SHINHAN FINANCIAL GROUP CO LTD
Form 20-F
June 30, 2009

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As filed with the Securities and Exchange Commission on June 30, 2009

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, 2008**
	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 Ryu, +822 6360 3071, irshy@shinhan.com, +822 6360 3098 (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: 396,199,587 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer 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

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. 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.

Former Shinhan Card refers to the entity created on June 4, 2002 as a result of the spin-off of the credit card division of former Shinhan Bank, into which the credit card division of Chohung Bank was split-merged on April 3, 2006. Following the transfer of all of its assets and liabilities to LG Card on October 1, 2007, former Shinhan Card currently survives under the name of SHC Management Co., Ltd. without any significant assets and liabilities. Unless otherwise indicated, statistical and financial information relating to former Shinhan Card for the year ended December 31, 2006 includes the corresponding information of the credit card division of Chohung Bank for the period from April 3, 2006 through December 31, 2006. See Item 4. Information on the Company History and Development of Shinhan Financial Group History and Organization.

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.;

the terms Shinhan Bank and SHB refer to the surviving entity following the merger of the former Shinhan Bank into Chohung Bank effective April 3, 2006 and such entity s consolidated subsidiaries;

the term former Shinhan Bank refers to Shinhan Bank and its consolidated subsidiaries as in existence prior to its merger with Chohung Bank effective April 3, 2006;

the terms Chohung Bank, Chohung and CHB refer to Chohung Bank and its consolidated subsidiaries as in existence prior to its merger with former Shinhan Bank effective April 3, 2006;

the term Shinhan Card refers to LG Card, which, on October 1, 2007, assumed all of the assets and liabilities of former Shinhan Card and was renamed as Shinhan Card, and its consolidated subsidiaries;

the term former Shinhan Card refers to the entity created on June 4, 2002 as a result of the spin-off of the credit card division of former Shinhan Bank, into which the credit card division of Chohung Bank was split-merged on April 3, 2006, and currently surviving under the name of SHC Management Co., Ltd. after transferring of all of its assets and liabilities to LG Card (renamed as Shinhan Card) on October 1, 2007; and the term LG Card refers to LG Card and its consolidated subsidiaries. After acquisition by us of its controlling equity interest, LG Card became our subsidiary on March 19, 2007, and on October 1, 2007, LG Card assumed all of the assets and liabilities of former Shinhan Card and was renamed as Shinhan Card.

All references to Korea or the Republic contained in this document 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), renamed as such as of February 29, 2008, from the Financial Supervisory Commission. References to MOSF are to the Ministry of Strategy and Finance, renamed as such as of February 29, 2008, from the Ministry of Finance and Economy.

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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 ₩1,262 to US$1.00, which was the noon buying rate in the City of New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) as of December 31, 2008. The source of these rates is the Federal Reserve Bank of New York until December 31, 2008. Since January 1, 2009, the Federal Reserve Bank of New York discontinued publication of foreign exchange rates. The source of the rates since January 1, 2009 is the H.10 statistical release of the Federal Reserve Board. On June 1, 2009, the Noon Buying Rate was ₩1,234.7 to US$1.00. The Noon Buying Rate has been highly 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 document 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.

FORWARD LOOKING STATEMENTS

This document 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 document 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 document discloses, under the caption Item 3. Key Information 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. Key Information 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 document.

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.

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

Not applicable.

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ITEM 2. *OFFER STATISTICS AND EXPECTED TIMETABLE*

Not applicable.

ITEM 3. *KEY INFORMATION*

SELECTED FINANCIAL DATA

Selected Consolidated Financial and Operating Data under U.S. GAAP

The selected consolidated financial data set forth below for the years ended December 31, 2004, 2005, 2006, 2007 and 2008 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, 2004, 2005, 2006, 2007 and 2008 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,					
	2004	2005	2006	2007	2008	2008
	(In billions of Won and millions of US$, except per common share data)					
Interest and dividend income	₩ 7,712	₩ 7,488	₩ 8,893	₩ 12,149	₩ 14,734	$ 11,675
Interest expense	4,138	4,014	4,912	6,979	8,955	7,095
Net interest income	3,574	3,474	3,981	5,170	5,779	4,580
Provision (reversal) for credit losses	135	(183)	226	81	1,437	1,138
Noninterest income	2,092	2,945	3,786	4,738	4,572	3,622
Noninterest expense	3,451	3,641	5,308	6,745	6,726	5,331
Income tax expense	682	1,015	650	1,057	695	551
Minority interest	153	16	18	95	12	9
Income before extraordinary item and effect of accounting change	1,245	1,930	1,565	1,930	1,481	1,173
Extraordinary gain	28					
Cumulative effect of a change in accounting principle, net of taxes	(23)		(10)			
Net income	₩ 1,250	₩ 1,930	₩ 1,555	₩ 1,930	₩ 1,481	$ 1,173

Net income per common shares (in currency unit):												
Net income basic(1)(3)	₩	4,133	₩	5,763	₩	4,180	₩	4,480	₩	3,155	$	2.50
Net income diluted(2)(3)		3,704		5,419		4,180		4,390		3,110		2.46
Weighted average common shares outstanding-basic (in thousands of common shares)		292,465		333,424		372,173		382,731		396,199		
Weighted average common shares outstanding-diluted (in thousands of common shares)		337,479		356,140		372,173		396,484		410,920		

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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 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.

Consolidated Balance Sheet Data

	As of December 31,					
	2004	2005	2006	2007	2008	2008
	(In billions of Won and millions of US$, except per common share data)					
Assets:						
Cash and cash equivalents	₩ 2,444	₩ 2,434	₩ 1,691	₩ 3,580	₩ 1,365	$ 1,081
Restricted cash	3,301	3,644	6,758	4,745	7,049	5,586
Interest-bearing deposits	220	627	725	1,094	1,627	1,289
Call loans and securities purchased under resale agreements	1,591	1,499	1,243	802	3,066	2,429
Trading assets:						
Trading securities and other	4,639	3,573	3,474	8,220	6,724	5,328
Derivatives assets	1,678	934	1,363	1,962	11,977	9,490
Securities:						
Available-for-sale securities	18,108	22,480	16,939	22,849	29,746	23,571
Held-to-maturity securities	3,099	2,963	7,581	8,224	8,696	6,891
Loans (net of allowance for loan losses of ₩2,311 billion in 2004, ₩1,512 billion in 2005, ₩1,575 billion in 2006, ₩2,099 billion in 2007 and ₩3,201 billion in 2008)	94,752	104,447	120,989	149,723	167,308	132,574
Customers liability on acceptances	2,012	1,879	1,417	1,701	2,433	1,928

Premises and equipment, net	1,848	1,876	2,097	2,455	2,412	1,912
Goodwill and intangible assets	1,660	2,957	2,584	6,160	5,571	4,414
Security deposits	968	1,078	1,108	1,294	1,334	1,057
Other assets	6,889	4,688	7,118	8,813	11,665	9,243
Total assets	₩ 143,209	₩ 155,079	₩ 175,087	₩ 221,622	₩ 260,973	$ 206,793

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	As of December 31,					
	2004	2005	2006	2007	2008	2008
	(In billions of Won and millions of US$, except per common share data)					
Liabilities and Stockholders Equity						
Liabilities:						
Deposits:						
Interest-bearing	₩ 79,934	₩ 83,278	₩ 91,578	₩ 103,241	₩ 119,762	$ 94,899
Non-interest-bearing	2,746	3,143	3,918	3,162	2,942	2,331
Trading liabilities	1,758	1,048	1,611	2,509	11,831	9,375
Acceptances outstanding	2,012	1,879	1,417	1,701	2,433	1,928
Short-term borrowings	10,954	11,968	10,995	15,801	23,225	18,403
Secured borrowings	6,308	7,502	8,103	11,452	10,226	8,103
Long-term debt	23,617	26,172	32,574	46,496	49,652	39,344
Future policy benefit		4,778	5,683	6,769	7,260	5,753
Accrued expenses and other liabilities	9,631	7,078	9,244	13,369	15,678	12,423
Total liabilities	136,960	146,846	165,123	204,500	243,009	192,559
Minority interest	66	80	162	212	312	247
Redeemable convertible preferred stock	736	368				
Stockholders equity:						
Common stock	1,596	1,795	1,908	1,981	1,981	1,570
Redeemable convertible preferred stock				74	74	58
Redeemable preferred stock				145	145	115
Additional paid-in capital	1,658	2,407	2,710	7,147	7,147	5,663
Retained earnings	2,239	3,928	5,205	6,801	7,710	6,109
Accumulated other comprehensive income, net of taxes	158	(100)	141	762	595	472
Less: treasury stock, at cost	(204)	(245)	(162)			
Total stockholders equity	5,447	7,785	9,802	16,910	17,652	13,987
Total liabilities, minority interest, Redeemable Convertible Preferred Stock and stockholders equity	₩ 143,209	₩ 155,079	₩ 175,087	₩ 221,622	₩ 260,973	$ 206,793

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Dividends

	Year Ended December 31,				
	2004(1)	2005(1)	2006(1)	2007(1)	2008(1)
	(In Won and US$, except ratios)				
U.S. GAAP:					
Cash dividends per share of common stock:					
In Korean Won	₩ 600	₩ 750	₩ 800	₩ 900	₩ 900
In U.S. dollars	$ 0.50	$ 0.74	$ 0.86	$ 0.96	$ 0.71
Cash dividends per share of preferred stock					
In Korean Won	₩ 135.12	₩ 365.34	₩ 365.34	₩	₩ 4,928.38
In U.S. dollars	$ 0.13	$ 0.36	$ 0.36	$	$ 3.91
Stock dividends per share of common stock					
Korean GAAP:					
Cash dividends per share of common stock:					
In Korean Won	₩ 600	₩ 750	₩ 800	₩ 900	₩ 900
In U.S. dollars	$ 0.50	$ 0.74	$ 0.86	$ 0.96	$ 0.71
Dividend ratio(2)	12.00%	15.00%	16.00%	18.00%	18.00%
Cash dividends per share of preferred stock:					
In Korean Won	₩ 857	₩ 1,183	₩ 1,427	₩ 1,389	₩ 3,558
In U.S. dollars	$ 0.83	$ 1.17	$ 1.54	$ 1.48	$ 2.82
Dividend ratio(3)	17.14%	23.66%	28.54%	27.78%	71.16%
Stock dividends per share of common stock					

Notes:

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

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

(3) Represents dividends declared and 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,				
	2004	2005	2006	2007	2008
			(Percentages)		
Net income as a percentage of:					
Average total assets(1)	0.86%	1.29%	0.93%	0.91%	0.60%
Average stockholders equity(1)(2)	27.35	33.78	17.55	9.73	7.13
Including redeemable convertible preferred shares(3)	23.62	30.64	17.17	9.73	7.13
Dividend payout ratio(4)	18.62	14.41	21.66	18.48	0.00
Net interest spread(5)	2.63	2.64	2.55	2.49	2.38
Net interest margin(6)	2.78	2.70	2.75	2.82	2.74
Efficiency ratio(7)	60.91	56.72	68.34	68.08	64.98
Cost-to-average assets ratio(8)	2.49	2.44	3.18	3.17	2.71
Equity to average asset ratio(9):	3.16	3.83	5.31	9.32	8.37
Including redeemable convertible preferred shares(3)	3.66	4.22	5.43	9.32	8.36

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 are 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 Additional Information Articles of Incorporation Description of Capital Stock Description of Redeemable Preferred Stock Series 10 Redeemable Preferred Stock and Description of Redeemable Convertible Preferred Stock Series 11 Redeemable Convertible Preferred Stock.

(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 Additional Information Articles of Incorporation Description of Capital Stock Description of Preferred Stock.

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

(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.

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(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,				
	2004	**2005**	**2006**	**2007**	**2008**
	(In billions of Won, except percentages)				
Non-interest expense (A)	₩ 3,451	₩ 3,641	₩ 5,308	₩ 6,745	₩ 6,726
Divided by					
The sum of net interest income and noninterest income (B)	5,666	6,419	7,767	9,908	10,351
Net interest income	3,574	3,474	3,981	5,170	5,779
Noninterest income	2,092	2,945	3,786	4,738	4,572
Efficiency ratio ((A) as a percentage of (B))	60.91%	56.72%	68.34%	68.08%	64.98%

(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.

Asset Quality Ratios

	As of December 31,				
	2004	**2005**	**2006**	**2007**	**2008**
	(In billions of Won, except percentages)				
Total loans	₩ 97,080	₩ 105,848	₩ 122,446	₩ 151,818	₩ 170,541
Total allowance for loan losses	2,311	1,512	1,575	2,099	3,201
Allowance for loan losses as a percentage of total loans	2.38%	1.43%	1.29%	1.38%	1.88%
Total non-performing loans(1)	₩ 1,750	₩ 1,594	₩ 1,253	₩ 1,322	₩ 1,357
Non-performing loans as a percentage of total loans	1.80%	1.51%	1.02%	0.87%	0.80%
Non-performing loans as a percentage of total assets	1.22%	1.03%	0.72%	0.60%	0.52%
Impaired loans(2)	₩ 2,646	₩ 2,285	₩ 1,375	₩ 1,487	₩ 2,178
Allowance for impaired loans	885	704	865	909	1,181
Impaired loans as a percentage of total loans	2.73%	2.16%	1.12%	0.98%	1.28%
	33.45%	30.81%	62.91%	61.13%	54.22%

Allowance for impaired loans as a percentage of impaired loans

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.

