal subsidiaries, as of December 31, 2009.

Distribution Channels in Korea

	Shinhan Bank	Jeju Bank	Shinhan Card(1)	Shinhan Investment Corp. Branches	Shinhan Life Insurance	Total
Seoul metropolitan	410	2	12	59	55	538
Kyunggi Province	195		12	18	18	243
Six major cities:	172	1	17	21	37	248
Incheon	57		3	3	12	75
Busan	41	1	4	7	11	64
Kwangju	13		3	3	4	23
Taegu	27		3	4	6	40
Ulsan	13		1	2	1	17
Taejon	21		3	3	3	30
Sub-total	777	3	41	98	110	1,029
Others	148	37	28	20	50	283
Total	925	40	69	118	160	1,312

Notes:

(1) Includes 12 card sales branches, 11 installment sales branches, 10 collection branches and 15 combined operating branches.

Banking Service Channels

Our banking services are primarily provided through an extensive branch network, complemented with self-service terminals and electronic banking.

As of December 30, 2009, Shinhan Bank s branch network in Korea currently comprised of 925 service centers, consisting of 783 retail banking service centers, 38 corporate banking service centers primarily designed to

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serve large corporate customers and 104 hybrid banking branches designed to serve retail as well as small-business corporate customers. Shinhan Bank s banking branches are designed to provide one-stop banking services tailored to their respective target customers.

Retail Banking Channels

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

Corporate Banking Channels

Shinhan Bank currently provides corporate banking services through corporate banking service centers primarily designed to serve large corporate customers and hybrid banking branches designed to serve retail as well as small-business corporate customers. Prior to 2009, Shinhan Bank maintained within certain of its retail banking branches corporate relationship management teams (which counted as separate corporate banking branches for classification purposes) in order to serve its small-and medium-sized enterprises customers though its extensive retail banking branch network. In 2009, Shinhan Bank undertook an organizational restructuring to convert such retail banking branches with corporate banking functionalities into hybrid banking branches with the aim that this will help it to better service the small business corporate customers. Small-and medium-sized enterprises have traditionally been Shinhan Bank s core corporate customers and we plan to continue to maintain Shinhan Bank s strength vis-à-vis these customers.

Self-Service Terminals

In order to complement its banking branch network, Shinhan Bank maintains an extensive network of automated banking machines, which are located in branches and in unmanned outlets. These automated banking machines consist of ATMs, cash dispensers and passbook printers. As of December 31, 2009, Shinhan Bank had 942 cash dispensers and 6,264 ATMs. Shinhan Bank actively promotes the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. In 2009, automated banking machine transactions accounted for approximately 27.8% and 53.2% of total deposit and withdrawal transactions of Shinhan Bank in terms of the number of transactions and fee revenue generated, respectively.

Electronic Banking

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

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Overseas Distribution Network

The table below sets forth Shinhan Bank s overseas banking subsidiaries and branches as of December 31, 2009.

Business Unit	Location	Year Established or Acquired
Subsidiaries		
Shinhan Asia Ltd.	Hong Kong SAR, China	1982
Shinhan Bank Europe GmbH	Germany	1994
Shinhan Bank America	New York, U.S.A.	2003
Shinhan Vina Bank	Vietnam	2000
Shinhan Bank (China) Limited	Beijing, China	2008
Shinhan Khmer Bank Limited	Cambodia	2007
Shinhan Bank Kazakhstan Limited	Kazakhstan	2008
Shinhan Bank Canada	Toronto, Canada	2009
Shinhan Bank Japan(1)	Tokyo, Japan	2009
Shinhan Bank Vietnam(2)	Ho Chi Minh City, Vietnam	2009
Branches		
New York	U.S.A.	1989
Singapore	Singapore	1990
London	United Kingdom	1991
Mumbai	India	1996
Hong Kong	China	2006
New Delhi	India	2006
Representative Office		
Mexico Representative Office	Mexico City, Mexico	2008
Uzbekistan Representative Office	Tashkent, Uzbekistan	2009

Notes:

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

(2) While Shinhan Bank established the subsidiary in Vietnam in 2009, Shinhan Bank provided banking services in Vietnam through a branch structure since 1995.

Currently, our overseas subsidiaries and branches are primarily engaged in servicing Korean companies and Korean nationals in the overseas markets in the areas of trade financing and local currency funding services as well as providing foreign exchange services in conjunction with Shinhan Bank s headquarters and , to a limited extent, investment and trading of securities of foreign issuers. Going forward, as part of our globalization efforts, we plan to expand our coverage of local customers in the overseas markets by providing a wider range of services in retail and corporate banking, and to that end, we have increasingly established subsidiaries in lieu of branches in select markets, Japan being among the recent examples, in order to make our presence more prominent and enable a greater flexibility in our service offerings in these markets.

Credit Card Distribution Channels

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

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The branch network for our credit card operations consists of 925 banking branches of Shinhan Bank and 27 card sales branches of Shinhan Card. The use of the established branch network of Shinhan Bank is part of the groupwide cross-selling efforts of selling credit card products to the existing banking customers. In 2009, the number of new cardholders acquired through our banking branch network accounted for approximately 18.2% of the total number of new cardholders. We believe that the banking branch network will continue to provide a stable and low-cost venue for acquiring high-quality credit cardholders.

The sales agents represented the most significant source of new cardholders in 2009, and the number of our new cardholders acquired through sales agents accounted for approximately 54.3% of the total number of new cardholders in 2009. As of December 31, 2009, Shinhan Card had 7,339 sales agents, of which 6,454 were independent contractors and 885 were sales agents of Shinhan Card s business partners and affiliates. These sales agents assist prospective customers with the application process and customer service. The compensation to these sales agents is tied to the transaction volume and repayment behavior of the customers introduced by them, and we believe this system helps to minimize credit risk and enhance profitability.

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

Securities Brokerage Distribution Channels

Our securities brokerage services are conducted principally through Shinhan Investment. As of December 31, 2009, Shinhan Investment had 118 service centers nationwide, and three overseas subsidiaries based in New York, London and Hong Kong to service our corporate customers.

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

Insurance Sales and Distribution Channels

We sell and provide our insurance services primarily through Shinhan Life Insurance. Shinhan Life Insurance, in addition to distributing bancassurance products through our bank branches, also distributes a wide range of life insurance products through its own branch network, an agency network of financial planners and telemarketers as well as through the Internet. As of December 31, 2009, Shinhan Life Insurance had 160 branches and seven customer support centers. These branches are staffed by financial planners, telemarketers, agent marketers and bancassurance to meet the various needs of our insurance and lending customers. Our groupwide customer support centers arrange for policy loans (namely loans secured by the cash surrender value of the underlying insurance policy) for our insurance customers and, to a limited extent, other loans to other customers, and also handle insurance payments.

Information Technology

We dedicate substantial resources to maintaining a sophisticated information technology system to support our operations management and provide high quality customer service. In order to maximize synergy among our subsidiaries, we are currently continuing to build and implement a single groupwide enterprise information technology system known as enterprise data warehouse . The enterprise data warehouse, which is being continuously upgraded, serves as the foundation to our enhanced customer relations management capabilities, our risk management system as well as our new data processing center currently under development. In addition, we are currently continuing to upgrade the information technology systems for each of our subsidiaries to enhance the quality of our customer service specific to such subsidiary. We have completed the implementation of improved systems for Shinhan Life Insurance in November 2008 and Shinhan Investment in August 2009, and completed the IT integration for LG Card and former Shinhan Card in August 2008. Since October 2009, we have operated our information and technology system at a groupwide level (rather than the previous subsidiary-specific level) based on a comprehensive groupwide information collection and processing.

Our current information technology initiatives also include installing a financial reporting system meeting the IFRS standards starting the fiscal year 2011 and building a groupwide security management system to further ensure secure financial transactions for our customers. Specifically, we are currently developing a groupwide security monitoring system in order to counter external cyber invasions such as DDoS attacks.

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

Competition

Competition in the Korean financial services industry is, and is likely to remain, intense. In the banking sector, Shinhan Bank competes principally with other major Korean commercial banks and major global banks operating in Korea, as well as Government-run banks, specialized banks and regional banks. In the credit card services factor, Shinhan Card competes principally with existing monoline credit card companies, credit card divisions of commercial banks, consumer finance companies, other financial institutions and recent even mobile telecommunications service providers in Korea. In other financial services sectors, our other subsidiaries also compete in a highly fragmented market. Some of our competitors, particularly the major global financial institutions, have greater experience and resources than we do.

In the small- and medium-sized enterprise and retail banking segments, which have been Shinhan Bank s traditional core businesses, competition has increased significantly and is expected to increase further. Most Korean banks have been focusing on small- and medium-sized enterprises and retail customers in recent years through aggressive marketing campaigns although they have begun to increase their exposure to large corporate borrowers and focus on developing fee income businesses, including bancassurance and investment products, as increasingly important sources of revenue. The competition and market saturation resulting from this common focus may make it more difficult for Shinhan Bank to secure retail and small- and medium-sized customers with the credit quality and on credit terms necessary to maintain or increase its income and profitability. In particular, Shinhan Bank has been pursuing, and intends to continue to pursue, a strategy of maintaining or enhancing its margins where possible and avoid, to the extent possible, entering into price competition. If other banks and financial institutions adopt a strategy of expanding market share through interest rate competition, Shinhan Bank may suffer customer attrition due to rate sensitivity. In addition, Shinhan Bank may in the future decide to compete to a greater extent based on interest rates, which could lead to a decrease in its net interest margins. Any future decline in Shinhan Bank s customer base or its net interest margins as a result of its future competition strategy could have an adverse effect on its results of operations and financial condition.

In the credit card sector, competition has been intensifying and the market has seen further signs of saturation as existing and new credit card service providers have made significant investments and engaged in aggressive marketing campaigns and promotions to acquire new customers and target customers with high credit quality. In addition, other credit card issuers may compete with Shinhan Card for customers by offering lower interest rates and fees, higher credit limits and more attractive promotions and incentives. As a result, Shinhan Card may existing customers, or may lose service opportunities, to competing credit card issuers and/or incur higher marketing expenses. Customer attrition, together with any lowering of interest rates or fees and/or more extensive marketing and promotional campaigns that Shinhan Card might implement to acquire and retain customers, could reduce its revenues and earnings.