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Capital Ratios

	As of December 31,				
	2004	**2005**	**2006**	**2007**	**2008**
			(Percentages)		
Requisite capital ratio(1)	129.41%	132.81%	139.28%	N/A	N/A
BIS ratio(1)	N/A	N/A	N/A	9.85%	10.19%
Total capital adequacy ratio for Shinhan Bank(2)	11.94	12.23	12.01	12.09	13.43
Tier I capital adequacy ratio	7.45	8.16	7.81	7.64	9.30
Tier II capital adequacy ratio	4.49	4.07	4.20	4.45	4.13
Total capital adequacy ratio for Chohung Bank(2)	9.40	10.94	N/A	N/A	N/A
Tier I capital adequacy ratio	4.99	6.52	N/A	N/A	N/A
Tier II capital adequacy ratio	4.41	4.42	N/A	N/A	N/A
Adjusted equity capital ratio of Shinhan Card(3)	16.48	17.68	17.47	25.31	20.32
Solvency ratio for Shinhan Life Insurance(4)	265.69	232.12	232.60	226.05	209.47

N/A = Not available

Notes:

(1) We were restructured as a financial holding company on September 1, 2001, and until 2006, under the guidelines issued by the Financial Services Commission applicable to financial holding companies were required to maintain minimum capital as measured by the requisite capital ratio. For 2004, 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%. Requisite capital ratio is computed as the ratio of net aggregate amount of our equity capital to aggregate amounts of requisite capital. This computation is based on our consolidated financial statement in accordance with Korean GAAP. See Item 4. Information on the Company Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

(2) Chohung Bank was merged with former Shinhan Bank in April 2006. Accordingly, the capital adequacy ratio information for 2006 and afterwards is not available for Chohung Bank.

(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 regulations, 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. Information on the Company Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

The information as of December 31, 2004 and 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 represents the information of Shinhan Card.

For comparison, the adjusted equity capital ratio of LG Card as of December 31, 2004, 2005 and 2006 was 6.89%, 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 regulations issued by the Financial Services Commission for life insurance companies. Under these regulations 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, 2009 was

207.74%. See Item 4. Information on the Company 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
	(In millions of Won, except percentages)	
Equity capital	15,815,434	18,723,461
Risk-weighted assets	161,849,385	183,741,412
Consolidated equity capital ratio	9.77%	10.19%
Tier 1 capital	₩ 8,334,072	₩ 9,822,433
Tier 2 capital	8,334,072	9,822,433
Adjustment(1)	(852,710)	(921,405)
Total risk-adjusted capital	₩ 15,815,434	₩ 18,741,412
Total risk-adjusted assets	₩ 161,849,385	₩ 183,741,412
Capital adequacy ratio (%)	9.77%	10.19%
Tier 1 capital ratio (%)	5.15%	5.35%
Tier 2 capital ratio (%)	5.15%	5.35%
Adjustment(1) (%)	(0.53)%	(0.51)%

Note:

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

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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)		
2004	1,035.1	1,139.3	1,195.1	1,035.1
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 (through June 19)	1,264.2	1,346.7	1,570.1	1,232.1
January	1,380.0	1,354.4	1,391.5	1,292.3
February	1,532.8	1,439.6	1,532.8	1,368.7
March	1,372.3	1,449.6	1,570.1	1,334.8
April	1,277.0	1,332.1	1,378.3	1,277.0
May	1,249.0	1,254.3	1,277.0	1,232.9
June (through June 19)	1,264.2	1,250.4	1,269.0	1,232.1

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 document, into dollars for convenience. This does not mean that the Won amounts referred to could have been, or could be, converted into 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, 2008, which was ₩1,262.0 to US$1.00. On June 19, 2008, the Noon Buying Rate in effect was ₩1,264.2 to US$1.00.

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 document, in evaluating us and our business.

Risks Relating to the Current Economic and Market Crisis

The recent difficulties in global financial markets and its contagion effect on the overall economy could adversely affect our asset quality and results of operations.

Since July 2007, significant adverse developments in the U.S. sub-prime mortgage sector have created significant disruption and volatility in financial markets globally. The ensuing contraction of liquidity and credit and deteriorations in asset values has had contagion effects on the overall economy. Starting in the second half of 2008, the world s largest economies, including the United States, Europe and Japan, are widely considered to be in the midst of significant economic recessions, and export-driven emerging economies such as China and Korea have also suffered substantial weakness in their economies. For example, the Korean economy experienced a contraction in real gross domestic product by 3.4% in the fourth quarter of 2008 compared to the fourth quarter of 2007 and by 4.3% in the first quarter of 2009 compared to the first quarter of 2008. The weakening economies in Korea and globally may create further shocks to the global financial markets, which in turn could cause a further downward spiral in global economic and financial conditions.

In Korea, where most of our assets are located and where we generate most of our income, there are growing signs that due to the recent significant difficulties in global economic and financial conditions, key macro- and microeconomic indicators such as exports, personal expenditure and consumption, unemployment rates, demand for business products and services, debt service burden of households and businesses, the general availability of credit and the asset value of real estate and securities may further deteriorate. Any or a combination of the foregoing factors may result in an increase in non-performing loans and worsen the asset quality of our loans.

Shinhan Bank s substandard or below credits, as classified according to the Financial Services Commission guidelines, increased to ₩1,531 billion as of December 31, 2008, from ₩981 billion as of December 31, 2007, while the ratio of Shinhan Bank s substandard or below credits to total credits increased to 1.00% from 0.73% as of the same dates. Shinhan Bank s delinquent loans, calculated under Korean GAAP, which represent loans whose principals are past due for one day or more, increased to ₩1,172 billion as of December 31, 2008, from ₩790 billion as of December 31, 2007, while its delinquency ratio increased to 0.79% from 0.62% as of the same dates. Such increases were largely due to the deteriorating asset quality of Shinhan Bank s loans to small- to medium-sized enterprises, calculated under Korean GAAP, which amounted to ₩61,813 billion as of December 31, 2008, compared to ₩53,512 billion as of December 31, 2007. The delinquency ratio for such loans increased to 1.33% from 0.85% as of the same dates. The asset quality of our loans, particularly the loans to the small- to medium-sized enterprises, may further deteriorate, especially if the current economic and financial conditions in global and Korean markets continue to worsen, which would have a material adverse effect on our business, financial condition and results of operation.

The disruptions and volatility in the global and Korean financial markets and economies may also adversely affect our business and results of operation in other ways. Specifically, the availability of credit may become limited, causing some of our counterparties to default. Moreover, negative developments in the global credit markets may cause significant fluctuations in stock markets globally and foreign currency exchange rates, which in turn may affect our results of operation. If credit market conditions continue to deteriorate, our capital funding structure may need to be adjusted, our funding costs may increase, our credit rating may be further downgraded, or our loan and other credit losses may increase, all of which could have a material adverse effect on our business, financial condition and results of operation.

Systemic risk resulting from failures in the financial services industry could adversely affect us.

Within the financial services industry the default of any institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions because the commercial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. This risk is sometimes referred to as systemic risk and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom we interact on a daily basis, which could have an adverse effect on our ability to raise new funding, and in turn, our business, financial condition and results of operation. Furthermore, we could be perceived to be facing the same issues as other financial institutions that hold assets with limited market liquidity or with significantly depressed values due to significantly negative views about the financial services sector in general as a result of recent economic and market developments, including the recent failures of major global financial institutions. Such perception of us, even if false, could adversely affect our business, financial condition and results of operation.

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. 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. Our credit card and 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. As the Korean economy further develops, more competitors may enter the industry. In addition, potential consolidation among our rival institutions may make the competitive landscape more adverse to us.

The Korean financial industry continues to be deregulated, which has lowered the barriers to entry. In February 2009, the Financial Investment Services and Capital Markets Act became effective, which, by removing regulatory barriers between securities brokerage, asset management, derivative financial services and trust services, has enabled financial investment companies (which have replaced the pre-existing securities companies and asset management companies) to engage in a broader sphere of financial activities than the securities companies were previously allowed, as well as offer a wider range of depositary services. Accordingly, the new law 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.

If we are unable to compete effectively in this more competitive and deregulated business 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 maintain so could result in the suspension of some or all of our operations.

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. As of December 31, 2008, the Tier I capital adequacy ratio and the BIS ratio on a consolidated basis were 5.2% and 10.2%, respectively, for Shinhan Financial Group. As of December 31, 2008, the Tier I capital adequacy ratio and the BIS ratio on a consolidated basis were 9.3% and 13.4%, respectively, for Shinhan Bank. Our credit card subsidiary, Shinhan Card, is required to maintain a consolidated adjusted equity capital ratio of 8.0%, and as of December 31, 2008, such ratio was 20.3%.

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 as discussed in this section or due to other reasons.

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 using short-term customer deposits. While the volume of our customer deposits has generally been stable, there have been times when customer deposits declined substantially due to the popularity of other, higher-yielding investment opportunities, namely stocks and mutual funds, such as 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

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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 subsidiaries, had difficulties from time to time in refinancing or obtaining optimal amounts of foreign currency-denominated funding on terms commercially acceptable to us. While our banking subsidiaries currently are not facing liquidity difficulties in any material respect, if we or our banking 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 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. For example, in February 2009, Moody s Investors Service, Inc. (Moody s) downgraded credit ratings on eight banks in Korea, including Shinhan Bank, as a result of which Shinhan Bank s foreign currency-denominated long-term unsecured senior debt credit rating was downgraded from A1 to A2, which is the corresponding credit rating currently assigned to the Korean government. Other rating agencies may decide to follow suit or place us or our subsidiaries, including Shinhan Bank, in a lower credit rating category. 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, 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.

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 dealing. 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 methods 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.

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, Good Morning Shinhan Securities, 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.

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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. Information on the Company Business Overview Our Principal Activities Corporate Banking Services Small- and Medium-sized Enterprises Banking). Our loans to such enterprises increased from ₩47,159 billion as of December 31, 2006, to ₩62,296 billion as of December 31, 2007, and ₩71,212 billion as of December 31, 2008, representing 38.5%, 41.0% and 41.8%, respectively, of its total loan portfolio as of such dates.

Compared to loans to large corporations, which tend to be better capitalized and prone to 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, 2006, 2007 and 2008, under Korean GAAP, Shinhan Bank s delinquent loans to small- and medium-sized enterprises were ₩318 billion, ₩453 billion and ₩820 billion, respectively, representing delinquency ratios (net of charge-offs and loan sales) of 0.72%, 0.85%, and 1.33%, respectively. If the current business downturn further deepens in terms of length and severity, the delinquency ratio for our loans to the small- and medium-sized is likely to rise significantly at least in the near future.

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, 2008, our loans to the real estate and leasing industry and the construction industry was ₩12,140 billion and ₩7,374 billion, representing 7.12% and 4.32%, respectively, of its 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 as a result of the global credit crisis as well as sustained efforts by the Korean government to stem speculation in the housing market. We also have a significant exposure to 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 significant exposure to the shipbuilding industry, which has also been disproportionately hurt by the recent economic downturn following a particularly robust period, largely due to the rapid slowdown in world trade which has substantially diminished shipbuilding orders.

The delinquency ratio for the small- and medium-sized enterprises in the construction and shipbuilding industries is also likely to increase significantly if a restructuring program for troubled companies in these industries is implemented as currently planned by the government. Specifically, in December 2008, the Korean government announced that it would promote swift restructuring of troubled companies in certain industries that have been disproportionately affected by the ongoing economic difficulties, such as construction and shipbuilding industries. These restructurings will be supervised primarily by the major commercial banks that are creditor financial institutions of such companies, with the Korean government having an oversight role. In February 2009, 12 construction companies and four shipbuilding companies became subject to workout following review by their creditor financial institutions and the Korean government, and Shinhan Bank was one of the creditor financial institutions for 11 construction companies and four shipbuilding companies.

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 Korean government and other financial institutions), and a substantial portion of our corporate loans are also secured, including by real estate. As of December 31, 2008, under Korean GAAP, the secured portion of Shinhan Bank s loans amounted to ₩71,955 billion, or 60.06% of its total loans. We cannot assure that the collateral value may not materially decline in the future. Shinhan Bank s general policy for home and mortgage loans is to lend up to 50% to 70% of the appraised value of collateral (except in highly speculated areas designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) and to periodically re-appraise our collateral. However, in light of the current downturn in the real estate 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 take additional loan loss provisions. In Korea, foreclosure on collateral generally requires a written petition to a Korean court. Foreclosure procedures in Korea typically take from 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.

Payment 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 financings to acquire land and related project development costs. It is the market practice that general contractors to guarantee the loan 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 severe 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 payment guarantees 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, where pre-sales have been disproportionately low. If defaults arise under our loans to real development projects and payment guarantees are not paid in sufficient amounts to cover the amount of our financings, this may have a material adverse effect on our business, financial condition and results of operation.

A significant 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, 2008, 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 ₩20,397 billion, or

6.62% of our total exposure. As of that date, our single largest corporate credit exposure was to the Hyundai Heavy Industry group, to which we had outstanding credit exposure of ₩4,612 billion, or 1.36% of our total exposures. See Item 4. Information on the Company Description of Assets and Liabilities Loans Loan Portfolio Exposure to the Main Debtor Group. If the credit quality of our exposures to the main debtor groups declines, we may be required to record additional loan loss provisions in respect of loans and impairment losses in respect of securities, which would adversely affect our financial condition, results of operations and capital adequacy. We cannot assure you that the allowances we have established against these exposures will be sufficient to cover all future losses arising from such exposures, especially in light of the current 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. The Bank is one of the creditor financial institutions and has exposure to a limited number of such corporations and main debtor groups. With respect to those companies that are in or in the future may enter into workout, restructuring or liquidation processes, the 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. Information on the Company 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 our 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 that 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, 2008, we had aggregate guarantees and acceptances of ₩18,208 billion, for which we provided allowances for losses of ₩240 billion. Such guarantees and acceptances include refund guarantees provided by us to shipbuilding companies, which involve guaranteeing payment of advance cash payments received by shipbuilders in the event that such shipbuilders are unable to deliver the ships in time or otherwise default under the shipbuilding contracts. Recently, small- to medium-sized shipbuilding companies are facing increasing financial difficulties due to global economic downturn and the slowdown in shipbuilding orders, which increases 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 ₩1 trillion as of December 31, 2008. If we experience significant asset quality deterioration with respect to our guarantees and acceptances, there is no assurance that our allowances will be sufficient to cover actual losses resulting in respect of these liabilities, or that the losses we incur on guarantees and acceptances will not be larger than the outstanding principal amount of the loans.

Risks Relating to Our Credit Card Business

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

As of December 31, 2008, the outstanding balance of our credit card receivables amounted to ₩14,637 billion. 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. Accordingly, the recent rise in unemployment, increase in interest rates and other difficulties affecting the Korean economy are expected to lead Korean consumers to reduce spending (including by way of credit card transactions), which in turn would lead to reduced revenue for our credit card business, as well as to higher default rates on credit card loans, which would result in deterioration in the credit quality of our credit card asset portfolio and increased difficulties in recovering written-off assets from which a significant portion of Shinhan Card s revenues is derived. Furthermore, a deepening of the global liquidity and economic crisis and the concomitant rise in borrowing rates may also hurt Shinhan Card s ability to source funding in sufficient quantity and on acceptable commercial terms or at all. A rise in borrowing rates may have the effect of shrinking the pool of investors for asset-backed securitization products of Shinhan Card and raising the borrowing rates for Shinhan Card s corporate debentures, which comprise the principal sources of funding for Shinhan Card. 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.

Over the past several 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 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. Shinhan Card s ability to continue its asset growth in the future will depend on, among others, its success in developing and marketing new products and services, its capacity to generate funding at commercially reasonable rates and in amounts sufficient to support further asset growth, its ability to develop the personnel and system infrastructure necessary to manage its growing and increasingly diversified business operations and its ability to manage increasing delinquencies, but there is no assurance that it will be able to do so at a sufficient level.

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 the fixed income markets, primarily through our treasury and investment business. We describe these activities in Item 4. Information on the Company Business Overview Our Principal Activities Treasury and Securities Investment. We also maintain smaller trading positions, including securities and derivative financial instruments as part of our banking 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 losses. If market prices move in a way we have not anticipated, we may experience losses. In addition, when markets are volatile and subject to rapid changes in the price directions, the actual market prices may be contrary to our assessments and lead to lower than anticipated revenues or profits, or even result in losses, with respect to the related transactions and positions.

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

Downturns in stock markets, including the current cycle, are likely to 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 in many cases based on the size of the assets under management, a market downturn which has the effect of reducing the value of our clients portfolios or increasing the amount of withdrawals would reduce the revenues 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 companies may result in increased withdrawals and reduced inflows, which would reduce the revenue we receive from these businesses. In addition, protracted market movements resulting in 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.

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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 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, in January 2009, we reported to the Financial Supervisory Service that an employee at a regional branch of Shinhan Bank had embezzled approximately ₩22 billion of Shinhan Bank s funds. We expect to recover approximately ₩5.7 billion of the embezzled fund. To date, we are waiting for the Financial Supervisory Service to issue a request for remedial measures. 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 liability risk. We are also involved in a variety of other claims, disputes, legal proceedings and government investigations in jurisdictions where we are active, including Korea. 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.

Recently, we have become a party to individual and collective lawsuits in connection with the sale of foreign currency derivatives products known as KIKO, 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, 2008, was ₩6 billion, and this amount may become larger as the lawsuits progress. The amount of damages we may be liable for if we lose these lawsuits may increase if the Korean Won further 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 cases. If we lose, the court may nullify the contracts under which KIKO products were sold and order us to return payment received from the customers. While the final outcome of such litigation is uncertain and we plan to rigorously defend our position, the lawsuits, especially if the courts rule against us, may have a material adverse effect on our business, financial condition and results of operation.

In addition, due to the global economic slowdown and a deteriorating Korean stock market since the second half of 2008, investment funds whose performance are tied to domestic and foreign stock markets have experienced a sharp fall in their rates of return. Consequently, investors in these funds have increasingly brought lawsuits against commercial banks in Korea that have 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. As of December 31, 2008, there were five cases filed against Shinhan Bank, which claims amounted to ₩1.0 billion in aggregate. The amount claimed may increase in the course of litigation and there may be other lawsuits that may be brought against us based on similar allegations. While it is difficult to predict the outcome of each lawsuit against Shinhan Bank 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 operation.

We may incur significant costs in preparing for and complying with the new IFRS accounting standards, and may not be able to fully comply with such standards within the prescribed timeline.

In March 2007, the Government announced that all companies listed on the Korea Exchange, including us, will be required to comply with International Financial Reporting Standards (IFRS) by 2011. IFRS is the financial reporting standard adopted in more than 110 countries and have requirements that are substantially different from those under Korean GAAP or U.S. GAAP. A task force team has been established by us and our subsidiaries to prepare for 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 as well as harm to our reputation.

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

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 designed to maintain the safety and soundness of Korea s financial system, ensure our compliance with economic and other obligations and limit our risk exposure. These regulations may limit our activities, and changes in these regulations may increase our costs of doing business. Regulatory agencies frequently review regulations relating to our business. 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, a breach of regulations could expose us to potential liabilities and sanctions. For example, If the Financial Services Commission deems our financial condition, including the financial conditions of our operating subsidiaries, to be 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 by the Financial Services Commission as a result of unsound financial condition or failure to comply with minimum capital adequacy requirements or for other reasons, such measures may 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. Information on the Company Supervision and Regulation.

Increased government intervention in the economy and tighter regulation of the financial services industry in Korea as a result of the ongoing global economic downturn could increase our costs and result in lower profits.

In response to the ongoing turbulence in the financial markets and the impact on the real economy, many governments worldwide, including the Korean government, have intervened on a massive scale, including by way of fiscal stimulus, lowered interest rates and direct investment in troubled financial institutions and corporations. The anticipated severity of the current economic crisis may lead the Korean government to take other interventionist measures, as a result of which we may be requested to participate in providing assistance to support distressed companies that are not our subsidiaries. In addition, we may voluntarily enter into arrangements with the government under which we accept greater government intervention in our affairs in exchange for government assistance. For example, in November 2008, Shinhan Bank entered into a memorandum of understanding with the Korean government, under which it may become subject to increased government monitoring of its operations and may be required to make certain adjustments to operations if it were to receive government guarantees for a certain amount of our foreign currency-denominated borrowings. In April 2009, the term during which Shinhan Bank is entitled to government guarantees for its foreign currency-denominated debt was extended until December 2009. While we do not currently anticipate that Shinhan Bank will need such government guarantees, increased government involvement in its operations could adversely affect our business, financial condition and results of operation. In addition, in February 2009, in order to provide additional liquidity and capital support for

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commercial banks in Korea, the Korean government announced a plan to establish a bank capital improvement fund in the amount of ₩20 trillion. The fund will be funded with loans from government-owned banks as well as outside investors. The commercial banks may draw down from the fund up to a limit specified for each bank, in exchange for subordinated debt, preferred shares and/or hybrid securities to be issued to the fund, which may have the effect of improving the drawing bank s liquidity and capital adequacy. Shinhan Bank s drawdown limit is expected to ~~be~~ W2 trillion, and on February 26, 2009, Shinhan Bank s board of directors decided to apply for the credit line with the fund. If Shinhan Bank draws down from the fund, it may become subject to increased government monitoring and certain conditions on the use of proceeds from the drawdown, including increased lending to small- to medium-sized enterprises which generally are facing increasing difficulties due to the economic downturn. This may have a material adverse effect on Shinhan Bank s and our business, results of operation and financial condition.

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 Korean 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 Korean 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. Recently, the government emphasis has been to provide assistance to the small- and medium-sized enterprises, which have been disproportionately affected by the recent developments in the Korean and global economy. 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 credit approval procedures and our risk management system independently of government policies, the Korean 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 decide to accept. For example, the Korean government has recently undertaken various initiatives to support small- and medium-sized enterprises through the ongoing economic downturn. As part of such initiatives, Shinhan Bank, like other commercial banks in Korea, has entered into a memorandum of understanding in April 2009 with the Government under which the Bank will make efforts, among others, to provide greater liquidity into the general economy by extending a greater 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 Korean 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 Korean government has recently announced or started implementing various policies 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 Korean government may from time to time take measures to regulate such market in order to preempt undue speculation, including by way of imposing restrictions on retail lending, including mortgage and home equity lending. Any such measures may be premature and may contribute to substantial future declines in real estate prices in Korea, which will reduce the value of the

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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 and 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, business reports and audit 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, among others, Shinhan Financial Group, its 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 global economic conditions. Factors that determine economic and business cycles of the Korean or global economy are for the most part beyond our control and inherently uncertain. In addition to discussions of recent developments regarding the global economic and market uncertainties and the risks relating to us as provided elsewhere in this section, factors that could hurt Korea s economy in the future include, among others:

- the length and severity of the current global and economic downturn;
- 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 Korean government s policy-driven tax and other regulatory measures;

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a decrease in tax revenues and a substantial increase in the Korean 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.

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.

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. 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 3.71% 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 Korean 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. Information on the Company Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restriction 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 American depositary shares 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

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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.

Your dividend payments and the amount you may realize upon a sale of your American depositary shares 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 unless American depositary share. 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. Additional Information 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. Operating and Financial Review and Prospects 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 document reside in Korea, and all or a significant portion of the assets of our directors and officers and other persons named in this document 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 passive foreign investment company for 2008, and we do not expect to be a PFIC in 2009 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 2009 or any future taxable year.

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ITEM 4. *INFORMATION ON THE COMPANY*

HISTORY AND DEVELOPMENT OF SHINHAN FINANCIAL GROUP

Introduction

Incorporated on September 1, 2001, Shinhan Financial Group is the first private 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, 2008 and operate the third largest banking business (as measured by total assets as of December 31, 2008) and the largest credit card business (as measured by the total credit purchase volume as of December 31, 2008) 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 11 direct subsidiaries and 17 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 14.8 million active customers, which we believe is the largest customer base through approximately 17,200 employees at approximately 1,470 network branches group-wide. While substantially all of our revenues have been historically derived from Korea, we aim to serve the needs of our clients through a global network of our 47 offices in the United States, Canada, the United Kingdom, Japan, the People s Republic of China, Germany, India, Hong Kong, Vietnam, Cambodia, Kazakhstan and Singapore.

Recent Developments

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 (which, in the case of shareholders in the United States, were limited to qualified institutional buyers, as defined in Rule 144A under the Securities Act) by way of an underwritten rights offering. The primary rationale for our board s decision to approve the rights offering was to enhance our capital position to prepare for potential contingencies that might result from the current economic environment, notwithstanding that we and our subsidiaries had fully satisfied (as also is the case now) the capital adequacy rations required under applicable laws and regulations and were not (as also is the case now) facing any significant liquidity constraints or financial distress.

On March 13, 2009, the subscription price for the common shares to be newly issued in connection with the rights offering was finally determined as ₩16,800 per share. The subscription price was determined based on a pricing formula prescribed by the rules of the Financial Services Commission, which effectively set the subscription price as the lowest among the closing prices on two reference dates and the arithmetic averages of volume-weighted average closing prices for periods ranging from one week to one month prior to such reference dates, multiplied by a pre-determined discount rate, which we fixed at 25%. On March 19, 2009, the offering was completed with substantially all of the rights shares subscribed by our existing shareholders. On March 24, 2009, settlement was made, on March 30, 2009, the newly issued common shares were listed on the Korea Exchange.

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 of approximately 16.4%. We plan to use the proceeds from the rights offering for supporting our existing business operations and other general corporate purposes.

Our Strategy

Prior to the onset of the current turmoil in the financial services industry and macro-economy in Korea as well as globally, our primary strategic focus has been on enhancing our market position in the Korean financial industry, achieving the economy of scale in each major business segment, diversifying our business lines and seamlessly integrating our different business units. To this end, the acquisition of Chohung Bank in 2003 helped us to magnify the scale of our banking operations, while the acquisition of LG Card in 2007 added a sizable non-banking business.