Potential consolidation among our rival institutions may make the competitive landscape more adverse to us. For example, in June 2008, the Government announced its plans to privatize Korea Development Bank, one of the Government s key policy bank, and in January 2010, the Government announced its intent to sell its controlling stake in Woori Financial Group, one of the top three financial holding companies in Korea in terms of assets as of December 31, 2009 with a similarly ranked banking operation. If Woori Financial Group were to be acquired by a rival bank or financial holding company, the consolidated entity will have a greater scale of operations, including a larger customer base, and financial resources than us, which may hurt our ability to compete effectively. Moreover, Lone Star Funds is seeking to sell its controlling stake in Korea Exchange Bank, potentially to a major domestic or international financial institution, and there are market rumors related to a potential merger among our rival financial institutions. Any of these developments, if materialized, may place us at a competitive disadvantage.

Furthermore, as the Korean economy further develops and new business opportunities arise, more competitors may enter the financial services industry. For example, in 2009, SK Telecom acquired an equity interest in Hana Card and Korea Telecom has expressed an interest in acquiring an equity interest in BC Card and both SK Telecom and Korea Telecom have begun to actively provide mobile phone payment services using advanced mobile phone technology. As these two companies are the two largest telecommunications service providers in Korea serving a substantial majority of the Korean population, a widespread consumer acceptance of mobile phone payment services in lieu of credit card services could pose a serious competitive threat to the existing credit card service providers, including our credit card subsidiary.

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

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

Description of Assets and Liabilities

Unless otherwise specifically mentioned or the context otherwise requires, the following description of assets and liabilities is presented on a consolidated basis under U.S. GAAP.

Loans

As of December 31, 2009, our total gross loan portfolio was ₩169,255 billion, which represented a decrease of 0.75% from ₩170,541 billion at December 31, 2008. The decrease in the portfolio primarily reflects a 7.62% decrease in other commercial loans and 6.87% decrease in other consumers loans.

Loan Types

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

	As of December 31, (In billions of Won)				
	2005	2006	2007	2008	2009
Corporate					
Commercial and industrial(1)	₩ 35,728	₩ 40,063	₩ 48,485	₩ 55,466	₩ 54,479
Other commercial(2)	21,409	27,319	30,312	37,637	34,770
Lease financing	754	585	1,370	1,592	1,560
Total Corporate	57,891	67,967	80,167	94,695	90,809
Consumer					
Mortgages and home equity	25,840	30,097	31,495	36,183	40,022
Other consumer(3)	17,875	20,458	25,475	25,026	23,307
Credit cards	4,242	3,924	14,681	14,637	15,117
Total Consumer	47,957	54,479	71,651	75,846	78,446
Total loans(4)	₩ 105,848	₩ 122,446	₩ 151,818	₩ 170,541	₩ 169,255

Notes:

(1) Consists primarily of working capital loans, general purpose loans, bills purchased, trade-related notes and inter-bank loans.

(2) Consists primarily of privately placed bonds, credit facility drawdowns and purchases of commercial paper or notes at a discount from its customers with recourse.

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

(4) As of December 31, 2007, 2008 and 2009, approximately 90.6%, 90.4% and 94.4% of our total gross loans, respectively, were Won-denominated.

Loan Portfolio

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

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Twenty Largest Exposures by Borrower

As of December 31, 2009, our 20 largest exposures, consisting of loans, securities and guarantees and acceptances, totaled ₩40,211 billion and accounted for 16.1% of our total exposures. The following table sets forth our total exposures to these top 20 borrowers as of December 31, 2009.

	Loans in Won	Loans in Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposure	Impaired Loans and Guarantees and Acceptances
				(In billions of Won)			
Ministry of Strategy and Finance	₩	₩	₩	₩ 11,633	₩	₩ 11,633	₩
The Bank of Korea				5,498		5,498	
Korea Development Bank				2,771		2,771	
Korea Deposit Insurance Corporation				2,582		2,582	
Industrial Bank of Korea			2	1,805		1,807	
Hyundai Samho Heavy Industries Co., Ltd.	19	7			1,497	1,523	
Hyundai Heavy Industries Co., Ltd.	3	17	10	26	1,392	1,448	
Hana Bank				1,419		1,419	
POSCO			1.248	85		1,333	
Kookmin Bank				1,325		1,325	
National Agricultural Cooperative Federation				1,182		1,182	
Woori Bank				1,074		1,074	
Samsung Heavy Industries Co., Ltd.	100	10	1	1	935	1,047	
Hyundai Mipo Dockyard Co., Ltd.			2		1,002	1,004	
STX Offshore & Shipbuilding Co., Ltd.	20				895	915	
SH Corporation	780			86		866	
Songdo Cosmopolitan City Development Inc.	714					714	
Korea Electronic Power Co.			34	672		706	
Korea Land & Housing Co.				683		683	
Samsung Electronics Co. Ltd.		641	40			681	

Total	₩	1,636	₩	675	₩	1,337	₩	30,842	₩	5,721	₩	40,211	₩

Exposure to Main Debtor Groups

As of December 31, 2009, 9.1% of our total exposure was to the 43 main debtor groups, which are largely comprised of *chaebols*. The following table shows, as of December 31, 2009, our total exposures to the ten main debtor groups to which we have the largest exposure.

Main Debtor Groups	Loans in Won	Loans in Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposure	Amounts of Impaired Loans and Guarantees and Acceptances
				(In billions of Won)			
Hyundai Heavy Industries	₩ 22	₩ 24	₩ 10	₩ 27	₩ 3,891	₩ 3,974	₩
Samsung	695	747	237	463	1,279	3,421	
Hyundai Motors	522	708	482	49	339	2,100	
SK	509	58	127	254	672	1,620	
POSCO	69	20	85	1,248	133	1,555	
STX	137	27		32	942	1,138	
LG	152	361	117	18	166	814	
Lotte	260	6	325	19	88	698	
Hynix	38	274	1	139	64	516	
Doosan		160	48	8	268	484	
Total	₩ 2,404	₩ 2,385	₩ 1,432	₩ 2,257	₩ 7,842	₩ 16,320	₩

Loan Concentration by Industry

The following table shows the aggregate balance of our corporate loans by industry concentration as of December 31, 2009.

Industry	Aggregate Loan Balance (In billions of Won)	Percentage of Total Corporate Loan Balance (Percentages)
Manufacturing	₩ 29,820	32.84%
Retail and wholesale	11,634	12.81
Real estate, leasing and service	18,530	20.41
Construction	6,675	7.35
Hotel and leisure(1)	3,283	3.61
Finance and insurance	5,202	5.73

Transportation, storage and communication		5,675	6.25
Other service		9,221	10.15
Other		769	0.85
Total	₩	90,809	100.00%

Note:

(1) Consists principally of hotels, motels and restaurants.

Loan Concentration by Size of Loans

The following table shows the aggregate balances of our loans by outstanding loan amount as of December 31, 2009.

		Aggregate Loan Balance (In billions of Won)	Percentage of Total Loan Balance (Percentages)
Commercial and industrial			
Up to ₩10 million	₩	64	0.04%
Over ₩10 million to ₩50 million		1,625	0.96
Over ₩50 million to ₩100 million		2,458	1.45
Over ₩100 million to ₩500 million		12,111	7.16
Over ₩500 million to ₩1 billion		6,634	3.92
Over ₩1 billion to ₩5 billion		14,887	8.80
Over ₩5 billion to ₩10 billion		5,425	3.21
Over ₩10 billion to ₩50 billion		8,525	5.04
Over ₩50 billion to ₩100 billion		1,751	1.03
Over ₩100 billion		999	0.59
Sub-total	₩	54,479	32.20%
Other commercial			
Up to ₩10 million	₩	123	0.07%
Over ₩10 million to ₩50 million		1,007	0.59
Over ₩50 million to ₩100 million		860	0.51
Over ₩100 million to ₩500 million		3,611	2.13
Over ₩500 million to ₩1 billion		1,994	1.18
Over ₩1 billion to ₩5 billion		5,492	3.24
Over ₩5 billion to ₩10 billion		3,614	2.14
Over ₩10 billion to ₩50 billion		12,557	7.42
Over ₩50 billion to ₩100 billion		922	0.54
Over ₩100 billion		4,590	2.71
Sub-total	₩	34,770	20.53%
Lease financing			
Up to ₩10 million	₩	7	0.00%
Over ₩10 million to ₩50 million		368	0.22
Over ₩50 million to ₩100 million		226	0.13
Over ₩100 million to ₩500 million		122	0.07
Over ₩500 million to ₩1 billion		10	0.01
Over ₩1 billion to ₩5 billion		55	0.03
Over ₩5 billion to ₩10 billion		84	0.05
Over ₩10 billion to ₩50 billion		541	0.32
Over ₩50 billion to ₩100 billion		147	0.09

Over ₩100 billion		0	0.00
Sub-total	₩	1,560	0.92%

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	Aggregate Loan Balance (In billions of Won)	Percentage of Total Loan Balance (Percentages)
Mortgage and home equity		
Up to ₩10 million	₩ 365	0.22%
Over ₩10 million to ₩50 million	6,617	3.91
Over ₩50 million to ₩100 million	9,248	5.46
Over ₩100 million to ₩500 million	22,106	13.05
Over ₩500 million to ₩1 billion	1,481	0.88
Over ₩1 billion to ₩5 billion	205	0.12
Over ₩5 billion to ₩10 billion	0	0.00
Over ₩10 billion to ₩50 billion	0	0.00
Over ₩50 billion to ₩100 billion	0	0.00
Over ₩100 billion	0	0.00
Sub-total	₩ 40,022	23.64%
Other consumer		
Up to ₩10 million	₩ 4,184	2.47%
Over ₩10 million to ₩50 million	7,424	4.39
Over ₩50 million to ₩100 million	2,905	1.72
Over ₩100 million to ₩500 million	7,139	4.22
Over ₩500 million to ₩1 billion	893	0.53
Over ₩1 billion to ₩5 billion	659	0.39
Over ₩5 billion to ₩10 billion	53	0.03
Over ₩10 billion to ₩50 billion	50	0.03
Over ₩50 billion	0	0.00
Over ₩100 billion	0	0.00
Sub-total	₩ 23,307	13.78%
Credit cards(1)		
Up to ₩10 million	₩ 13,515	7.98%
Over ₩10 million to ₩50 million	1,031	0.61
Over ₩50 million to ₩100 million	40	0.02
Over ₩100 million to ₩500 million	51	0.03
Over ₩500 million to ₩1 billion	10	0.01
Over ₩1 billion to ₩5 billion	27	0.02
Over ₩5 billion to ₩10 billion	15	0.01
Over ₩10 billion to ₩50 billion	41	0.02
Over ₩50 billion to ₩100 billion	387	0.23
Over ₩100 billion	0	0.00
Sub-total	15,117	8.93
Total	₩ 169,255	100.00%

Note:

(1) Includes corporate credit card purchases.

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Maturity Analysis

The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of December 31, 2009. The amounts disclosed are before deduction of attributable loan loss reserves.