We believe that the level of uncertainty and volatility presented by the ongoing market and economic conditions presents a unique set of challenges and opportunities that require us to realign our strategic priorities in order to ensure that we position ourselves to best weather the current market crisis as well as to capture the opportunities that emerge from it. Accordingly, we plan to take a more back to basics approach in protecting and strengthening the fundamentals of, and synergy among, our core business lines, which will serve as the platform for pursing sustainable growth group-wide and further solidifying our competitive leadership, notwithstanding the difficult prospects in the global and domestic market and economic conditions.

More specifically, our back to basics approach in light of the current crisis will focus on the following fundamentals of our core businesses:

Further strengthen risk management. We plan to make our group-wide risk management system more comprehensive and pre-emptive in detecting and assessing any known and potential risks through early alerts and multiple contingency management plans. We will also seek to improve our overall asset quality and minimize any reputational risk by reassessing the risk profile of our core businesses and realigning their respective asset portfolios by unburdening a substantial portion of the high-risk assets.

Strengthen the profit structure. In order to improve our profitability, we plan, among others, to adopt greater differentiation in risk-profiling our products to price them more accurately, aggressively restructure low-profit and overlapping product lines and loss-leaders in our credit card business, conservatively diversify our revenue streams by taking advantage of market openings allowed by regulatory changes, deepen our banking customer relationships by capturing a greater market share of auto payroll deposit accounts and further expand cross-selling opportunities across our business units.

Improve cost efficiency. To improve our cost efficiency, we plan to focus on improving the productivity and efficiency of our banking and credit card distribution networks, eliminating overlap in back office functionalities, placing greater reliance on group-wide database and networks for information sharing, and making our work processes more efficient by implementing the six-sigma programs.

Capture maximum synergy. We plan to continue to build out groupwide informational networks and shared databases in order to maximize opportunities for target marketing, up-selling and cross-selling as well as deepening customer loyalty and relationship at the group level.

We plan to use our strong business fundamentals as described above to become a world-class financial group that ranks among the leaders of the financial industry in Asia and globally. We aim to achieve such objective by implementing the following strategies:

Gain a differentiated competitive edge for each core business line. In recognition of the different set of challenges facing each of our core business lines, we intend to focus on the following objectives and initiatives:

in commercial banking, our primary objective is to leverage our extensive banking network to serve as our main distribution channel. Accordingly, we plan to emphasize cross-selling non-banking products at our banking network, as well as offering total financial service packages. We also intend to fully leverage the scale of our banking operation to enhance brand recognition and offer customer-tailored products and services and thereby upgrade as well as expand our customer base. We also seek to establish a leading market position in promising new businesses by enhancing 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 solidify our market position as the largest credit card service provider in Korea. To that end, we seek to continue to focus on product innovations, refining individualized marketing strategy and maximizing opportunities for further synergy effects, including through improving our groupwide customer relations management (CRM) systems.

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 for the securities and asset management businesses in Korea. We aim to selectively develop competitive business models, 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.

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 citizenry in Korea.

Maximize synergy generation to present a seamless one-portal financial services platform. We believe that enhancing a one-portal channel for our active customers group wide is a critical element to our growth as an integrated financial services provider. To this end and in order to leverage the potential synergy among our various business lines, we plan to enhance our groupwide integrated customer relationship management system, which would 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. Other plans include enhancing and upgrading our existing resources available groupwide, such as our call centers and telemarketing networks, public relations teams and internet banking systems.

History and Organization

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 Stock Exchange, (ii) Shinhan Securities Co., Ltd., a securities brokerage company listed on the Korea Stock 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.

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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	Good Morning Shinhan Securities Co., Ltd.	Securities and investment	Acquisition from the SsangYong Group
August 2002	Shinhan BNP Paribas Investment Trust Management Co., Ltd.(1)	Investment advisory	50:50 joint venture with BNP Paribas
August 2003	Chohung Bank(2)	Commercial banking	Acquisition from creditors
December 2005	Shinhan Life Insurance	Life insurance services	Acquisition from shareholders
March 2007	LG Card(3)	Credit card services	Acquisition from creditors

Notes:

(1) 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).

(2) 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.

(3) 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 currently survives under that name with no significant assets and liabilities.

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

On May 29, 2008, Shinhan Bank acquired a 56.63% equity interest in AITAS Co., Ltd. For ₩36 billion. This entity provides administration services to mutual funds and other trust investment companies. Other commercial banks and employees of AITAS own the remaining equity. Shinhan Bank currently owns 89.58% equity interest in AITAS.

On June 2, 2008, Shinhan Card established Shinhan KTF Mobile Card Co., Ltd. As a joint venture with KTF, a mobile telephone company in Korea, to promote joint marketing between its credit card operations and KTF s mobile telephone services. The joint venture s capital stock as of December 31, 2007 was ₩2 billion, of which Shinhan Card owned 50%.

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In August 2008, Shinhan Private Equity Inc., our wholly-owned subsidiary engaged primarily in private equity investments, established Shinhan Private Equity Fund II with a capital contribution of ₩4.6 billion, to which Shinhan Private Equity serves as a general manager. Shinhan Private Equity Fund II currently has capital commitments of approximately ₩460 billion (including ₩10 billion committed by Shinhan Private Equity) and aims to specialize in buyout businesses and other portfolio investments.

In January 2009, Shinhan BNP Paribas Investment Trust Management Co., Ltd. and SH Asset Management, two of 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 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 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 SH&C Life Insurance Co., Ltd. In consideration of our extensive business partnership with BNP Paribas and Shinhan Bank s role in selling the bancassurance products, we transferred 15% equity interest in SH&C Life Insurance to Shinhan Bank, for ₩7.26 billion. Following this transaction, SH&C is no longer our subsidiary.

All of our subsidiaries are incorporated in Korea, except for the following:

Shinhan Asia Limited (incorporated in Hong Kong);

Shinhan Bank America (incorporated in the United States);

Shinhan Bank Canada (incorporated in Canada);

Shinhan Bank (China) Limited (incorporated in the People s Republic of China);

Shinhan Bank EuropeGmbH (incorporated in Germany);

Shinhan Bank Kazakhstan Limited (incorporated in Kazakhstan);

Shinhan Khmer Bank Limited (incorporated in Cambodia);

Shinhan Vina Bank (incorporated in Vietnam);

Shinhan Finance Ltd., Hong Kong (incorporated in Hong Kong);

Good Morning Shinhan Securities Europe Ltd. (incorporated in United Kingdom);

Good Morning Shinhan Securities USA, Inc. (incorporated in the United States); and

Good Morning Shinhan Securities Asia Limited (incorporated in Hong Kong).

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As of the date hereof, we have 11 direct and 17 indirect subsidiaries (not including any special purpose entities). The following diagram shows our organization structure as of the date hereof:

Notes:

(1) Currently in liquidation proceedings.

(2) On November 1, 2006, Shinhan Finance Limited, Shinhan Financial Group s indirect subsidiary, was transferred to a branch of Shinhan Bank. The liquidation process is currently in process.

(3) We and our subsidiaries currently own an additional 31.7%.

(4) We and our subsidiaries currently own an additional 30.4%.

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BUSINESS OVERVIEW

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

Our Principal Activities

The comprehensive financial services that we provide are:

- commercial banking services, consisting of the following:
  - retail banking services;
  - corporate banking services, primarily consisting of:
    - small- and medium-sized enterprises banking; and
    - large corporate banking;
  - treasury and securities investment;
  - 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 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 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 offered include principally 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 9.9% and 7.8% of our total deposits as of December 31, 2007 and 2008, respectively. Our demand deposits paid average interest of 0.41% and 0.78% in 2007 and 2008, respectively.

Savings deposits. Savings deposits which allow the customer to deposit and withdraw funds at any time and accrue interest at an adjustable interest rate, which is typically lower than applicable to time or installment deposits. Currently, the interest rate on savings deposits ranges from zero to 3.04%. Saving deposits constituted approximately 28.2% of our total deposits as of December 31, 2007 and paid average

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interest of 2.05% in 2007, and approximately 25.6% of our total deposits as of December 31, 2008 and paid average interest of 2.32% in 2008.

Certificates of deposit. Certificates of deposit typically have maturities from 30 days to 5 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 on a discount to their face value, reflecting the interest payable on the certificates of deposit. Certificates of deposit constituted approximately 14.9% and 11.3% of our total deposits as of December 31, 2007 and 2008, respectively. Our certificates of deposit paid average interest of 5.22% and 5.94% in 2007 and 2008, respectively.

Time deposits. Time deposits generally require the customer to maintain a deposit for a fixed term during which the deposit accrues interest at a fixed rate or 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. Time deposits constituted approximately 46.6% and 55.1% of our total deposits as of December 31, 2007 and 2008, respectively, and paid average interest of 4.55% and 4.94% in 2007 and 2008, 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 0.3% and 0.2% of our total deposits as of December 31, 2007 and 2008, respectively, and paid average interest of 3.88% and 3.78% in 2007 and 2008, 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 sets forth various measures supporting the purchase of houses and the supply of such houses by construction companies. If a potential home-buyer subscribes for these deposit products and holds them for a certain period of time set forth in the Housing Construction Promotion Law, such deposit customers obtain the right to subscribe for new private apartment units on a priority basis under this law. 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. 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.

Housing subscription installment savings deposits. These deposit products are monthly installment savings programs 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. 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 varying 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 proceedings or other disputes. Chohung Bank, which we acquired in 2003, was a dominant provider of such services since 1958, and we continue to hold a dominant market share in these services. Such deposits typically carry interest rates lower than the market rates (by approximately 2% per annum) and totaled ₩5,390 billion, ₩5,167 billion and ₩5,100 billion as of December 31, 2006, 2007 and 2008, 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 ₩61,209 billion as of December 31, 2008.

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 the provision of modern and efficient retail banking services is important both in maintaining our public profile and as a source of fee-based income. We believe that our retail banking services and products will become increasingly important in the coming years as the domestic banking sector further develops and becomes more complex.

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

Retail Lending Activities

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

Mortgage and home equity loans, mostly comprised of mortgage loans which are loans 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, 2008, our mortgage and home-equity loans and other retail loans accounted for 59.1% and 40.9%, 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, by taking into account the value of any lien or other security interest that is prior to our security interest (other than petty claims). As of December 31, 2008, the loan-to-value ratio of mortgage and home equity loans, under Korean GAAP, of Shinhan Bank was approximately 45.58%. As of December 31, 2008, 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, 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 Myong Bak whose campaign platform included promises of market-oriented deregulation and in response to the ongoing recession in the housing market, the Korean 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, and is reportedly considering other measures in order to bolster the housing market. Despite such recent measures, we believe the outlook for the Korean housing market remains uncertain in light of the ongoing uncertainties surrounding the Korean economy and its financial markets.

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

	As of December 31,		
	2006	**2007**	**2008**
	(In billions of Won, except percentages)		
Retail loans(1)			
Mortgage and home-equity(2)	₩ 30,097	₩ 31,495	₩ 36,183
Other consumer(2)	20,458	25,475	25,026
Percentage of retail loans to total gross loans	41.3%	37.5%	35.9%

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. Beginning in December 31, 2004, in recognition of the unsecured nature of such loans, we classified such loans as other retail loans.

Pricing

The interest rates on retail loans made by Shinhan Bank are either periodic floating rates (which is based on a base rate determined for three-month, six-month or twelve-month periods derived using an internal transfer price system, which reflects its cost of funding in the market, further adjusted to account for expenses related to lending and profit margin) or fixed rates that reflect its cost of funding, as well as its expenses related to lending and profit margin. Fixed rate loans are currently limited to maturities of three years and offered only on a limited basis. For unsecured loans, both types of rates also incorporate a margin based on, among other things, the borrower s credit score as determined during our loan approval process. For secured loans, credit limit is based on the type of collateral, priority with respect to the collateral and loan to value. We can adjust the price 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, 2008, Shinhan Bank s three-month, six-month and twelve-month base rates were approximately 3.93%, 4.67% and 4.96%, respectively. As of December 31, 2008, Shinhan Bank s fixed rates for home equity loans with a maturity of one year, two years and three years were 8.80%, 9.10% and 9.40%, respectively, and Shinhan Bank s fixed rates for other retail loans with a maturity of one year were from 10.00% to 14.50%, depending on the retail credit scores of its customers.

As of December 31, 2008, approximately 81.9% of Shinhan Bank s total retail loans were priced based on a floating rate and approximately 18.1% were priced based on a fixed rate. As of the same date, approximately 97.9% of Shinhan Bank s retail loans with maturity of over one year were priced based on a floating rate and approximately 2.1% were priced based on a fixed rate.

Private Banking

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

As of December 31, 2008, Shinhan Bank operated 16 private banking centers nationwide, including 10 in Seoul, two in the suburbs of Seoul and four in other cities located in other regions in Korea. As of December 31, 2008, Shinhan Bank had approximately 3,700 private banking customers, who typically are required to have ₩500 million in deposit or ₩1 billion in assets under management with Shinhan Bank to qualify for its private banking services.

Corporate Banking Services

Overview

We provide corporate banking services, primarily through Shinhan Bank, to small- and medium-sized enterprises and 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 companies.