	As of December 31, 2009			
	1 Year or Less	Over 1 Year but Not More Than 5 Years	Over 5 Years	Total
	(In billions of Won)			
Corporate:				
Commercial and industrial	₩ 47,212	₩ 6,194	₩ 1,073	₩ 54,479
Other commercial	21,215	8,622	4,933	34,770
Lease financing	366	1,116	78	1,560
Total corporate	₩ 68,793	₩ 15,932	₩ 6,084	₩ 90,809
Consumer:				
Mortgage and home equity	₩ 8,393	₩ 7,627	₩ 24,002	₩ 40,022
Other consumer	19,087	3,057	1,163	23,307
Credit cards	13,264	1,294	559	15,117
Total consumer	₩ 40,744	₩ 11,978	₩ 25,724	₩ 78,446
Total domestic loans	₩ 109,537	₩ 27,910	₩ 31,808	₩ 169,255

We may roll over our working capital loans and retail loans (which are not payable in installments) after we conduct our normal loan reviews in accordance with our loan review procedures. Working capital loans may be extended on an annual basis for an aggregate term of three years for unsecured loans and five years for secured loans and retail loans may be extended for additional terms of up to 12 months for an aggregate term of ten years for unsecured loans and secured loans.

Interest Rate Sensitivity

The following table shows our loans by interest rate sensitivity as of December 31, 2009.

	As of December 31, 2009		
	Due Within 1 Year	Due After 1 Year	Total
	(In billions of Won)		
Fixed rate loans(1)	₩ 40,611	₩ 10,898	₩ 51,509
Variable rate loans(2)	67,836	49,910	117,746

Total gross loans	₩ 108,447	₩ 60,808	₩ 169,255

Notes:

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

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

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

Nonaccrual Loans and Past Due Accruing Loans

Except in the case of repurchased loans, we generally do not recognize interest income on nonaccrual loans unless it is collected. Generally, we discontinue accruing of interest on loans (other than repurchased loans) when payment of interest and/or principal becomes past due by one day. Interest is recognized on these loans on a cash basis from the date the loan is reclassified as non-accruing. Loans (other than repurchased loans) are not reclassified as accruing until interest and principal payments are brought current.

We generally do not request borrowers to make immediate repayment of the whole outstanding principal balances and related accrued interest on nonaccrual loans whose interest payments are past due for one to 14 days in case of commercial loans and 1 to 30 days in case of retail loans. Except where specified otherwise, the amount of such past due loans within the grace period is excluded from the amount of non-accrual loans disclosed in this annual report and from calculation of related foregone interest.

Interest foregone is the interest due on nonaccrual loans that has not been accrued in our books of account. In 2005, 2006, 2007, 2008 and 2009, we would have recorded gross interest income of ₩186 billion, ₩140 billion, ₩155 billion, ₩202 billion and ₩151 billion, respectively, on loans accounted for on a nonaccrual basis throughout the respective years, or since origination for loans held for part of the year, had the loans been current with respect to their original contractual terms. The amount of interest income on those loans that was included in our net income in 2005, 2006, 2007, 2008 and 2009 were ₩117 billion, ₩107 billion, ₩77 billion, ₩109 billion and ₩90 billion, respectively.

The category accruing but past due one day includes loans which are still accruing interest but on which principal or interest payments are contractually past due one day or more. We continue to accrue interest on loans where the total amount of loan outstanding, including accrued interest, is fully secured by cash on deposits.

The following table shows, at the dates indicated, the amount of loans that are placed on a nonaccrual basis and accruing loans which are past due one day or more.

	As of December 31,				
	2005	**2006(1)**	**2007(1)**	**2008(1)**	**2009(1)**
	(In billions of Won)				
Loans accounted for on a nonaccrual basis					
Corporate	₩ 1,475	₩ 1,187	₩ 1,181	₩ 1,457	₩ 1,231
Consumer	367	241	174	148	187
Credit cards	210	226	409	416	224
Sub-total	2,052	1,654	1,764	2,021	1,642
Accruing loans which are contractually past due one day or more as to principal or interest					
Corporate(2)	32	56	98	122	65
Consumer(3)	32	55	67	46	24
Credit cards	3				
Sub-total	67	111	165	168	89
Total	₩ 2,119	₩ 1,765	₩ 1,929	₩ 2,189	₩ 1,731

Notes:

(1) Excludes past due loans within the grace period in the amount of ₩334 billion, ₩1,128 billion, ₩1,119 billion and ₩823 billion as of December 31, 2006, 2007, 2008 and 2009 respectively.

(2) Includes accruing loans which are contractually past due 90 days or more in the amount of ₩5 billion, ₩5 billion, ₩2 billion, ₩10 billion and ₩8 billion that are corporate loans as of December 31, 2005, 2006, 2007, 2008 and 2009, respectively.

(3) Includes accruing loans which are contractually past due 90 days or more in the amount of ₩7 billion, ₩23 billion, ₩27 billion, ₩13 billion and ₩8 billion that are consumer loans as of December 31, 2005, 2006, 2007, 2008 and 2009, respectively.

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Troubled Debt Restructurings

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

	As of December 31,				
	2005	2006	2007	2008	2009
	(In billions of Won)				
Loans classified as troubled debt restructurings (excluding nonaccrual and past due loans)	₩ 735	₩ 111	₩ 124	₩ 557	₩ 932

For the year ended December 31, 2005, 2006, 2007, 2008 and 2009, interest income that would have been recorded under the original contract terms of restructured loans amounted to ₩26 billion, ₩5 billion, ₩5 billion, ₩21 billion and ₩34 billion, respectively, out of which ₩22 billion, ₩4 billion, ₩2 billion, ₩18 billion and ₩22 billion was reflected as our interest income, respectively.

Credit Exposures to Companies in Workout, Court Receivership or Composition

Our credit exposures to restructuring are managed and collected by our Corporate Credit Collection Department. As of December 31, 2009, 0.65% of our total loans, or ₩1,097 billion, was under restructuring. Restructuring of our credit exposures principally takes the legal form of workout, court receivership or composition.

Workout

Under the Corporate Restructuring Promotion Act, which became reinstated in August 2007 to remain effective until December 31, 2010, all creditors to borrowers that are financial institutions are required to participate in a creditors committee. The Corporate Restructuring Promotion Act is mandatorily applicable to a wide range of financial institutions in Korea, which include commercial banks, insurance companies, asset management companies, securities companies, merchant banks, the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation. Under this act, the approval of financial institution creditors holding not less than 75% of the total debt outstanding of a borrower is required for such borrower s restructuring plan, including debt restructuring and provision of additional funds, which plan is binding on all the financial institution creditors of the borrower, provided that any financial institution creditor that disagrees with the final restructuring plan approved by the creditors committee has the right to request the creditors committee to purchase its claims at a mutually agreed price. In the event that the creditors committee and the dissenting financial institution creditor fail to come to an agreement, a mediation committee consisting of seven experts is set up to resolve the matter. There is a risk that these procedures may require us to participate in a plan we do not agree with or may require us to sell our claims at prices that we do not believe are adequate. With respect to any workout for which the lead creditor bank calls for a meeting of the creditors committee while the old Corporate Restructuring Promotion Act was still effective, the procedures applicable to such creditors committee and the related workout remain subject to the Corporate Restructuring Promotion Act until the suspension or conclusion of such workout, provided that such workout becomes subject to the procedures under the reinstated Corporate Restructuring Promotion Act as of its effective date, as opposed to the old Corporate Restructuring Promotion Act, even if such workout began while the old law was in effect. Under the reinstated Corporate

Restructuring Promotion Act, if any of our borrowers becomes subject to corporate restructuring procedures, we may be forced to (i) restructure our credits pursuant to restructuring plans approved by other creditor financial institutions holding 75% or more of the total outstanding debt (and 75% or more of the total outstanding secured debt, if the restructuring plan includes the restructuring of existing secured debt) of the borrower or (ii) dispose of our credits to other creditors on unfavorable terms. This law will remain effective until December 31, 2010.

The total loan amount currently undergoing workout as of December 31, 2009 was ₩866 billion.

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Court Receivership and Composition

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

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

The total loan amount currently subject to court receivership as of December 31, 2009 was ₩0.4 billion.

The total amount currently subject to composition proceedings as of December 31, 2009 was ₩11 billion.

Loans in the process of workout, court receivership or composition are reported as loans on our balance sheet and are included as nonaccrual loans described in Nonaccrual Loans and Past Due Accruing Loans above since they are generally past due more than one day and interest generally does not accrue on such loans. Restructured loans that meet the U.S. GAAP definition of a troubled debt restructuring are included within Troubled Debt Restructurings described above. These are disclosed as loans or securities after the restructuring on our balance sheet depending on the type of instrument we receive.

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

In light of the rapid increase in delinquencies in credit card and other consumer credit in recent years, and concerns regarding potential social issues posed by the growing number of individuals with bad credit, the Korean government has implemented a number of measures intended to support the rehabilitation of the credit of delinquent consumer borrowers. These measures may affect the amount and timing of our collections and recoveries on our delinquent consumer credits.

In 2002, the Financial Services Commission established the Credit Counseling and Recovery Service based upon an agreement among approximately 160 financial institutions in Korea. Upon application to the Credit Counseling and Recovery Service and approval of a majority of unsecured and two-thirds of secured creditor financial institutions, a qualified credit delinquent person with outstanding debts to two or more financial institutions in an aggregate amount not exceeding ₩500 million may participate in an individual work-out program designed to restructure such person s debt and rehabilitate such person s credit.

On April 1, 2006, the Law Concerning Credit Restoration and Bankruptcy took effect and replaced the Individual Debtor Rehabilitation Law. Under the Law Concerning Credit Restoration and Bankruptcy, a qualified individual debtor with outstanding debts in an aggregate amount not exceeding threshold amounts of ₩500 million of unsecured debt and/or ₩1 billion of secured debt may restructure his or her debts through a court-supervised debt restructuring that is binding on creditors.

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On September 2, 2008, to support consumer borrowers with low credit scores, the Financial Services Commission established the Credit Rehabilitation Fund to purchase from creditors the loans of such borrowers that are in default and to provide guarantees so that such loans may be refinanced at lower rates. The Credit Rehabilitation Fund provides support to (i) individuals with low credit scores who are in default on loans not exceeding ₩30 million in principal amount in the aggregate (which requirement will be waived for individuals who are basic living welfare recipients) for a period of three months or more and (ii) individuals with low credit scores ranging from category 7 to 10 who are in default on loans not exceeding ₩30 million in principal amount in the aggregate (which requirement will be waived for individuals who are basic living welfare recipients) and the interest rate of which is 20% or more.