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,					
	2006		2007		2008	
	(In billions of Won, except percentages)					
Small- and medium-sized enterprises loans(1)	₩ 47,159	38.5%	₩ 62,296	41.0%	₩ 71,212	41.8%
Large corporate loans(2)	20,808	17.0%	17,871	11.8%	23,483	13.7%
Total corporate loans	₩ 67,967	55.5%	₩ 80,167	52.8%	₩ 94,695	55.5%

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 accordance with their types of businesses in the Presidential Decree 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, 2008, we had 200,059 small- and medium-sized enterprises loan customers, and provided loans in the aggregate amount ₩71,212 billion to such customers as of December 31, 2008.

Our small- and medium-sized enterprises banking business has traditionally been and is expected to remain one of our core businesses. 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.

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 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 144 corporate banking branches with relationship management teams. 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 ₩23,483 billion as of December 31, 2008.

Shinhan Bank aims to be a one-stop financial solution provider and a partner in corporate expansion and growth to its corporate clients. 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 consulting, securitization and derivatives services, including securities and derivative products and foreign exchange trading. Shinhan Bank, through its subsidiary, Shinhan Asia Limited, opened its investment banking center in Hong Kong in October 2006 to arrange financing for, and offer consulting services to, Korean companies expanding their business overseas.

Due to the liquidity shortage as a result of the ongoing turbulence in the global financial markets, we believe that opportunities for large corporate banking, particularly loans involving large sums of principal, will generally be limited at least in the near future. In light of this outlook, we plan to focus on minimizing our credit risks in the area of large corporate banking, developing a diversified set of financial solutions to our corporate customers and bolstering human capital and other platforms to take advantage of future business opportunities in corporate banking.

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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 loan products for corporate customers are working capital loans and facilities loans. Working capital loans, which include discounted notes and trade financing, are generally loans used for general working capital purposes. Facilities loans are provided to finance the purchase of equipment and construction of manufacturing plants. As of December 31, 2008, working capital loans and facilities loans amounted to ₩47,820 billion and ₩13,490 billion, respectively, representing 78.0% and 22.0% 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.

Loans to corporations may be unsecured or secured by real estate, deposits or guaranty certificates. As of December 31, 2008, under Korean GAAP, secured loans and guaranteed loans (including loans secured by guaranty certificates issued by credit guarantee insurance funds) accounted for 46.3% and 7.5%, respectively, of Shinhan Bank s Won-denominated loans to small- and medium-sized enterprises. Among the secured loans, approximately 41.9% were secured by real estate.

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

Pricing

Shinhan Bank establishes the price for its corporate loan products based principally on their respective cost of funding and the expected loss rate based on the borrower s credit risk. As of December 31, 2008, 78.6% of Shinhan Bank s corporate loans with outstanding maturities of one year or more had interest rates that were not fixed but were variable in reference to Shinhan Bank s market rate.

Shinhan Bank generally determines the pricing for its corporate loans as follows:

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

Depending on the market condition and Shinhan Bank s 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, 2008, 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 3.93% for three months, 4.73% for six months, 5.06% for one year, 5.51% for two years, 5.70% for three years and 6.11% 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 a credit guarantee 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.

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The credit spread is added to the periodic floating rate to reflect the expected loss from a 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 the 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, the adjustment rate is subtracted to reflect such change in the credit spread. In addition, depending on the price and other terms set by competing banks for similar borrowers, Shinhan Bank may reduce the interest rate to compete more effectively with other banks.

Treasury 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 the Euro. In addition, Shinhan Bank makes call loans and borrows call money in the short-term money market. Call loans are short-term lending among banks and financial institutions in either Korean Won or foreign currencies, in amounts exceeding ₩100 million, with 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.

Derivatives Trading

Shinhan Bank provides and trades a range of derivatives products. The derivatives products offered by Shinhan Bank include:

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

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

equity and equity-linked options;

foreign currency forwards, swaps and options;

commodity forwards, options and swaps;

credit derivatives; and

KOSPI 200 indexed equity options.

Shinhan Bank s trading volume in terms of notional amount was W329,643 billion and W395,015 billion, in 2007 and 2008, respectively. Such derivative operations generally focus on addressing the needs of its corporate clients to hedge their risk exposure and back-to-back derivatives entered into to hedge our risk exposure that results from such client contracts.

Shinhan Bank also enters into derivative trading contracts to hedge the interest rate and foreign currency risk exposures that arise from its own assets and liabilities. In addition, on a limited basis, 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 and localizing its overseas operations and diversifying its product offerings, particularly in terms of asset management, in order to meet the varied financial needs of its current and potential customers overseas.

Trust Account Management Services

Overview

Shinhan Bank s trust account management services involve management of trust accounts, primarily in the form of money trusts. Trust account customers are typically individuals seeking higher rates of return than those offered by bank account deposits. Because deposit reserve requirements do not apply to deposits held in trust accounts as opposed to deposits held in bank accounts, and regulations 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 account deposits. 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 comparable bank account deposit products do. Compared to comparable bank account 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 accepted in trust accounts are required to be segregated from other assets of the trustee bank and are not available to satisfy the claims of the depositors or other creditors of such bank. Accordingly, trust accounts are accounted for and reported separately from the bank accounts. See Supervision and Regulation. Trust accounts are regulated by the Trust Act and the Financial Investment Services and Capital Markets Act, and most national commercial banks offer similar trust account products. Shinhan Bank earns income from trust account management services, which is recorded as net trust management fees. See Item 5. Operating and Financial Review and Prospects Operating Results 2008 Compared to 2007 Non-interest Income.

As of December 31, 2006, 2007 and 2008, under Korean GAAP, Shinhan Bank had total trust assets of ₩23,750 billion, ₩34,259 billion and ₩37,123 billion, respectively, comprised principally of real property investments of ₩2,934 billion, ₩8,403 billion and ₩9,942 billion, respectively, securities investments of ₩10,130 billion, ₩11,903 billion and ₩10,628 billion, respectively, and loans in the principal amount of ₩391 billion, ₩677 billion and ₩744 billion, respectively. Securities investments consisted of corporate bonds, government-related bonds and other securities, primarily commercial paper. As of December 31, 2006, 2007 and 2008, under Korean GAAP, equity securities constituted 5.0%, 3.4% and 3.0%, respectively, of Shinhan Bank s total trust assets. Loans made by trust accounts are similar in type to those made by bank accounts, except that they are made only in Korean Won. As of December 31, 2006, 2007 and 2008, under Korean GAAP, approximately 89.8%, 60.4%, and 64.4%, 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 was ₩13,574 billion and ₩12,822 billion as of December 31, 2007 and 2008, 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 us 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 guaranteed return on the deposits, except in the limited cases of principal guaranteed variable rate trust accounts, for which the payment of the principal amount is guaranteed. As of December 31, 2007 and 2008, under Korean GAAP, Shinhan Bank s variable rate trust accounts amounted to ₩10,019 billion and ₩9,311 billion, respectively, and its principal guaranteed variable rate trust accounts amounted to ₩3,546 billion and ₩3,510 billion, respectively. Shinhan Bank charges a lump sum or a fixed percentage of the assets held in such trusts as management fee, and, depending on the trust products, is also entitled to additional fee in cases of early termination of the trusts by the customer. Korean banks 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 guaranteed return of the principal as well as a 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 by the banks are carryovers from the past and have been dwindling in volume as the products mature. As of December 31, 2007 and 2008, the guaranteed fixed rate trust products maintained by Shinhan Bank amounted to ₩9.7 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, as the case may be.

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.

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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 11 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 allows 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 diversify our revenue sources from our non-banking operations.

Products and Services

General

Shinhan Card offers principally the following services:

credit card services, which involve providing cardholders with limited credit to purchase products and services. Cardholders can repay either (i) on a lump basis in full at the end of a monthly billing cycle or (ii) on a revolving basis subject to a minimum monthly payment which is the greater of (x) 5.0% of the amount outstanding or (y) ₩30,000. The outstanding credit card balance generally accrues interest at the effective 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. The lump-sum cash advances generally accrue interest at the effective annual rates of approximately 9.8% to 26.9% and the revolving cash advances generally charge the greater of (x) a lump sum transaction fee of ₩30,000 or (y) interest at a minimum rate of 5.0% of the advance amount and generally accrue interest at the effective annual rates of approximately 9.8% to 26.9%. Both types of cash advances require an upfront fee at the rate of 0.6% of the outstanding balance.

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 two months to two years. The outstanding installment purchase balances generally accrue interest at the effective annual rate of approximately 10.8% to 21.9%.

cash loans, which are generally unsecured (other than certain housing-related loans), and which cardholders must repay on an equal principal installment basis over an initial fixed term of two to 36 months or in full at maturity. The outstanding principal amount of card loans generally accrues interest at the effective annual rates of approximately 7.6% to 25.8% and upfront fees are charged at the effective annual rates of up to 4.0%. Cash loans also include loans to delinquent cardholders representing restructured outstanding credit card receivables. Such loans must be repaid on an installment basis over a maximum term of 60 months, generally accrue interest at the effective annual rate of approximately 15.0% to 27.8%.

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 also charges its customers the transaction fees charged by financial institutions (other than Shinhan Bank) for cash advances made through ATMs of such financial institutions.

The annual membership fees for credit cards vary depending on the type of the card and the benefits offered for such card. For standard cards, we charge an annual membership fee of ₩3,000 to ₩500,000 per card. 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 charges on the merchants, can be up to 4.5% of the purchased amount depending on the merchant used, with the average charge being 2.13% in 2008.

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Cardholders in Korea are 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. 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% in lieu of the interest rates applicable prior to default.

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 purchased amount using check cards at the rates applicable to the purchase amount using credit cards.

Customers and Merchants

In addition to our efforts at internal growth through cross-selling, we also seek to enhance our market position by selectively targeting new customers with high net worth and good creditworthiness through the use of a sophisticated and market-oriented risk management system. Credit card applicants to Shinhan Card are screened and appropriate credit limits for them are assessed 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. Same information is provided for LG Card as of December 31, 2006 for comparative purposes.

	As of December 31,		
	2006	**2007**	**2008**
	(In thousands, except percentages)		
Shinhan Card(1)**:**			
Number of credit card holders(2)	4,852	13,458	13,741
Personal accounts	4,767	13,346	13,617
Corporate accounts	85	112	124
Active ratio(3)	66.6%	74.9%	75.2%
Number of merchants	3,107	2,154	2,268
LG Card:			
Number of credit card holders	10,459	N/A	N/A
Personal accounts	10,438	N/A	N/A
Corporate accounts	21	N/A	N/A
Active ratio(3)	69.7%	N/A	N/A
Number of merchants	4,350	N/A	N/A

Notes:

(1) Information as of December 31, 2006 is for former Shinhan Card (including that for the credit card division of Chohung Bank to reflect the split-merger in April 2006). Information as of December 31, 2007 is for LG Card (renamed as Shinhan Card on October 1, 2007), including the assets and liabilities of former Shinhan Card assumed by LG Card on October 1, 2007.

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

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

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 the former Shinhan Card, LG Card and Shinhan Card as of the dates or for the period indicated. LG Card became our subsidiary in March 2007.

	As of or for the Year Ended December 31,					
	2006		2007		2008	
	Former Shinhan Card(1)		Shinhan Card(1)		Shinhan Card(1)	
	(In billions of Won, except percentages)					
Interest income:						
Installments	₩	72	₩	260	₩	326
Cash advances		189		547		639
Card loans(2)		62		488		548
Annual membership		9				
Revolving		33		227		240
Late payments		14		8		
Total	₩	379	₩	1,530	₩	1,753
Credit card fees:						
Merchant fees(3)	₩	430	₩	1,179	₩	1,309
Other fees		12		2		
Total	₩	442	₩	1,181	₩	1,309
Charge volume:(4)						
General purchases	₩	15,365	₩	45,912	₩	45,624
Installment purchases		3,721		14,269		17,682
Cash advances		8,296		20,704		23,945
Total	₩	27,382	₩	80,885	₩	87,251
Outstanding balance (at year end)(5):						
General purchases	₩	1,128	₩	3,018	₩	3,046
Installment purchases		869		3,833		4,037
Cash advances		860		3,086		3,111
Revolving purchases		294		1,361		1,410
Card loans(2)		525		2,556		2,524
Others		204		791		470
Total	₩	3,880	₩	14,645	₩	14,598
Average balance	₩	3,535	₩	12,106	₩	14,458
Delinquent balances(6):						

From 1 day to 1 month	₩	147	₩	790	₩	663
Over 1 month:						
From 1 month to 3 months	₩	36	₩	244	₩	244
From 3 months to 6 months		42		165		171
Over 6 months						
Sub-total		78		409		415
Total	₩	225	₩	1,199	₩	1,078

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	As of or for the Year Ended December 31,		
	2006 Former Shinhan Card(1)	2007 Shinhan Card(1)	2008 Shinhan Card(1)
	(In billions of Won, except percentages)		
Delinquency ratios(7):			
From 1 day to 1 month	3.79%	5.4%	4.5%
Over 1 month:			
From 1 month to 3 months	0.93%	1.7%	1.7%
From 3 months to 6 months	1.08%	1.1%	1.2%
Over 6 months(8)			
Sub-total	2.01%	2.8%	2.9%
Total	5.80%	8.2%	7.4%
Rewritten loans(9)	₩ 98	₩ 350	₩ 220
Gross charge-offs	₩ 209	₩ 436	₩ 706
Recoveries	69	459	697
Net charge-offs	₩ 140	₩ (23)	₩ 9
Gross charge-off ratio(10)	5.91%	3.60%	4.88%
Net charge-off ratio(11)	3.96%	(0.19)%	0.06%
Non-performing loan ratio(12) :			
Reported	3.50%	3.71%	2.91%
Managed	3.17%	2.98%	2.42%
Asset securitization(13)	₩ 710	₩ 5,762	₩ 5,666
Ratio of total assets securitized to total managed assets	17.9%	29.4%	29.4%

LG Card:

	As of or for the Year Ended December 31, 2006 (In billions of Won, except percentages)
Interest income:	
Installments	₩ 331
Cash advances	550
Card loans(2)	277
Annual membership	
Revolving	
Late payments	63

Total	₩	1,221
Credit card fees:		
Merchant fees(3)	₩	750
Other fees		1
Total	₩	751

		As of or for the Year Ended December 31, 2006 (In billions of Won, except percentages)
Charge volume:(4)		
General purchases	₩	23,125
Installment purchases		9,446
Cash advances		17,262
Total	₩	49,833
Outstanding balance (at year end)(5):		
General purchases	₩	1,893
Installment purchases		2,278
Cash advances		2,650
Revolving purchases		574
Card loans(2)		1,573
Others		1,050
Total	₩	10,018
Average balance	₩	10,295
Delinquent balances(6):		
From 1 day to 1 month	₩	545
Over 1 month:		
From 1 month to 3 months	₩	227
From 3 months to 6 months		167
Over 6 months		
Sub-total		394
Total	₩	939
Delinquency ratios(7):		
From 1 day to 1 month		5.4%
Over 1 month:		
From 1 month to 3 months		2.3%
From 3 months to 6 months		1.7%
Over 6 months(8)		
Sub-total		4.0%
Total		9.4%
Rewritten loans(9)	₩	1,005
Gross charge-offs	₩	515
Recoveries		315

Net charge-offs	₩	200

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		As of or for the Year Ended December 31, 2006 (In billions of Won, except percentages)
Gross charge-off ratio(10)		5.0%
Net charge-off ratio(11)		1.94%
Non-performing loan ratio(12) :		
Reported		6.1%
Managed		4.8%
Asset securitization(13)	₩	4,300
Ratio of total assets securitized to total managed assets		34.9%

Notes:

(1) The information of former Shinhan Card for 2006 includes that for the credit card division of Chohung Bank from April 1, 2006 to December 31, 2006 to reflect the split-merger in April 2006. 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 upon prior agreement. Payment of principal, fees and interest on such a loan can be due either in one payment or in installments after a fixed 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 of former Shinhan Card, the credit card division of Chohung Bank, LG Card and Shinhan Card has been to charge off some of credit card balances which are 180 days past due.

(9) Represents delinquent credit card balances for purchase and cash advance which have been rewritten as credit card loans, thereby reducing the balance of delinquent accounts before the application of SOP 03-3 relating to the acquisition of LG Card, which reduced the outstanding balances by, ₩322 billion and ₩165 billion as of December 31, 2007 and 2008, respectively.

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

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

(12) The reported information is presented on the Korean GAAP basis. The difference of the delinquency ratio between Korean GAAP and U.S. GAAP is due to their respective charge-off policies. The managed information includes, subject to certain adjustments, financial receivables that Shinhan Card has sold in asset-backed securitizations. See Explanatory Note.

(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.

Personal Workout and Debt Forgiveness Program

The Debtor Rehabilitation and Bankruptcy Act, which took effect on April 1, 2006, consolidated 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 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.

Securities Brokerage Services

Overview

We provide a full range of financial investment services through Good Morning Shinhan Securities, to our diversified customer base including corporations, institutional investors, governments and individuals. Financial investment services offered by Good Morning Shinhan Securities range from securities brokerage to our retail and institutional clients, investment advice and financial planning services to our retail customers, as well as investment banking services such as underwriting and M&A advisory services. As of December 31, 2008, Good Morning Shinhan Securities market share of Korean equity brokerage market was 5.10% in terms of total brokerage volume, ranking fifth among securities firms in Korea, excluding discount brokers such as Mirae Asset Securities and Kiwoom Securities. Good Morning Shinhan Securities held the largest market shares in the Kospi200 futures and options brokerage segments, recording 8.99% and 10.43%, respectively, in terms of total brokerage volume with respect to futures and options.

Recent Regulatory Changes

The Financial Investment Services and Capital Markets Act, which became effective on February 4, 2009, applies one uniform set of rules to various types of financial institutions which were previously subject to different licensing and ongoing regulatory requirements. To this end, the Act categorizes capital market-related businesses into six functions as follows: (i) investment trading business, (ii) investment brokerage business, (iii) collective investment business, (iv) investment advisory business, (v) discretionary investment business; or (vi) trust business. Under the Act, securities companies, asset management companies, futures companies and other entities engaging in the Financial Investment Business are classified as financial investment companies (the Financial Investment Companies). Each Financial Investment Company may select the kind of Financial Investment Business to engage in. In applying for requisite licenses, each Financial Investment Company must specify its desired (i) Financial Investment Business, (ii) financial investment products (for example, whether securities or derivatives) to be provided in such Financial Investment Business, and (iii) target customers (namely, whether institutions or individuals) with whom its respective Financial Investment Business may be conducted. For more information on the Financial Investment Services and Capital Markets Act, please see Supervision and Regulation Financial Investment Services and Capital Markets Act.

Good Morning Shinhan Securities has completed the requisite registration and license application processes for its six existing businesses as categorized under the Financial Investment Services and Capital Markets Act. It has also filed for a preliminary license request to conduct exchange-traded derivatives brokerage and dealing services, and upon obtaining such license, plans to expand its business into all exchange-traded derivative products, including interest rate futures, currency futures and commodity futures. Good Morning Shinhan Securities is also preparing to submit a license application to engaged in the collective investment business.

Products and Services

Good Morning Shinhan Securities 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 Good Morning Shinhan Securities institutional and international customers and sale of institutional financial products. These services are currently supported by a team of 57 research analysts that specialize in equity, bonds and derivatives research.

investment banking services. These services include a wide array of investment banking services to Good Morning Shinhan Securities 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.

Good Morning Shinhan Securities also engages in proprietary trading in equity and debt securities, derivative products and over-the-counter market products.

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, 2008 and March 31 2009, under Korean GAAP, Shinhan Life Insurance had total assets of ₩7,699.6 billion and ₩8,816.8 billion and net profits of ₩148.2 billion and ₩134.2 billion, respectively. During its fiscal year 2008, 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.

Bancassurance

We offer bancassurance services primarily through SH&C Life Insurance, a 50:50 joint venture with Cardif S.A., an insurance arm of the BNP Paribas Group. SH&C Life Insurance offers bancassurance products at other institutions such as Standard Charter Bank, Prudential Securities and other regional banks and is also a provider of variable savings products in Korea and its business has benefited from the product development expertise of Cardif S.A., which is a leading insurer in France, the cross-selling opportunities created by our extensive banking branch network and a business model that focuses on savings and investment products rather than pure insurance products. SH&C Life Insurance s total premium income was W62 billion and W49 billion in 2007 and 2008, respectively.

In June 2009, SH&C Life Insurance ceased to become our subsidiary following a sale by us of 35% equity interest in SH&C Life Insurance to BNP Paribas Assurance, which as a result of such sale owns approximately 85% equity interest in SH&C Life Insurance. In consideration of our extensive business partnership with BNP Paribas and Shinhan Bank s role in selling the bancassurance products, we transferred 15% equity interest in SH&C Life Insurance to Shinhan Bank.

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Asset Management Services

In addition to personalized wealth management services provided by our private banking and securities brokerage units, 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 mangers in Korea in terms of assets under management as of December 31, 2008, 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, 2009, Shinhan BNP Paribas Asset Management had assets under management amounting to approximately ₩27 trillion.

We expect that competition will intensify in the asset management industry as a result of the recently effective Financial Investment Services and Capital Markets Act. 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.

As of December 31, 2008, under Korean GAAP, Shinhan Capital s total assets were ₩4,007 billion, showing a ₩1,044 billion increase from the previous year. In particular, our operating assets increased from ₩1,816 billion in 2006 to ₩2,830 billion in 2007 and to ₩3,751 billion in 2008 under Korean GAAP. Shinhan Capital s strength has traditionally been in leasing of ships, printing machines, automobiles and other specialty items. Shinhan Capital has diversified its revenue base offering 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.

On November 23, 2007, Shinhan Financial Group purchased 20,000,000 common shares of Shinhan Capital at an aggregate purchase price of ₩100 billion in order to enhance the operational capabilities of Shinhan Capital by increasing its capital. On January 1, 2008, the corporate finance leasing operations of Shinhan Card were transferred to Shinhan Capital. The total transfer amount was ₩6.3 billion. The transfer was made in order to increase the scale of operations for our corporate credit finance business and thereby enhance its competitiveness. Following the transfer, Shinhan Capital focuses on equipment leasing and other corporate credit finance, while Shinhan Card focuses on retail credit, including credit cards, installment financing and auto leases.

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 38 branches, and had total assets, total liabilities and total stockholders equity of ₩2,887 billion, ₩2,715 billion and ₩172 billion, respectively, as of December 31, 2008.

Investment Banking and Advisory Services

In addition to the investment banking services provided by Shinhan Bank and Good Morning Shinhan Securities, 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. During the year ended December 31, 2008, Shinhan Macquarie Financial Advisory derived total revenues of ₩12 billion.

Loan Collection and Credit Reporting

We centralize credit collection and credit reporting operations for our subsidiaries through Shinhan Credit Information Co. Ltd., a wholly-owned subsidiary established in 2002, 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, 2008.

	Shinhan Bank			Shinhan	Good Morning Shinhan Securities		Shinhan Life	
Distribution Channels in Korea	**Retail**	**Corporate**	**Jeju Bank**	**Card(1)**	**Branches**	**Others(2)**	**Insurance**	**Total**
Seoul metropolitan	403	70	2	16	41	22	56	610
Kyunggi Province	189	27		19	12	6	17	270
Six major cities:	172	23	1	22	19	3	38	278
Incheon	57	7		3	3		11	81
Busan	41	6	1	6	5	2	10	71
Kwangju	14	2		3	2	1	5	27
Taegu	25	4		4	4		7	44
Ulsan	12	2		3	2		1	20
Taejon	23	2		3	3		4	35
Sub-total	764	120	3	57	72	31	111	1,158
Others	144	24	35	33	15		42	293
Total	908	144	38	90	87	31	153	1,451

Notes:

(1) Includes 30 card sales branches, 31 installment sales branches and 29 debt collection branches.

(2) Includes branches within a branch and private banking centers.

Banking Service Channels

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

As of December 31, 2008, Shinhan Bank had 1,052 branches in Korea, including 908 retail banking branches (including banking offices) and 144 corporate banking branches. Shinhan Bank s branch network is designed to focus on providing one-stop banking services tailored to one of the three customer categories: retail customers, small- and medium-sized enterprises customers and large corporate 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

In order to service corporate customers and attract high-quality corporate borrowers, in particular within the small-and medium-sized enterprises sector, Shinhan Bank has developed a corporate relationship management system within its domestic branch network and strengthened its marketing capability. Shinhan Bank s corporate relationship managers help foster enduring relationships with its corporate customers, particularly small- and medium-sized enterprises.

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, 2008, Shinhan Bank had 1,043 cash dispensers and 6,118 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 2008, automated banking machine transactions accounted for approximately 28.7% and 50.3%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 Branch Network

The table below sets forth Shinhan Bank s overseas banking subsidiaries and branches as of December 31, 2008.

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	Cambodia	2007
Shinhan Bank Kazakhstan	Kazakhstan	2008
Shinhan Bank Canada	Toronto, Canada	2008
Branches		
Tokyo	Japan	1988
Osaka	Japan	1986
Fukuoka	Japan	1997
New York	U.S.A.	1989
Singapore	Singapore	1990
London	United Kingdom	1991
Ho Chi Minh City	Vietnam	1995
Mumbai	India	1996
Hong Kong	China	2006
New Delhi	India	2006
Representative Office		
Mexico Representative Office	Mexico City, Mexico	2008

The principal activities of these overseas branches and subsidiaries are providing trade financing and local currency funding services for Korean companies and Korean nationals in the overseas markets and providing foreign exchange services in conjunction with Shinhan Bank s headquarters. On a limited basis, these overseas branches and subsidiaries also engage in investment and trading of securities of foreign issuers.

Credit Card Distribution Channels

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

The branch network for our credit card operations consists of 1,052 retail and corporate banking branches of Shinhan Bank and 30 card sales branches of Shinhan Card as of December 31, 2008. 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 2008, the number of new cardholders acquired through our banking branch network accounted for approximately 22.5% 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 2008, and the number of our new cardholders acquired through sales agents accounted for approximately 52.8% of the total number of new cardholders in 2008. As of December 31, 2008, Shinhan Card had 8,198 sales agents, of which 7,595 were independent contractors and 603 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 us 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 range of vendors, including gas stations, major retailers, airlines and telecommunication and Internet service providers and it plans to continue to leverage its sales alliances with the increasing number of vendors to attract new cardholders.