In October 2008, the Financial Supervisory Service requested Korean banks, including us, to establish a fast track program to provide liquidity assistance to small- and medium-sized enterprises on an expedited basis. Under the fast track program we established, which is effective through June 30, 2009, we provide liquidity assistance to small- and medium-sized enterprise borrowers applying for such assistance, in the form of new short-term loans or maturity extensions or interest rate adjustments with respect to existing loans, after expedited credit review and approval by us.

In March 2009, the Financial Services Commission requested Korean banks, including us, to establish a pre-workout program, including a credit counseling and recovery service, for retail borrowers with short-term outstanding debt. The pre-workout program is expected to be in operation from April 2009 to April 2011. Under the pre-workout program, maturity extensions and/or interest rate adjustments are provided for retail borrowers with total loans of less than ₩500 million who are in arrears on their payments for more than 30 days but less than 90 days.

Potential Problem Loans

As of December 31, 2009, we had ₩332 billion of loans rated as normal or precautious under the guidelines of the Financial Services Commission, which represent loans that are current as to payment of principal and interest but carry serious doubt as to the ability of the borrower to repay in the near future. These loans are classified as impaired and included in the calculation of loan loss allowance under U.S. GAAP.

We have certain other interest-earning assets which, if they are loans, are required to be disclosed as part of the nonaccrual, past due or troubled debt restructuring or potential problem loans as discussed above. As of December 31, 2009, the book value of such interest-earning assets on which interest was past due was ₩28.6 billion.

Provisioning Policy

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

Our loan loss allowance determined under U.S. GAAP consists of a specific allowance and a general allowance. The specific allowance is applied to corporate loans that are considered to be impaired and are either individually or collectively evaluated for impairment. The general allowance is applied to all other loans to reflect losses that have been incurred but not specifically identified.

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Loan Classifications

For Korean GAAP and regulatory reporting purposes, we base our provisioning on the following loan classifications that classify corporate and retail loans as required by the Financial Services Commission.

Loan Classification	Loan Characteristics
Normal	Loans made to customers whose financial position, future cash flows and nature of business are deemed financially sound. No problems in recoverability are expected.
Precautionary	Loans made to customers whose financial position, future cash flows and nature of business show potential weakness, although there is no immediate risk of nonrepayment.
Substandard	Loans made to customers whose adverse financial position, future cash flows and nature of business have a direct effect on the repayment of the loan.
Doubtful	Loans made to customers whose financial position, future cash flows and nature of business are so weak that significant risk exists in the recoverability of the loan, to the extent the outstanding amount exceeds any collateral pledged.
Estimated loss	Loans where write-off is unavoidable.

Corporate Loans

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

Under U.S. GAAP, a loan is impaired when, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the agreement. We use our loan classifications for identifying impaired loans. We consider the following loans to be impaired for the purpose of determining our specific allowance:

- loans classified as substandard or below according to the asset classification guidelines of the Financial Services Commission;

- loans that are more than 90 days past due; and

- loans which are troubled debt restructurings as defined under U.S. GAAP.

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

Loans individually identified for review and considered impaired

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

Alternatively, for impaired loans that are considered collateral dependent, the amount of impairment is determined by reference to the fair value of the collateral which is based on the present value of the appraisal value as indicated in third party valuation reports. We consider the reliability and timing of appraisals and determine the reasonableness of fair value estimates, taking into account the time to value the collateral, the cost incurred in selling the collateral and current market conditions. After the fair value of collateral is determined, an impairment charge is established as specific loan loss allowances for an amount equal to the excess of the carrying amount of the subject loan over the fair value of the collateral.

For more details regarding determination of the fair value of collateral for collateral dependent loans, see Item 5.A. Operating Results Critical Accounting Policies and Note 28 to our consolidated financial statements.

We may also measure impairment by reference to the loan s observable market price, however the availability of this information is not commonplace in Korea.

We establish a specific allowance when the discounted cash flow (or collateral value) of the loan is lower than its carrying amount. The specific allowance is equal to the difference between the discounted cash flow (or collateral value) amount of the loan and its carrying amount.

Loans collectively evaluated for impairment

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

We identify loss factors through a migration model, which uses a statistical tool to monitor the progression of loans through different classifications over a specific time period. We adjust these loss factors based on other qualitative or quantitative factors that affect the collectability of the portfolio as of the evaluation date, including:

- prevailing economic and business conditions within Korea and foreign jurisdictions in which we operate;
- industry concentrations;
- changes in the size and composition of the relevant underlying portfolios; and
- changes in lending policies and procedures, including underwriting standards and collection, charge-offs and recovery practices.

The following table sets out, as of the dates indicated, our loan loss allowances as a percentage of outstanding loans allocable to our corporate borrowers based on their loan classification.

	As of December 31,		
	2007	2008	2009
	(Percentages)		
Normal	1.94%	0.77%	0.82%
Precautionary	31.36	11.66	8.78
Substandard	37.28	23.27	39.49
Doubtful	83.78	81.97	86.47
Estimated loss	88.81	89.19	86.55

Loans not specifically identified as impaired

We establish a general allowance for non-impaired corporate loans to reflect losses incurred within the portfolio which have not yet been specifically identified as impaired. The general allowance is also determined based on loss factors developed through a migration model and are adjusted as appropriate using similar criteria as above.

Leases

For leases, we follow a similar approach to that used for corporate loans that are collectively evaluated for impairment and establish allowances based on loss factors developed through a migration model as adjusted for specific circumstances related to individual borrowers of the leased assets.

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Retail Loans

Retail loans are segmented into the following product types for the purposes of credit risk evaluation:

- mortgage and home equity loans; and
- other retail loans (consisting of unsecured and secured retail loans).

For loan losses on mortgages, home equity loans and other retail loans, we also establish allowances based on loss factors taking into consideration the historical performance of the portfolio, previous loan loss history and charge-off information.

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

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

Credit cards

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

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

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

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

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

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

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

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

For card accounts with balances that are more than 180 days past due, we charge off the past due amounts on a quarterly basis in accordance with the guidelines, or subject to the approval, of the Financial Supervisory Service.

Following the implementation of a policy by the Korean Fair Trade Commission effective April 2008 that prohibited a unilateral lowering by the credit card company of the credit card limit of a cardholder except in the case of an impairment in the cardholder s ability to repay, we established additional allowance for unfunded credit card commitments with respect to the unused credit card limit as we no longer control the unfunded credit card commitments.

We also began to apply, with respect to the off-balance sheet unused credit card limits, the same methodology used in calculating probabilities of default (PDs) with respect to credit card receivables, considering the current unstable financial market conditions as well as increased gross charge offs in the fiscal year 2009 compared to the fiscal year 2008. Previously, we applied a lower set of PDs to off-balance sheet unused credit limits than to credit card receivables.

Loan Aging Schedule

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

As of December 31,	Current Amount	%	Past Due Up to 3 Months Amount	%	Past Due 3-6 Months Amount	%	Past Due More Than 6 Months Amount	%	Total Amount
	(In billions of Won, except percentages)								
2005	103,601	97.87	652	0.62	243	0.23	1,352	1.28	105,848
2006	120,222	98.18	971	0.79	172	0.14	1,081	0.89	122,446
2007	148,597	97.88	1,899	1.25	315	0.21	1,007	0.66	151,818
2008	167,064	97.96	2,120	1.24	420	0.25	937	0.55	170,541
2009	166,620	98.44	1,220	0.72	245	0.14	1,170	0.70	169,255

Non-Performing Loans

Non-performing loans are defined as loans past due by more than 90 days. These loans are generally rated substandard or below under the guidelines of the Financial Supervisory Service. The following table shows, as of the dates indicated, the amount of the total non-performing loan portfolio and as a percentage of our total loans.

	As of December 31,				
	2005	2006	2007	2008	2009

	(In billions of Won, except percentages)				
Total non-performing loans	₩ 1,594	₩ 1,253	₩ 1,322	₩ 1,357	₩ 1,415
As a percentage of total loans	1.51%	1.02%	0.87%	0.80%	0.84%

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Analysis of Non-Performing Loans

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

As of December 31,										
5		2006			2007			2008		
on- rming ans	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans
(In billions of Won, except percentages)										
868	2.43%	₩ 40,063	₩ 760	1.90%	₩ 48,485	₩ 748	1.54%	₩ 55,466	₩ 755	1.36%
387	1.81	27,319	256	0.94	30,312	272	0.90	37,637	332	0.88
8	1.06	585	8	1.37	1,370	7	0.51	1,592	5	0.31
1,263	2.18	67,967	1.024	1.51	80,167	1,027	1.28	94,695	1,092	1.15
111	0.43	30,097	68	0.23	31,495	45	0.14	36,183	40	0.11
172	0.96	20,458	119	0.58	25,475	85	0.33	25,026	54	0.22
48	1.13	3,924	42	1.07	14,681	165	1.12	14,637	171	1.17
331	0.69	54,479	229	0.42	71,651	295	0.41	75,846	265	0.35
1,594	1.51%	₩ 122,446	₩ 1,253	1.02%	₩ 151,818	₩ 1,322	0.87%	₩ 170,541	₩ 1,357	0.80%

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Top 20 Non-Performing Loans

As of December 31, 2009, our 20 largest non-performing loans accounted for 18% of our total non-performing loan portfolio. The following table shows, at the date indicated, certain information regarding our 20 largest non-performing loans.

		(A) As of December 31, 2009		
		Industry	**Gross Principal Outstanding**	**Allowance for Loan Losses**
			(In billions of Won)	
1	Borrower A	Manufacturing	₩ 48	₩ 39
2	Borrower B	Manufacturing	24	11
3	Borrower C	Manufacturing	23	19
4	Borrower D	Other service	18	9
5	Borrower E	Manufacturing	18	9
6	Borrower F	Construction	13	6
7	Borrower G	Manufacturing	12	10
8	Borrower H	Real estate, leasing and service	10	9
9	Borrower I	Construction	10	5
10	Borrower J	Manufacturing	9	4
11	Borrower K	Real estate, leasing and service	9	4
12	Borrower L	Other service	8	4
13	Borrower M	Finance and insurance	7	1
14	Borrower N	Retail and wholesale	7	6
15	Borrower O	Manufacturing	7	4
16	Borrower P	Real estate, leasing, service	7	4
17	Borrower Q	Retail and wholesale	6	3
18	Borrower R	Manufacturing	6	5
19	Borrower S	Real estate, leasing, and service	6	1
20	Borrower T	Manufacturing	6	3
			₩ 254	₩ 156

Non-Performing Loan Strategy

One of our primary objectives is to prevent our loans from becoming non-performing. Through our corporate credit rating system which is designed to prevent our loan officers from extending new loans to borrowers with high credit risks based on the borrower s credit rating, we seek to reduce credit risk related to future non-performing loans. Our early warning system is designed to alert any sudden increase in a borrower s credit risk to our loan officers, who then closely monitor such loans.

If a loan becomes non-performing notwithstanding such preventive mechanism, an officer at the branch level responsible for monitoring non-performing loans will commence due diligence on the borrower s assets, send a notice demanding payment or a notice that we will take or prepare for legal action.

At the same time, we also initiate our non-performing loan management process, which includes:

- identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;
- identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and
- to a limited extent, identifying commercial loans subject to normalization efforts based on the cash-flow situation of the borrower.

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Once the details of a non-performing loan are identified, we pursue early solutions for recovery. Actual recovery efforts for non-performing loans are handled by the relevant department, depending on the nature of such loans and the borrower, among others. The officers or agents of the responsible departments and units use a variety of methods to resolve non-performing loans, including:

- making phone calls and paying visits to the borrower to request payment;
- continuing to assess and evaluate assets of our borrowers; and
- if necessary, initiating legal action such as foreclosures, attachment and litigation.

In order to promote speedy recovery on loans subject to foreclosures and litigation, the branch responsible for handling these loans may transfer them to the relevant unit at headquarters or regional headquarters.

Our policy is to commence legal action three months after delinquency of payment on loans. For loans to insolvent or bankrupt borrowers or when we conclude that it is not possible to recover through normal procedures, we take prompt legal actions regardless of the grace period.

In addition to making efforts to collect on these non-performing loans, we take other measures to reduce the level of our non-performing loans, including:

- selling non-performing loans to third parties including the Korea Asset Management Corporation;
- entering into asset-backed securitization transactions with respect to non-performing loans;
- using third-party collection agencies including credit information companies.

Allocation of Allowance for Loan Losses

The following table presents, as of the dates indicated, the allocation of our loan loss allowance by loan type.

	As of December 31,									
	2005		2006		2007		2008		2009	
	Amt.	Loans % of Total Loans	Amt.	Loans % of Total Loans	Amt.	Loans % of Total Loans	Amt.	Loans % of Total Loans	Amt.	Lo % To Lo
	(In billions of Won, except percentages)									
ate										
rcial and al	₩ 753	33.75%	₩ 900	32.72%	₩ 963	31.94%	₩ 1,592	32.53%	₩ 1,982	
ommercial	305	20.23	359	22.31	427	19.97	846	22.07	987	
nancing	16	0.71	10	0.48	16	0.90	11	0.93	13	
rporate	1,074	54.69	1,269	55.51	1,406	52.81	2,449	55.53	2,982	

ner											
ges and quity	19	24.41	4	24.58	4	20.75	8	21.22	11	2
onsumer	183	16.89	175	16.71	150	16.77	149	14.67	170	1
ards	236	4.01	127	3.20	539	9.67	595	8.58	475	
nsumer	438	45.31	306	44.49	693	47.19	752	44.47	656	4
owance losses	₩ 1,512	100.00%	₩ 1,575	100.00%	₩ 2,099	100.00%	₩ 3,201	100.00%	₩ 3,638	10

Our total allowance for loan losses increased by ₩437 billion, or 13.65%, to ₩3,638 billion as of December 31, 2009 from ₩3,201 billion as of December 31, 2008. During 2009, the allowance for loan losses increased by primarily as a result of an increase of loss rate in corporate loans.

Analysis of the Allowance for Loan Losses

The following table presents an analysis of our loan loss experience for each of the years indicated.

	2005	2006	2007	2008	2009
	(In billions of Won, except percentages)				
Balance at the beginning of the period	₩ 2,311	₩ 1,512	₩ 1,575	₩ 2,099	₩ 3,201
Amounts charged against income	(255)	252	40	1,319	1,751
Gross charge-offs:					
Corporate:					
Commercial and industrial	297	130	89	144	1,047
Other commercial	18	76	64	142	40
Lease financing			9	6	(19)
Consumer:					
Mortgage and home equity	19		(2)	6	(1)
Other consumer	296	96	123	98	227
Credit cards	316	211	418	521	597
Total gross charge-offs	(946)	(513)	(701)	(917)	(1,891)
Recoveries:					
Corporate:					
Commercial and industrial	69	47	15	16	81
Other commercial	217	154	104	27	42
Lease financing	4	5			1
Consumer:					
Mortgage and home equity	3	5	3	2	1
Other consumer	34	43	71	107	59
Credit cards	72	70	451	548	393
Total recoveries	399	324	644	700	577
Net charge-offs	(547)	(189)	(57)	(217)	(1,314)
Acquisition of Shinhan Life Insurance	3				
Acquisition of LG Card			541		
Balance at the end of the period	₩ 1,512	₩ 1,575	₩ 2,099	₩ 3,201	₩ 3,638
Ratio of net charge-offs during the period to average loans outstanding during the period	0.53%	0.17%	0.04%	0.13%	0.78%

Loan Charge-Offs

Our level of gross charge-offs increased from ₩701 billion in 2007 to ₩917 billion in 2008 primarily due to an increase in charge-off for corporate loans and credit card loans. Our level of gross charge-offs increased from

₩917 billion in 2008 to ₩1,891 billion in 2009 primarily due to an increase in charge-off for corporate and consumer loans, primarily as a result of the prudent charge-off policy undertaken by us in response to the recent global financial crisis.

Basic Principles

We attempt to minimize loans to be charged off, by practicing a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans.

Loans To Be Charged-Off

Loans are charged-off if they are deemed to be uncollectible by falling under any of the following categories:

- loans for which collection is not foreseeable due to insolvency or bankruptcy, dissolution or the termination of the debtor s business;
- loans for which collection is not foreseeable due to the death or disappearance of debtors;
- loans for which collection expenses exceed the collectable amount;
- loans for which collection is not possible through legal or any other means;
- payments in arrears in respect of credit cards that are overdue for more than six months;
- payments outstanding on unsecured retail loans that are overdue for more than six months;
- payments in arrears in respect of leases that are overdue for more than 12 months; or
- the portion of loans classified as estimated loss, net of any recovery from collateral, which is deemed to be uncollectible.

Procedure for Charge-off Approval

An application for Shinhan Bank s loans to be charged-off is submitted by a branch to the Corporate Credit Collection Department in the case of corporate loans and foreign branches, and Consumer Credit Collection Department in the case of individual loans. An application for charge off must be submitted by a deadline set by the applicable departments. The General Manager in charge of review evaluates the application. The General Manager of Audit and Examination Department conducts review of compliance with our internal procedures for charge-offs. The General Manager in charge of review gets approval from the President of Shinhan Bank. As for Shinhan Card, it generally charges off receivables that are 180 days past due following internal review.

Treatment of Loans Charged-Off

Once loans are charged-off, they are derecognized from our balance sheet. We still continue our collection efforts in respect of these loans through third-party collection agencies including the Korea Asset Management Corporation and Shinhan Credit Information.

Treatment of Collateral

When we determine that a loan collateralized by real estate cannot be recovered through normal collection channels, we generally petition a court to foreclose and sell the collateral through a court-supervised auction within one month after default and insolvency and within four months after delinquency. However, this procedure does not apply to companies under restructuring, composition, workout or other court proceedings where there are restrictions on such auction procedures. Filing of such petition with the court generally encourages the debtor to repay the overdue loan. If a debtor ultimately fails to repay and the court grants its approval for foreclosure, we sell the collateral and recover the principal amount and interest accrued up to the sales price, net of expenses incurred from the auction. Foreclosure proceedings in Korea typically take seven months to one year from initiation to collection depending on the nature of the collateral.

U.S. GAAP Financial Statement Presentation

Our U.S. GAAP financial statements include as charges-offs all unsecured retail loans, including credit cards, which are overdue for more than six months. Leases are charged off when past due for more than twelve months. For collateral dependent loans, we charge off the excess of the book value of the subject loan over the amount received or to be received from the sale of the underlying collateral when the collateral is sold as part of a foreclosure proceeding and its sale price becomes known through court publication as part of such proceeding.

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Investment Portfolio

Investment Policy

We invest in and trade Won-denominated and, to a lesser extent, foreign currency-denominated securities for our own account in order to:

- maintain the stability and diversification of our assets;
- maintain adequate sources of back-up liquidity to match our funding requirements; and
- supplement income from our core lending activities.

In making securities investments, we take into account a number of factors, including macroeconomic trends, industry analysis and credit evaluation in determining whether to make investments in particular securities.

Our investments in securities are subject to a number of regulatory guidelines, including limitations prescribed under the Financial Holding Companies Act and the Banking Act. Generally, a financial holding company is prohibited from acquiring more than 5% of the total issued and outstanding shares of another company (other than its direct and indirect subsidiaries). Furthermore, under these regulations, Shinhan Bank must limit its investments in shares and securities with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and national government bonds) to 60.0% of its total Tier I and Tier II capital. Generally, Shinhan Bank is also prohibited from acquiring more than 15.0% of the shares with voting rights issued by any other corporation (other than for the purpose of establishing or acquiring a subsidiary). Further information on the regulatory environment governing our investment activities is set out in Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Investments in Property, Principal Regulations Applicable to Banks Restrictions on Shareholdings in Other Companies, Principal Regulations Applicable to Financial Holding Companies Liquidity and Principal Regulations Applicable to Financial Holding Companies Restrictions on Shareholdings in Other Companies.

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Book Value and Market Value

The following table sets out the book value and market value of securities in our investment portfolio as of the dates indicated.

	As of December 31, 2007		As of December 31, 2008		As of December 31, 2009	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
			(In billions of Won)			
Available-for-sale securities						
Marketable equity securities	₩ 3,101	₩ 3,101	₩ 2,170	₩ 2,170	₩ 2,964	₩ 2,964
Debt securities:						
Korean treasury and governmental agencies	4,206	4,206	6,254	6,254	8,722	8,722
Debt securities by financial institutions	10,051	10,051	15,550	15,550	11,164	11,164
Corporate debt securities	2,145	2,145	1,918	1,918	2,308	2,308
Debt securities issued by foreign government	48	48	123	123	170	170
Mortgage-backed and asset-backed securities	3,075	3,075	3,001	3,001	2,284	2,284
Total Available-for-sale	22,626	22,626	29,016	29,016	27,612	27,612
Held-to-maturity securities						
Debt securities:						
Korean treasury and governmental agencies	3,071	3,036	4,009	4,126	8,139	8,148
Debt securities by financial institutions	4,858	4,812	4,279	4,331	4,093	4,117
Corporate debt securities	110	105	245	247	363	372
Debt securities issued by foreign government	1	1	9	9	36	36
Mortgage-backed and asset-backed securities	184	212	154	160	163	167
Total Held-to-maturity	8,224	8,166	8,696	8,873	12,794	12,840
Trading Securities						
Marketable equity securities	655	655	705	705	747	747
Debt securities:						
Korean treasury and governmental agencies	406	406	528	528	1,524	1,524
Financial institutions	3,033	3,033	3,279	3,279	2,104	2,104
Corporations	2,130	2,130	1,264	1,264	1,177	1,177
	1,966	1,966	889	889	873	873

Mortgage-backed and asset-backed securities						
Other trading assets(1)	30	30	59	59	256	256
Total Trading	8,220	8,220	6,724	6,724	6,681	6,681
Total securities	₩ 39,070	₩ 39,012	₩ 44,436	₩ 44,613	₩ 47,087	₩ 47,133

Note:

(1) Consists of commodity-indexed deposits.

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Maturity Analysis

The following table categorizes our securities by maturity and weighted average yield as of December 31, 2009.

	As of December 31, 2009									
	1 Year or Less		Over 1 but Within 5 Yrs		Over 5 but Within 10 Yrs		Over 10 Yrs		Total	
	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	W A Y
	(In billions of Won, except percentages)									
e-for-sale securities:										
Treasury securities and ent agencies	₩ 1,066	4.62%	₩ 6,421	4.73%	₩ 1,224	4.45%	₩ 11	5.31%	₩ 8,722	
urities issued by institutions	6,549	2.64	3,485	2.10	923	3.42	207	4.37	11,164	
e debt securities	642	4.77	1,486	3.28	180	4.47			2,308	
urities issued by overnments	58	0.71	66	4.79	37	4.30	9	4.85	170	
e Backed Securities t Backed Securities	937	0.28	1,327	0.22	20	3.08			2,284	
	9,252	2.76%	12,785	3.38%	2,384	4.06%	227	4.44%	24,648	
maturity securities:										
Treasury securities and ent agencies	694	4.55%	5,279	4.90%	1,871	4.67%	295	5.56%	8,139	
urities issued by institutions	1,825	3.54	1,777	3.72	311	5.11	180	4.47	4,093	
e debt securities	15	4.02	267	3.76	71	4.76	10	5.72	363	
urities issued by overnments	10	2.18	25	0.50	1	0.03			36	
e Backed Securities t Backed Securities	10	5.59	143	1.21			10	5.23	163	
	2,554	3.82%	7,491	4.50%	2,254	4.73%	495	5.16%	12,794	
securities:										
Treasury securities and ent agencies	727	3.24%	752	4.60%	44	5.18%	1	5.56%	1,524	
urities issued by institutions	1,481	3.35	624	4.10					2,104	
e debt securities	1,009	3.24	167	5.22			1	5.00	1,177	
e Backed Securities t Backed Securities	825	3.73	48	6.77					873	

	4,042	3.38%		1,591	4.53%		44	5.18%		2	5.36%		5,678
₩	15,848		₩	21,867		₩	4,682		₩	724		₩	43,120

Note:

(1) The weighted-average yield for the portfolio represents the yield to maturity for each individual security, weighted using its amortized cost.

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Concentrations of Risk

As of December 31, 2009, we held the following securities of individual issuers where the aggregate book value of those securities exceeded 10% of our stockholders equity, which was ₩20,233 billion as of such date.

	As of December 31, 2009	
	Book Value	Market Value
	(In billions of Won)	
Name of issuer:		
Ministry of Strategy and Finance	₩ 11,633	₩ 11,621
The Bank of Korea	5,498	5,511
Korea Development Bank	2,771	2,767
Korea Deposit Insurance Corporation	2,582	2,592
Total	₩ 22,484	₩ 22,491

All of the above entities are controlled and owned by the Korean government.

Credit-Related Commitments and Guarantees

In the normal course of our operations, we make various commitments and guarantees to meet the financing and other business needs of our customers. Commitments and guarantees are usually in the form of, among others, commitments to extend credit, commercial letters of credit, standby letter of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss amount if the account party draws down the commitment or we should fulfill our obligation under the guarantee and the account party fails to perform under the contract.

The following table sets forth our credit-related commitments and guarantees as of the dates indicated.

	As of December 31,		
	2007	2008	2009
	(In billions of Won)		
Commitments to extend credit:			
Corporate	₩ 65,611	₩ 49,873	₩ 49,590
Credit cards(1)	46,079	52,577	64,904
Consumer	6,968	8,350	8,795
Commercial letters of credit(2)	3,518	3,006	3,319
Standby letters of credit, other financial and performance guarantees and liquidity facilities to special purpose entities	12,573	14,859	13,392
Total	₩ 134,749	₩ 128,665	₩ 140,000

Notes:

(1) Credit card commitments relate to unused portion of credit card limits that may be cancelled by us, after notice to the customer, if we determine that the customer s repayment ability is significantly impaired. Prior to January 2008, we were able to change credit card limits of all customers whose account is inactive for more than 12 months without their approval. However, following a change in the Korea Fair Trade Commission s policy related to credit card limits effective January 2008, we now require the customer s agreement before changing the credit card limits for customers whose repayment ability is not significantly impaired.

(2) These are generally short-term and collateralized by the underlying shipments of goods to which they relate.

We have credit-related commitments that are not reflected on the balance sheet, which primarily consist of commitments to extend credit and commercial letters of credit. Commitments to extend credit, including credit lines, represent unfunded portions of authorizations to extend credit in the form of loans. These commitments

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expire on fixed dates and a customer is required to comply with predetermined conditions to draw funds under the commitments.

Commercial letters of credit are undertakings on behalf of customers authorizing third parties to draw drafts on us up to a stipulated amount under specific terms and conditions. They are generally short-term and collateralized by the underlying shipments of goods which they relate to and therefore have less risk.

We also have guarantees that are recorded on the balance sheet at their fair value at inception which are amortized over the life of the guarantees. Such guarantees generally include standby letters of credit, other financial and performance guarantees and liquidity facilities to special purpose entities.

Standby letters of credit are irrevocable obligations to pay third party beneficiaries when our customers fail to repay loans or debt instruments, which are generally in foreign currencies. A substantial portion of these standby letters of credit are secured by underlying assets, including trade-related documents.

Other financial and performance guarantees are irrevocable assurance that we make payments to beneficiaries in the event that our customers fail to fulfill their obligations or to perform under certain contracts. Liquidity facilities to special purpose entities represent irrevocable commitments to provide contingent liquidity credit lines to special purpose entities established by our customers in the event that a triggering event such as shortage of cash occurs.

The commitments and guarantees do not necessarily represent our exposure since they often expire unused.

Derivatives

As discussed under Business Overview Our Principal Activities Treasury and Securities Investment above, we engage in derivatives trading activities primarily on behalf of our customers so that they may hedge their risks and also enter into back-to-back derivatives with other financial institutions to cover exposures arising from such transactions. In addition, we enter into derivatives transactions to hedge against risk exposures arising from our own assets and liabilities, some of which are nontrading derivatives that do not qualify for hedge accounting treatment.

The following shows, as of December 31, 2009, the gross notional or contractual amounts of derivatives held or issued for (i) trading (ii) nontrading that qualify for hedge accounting and (iii) nontrading that do not qualify for hedge accounting.

	As of December 31, 2009		
	Underlying Notional Amount(1)	Estimated Fair Value Assets	Estimated Fair Value Liabilities
	(In billions of Won)		
Trading:			
Foreign exchange contracts:			
Forward contracts	₩ 59,473	₩ 1,706	₩ 714
Options purchased	3,378	316	7
Options written	713	4	68
Sub-total	63,564	2,026	789

Interest rate contracts:			
Swaps	129,613	625	937
Futures and forward contracts	43		
Options purchased	5,371	54	
Options written	5,975		52
Sub-total	141,002	679	989
Cross currency swaps	23,143	1,285	1,991

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	As of December 31, 2009		
	Underlying Notional Amount(1)	Estimated Fair Value Assets	Estimated Fair Value Liabilities
	(In billions of Won)		
Equity contracts:			
Swaps	1,737	120	149
Futures and forward contracts	48		
Option purchased	2,742	161	5
Option written	2,632	6	131
Sub-total	7,159	287	285
Other derivatives:			
Commodity swaps	23		1
Options purchased	57	2	
Options written	24		1
Sub-total	104	2	2
Credit derivatives:			
Protection sell	175	3	23
Total	₩ 235,147	₩ 4,282	₩ 4,079
Nontrading:			
Hedge accounting:			
Interest rate swaps	90	2	
Sub-total	90	2	
Nontrading that do not qualify for hedge accounting(2):			
Interest rate swaps	10,453	219	146
Forward contracts	24		5
Cross currency swaps	914	115	16
Sub-total	11,391	334	167
Total	₩ 11,481	₩ 336	₩ 167

Notes:

(1) Notional amounts in foreign currencies were converted into Won at prevailing exchange rates as of December 31, 2009.

(2) While we engage in derivatives trading activities to hedge the interest rate risk and foreign exchange risk exposure that arise from our own assets and liabilities, as these nontrading derivative contracts do not qualify for hedge accounting under U.S. GAAP, they are accounted for as trading derivatives in the financial statements. These contracts include interest rate swaps, forward contracts and cross-currency swaps held for nontrading that do not qualify for hedge accounting treatment.

Funding

We obtain funding from a variety of sources, both domestic and foreign. Our principal source of funding is customer deposits obtained from our banking operations, and we from time to time issue equity and debt securities, including preferred shares to fund large-scale acquisitions such as Chohung Bank and LG Card and a recent rights offering in anticipation of greater liquidity and capital requirements during the recent global financial crisis. In addition, our subsidiaries acquire funding through call money, borrowings from the Bank of Korea, other short-term

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borrowings, corporate debentures, other long-term debt and asset-backed securitizations. For further details relating to funding by us and our subsidiaries, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

Deposits

Although the majority of our bank deposits are short-term, the majority of our depositors have historically rolled over their deposits at maturity, providing our banking operation with a stable source of funding.

The following table shows the average balances of our deposits and the average rates paid on our deposits for the periods indicated.

	2007		2008		2009	
	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid
	(In billions of Won, except percentages)					
Interest-bearing deposits:						
Interest-bearing demand deposits	₩ 8,455	0.41%	₩ 5,786	0.78%	₩ 7,399	0.45%
Savings deposits	30,583	2.05	30,877	2.32	36,876	1.22
Certificates of deposit	15,475	5.22	16,152	5.94	11,802	5.48
Other time deposits	44,397	4.55	60,437	4.94	77,961	3.91
Mutual installment deposits(2)	567	3.88	291	3.78	189	3.70
Total interest-bearing deposits(3)	₩ 99,477	3.53%	₩ 113,543	4.15%	₩ 134,227	3.12%

Notes:

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

(2) Shinhan Bank offers mutual installment deposits which are interest-bearing deposits made periodically for a contracted term. The mutual installment deposit account enables customers to become eligible for loans which would be secured by the deposits already made. Prior to qualifying for a loan, a customer must make required periodic deposits to the mutual installment account for a contracted term of less than five years. A customer is not obliged to make the periodic deposits for the full term of the contract to obtain a loan from Shinhan Bank, but loan amounts and terms are not as favorable in the event a loan request is made prior to completion of the deposit contract term.

(3) Under U.S. GAAP, interest-bearing assets do not include cover bills sold or bonds sold under repurchase agreements, which are offered to our customers as deposit products. These are reflected as short-term borrowings and secured borrowings, respectively.

For a breakdown of deposit products, see Our Principal Activities Deposit-taking Activities, except that cover bills sold are reflected on short-term borrowings and securities sold under repurchase agreements are reflected as secured borrowings.

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Certificates of Deposit and Other Time Deposits

The following table presents the balance and remaining maturities of our other time deposits, certificates of deposit and mutual installment deposits which had a fixed maturity in excess of ₩100 million or more as of December 31, 2009.

	As of December 31, 2009			
	Certificates of Deposit	Other Time Deposits	Mutual Installment Deposits	Total
	(In billions of Won)			
Maturing within three months	₩ 2,734	₩ 15,152	₩ 27	₩ 17,913
After three but within six months	1,584	7,770	6	9,360
After six but within 12 months	2,504	38,937	3	41,444
After 12 months	947	4,721	3	5,671
Total	₩ 7,769	₩ 66,580	₩ 39	₩ 74,388

A majority of our certificates of deposit accounts and other time deposits issued by our foreign offices is in the amount of US$100,000 or more.

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Short-term Borrowings

The following table presents information regarding our short-term borrowings (borrowings with an original maturity of one year or less) for the periods indicated.

(1)	2007 Highest Balances at Any Month-End	Weighted Average Interest Rate(2)	Year-End Interest Rate	Balance Outstanding	Average Balance Outstanding(1)	2008 Highest Balances at Any Month-End	Weighted Average Interest Rate(2)	Year-End Interest Rate	Balance Outstanding	Avera Balar Outstand
					(In billions of Won, except for percentages)					
	₩ 1,169	2.97%	0.10-3.25%	₩ 1,259	₩ 964	₩ 1,285	2.54%	0.10-2.75%	₩ 1,434	₩ 1
	4,615	5.49%	0.75-10.25	4,878	2,875	4,878	5.41	0.40-6.93	2,398	3
	13,245	3.93%	0.98-7.83%	17,088	17,874	19,839	4.12	1.08-8.10%	5,883	12
	₩ 19,029	4.17%		₩ 23,225	₩ 21,713	₩ 26,002	4.22%		₩ 9,715	₩ 17

Notes:

(1) Average outstanding balances are calculated using daily balances for Shinhan Bank and Jeju Bank and quarterly balances for other subsidiaries.

(2) Weighted-average interest rates during this year are calculated by dividing the total interest expenses by the average amount borrowed.

(3) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.

(4) Other short-term borrowings included borrowings from trust accounts, bills sold, borrowings in domestic and foreign currencies and short-term debentures.

Our short-term borrowings have maturities of less than one year which are generally unsecured with the exception of borrowings from the Bank of Korea.

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Risk Management

Overview

As a financial services provider, we are exposed to various risks relating to our lending, credit card, insurance, securities investment, trading and leasing businesses, our deposit taking and borrowing activities and our operating environment. The principal risks to which we are exposed are credit risk, market risk, liquidity risk and operational risk. These risks are recognized, measured and reported in accordance with risk management guidelines established at our holding company level and implemented at the subsidiary level through a carefully stratified checks-and-balances system.

We believe that our risk management system has been instrumental to building our reputation as a well-managed and prudent financial service provider and withstanding various external shocks. In particular, during the recent global financial crisis, we believe our risk management has provided effective early warning signals which helped us to proactively reconfigure our asset portfolio and substantially reduce our exposure to troubled debtors and thereby avoid what could have been a substantially greater credit loss during such crisis.

In particular, our groupwide 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.

The primary risk management tools we have adopted at a groupwide level to implement the foregoing principles are as follows:

- an embedded culture of risk management As a basic matter, we emphasize that all of our employees embrace, adhere and are guided in their daily operations by a culture of strict risk management and the core groupwide risk management principles.

- detailed risk tolerance prescriptions Risk tolerance, defined as the allowable level of risk, is prescribed for each subsidiary and for each business segment based on a groupwide analysis of possible losses. Each of our subsidiaries is required to manage its operations within the bounds of the specified risk tolerance and not incur a concentration risk though detailed and specific risk limit control systems.

- integrated groupwide risk monitoring system We have adopted a groupwide comprehensive risk monitoring system that collects extensive risk-related information from both external and internal sources and assesses related risks based on such information. Our risk monitoring system emphasize early warning signals and preemptive measures.

development of a groupwide risk experts network In order to enhance our overall risk management capabilities, we have a designated team of risk experts, each of whom have experience and knowledge in risk management, in charge of our groupwide risk education and build out of groupwide risk management competence.

Organization

Our risk management system is organized along the following hierarchy: from the top and at the holding company level,, the Group Risk Management Committee, the Group Risk Management Council, the Chief Risk Officer and the Group Risk Management Team, and at the subsidiary level, the Risk Management Committees and the Risk Management Team of the relevant subsidiary. Further details follow.

At the holding company level:

Group Risk Management Committee The Group Risk Management Committee consists of three outside directors of our holding 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 our 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 our holding company. The Group Risk Management Committee makes decisions through affirmative votes by a majority of the committee members.

Group Risk Management Council Comprised of the holding company s chief risk officer, risk management team head, and risk officers of each of our subsidiaries, the Group Risk Management Council provides a forum for risk management executives from each subsidiary to discuss our 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 our group as a whole and each of our subsidiaries, (v) risk limits of our group as a whole and each of our subsidiaries, (vi) operation of risk measuring systems for our group as a whole and each of our subsidiaries, (vii) matters requiring joint deliberation in relation to groupwide risk management and (viii) matters related to providing funds to our 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.

Group Chief Risk Officer The Group Chief Risk Officer aids the Group Risk Management Committee by implementing the risk policies and strategies as well as ensuring consistency of risk management systems among our subsidiaries. Furthermore, the Group Chief Risk Officer evaluates the risk officers of each subsidiary in addition to monitoring the risk management practices of each subsidiary.

Group Risk Management Team This team provides support and assistance to the Group Chief Risk Officer in carrying out his responsibilities.

At the subsidiary level:

Risk Management Committee In order to maintain the groupwide risk at an appropriate level, we have established a hierarchical risk limit system, where the Group Risk Management Committee establishes risk limits for us and our subsidiaries, and each of our subsidiaries establishes and manages risk limits in more detail by type of risk and type of product for each department and division within such subsidiary. In accordance with the group risk management policies and strategies, the risk management committee at the subsidiary level establishes its own risk management policies and strategies in more detail and the respective risk management department implements those policies and strategies.

Risk Management Team The risk management team, operating independently from the business units of each of our subsidiaries, monitors, assesses, manages and controls the overall risk of its operations and reports all major risk-related issues to the Group Risk Management Team at the holding company level, which then reports to the Group Chief Risk Officer.

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The following is a flowchart of our risk management system at the holding company level and the subsidiary level.

Credit Risk Management

Credit risk, which is the risk of loss from default by an obligor or counter-party, is our greatest risk. A substantial majority of our credit risk relates to the operations of Shinhan Bank and Shinhan Card.

Credit Risk Management of Shinhan Bank

Shinhan Bank s credit risk management is guided by the following principles:

- achieve profit level corresponding to the level of risks involved;
- improve asset quality and achieve optimal industrial and rating loan portfolios;
- focus on the small- and medium-sized enterprises and markets;
- avoid excessive loan concentration to a particular borrower or sector;
- focus on the borrower s ability to repay the debt; and
- provide financial support to advance the growth of select customers.

Major policies for Shinhan Bank s credit risk management are determined by the Credit Policy Committee of Shinhan Bank, the executive decision-making body for management of credit risk. The Credit Policy Committee is led by the Deputy President and head of the Risk Management Group. The Credit Policy Committee further consists of chief officers from eight business groups. Apart from the Credit Policy Committee, Shinhan Bank has a Credit Review Committee in place to perform credit review evaluation, thereby separating the credit policy decision-makings and loan approvals. Both committees make decisions by two-thirds or more votes of the attending members, based on a two-third quorum requirement.

Shinhan Bank complies with credit risk management procedures pursuant to internal guidelines and regulations and continually monitors and improves these guidelines and regulations. Its credit risk management procedures include:

- credit evaluation and approval;
- credit review and monitoring; and
- credit risk assessment and control.

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Credit Evaluation and Approval

All loan applicants and guarantors are subject to credit review evaluation before approval of any loans. Credit evaluation of loan applicants are carried out separately by Credit Officer and Senior Credit Officer and (senior) credit officer committees consisting of loan evaluation specialists from different subject areas. Loan evaluation is carried out by a group rather than at an individual level through an objective and deliberative process. Shinhan Bank uses a credit scoring system for retail loans and a credit-risk rating system for corporate loans.

Retail loans

Loan applications for retail loans are reviewed in accordance with Shinhan Bank s credit scoring system and the objective statistics models for secured and unsecured loans maintained and operated by Shinhan Bank s Retail Banking Division. Shinhan Bank s credit scoring system is an automated credit approval systems used to evaluate loan applications and determine the appropriate pricing for the loan, and takes into account factors such as a borrower s personal information, transaction history with Shinhan Bank and other financial institutions and other relevant credit information. The applicant is assigned a score, based upon which the decision is made as to whether to approve the loan application and determine its amount. The applicant s score also determines whether the applicant is approved for credit, conditionally approved, subject to further assessment, or denied. If the applicant becomes subject to further assessment, the appropriate discretionary body, either at the branch level or at the headquarters level, makes a reassessment based on qualitative as well as quantitative factors, such as credit history, occupation and past relationship with Shinhan Bank.

For mortgage loans and loans secured by real estate, Shinhan Bank evaluates the value of the real estate offered as collateral using a proprietary database, which contains information about real estate values throughout Korea. In addition, Shinhan Bank uses up-to-date information provided by third parties regarding the real estate values in Korea. While Shinhan Bank uses internal staff from the processing centers to appraise the value of the real estate collateral, Shinhan Bank also hires certified appraisers to review the appraisal value of real estate collateral that have an appraisal value exceeding ₩5 billion, as initially determined by the processing centers. Shinhan Bank also performs internal revaluations, on a summary basis, the appraisal value of collateral at least every year.

For loans secured by securities, deposits or other assets other than real estate, Shinhan Bank requires borrowers to observe specified collateral ratios in respect of secured obligations.

Corporate loans

Shinhan Bank rates all of its corporate borrowers using internally developed credit evaluation systems. These systems consider a variety of criteria in order to standardize credit decisions and focuses on the quality of borrowers rather than the size of loans. The relevant criteria include quantitative factors related to the borrower s financial and other data, and qualitative factors such as the judgment of Shinhan Bank s credit officers. Shinhan Bank also considers financial variables and ratios based on customer s financial statements, such as return on assets and cash flow to total debt ratios, as well as non-financial evaluation factors such as the industry in which the borrower operates, its competitive position in its industry, its operating and funding capabilities, the quality of its management and controlling stockholders (based in part on interviews with its officers and employees), technological capabilities and labor relations.

In addition, Shinhan Bank reviews reports prepared by external credit rating services, such as Korea Information Service, which are used to confirm the accuracy of Shinhan Bank s internal credit reviews.

Shinhan Bank monitors and improves the effectiveness of the credit risk-rating systems using a database that it updates continually with actual default records.

Based on the scores calculated under the credit rating system, which takes into account the evaluation criteria described above and the probability of default, Shinhan Bank assigns the borrower one of 22 grades (from the highest of AAA to the lowest of D). Grades AA through B are further broken down into +, 0 or −. Grades AAA through B- are classified as normal, grade CCC precautionary, and grades CC through D non-performing. The credit risk-rating model is further differentiated by the size of the corporate borrower and the type of credit facilities.

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Loan approval process

Loans are generally approved after a joint evaluation and approval by the relationship manager at the branch level. The approval limit for retails loan is made based on automated credit scoring system by Shinhan Bank. In the case of large corporate loans, approval limits are also reviewed and approved by a Credit Officer at the headquarters level. Depending on the size and the importance of the loan, the approval process is further reviewed by the Credit Officer Committee or the Senior Credit Officer Committee. If the loan is considered significant or the amount exceeds the discretion limit of the Senior Credit Officer Committee, further evaluation is made by the Credit Review Committee, which is Shinhan Bank s highest decision-making body in relation to credit approval. The Credit Review Committee s evaluation and approval of loan limits vary depending on the credit ratings of the borrowers. For example, for borrowers with B ratings, the Credit Review Committee evaluates and approves credits in excess of ₩10 billion for unsecured lending and ₩15 billion for secured lending, whereas for borrowers with AAA ratings, the Credit Review Committee evaluates credits exceeding ₩30 billion for unsecured lending and ₩80 billion for secured lending. Meetings to approve these large credits are held twice a week. The Credit Review Committee makes decisions by a vote of two-thirds or more of the attending members, which must constitute at least two-thirds of the committee members to satisfy the quorum.

The chart below summarizes the credit approval process of our banking operation. The Senior Credit Officer and the Head of Business Division do not make individual decisions on loan approval, but are part of the decision-making process at the group level.

The reviewer at each level of the review process may in its discretion approve loans up to a maximum amount per loan assigned to such level. The discretionary loan approval limit for each level of the loan approval process takes into account the total amount of loans extended to the borrower, the credit level of the applicant based on credit review, the existence and value of collateral and the level of credit risk established by the credit rating system. The discretionary loan amount approval limit ranges from ₩30 million (which is applicable to corporate loans to a borrower with a B- rating to be approved by the head of a banking branch) to ₩80 billion (which is applicable to corporate loans to a borrower with a AAA rating to be approved by the Senior Credit Officer Committee). Any loans exceeding the maximum discretionary loan amount approval limit must be approved by the Credit Review Committee.

Credit Review and Monitoring

Shinhan Bank continually reviews and monitors existing credit risks primarily with respect to borrowers. In particular, Shinhan Bank s automated early warning system conducts daily examination for borrowers using over 163 financial and non-financial factors, and the relationship manager and the credit officer must conduct periodic loan review and report to independent loan review team which analyzes in detail the results and adjusts credit rating accordingly. Based on these reviews, Shinhan Bank adjusts a borrower s credit rating, credit limit, applied interest rates and credit policies. In addition, the group credit rating of the borrower s group, if applicable, may be adjusted following a periodic review of the main debtor groups, mostly comprised of *chaebols*, as identified by the Governor of the Financial Supervisory Service based on their outstanding credit exposures, of which 43 were identified as such as of December 31, 2009. Shinhan Bank also continually reviews other factors, such as industry-specific conditions for the borrower s business and its domestic and overseas asset base and operations, in order to ensure the appropriateness of the assigned ratings. The Credit Review Department provides credit review reports, independent of underwriting, to Chief Risk Officer on a monthly basis.

The early warning system performs automatic daily checks for borrowers to whom Shinhan Bank has more than ₩2 billion of exposure. The relationship manager and the Credit Officer in the Credit Review Department monitor those borrowers, and then the Credit Review Department further reviews the results of the monitoring. In addition, Shinhan Bank carries out a planned review of each borrower in accordance with changing credit risk factors based on changing economic environment. The results of such planned review are continually reported to the Chief Risk Officer of Shinhan Bank.

Depending on the nature of the items detected by the early warning system, a borrower may be classified as a deteriorating credit and become subject to evaluation for a possible downgrade in rating, or may be initially classified as a borrower showing early warning signs or become reinstated to the normal borrower status. For borrowers classified as showing early warning signs, the relevant relationship manager gathers information and conducts a review of the borrower to determine whether it should be classified as a deteriorating credit or whether to impose management improvement warnings or implement joint creditors management. In the case where the borrower becomes non-performing, Shinhan Bank s collection department directly manages such borrower s account in order to maximize recovery rate, and conducts auctions, court proceedings, sale of assets or corporate restructuring as needed.

Credit Risk Assessment and Control

In order to assess credit risk in a systematic manner, Shinhan Bank has developed and upgraded systems designed to quantify credit risk based on selection and monitoring of various statistics, including delinquency rate, non-performing loan ratio, expected loan loss and weighted average risk rating.

Shinhan Bank controls loan concentration by monitoring and managing loans at two levels: portfolio level and individual loan account level. In order to prevent undue concentration of loans, Shinhan Bank has a credit limit per country, industry, affiliates, corporation and financial institution, and encourages extension of credit to customers with good credit and reduction of credit to customers with less than good credit. In addition, Shinhan Bank utilizes the results of credit portfolio analysis in allocating asset quality based on forward looking criteria, increasing discretion and adjusting loan to value ratio.

Shinhan Bank measures credit risk using internally accumulated data. Shinhan Bank measures expected and unexpected losses with respect to total assets monthly, which Shinhan Bank refers to when setting risk limits for, and allocate capital to, its business groups. Expected loss is calculated based on the probability of default, the loss given default, the exposure at default and the past bankruptcy rate and recovery rate, and Shinhan Bank provides allowance for loan losses under Korean GAAP accordingly. Shinhan Bank makes provisioning at a level which is the higher of the Financial Supervisory Service requirement or Shinhan Bank s internal calculation. Unexpected loss is predicted based on value at risk (VaR), which is used to determine compliance with the aggregate credit risk limit for Shinhan Bank as well as the credit risk limit for the relevant department within Shinhan Bank. We use the Monte Carlo simulation method to compute the VaR, compared to the historical simulation method used previously, as the Monte Carlo method provides a more systematic method for reflecting concentration risks and correlation effects.

Credit Risk Management of Shinhan Card

Major policies for Shinhan Card s credit risk management are determined by Shinhan Card s Risk Management Council, and Shinhan Card s Risk Management Committee is responsible for approving them. Shinhan Card s Risk Management Council is comprised of the heads of Shinhan Card s 14 business units. Shinhan Card s Risk Management Council convenes at least once every month and may also convene on an *ad hoc* basis as needed. Shinhan Card s Risk Management Committee is comprised of three Non-Standing Directors. Shinhan Card s Risk Management Committee convenes at least once every quarter and may also convene on an *ad hoc* basis as needed.

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The risk of loss from default by an obligor or counter-party is Shinhan Card s greatest risk. Shinhan Card manages credit risk based on the following principles:

achieve profit at a level corresponding to the level of risks involved;

improve asset quality and achieve optimal asset portfolios; and

focus on borrower s ability to repay the debt.

Credit Card Approval Process

Shinhan Card uses an automated credit scoring system to approve credit card applications or credit card authorizations. The credit scoring system is divided into two sub-systems: the application scoring system and the behavior scoring system. The behavior scoring system is based largely on the credit history, and the application scoring system is based largely on personal information of the applicant. The credit scoring system automatically conducts credit checks on all credit card applicants. Shinhan Card gathers information about applicants transaction history with financial institutions, including banks and credit card companies, from a number of third party credit reporting agencies including, among others, National Information & Credit Evaluation Inc., Korea Information Service and Korea Credit Bureau. These credit checks reveal a list of the delinquent customers of all the credit card issuers in Korea.

If a credit score awarded to an applicant is above a minimum threshold, then the application is approved unless overridden based on other considerations such as delinquencies with other credit card companies. For credit card applications by a long-standing customer with good credit history, Shinhan Card has discretion to waive the assigned credit score unless overridden by other considerations.

Monitoring

Shinhan Card continually monitors all accountholders and accounts using a behavior scoring system. The behavior scoring system predicts a cardholder s payment pattern by evaluating the cardholder s credit history, card usage and amounts, payment status and other relevant data. The behavior score is recalculated each month and is used to manage the accounts and approval of additional loans and other products to the cardholder. Shinhan Card also uses the scoring system to monitor its overall risk exposure and to modify its credit risk management strategy.

Loan Application Review and On-going Credit Review

When reviewing new applications and conducting an on-going credit review for retail loans, installment purchase loans and personal leases, Shinhan Card uses substantially similar criteria used in the credit underwriting system and credit review system for credit card customers. For retail loans, installment purchase loans and personal leases to existing cardholders, Shinhan Card reviews their card usage history in addition to other factors such as their income, occupation and assets.

Fraud Loss Prevention

Shinhan Card seeks to minimize losses from the fraudulent use of credit cards issued by it. Shinhan Card focuses on preventing fraudulent uses and, following the occurrence of a fraudulent use, makes investigatio