Securities Brokerage Distribution Channels

Our securities brokerage services are conducted principally through Good Morning Shinhan Securities. As of December 31, 2008, Good Morning Shinhan Securities had 118 business offices nationwide, three overseas subsidiaries based in New York, London and Hong Kong to service our corporate customers.

Approximately 53% of our brokerage branches are located in the Seoul metropolitan area with a focus on attracting high net worth individual customers and also to achieve synergy with our retail and corporate banking branch network. In the corporate sector in particular, we continue to explore new business opportunities through cooperation between Good Morning Shinhan Securities and Shinhan Bank.

Insurance Sales and Distribution Channels

We sell and provide our insurance services primarily through Shinhan Life Insurance and SH&C Life Insurance. SH&C Life Insurance specializes in bancassurance products, which it distributes solely through our bank branches. In contrast, 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, 2008, Shinhan Life Insurance had 153 branches and seven customer support centers. These branches are staffed by financial planners, telemarketers and agent marketers to meet the various needs of our insurance and lending customers. Our customer support centers provide lending services to our insurance customers as well as 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 . 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 are also currently in the planning stage for the implementation of improved systems for our other subsidiaries, including Good Morning Shinhan Securities, with July 2009 as the target completion date. We have completed the implementation of improved system for Shinhan Life Insurance in November 2008 and completed the IT integration for LG Card and former Shinhan Card in August 2008.

Our current information technology initiatives also include installing a financial reporting system meeting the IFRS standards starting the fiscal year 2011 and building a group-wide security management system to further ensure secure financial transactions for our customers.

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 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.

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Competition

We compete principally with other national commercial banks in Korea, but also face competition from a number of additional entities, including branches and subsidiaries of foreign banks operating in Korea, regional banks, government-owned development banks and Korea s specialized banks, such as Korea Development Bank and the National Association of Agriculture and Fisheries, as well as various other types of financial service institutions, including savings institutions (such as mutual savings and finance companies and credit unions and credit cooperatives), investment institutions (such as securities brokerage firms, merchant banking corporations and asset management companies) and life insurance companies. As of December 31, 2008, Korea had seven major domestic commercial banks in Korea (including Citibank and Standard Chartered First Bank, both of which acquired domestic commercial banks) and branches and subsidiaries of 39 foreign banks. We believe that foreign financial institutions, many of which have greater experiences and resources than we do, will continue to enter the Korean market and compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, the Korean banking industry may undergo further consolidation either voluntarily or as part of government-led initiatives. Some of the financial institutions resulting from these developments may, by virtue of their increased size, expanded business scope and more efficient operations, provide greater competition for us.

Over the past several years, competition has been particularly fierce in our core banking business of small- to medium-enterprise lending, as most Korean banks have focused their business on this area after reducing their exposure to large corporations, which has contributed to, and may further intensify, lower profitability and asset quality problems in small- to medium-enterprise loans. Competition in the credit card and consumer finance businesses has also been intense in recent years as existing credit card companies, commercial banks, consumer finance companies and other financial institutions in Korea have made significant investments and engaged in aggressive marketing campaigns and promotions in these areas. While Shinhan Card is currently Korea s largest credit card company in terms of the number of cardholders and transaction volume, there is no guarantee that it will maintain its current market position in the future. Furthermore, there is a possibility that *chaebols* may enter the credit card business by way of their mobile telephone subsidiaries, such as SK Telecom or LG Telecom, and such entry, if it happens, may pose a serious competitive threat to us since such telecom subsidiaries have a large and loyal customer base that may find it more convenient to use the credit services offered by such companies through the use of mobile phones rather than the credit card services offered by our credit card subsidiary. In addition, the newly enacted Financial Investment Services and Capital Markets Act took effect in February 2009, with the aim of promoting integration and rationalization of the Korean capital markets and financial investment products industry, and this will likely further intensify competition among financial institutions in Korea, including banks. See Item 3. Key Information Risk Factors Competition in the Korean financial services industry is intense, and may further intensify as a result of recent deregulation and Item 4. Information on the Company Supervision and Regulation Financial Investment Services and Capital Markets Act.

There can be no assurance that we will be able to compete successfully with other domestic and foreign financial institutions, and increased competition and market saturation from any or all of the foregoing developments may result in a loss of market share and declining margins for us, which would have a material adverse effect on our financial condition and results of operation. See Item 3. Key Information 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.

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, 2008, our total gross loan portfolio was ₩170,541 billion, which represented an increase of 12.33% from ₩151,818 at December 31, 2007. The increase in the portfolio primarily reflects a 14.40% increase in commercial loans and 14.88% increase in mortgages and home equity loans.

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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,				
	2004	2005	2006	2007	2008
	(In billions of Won)				
Corporate					
Commercial and industrial(1)	₩ 35,653	₩ 35,728	₩ 40,063	₩ 48,485	₩ 55,466
Other commercial(2)	17,988	21,409	27,319	30,312	37,637
Lease financing	981	754	585	1,370	1,592
Total Corporate	54,622	57,891	67,967	80,167	94,695
Consumer					
Mortgages and home equity	22,180	25,840	30,097	31,495	36,183
Other consumer(3)	15,546	17,875	20,458	25,475	25,026
Credit cards	4,732	4,242	3,924	14,681	14,637
Total Consumer	42,458	47,957	54,479	71,651	75,846
Total gross loans(4)	₩ 97,080	₩ 105,848	₩ 122,446	₩ 151,818	₩ 170,541

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, 2006, 2007 and 2008, approximately 89.8%, 90.6% and 90.4% 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.

Twenty Largest Exposures by Borrower

As of December 31, 2008, our 20 largest exposures, consisting of loans, securities and guarantees and acceptances, totaled ₩39,899 billion and accounted for 17.1% of our total exposures. The following table sets forth our total exposures to these top 20 borrowers as of December 31, 2008.

	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)						
The Bank of Korea	₩	₩	₩	₩ 9,420	₩	₩ 9,420	₩
Ministry of Strategy and Finance				6,429	29	6,458	
Korea Development Bank			40	3,033		3,073	
Industrial Bank of Korea	29			2,390		2,419	
Hyundai Samho Heavy Industries Co., Ltd.					1,794	1,794	
Kookmin Bank	63			1,712		1,775	
Korea Deposit Insurance Corporation	28			1,568		1,596	
Hyundai Heavy Industries Co., Ltd.	3		13		1,442	1,458	
Hyundai Mipo Dockyard Co., Ltd.			4		1,364	1,368	
Woori Bank	1			1,270		1,271	
STX Offshore & Shipbuilding Co., Ltd.	20	1			1,217	1,238	
Hana Bank				1,225		1,225	
Samsung Heavy Industries Co., Ltd.			3		1,171	1,174	
POSCO		2	781	90	260	1,133	
Samsung Card Co., Ltd.	550		5	429	4	988	
National Agricultural Cooperative Federation	2			826	7	835	
Songdo Cosmopolitan City Development Inc.	714					714	
Korea Exchange Bank	146			560		706	
SH Corporation	600			52		652	
SPP Plant & Shipbuilding Co. Ltd.	94	31			477	602	
Total	₩ 2,250	₩ 34	₩ 846	₩ 29,004	₩ 7,765	₩ 39,899	₩

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Exposure to Main Debtor Groups

As of December 31, 2008, 10.6% 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, 2008, 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	₩ 9	₩	₩ 16	₩	₩ 4,600	₩ 4,625	
Samsung	943	343	305	473	1,472	3,536	
Hyundai Motors	540	617	39	521	158	1,875	
STX	180	18	32		1,328	1,558	
SK	738	253	220	163	107	1,481	
POSCO	79	4	783	90	329	1,285	
Kumho Asiana	552	73	59	71	50	805	
LG	165	349	29	46	102	691	
Lotte	343	71	16	147	84	661	
Aju	238			259	127	624	
Total	₩ 3,787	₩ 1,728	₩ 1,499	₩ 1,770	₩ 8,357	₩ 17,141	

Loan Concentration by Industry

The following table shows the aggregate balance of our corporate loans by industry concentration as of December 31, 2008.

Industry	Aggregate Loan Balance (In billions of Won)	Percentage of Total Corporate Loan Balance (Percentages)
Manufacturing	₩ 30,029	31.71%
Retail and wholesale	12,140	12.82
Real estate, leasing and service	18,712	19.76
Construction	7,374	7.79
Hotel and leisure(1)	3,454	3.65
Finance and insurance	5,331	5.63

Transportation, storage and communication		5,735	6.05
Other service		11,163	11.79
Other		757	0.80
Total	₩	94,695	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, 2008.

	Aggregate Loan Balance (In billions of Won)		Percentage of Total Corporate Loan Balance (Percentages)
Commercial and industrial			
Up to ₩10 million	₩	59	0.03%
Over ₩10 million to ₩50 million		1,408	0.83
Over ₩50 million to ₩100 million		2,281	1.34
Over ₩100 million to ₩500 million		11,785	6.91
Over ₩500 million to ₩1 billion		6,629	3.89
Over ₩1 billion to ₩5 billion		15,092	8.85
Over ₩5 billion to ₩10 billion		5,590	3.28
Over ₩10 billion to ₩50 billion		9,056	5.31
Over ₩50 billion to ₩100 billion		2,059	1.20
Over ₩100 billion		1,507	0.88
Sub-total	₩	55,466	32.52%
Other commercial			
Up to ₩10 million	₩	83	0.05%
Over ₩10 million to ₩50 million		929	0.54
Over ₩50 million to ₩100 million		913	0.53
Over ₩100 million to ₩500 million		3,987	2.34
Over ₩500 million to ₩1 billion		2,263	1.33
Over ₩1 billion to ₩5 billion		6,254	3.67
Over ₩5 billion to ₩10 billion		4,240	2.49
Over ₩10 billion to ₩50 billion		11,103	6.51
Over ₩50 billion to ₩100 billion		3,453	2.02
Over ₩100 billion		4,412	2.59
Sub-total	₩	37,637	22.07%
Lease financing			
Up to ₩10 million	₩	4	
Over ₩10 million to ₩50 million		365	0.21%
Over ₩50 million to ₩100 million		256	0.15
Over ₩100 million to ₩500 million		148	0.09
Over ₩500 million to ₩1 billion		32	0.02
Over ₩1 billion to ₩5 billion		182	0.11
Over ₩5 billion to ₩10 billion		161	0.09
Over ₩10 billion to ₩50 billion		388	0.23

Over ₩50 billion to ₩100 billion		56	0.03
Over ₩100 billion			
Sub-total	₩	1,592	0.93%

		Aggregate Loan Balance (In billions of Won)	Percentage of Total Corporate Loan Balance (Percentages)
Mortgage and home equity			
Up to ₩10 million	₩	334	0.20%
Over ₩10 million to ₩50 million		6,299	3.69
Over ₩50 million to ₩100 million		8,859	5.19
Over ₩100 million to ₩500 million		19,181	11.25
Over ₩500 million to ₩1 billion		1,330	0.78
Over ₩1 billion to ₩5 billion		180	0.11
Over ₩5 billion to ₩10 billion			
Over ₩10 billion to ₩50 billion			
Over ₩50 billion to ₩100 billion			
Over ₩100 billion			
Sub-total	₩	36,183	21.22%
Other consumer			
Up to ₩10 million	₩	4,198	2.46%
Over ₩10 million to ₩50 million		8,150	4.78
Over ₩50 million to ₩100 million		3,418	2.00
Over ₩100 million to ₩500 million		7,447	4.37
Over ₩500 million to ₩1 billion		904	0.53
Over ₩1 billion to ₩5 billion		748	0.44
Over ₩5 billion to ₩10 billion		100	0.06
Over ₩10 billion to ₩50 billion		61	0.04
Over ₩50 billion			
Over ₩100 billion			
Sub-total	₩	25,026	14.68%
Credit cards(1)			
Up to ₩10 million	₩	12,993	7.62%
Over ₩10 million to ₩50 million		886	0.52
Over ₩50 million to ₩100 million		48	0.03
Over ₩100 million to ₩500 million		76	0.04
Over ₩500 million to ₩1 billion		27	0.02
Over ₩1 billion to ₩5 billion		76	0.04
Over ₩5 billion to ₩10 billion		12	0.01
Over ₩10 billion to ₩50 billion		60	0.03
Over ₩50 billion to ₩100 billion			
Over ₩100 billion		459	0.27
Sub-total		14,637	8.58

Total	₩	170,541	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, 2008. The amounts disclosed are before deduction of attributable loan loss reserves.

	As of December 31, 2008			
	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	₩ 48,479	₩ 6,181	₩ 806	₩ 55,466
Other commercial	24,755	9,433	3,449	37,637
Lease financing	527	1,024	41	1,592
Total corporate	₩ 73,761	₩ 16,638	₩ 4,296	₩ 94,695
Consumer:				
Mortgage and home equity	₩ 8,910	₩ 7,723	₩ 19,550	₩ 36,183
Other consumer	20,509	3,088	1,429	25,026
Credit cards	13,379	748	510	14,637
Total consumer	₩ 42,798	₩ 11,559	₩ 21,489	₩ 75,846
Total gross loans	₩ 116,559	₩ 28,197	₩ 25,785	₩ 170,541

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 of Shinhan Bank 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, 2008.

	As of December 31, 2008		
	Due Within 1 Year	Due After 1 Year	Total
	(In billions of Won)		
Fixed rate loans(1)	₩ 42,222	₩ 10,090	₩ 52,312
Variable rate loans(2)	74,338	43,891	118,229

Total gross loans	₩ 116,560	₩ 53,981	₩ 170,541

Notes:

(1) Fixed rate loans are loans for which the interest rate is fixed for the entire term of the loan. Fixed rate loans include ₩970 billion of loans due within one year and ₩950 billion of loans due after one year, which are priced based on one or more reference rates which may vary at our discretion. However, as a matter of practice we generally do not change such reference rates during the life of a 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, the accrual of interest is discontinued on loans (other than repurchased loans) when payments of interest and/or principal become past due by one day. Interest is recognized on these loans on a cash received basis from the date the loan is placed on nonaccrual status. Loans (other than repurchased loans) are not reclassified as accruing until interest and principal payments are brought current.

We do not generally 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 document and from the basis for related foregone interest calculation.

Interest foregone is the interest due on nonaccrual loans that has not been accrued in our books of account. For the years ended December 31, 2004, 2005, 2006, 2007 and 2008, we would have recorded gross interest income of ₩184 billion, ₩186 billion, ₩140 billion, ₩155 billion, and ₩202 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 for the years ended December 31, 2004, 2005, 2006, 2007 and 2008 were ₩142 billion, ₩117 billion, ₩107 billion, ₩77 billion and ₩109 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,				
	2004	**2005**	**2006(3)**	**2007(3)**	**2008(3)**
	(In billions of Won)				
Loans accounted for on a nonaccrual basis					
Corporate	₩ 1,681	₩ 1,475	₩ 1,187	₩ 1,181	₩ 1,457
Consumer	479	367	241	174	148
Credit cards	294	210	226	409	416
Sub-total	2,454	2,052	1,654	1,764	2,021
Accruing loans which are contractually past due one day or more as to principal or interest					
Corporate(1)	55	32	56	98	122
Consumer(2)	17	32	55	67	46
Credit cards	76	3			
Sub-total	148	67	111	165	168
Total	₩ 2,602	₩ 2,119	₩ 1,765	₩ 1,929	₩ 2,189

Notes:

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

(2) Includes accruing loans which are contractually past due 90 days or more in the amount of ₩12 billion, ₩5 billion, ₩5 billion, ₩2 billion and ₩10 billion, that are corporate loans as of December 31, 2004, 2005, 2006, 2007, and 2008, respectively.

(3) Includes accruing loans which are contractually past due 90 days or more in the amount of ₩6 billion, ₩7 billion, ₩23 billion, ₩27 billion and ₩13 billion, that are retail loans as of December 31, 2004, 2005, 2006, 2007 and 2008, respectively.

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 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,				
	2004	2005	2006	2007	2008
	(In billions of Won)				
Loans not included in nonaccrual and past due loans but classified as troubled debt restructurings	₩ 916	₩ 735	₩ 111	₩ 124	₩ 557

For the year ended December 31, 2004, 2005, 2006, 2007 and 2008, interest income that would have been recorded under the original contract terms of restructured loans amounted to ₩41 billion, ₩26 billion, ₩5 billion, ₩5 billion and ₩21 billion, respectively, out of which ₩42 billion, ₩22 billion, ₩4 billion, ₩2 billion and ₩18 billion was reflected as our interest income, respectively.

Credit Exposures to Companies in Workout, Court Receivership and Composition

Our exposures in restructuring are managed and collected by our Corporate Credit Collection Department. As of December 31, 2008, 0.44% of our total loan, or ₩747 billion, was under restructuring. The legal form of our restructurings is principally either workout, court receivership or composition.

Workout

Under the Corporate Restructuring Promotion Act, which became effective in September 2001, abolished in December 2005 and reinstated in August 2007 to remain effective until December 31, 2010, all creditors to borrowers that are financial institutions were required to participate in a creditors committee. The Corporate Restructuring Promotion Act was 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 approved such borrower s restructuring plan, including debt restructuring and provision of additional funds, which plan would be binding on all the financial institution creditors of the borrower, provided that any financial institution creditor that disagreed with the final restructuring plan approved by the creditors committee would have 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 failed to come to an agreement, a mediation committee consisting of seven experts would be set up to resolve the matter. There was a risk that these procedures might require us to participate in a plan we did not agree with or might require us to sell our claims at prices that we did not believe were adequate. With respect to any workout for which the lead creditor bank called for a meeting of the creditors committee while the 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 can 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, 2008 was ₩556 billion.

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Court Receivership and Composition

The Debtor Rehabilitation and Bankruptcy Act, which took effect on April 1, 2006, was 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, 2008 was ₩62 billion.

The total amount currently subject to composition proceedings as of December 31, 2008 was ₩15 billion.

Loans in the process of workout, court receivership or composition continue to be 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.

Potential Problem Loans

As of December 31, 2008, we had ₩242 billion of loans rated as normal or precautious by the guidelines of the Financial Services Commission, which are current as to payment of principal and interest but carries serious doubt as to the ability of the borrower to comply with repayment terms in the near future. These loans are classified as impaired and therefore included in the calculation of loan loss allowance under U.S. GAAP.

We have certain other interest-earning assets which, if they were loans, would be required to be disclosed as part of the nonaccrual, past due or troubled debt restructuring or potential problem loan disclosures provided above. As of December 31, 2008, the book value of such interest-earning assets on which interest was past due was ₩34.7 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; however, our loan officers also consider the credits for impairment throughout the year if information that may indicate an impairment event has occurred is presented.

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 as a basis to identify impaired loans. We consider the following loans to be impaired loans 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. Smaller balance corporate loans are evaluated collectively for impairment as these loans are managed collectively.

Loans individually identified for review and considered impaired

Consistent with the internal credit risk monitoring policies, we evaluate larger-balance impaired loans (which are impaired loans in excess of ₩2 billion for all of our subsidiaries) 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. 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 and current market conditions.

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.

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

Loans collectively evaluated for impairment

We also establish specific allowances for smaller-balance impaired corporate loans. These loans are managed on a portfolio basis and are therefore collectively evaluated for impairment since it is not practical to analyze or provide for our smaller loans on an individual, loan by loan basis. The allowance is determined based on loss factors taking into consideration past performance of the portfolio, previous loan loss history and charge-off information.

These loss factors are developed through a migration model that is a statistical tool used to monitor the progression of loans through different classifications over a specific time period. We adjust these loss factors developed for other qualitative or quantitative factors that affect the collectibility 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, at 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,		
	2006	2007	2008
	(Percentages)		
Normal	3.11%	1.94%	0.77%
Precautionary	32.12	31.36	11.66
Substandard	38.55	37.28	23.27
Doubtful	76.00	83.78	81.97
Estimated loss	90.60	88.81	89.19

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. 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 corporate loans collectively evaluated for impairment and establish allowances based on loss factors developed through a migration model and adjusted for specific circumstances related to individual borrowers of the leased asset.

Retail Loans

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

- 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 historical performance of the portfolio, previous loan loss history and charge-off information.

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We adjust the loss factors derived from the migration analysis as appropriate to reflect the impact of any current conditions on loss recognition that has not been adequately captured by our historical analysis. These include:

- Changes in economic and business conditions such as levels of unemployment and house prices;
- Change in the nature and volume of the portfolio, including any concentrations of credits; and
- The effect of 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 bucket and severity of loss. All loans in excess of six months 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 further segment our credit card portfolio into several homogeneous product types and perform separate roll-rate analysis for such segmented groups to reflect the different risks and characteristics of these portfolios.

We adjust the results from the roll-rate analysis as appropriate to reflect the impact of any current conditions on loss recognition that has not been adequately captured by our historical analysis. These include:

- Delinquency levels of cardholders;
- Current government involvement within the credit card industry (such as the 2001 Government Amnesty Program); 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 changing economic conditions or changes in industry or geographic concentrations. We have procedures in place to monitor differences between estimated and actual incurred loan losses, which include 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 balance is not received on the date on which such payment was 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 of such early stage accounts. However, we attempt to collect delinquent payments with increased efforts as the number of days past due increases. Efforts to collect from cardholders whose account balances are up to 30 days past due are generally made by our call centers at Shinhan Card. We use a collection scoring model which is intended to maximize the cost efficiency of collection from delinquent cardholders by classifying cardholders into three categories based on their credit score. For a delinquent accountholder with credit score of 1 or 2, we notify the cardholder of the delinquency within calendar 10 days of delinquency. For a delinquent cardholder with credit score of 3 or 4, we notify the cardholder of the delinquency within seven days of delinquency. For a delinquent cardholder with credit score of 5 or 6, we notify the cardholder of the delinquency within three days of delinquency. With the collection scoring model, we aim to minimize the number of card accounts which have been delinquent for a long period of time by proactively managing those cardholders with lower credit quality.

For those card accounts with balances that are more than 30 days past due, we assign the collection efforts to our internal collection centers. In respect of delinquent cardholders with balances that are more than five days past due, we outsource the collection efforts to external collection centers such as Shinhan Credit Information, our subsidiary, and Solomon Credit Information. For the first two months of their appointment, these collection centers 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 centers commence compulsory execution procedures against the delinquent cardholders accounts receivables or other properties to secure the amount of outstanding balances.

For those accounts with balances that are more than 180 days past due and, if the total past due amount is less than ₩5.0 million, we review such accounts for charge-off, and, if the total past due amount is equal to or greater than ₩5.0 million, 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.

Loan Aging Schedule

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

	Current		Past Due Up to 3 Months		Past Due 3-6 Months		Past Due More Than 6 Months		Total
As of December 31,	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**
	(In billions of Won, except percentages)								
2004	94,480	97.32	855	0.88	431	0.45	1,314	1.35	97,080
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

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.

The following table shows, as of the dates indicated, certain details of the total non-performing loan portfolio.

	As of December 31,				
	2004	**2005**	**2006**	**2007**	**2008**
	(In billions of Won, except percentages)				
Total non-performing loans	₩ 1,750	₩ 1,594	₩ 1,253	₩ 1,322	₩ 1,357
As a percentage of total loans	1.80%	1.51%	1.02%	0.87%	0.80%

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Analysis of Non-Performing Loans

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

As of December 31,										
4		2005			2006			2007		
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)										
898	2.52%	₩ 35,728	₩ 868	2.43%	₩ 40,063	₩ 760	1.90%	₩ 48,485	₩ 748	1.54%
468	2.60	21,409	387	1.81	27,319	256	0.94	30,312	272	0.90
19	1.94	754	8	1.06	585	8	1.37	1,370	7	0.51
,385	2.54	57,891	1,263	2.18	67,967	1.024	1.51	80,167	1,027	1.28
126	0.57	25,840	111	0.43	30,097	68	0.23	31,495	45	0.14
155	1.00	17,875	172	0.96	20,458	119	0.58	25,475	85	0.33
84	1.78	4,242	48	1.13	3,924	42	1.07	14,681	165	1.12
365	0.86	47,957	331	0.69	54,479	229	0.42	71,651	295	0.41
,750	1.80%	₩ 105,848	₩ 1,594	1.51%	₩ 122,446	₩ 1,253	1.02%	₩ 151,818	₩ 1,322	0.87%

Top 20 Non-Performing Loans

As of December 31, 2008, our 20 largest non-performing loans accounted for 20.7% 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, 2008		
		Industry	Gross Principal Outstanding	Allowance for Loan Losses
			(In billions of Won)	
1	Borrower A	Manufacturing	₩ 48	₩ 48
2	Borrower B	Manufacturing	27	14
3	Borrower C	Manufacturing	19	5

4	Borrower D	Other service	16	6
5	Borrower E	Manufacturing	15	15
6	Borrower F	Construction	15	15
7	Borrower G	Manufacturing	13	6
8	Borrower H	Real estate, leasing and service	12	2
9	Borrower I	Construction	12	12
10	Borrower J	Manufacturing	11	7
11	Borrower K	Real estate, leasing and service	11	0
12	Borrower L	Other service	10	10
13	Borrower M	Finance and insurance	10	7
14	Borrower N	Retail and wholesale	10	2
15	Borrower O	Manufacturing	9	9
16	Borrower P	Real estate, leasing, service	9	0
17	Borrower Q	Retail and wholesale	9	2
18	Borrower R	Manufacturing	9	3
19	Borrower S	Real estate, leasing, and service	8	8
20	Borrower T	Manufacturing	8	8
			₩ 281	₩ 179

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Non-Performing Loan Strategy

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

Notwithstanding the above, if a loan becomes non-performing, 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 legal action 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
- on a limited basis, identifying commercial loans subject to normalization efforts based on the cash-flow situation of the borrower.

Once the details of a non-performing loan are identified, we pursue early solutions for recovery. Actual recovery efforts on non-performing loans are handled by several of our departments or units, 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, attachments and litigation.

In order to promote speedy recovery on loans subject to foreclosures and litigation, our policy is to permit the branch responsible for handling these loans to 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 via 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 also undertake measures to reduce the level of our non-performing loans, which include: