SHINHAN FINANCIAL GROUP CO LTD
Form 20-F
June 28, 2011
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As filed with the Securities and Exchange Commission on June 28, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

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

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

OR

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

OR

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

Commission File Number: 001-31798

Shinhan Financial Group Co., Ltd.

(Exact name of registrant as specified in its charter)

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

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

Seoul 100-102, Korea

(Address of principal executive offices)

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

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

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

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

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

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

None

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

None

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

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

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

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

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

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

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

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

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CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

Unless otherwise specified or the context otherwise requires:

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

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

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

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

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

In this annual report, unless otherwise indicated, all references to Won or (Won) 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 translatio from Won to Dollars were made at (Won)1,130.60 to US$1.00, which was the noon buying rate in the City of New York on December 31, 2010 for cable transfers according to the H.10 statistical release of the Federal Reserve Board (the Noon Buying Rate). On June 14, 2011, the Noon Buying Rate was (Won)1,082.4 to US$1.00. The Noon Buying Rate has been volatile recently and the U.S. Dollar amounts referred to in this report should not be relied upon as an accurate reflection of our results of operations. We expect this volatility to continue in the near future. No representation is made that the Won or U.S. Dollar amounts referred to in this report could have been or could be converted into Dollars or Won, as the case may be, at any particular rate or at all.

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

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

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FORWARD LOOKING STATEMENTS

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

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

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

Not applicable.

ITEM 2. *OFFER STATISTICS AND EXPECTED TIMETABLE*

Not applicable.

ITEM 3. *KEY INFORMATION*

ITEM 3.A. *Selected Financial Data*

The selected consolidated income statement and balance sheet data set forth below for the years ended December 31, 2006, 2007, 2008, 2009 and 2010 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, 2006, 2007, 2008, 2009 and 2010 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,					
	2006	2007	2008	2009	2010	2010
	(In billions of Won and millions of US$, except per common share data)					
Interest and dividend income	(Won) 8,893	(Won) 12,149	(Won) 14,734	(Won) 12,597	(Won) 13,024	$ 11,520
Interest expense	4,912	6,979	8,955	7,376	6,850	6,059
Net interest income	3,981	5,170	5,779	5,221	6,174	5,461
Provision for credit losses	226	81	1,437	2,201	673	595
Noninterest income	3,786	4,738	4,572	5,685	5,800	5,130
Noninterest expense	5,308	6,745	6,726	7,137	7,902	6,990
Income tax expense	650	1,057	695	424	577	510
Income before extraordinary item and effect of accounting change	1,583	2,025	1,493	1,144	2,822	2,496
Cumulative effect of a change in accounting principle, net of taxes	(10)					
Net income	(Won) 1,573	(Won) 2,025	(Won) 1,493	(Won) 1,144	(Won) 2,822	$ 2,496
Net Income attributable to noncontrolling interest	18	95	12	10	(23)	(20)
Net income attributable to the Group	(Won) 1,555	(Won) 1,930	(Won) 1,481	(Won) 1,134	(Won) 2,845	$ 2,516
Net income per common shares (in currency unit):						
Net income basic(1)(3)(4)	(Won) 3,964	(Won) 4,250	(Won) 2,993	(Won) 1,957	(Won) 5,512	$ 4.84
Net income diluted(2)(3)(4)	3,964	4,172	2,995	1,955	5,403	4.73
Weighted average common shares outstanding-basic (in thousands of	392,340	403,475	417,673	461,500	474,200	474,200

common shares)						
Weighted average common shares outstanding-diluted (in thousands of common shares)	392,340	417,228	432,394	476,221	488,921	488,921

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Notes:

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

(2) Dilutive earnings per share are calculated in a manner consistent with basic earnings per share, while giving effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common shares were converted into or exercised for common shares. 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 Accounting Standard Codification (ASC) 323 (formerly APB opinion No. 18). Accordingly, the investment, our results of operation and retained earnings were retroactively adjusted as we acquired control over LG Card in 2007.

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

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Consolidated Balance Sheet Data

	As of December 31,					
	2006	2007	2008	2009	2010	2010
	(In billions of Won and millions of US$, except per common share data)					
Assets:						
Cash and cash equivalents	(Won) 1,691	(Won) 3,580	(Won) 1,365	(Won) 4,363	(Won) 5,689	$ 5,032
Restricted cash	6,758	4,745	7,049	7,974	5,559	4,917
Interest-bearing deposits	725	1,094	1,627	2,164	2,379	2,104
Call loans and securities purchased under resale agreements	1,243	802	3,066	1,346	2,243	1,984
Trading assets:						
Trading securities and other	3,474	8,220	6,724	6,681	11,464	10,140
Derivatives assets	1,363	1,962	11,977	4,617	3,814	3,374
Securities:						
Available-for-sale securities	16,894	22,626	29,016	27,612	27,398	24,233
Held-to-maturity securities	7,581	8,224	8,696	12,794	12,587	11,133
Loans (net of allowance for loan losses of (Won)1,575 billion in 2006, (Won)2,099 billion in 2007, (Won)3,201 billion in 2008, (Won)3,638 billion in 2009 and (Won)3,396 billion in 2010)	120,989	149,723	167,308	165,594	176,589	156,190
Customers liability on acceptances	1,417	1,701	2,433	2,780	3,961	3,503
Premises and equipment, net	2,097	2,455	2,412	2,437	2,367	2,094
Goodwill and intangible assets	2,584	6,160	5,571	5,072	4,787	4,234
Security deposits	1,108	1,294	1,334	1,323	1,395	1,234
Other assets	7,163	9,036	12,395	10,153	9,800	8,668
Total assets	(Won) 175,087	(Won) 221,622	(Won) 260,973	(Won) 254,910	(Won) 270,032	$ 238,840
Liabilities and Equity						
Liabilities:						
Deposits:						
Interest-bearing	(Won) 91,578	(Won) 103,241	(Won) 119,762	(Won) 140,809	(Won) 149,814	$ 132,509
Non-interest-bearing	3,918	3,162	2,942	2,890	3,078	2,722
Trading liabilities	1,611	2,509	11,831	4,565	3,616	3,198
Acceptances outstanding	1,417	1,701	2,433	2,780	3,961	3,503
Short-term borrowings	10,995	15,801	23,225	9,715	8,071	7,139
Secured borrowings	8,103	11,452	10,226	7,944	8,296	7,338
Long-term debt	32,574	46,496	49,652	44,795	46,496	41,125
Future policy benefit	5,683	6,769	7,260	8,310	10,347	9,152
Accrued expenses and other liabilities	9,244	13,369	15,678	12,553	13,145	11,627
Total liabilities	165,123	204,500	243,009	234,361	246,824	218,313
Equity:						
Common stock	1,908	1,981	1,981	2,371	2,371	2,097
Redeemable convertible preferred stock		74	74	74	74	65
Redeemable preferred stock		145	145	145	145	128
Additional paid-in capital	2,710	7,147	7,147	8,038	8,038	7,109
Retained earnings	5,205	6,801	7,710	8,621	11,032	9,758
	141	762	595	969	1,135	1,005

Accumulated other comprehensive income, net of taxes						
Less: treasury stock, at cost	(162)					
Total Group stockholders equity	9,802	16,910	17,652	20,218	22,795	20,162
Noncontrolling interest	162	212	312	331	413	365
Total equity	9,964	17,122	17,964	20,549	23,208	20,527
Total liabilities, Redeemable Convertible Preferred Stock and equity	(Won) 175,087	(Won) 221,622	(Won) 260,973	(Won) 254,910	(Won) 270,032	$ 238,840

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Dividends

	Year Ended December 31,				
	2006(1)	**2007(1)**	**2008(1)**	**2009(1)**	**2010(1)**
	(In Won and US$, except ratios)				
U.S. GAAP:					
Cash dividends per share of common stock:					
In Korean Won	(Won) 800	(Won) 900	(Won) 900	(Won)	(Won) 400
In U.S. dollars	$ 0.86	$ 0.96	$ 0.71	$	$ 0.35
Cash dividends per share of preferred stock					
In Korean Won	(Won) 365	(Won)	(Won) 4,928	(Won) 5,275	(Won) 5,275
In U.S. dollars	$ 0.36	$	$ 3.91	$ 4.53	$ 4.62
Korean GAAP:					
Cash dividends per share of common stock:					
In Korean Won	(Won) 800	(Won) 900	(Won) 900	(Won)	(Won) 400
In U.S. dollars	$ 0.86	$ 0.96	$ 0.71	$	$ 0.35
Dividend ratio(2)	16.00%	18.00%	18.00%		8.00%
Cash dividends per share of preferred stock:					
In Korean Won	(Won) 1,427	(Won) 1,389	(Won) 3,558	(Won) 3,925	(Won) 4,486
In U.S. dollars	$ 1.54	$ 1.48	$ 2.82	$ 3.37	$ 3.97
Dividend ratio(3)	28.54%	27.78%	71.16%	78.51%	89.72%

Notes:

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

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

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

Selected Statistical Information

Profitability Ratios

	Year Ended December 31,				
	2006	**2007**	**2008**	**2009**	**2010**
	(Percentages)				
Net income attributable to the Group as a percentage of:					
Average total assets(1)	0.93%	0.91%	0.60%	0.43%	1.05%
Average total Group stockholders equity(1)(2)	17.55	9.73	7.13	5.21	11.81
Including redeemable convertible preferred shares(3)	17.17	9.73	7.13	5.21	11.81
Dividend payout ratio(4)	21.66	18.48		37.24	12.50
Net interest spread(5)	2.55	2.49	2.38	1.99	2.26
Net interest margin(6)	2.75	2.82	2.74	2.31	2.61
Efficiency ratio(7)	68.34	68.08	64.98	65.44	65.99

Cost-to-average assets ratio(8)	3.18	3.17	2.71	2.68	2.92
Equity to average asset ratio(9):	5.31	9.32	8.37	8.16	8.89
Including redeemable convertible preferred shares(3)	5.43	9.32	8.36	8.15	8.89

Notes:

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

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

(3) Prior to the issuance of the Series 10 redeemable preferred shares and the Series 11 redeemable convertible preferred shares, we issued several other series of redeemable preferred shares and redeemable convertible preferred shares in August 2003, as part of the funding for the Chohung Bank acquisition. The redeemable preferred shares other than the Series 10 redeemable preferred shares are treated as debt under U.S. GAAP, and their effects on the profitability ratio are not presented in the table. The redeemable convertible preferred shares other than the Series 11 redeemable convertible preferred shares have characteristics of mezzanine securities and are treated as neither debt nor stockholders equity under U.S. GAAP, and their effects on the profitability ratio are shown in the table above for comparative purposes. All of the redeemable preferred shares other than Series 10 redeemable preferred shares were redeemed in 2009 and 2010, and all of the redeemable convertible preferred shares other than Series 11 and Series 12 redeemable convertible preferred shares were converted into our common shares in 2005 and 2006. For a description of these preferred shares, see Item 10.B. Memorandum and Articles of Incorporation Description of Preferred Stock.

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

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

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

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

	Year Ended December 31,				
	2006	**2007**	**2008**	**2009**	**2010**
	(In billions of Won, except percentages)				
Non-interest expense(A)	(Won) 5,308	(Won) 6,745	(Won) 6,726	(Won) 7,137	(Won) 7,902
Divided by					
The sum of net interest income and noninterest income(B)	7,767	9,908	10,351	10,906	11,974
Net interest income	3,981	5,170	5,779	5,221	6,174
Noninterest income	3,786	4,738	4,572	5,685	5,800
Efficiency ratio ((A) as a percentage of (B))	68.34%	68.08%	64.98%	65.44%	65.99%

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

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

assets.

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Asset Quality Ratios

	As of December 31,				
	2006	2007	2008	2009	2010
	(In billions of Won, except percentages)				
Total gross loans	(Won) 122,446	(Won) 151,818	(Won) 170,541	(Won) 169,255	(Won) 179,957
Total allowance for loan losses	1,575	2,099	3,201	3,638	3,396
Allowance for loan losses as a percentage of total loans	1.29%	1.38%	1.88%	2.15%	1.89%
Total non-performing loans(1)	(Won) 1,253	(Won) 1,322	(Won) 1,357	(Won) 1,415	(Won) 1,001
Non-performing loans as a percentage of total loans	1.02%	0.87%	0.80%	0.84%	0.56%
Non-performing loans as a percentage of total assets	0.72%	0.60%	0.52%	0.56%	0.37%
Impaired loans(2)	(Won) 1,375	(Won) 1,487	(Won) 2,178	(Won) 2,326	(Won) 2,459
Allowance for impaired loans	865	909	1,181	1,350	1,245
Impaired loans as a percentage of total loans	1.12%	0.98%	1.28%	1.37%	1.37%
Allowance for impaired loans as a percentage of impaired loans	62.91%	61.13%	54.22%	58.04%	50.63%

Notes:

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

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

Capital Ratios

	As of December 31,				
	2006	2007	2008	2009	2010
	(Percentages)				
Requisite capital ratio(1)	139.28%	N/A	N/A	N/A	N/A
BIS ratio(1)	N/A	9.85%	10.19%	12.60%	12.77%
Total capital adequacy ratio of Shinhan Bank	12.01	12.09	13.44	15.13	15.93
Tier I capital adequacy ratio	7.81	7.64	9.30	11.61	13.21
Tier II capital adequacy ratio	4.20	4.45	4.13	3.52	2.72
Adjusted equity capital ratio of Shinhan Card(2)	17.47	25.31	20.32	26.73	24.99
Solvency ratio for Shinhan Life Insurance(3)	232.60	226.05	209.47	212.40	397.93

N/A = Not available

Notes:

(1) We were restructured as a financial holding company on September 1, 2001, and until 2006, were required to maintain minimum capital as measured by the requisite capital ratio as set forth under the guidelines issued by the Financial Services Commission applicable to financial holding companies. For 2006, the minimum requisite capital ratio applicable to us as a holding company was 100%. Starting 2007, under the revised

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guidelines, the minimum requisite capital ratio applicable to us changed to the Bank for International Settlement (BIS) ratio of 8%. The requisite capital ratio is computed as the ratio of the net aggregate amount of our equity capital to the aggregate amounts of requisite capital. This computation is based on our consolidated financial statements in accordance with Korean GAAP. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

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

The information as of December 31, 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, 2009 and 2010 represents the information of Shinhan Card.

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

(3) Solvency ratio is the ratio of the solvency margin to the standard amount of solvency margin as defined and computed in accordance with the guidelines issued by the Financial Services Commission for life insurance companies. Under these guidelines, Shinhan Life Insurance is required to maintain a minimum solvency ratio of 100%. Shinhan Life Insurance s solvency ratio as of the end of its latest fiscal year on March 31, 2011 was 361.42%. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

The Financial Services Commission regulations require that capital ratios be computed 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,		
	2008	2009	2010
	(In millions of Won, except percentages)		
Risk-weighted assets	(Won) 183,741,412	(Won) 179,083,070	(Won) 185,694,642
Tier 1 capital	9,822,433	14,087,789	16,456,354
Tier 2 capital	9,822,433	9,520,300	8,492,469
Adjustment(1)	(921,405)	(1,035,959)	(1,237,065)
Total risk-adjusted capital	(Won) 18,723,461	(Won) 22,572,130	(Won) 23,711,758
Capital adequacy ratio (%)	10.19%	12.60%	12.77%
Tier 1 capital ratio (%)	5.35%	7.87%	8.86%

Note:

(1) Represents the subtraction from the capital line item of capital contributions to Shinhan Life Insurance and Shinhan Vina Bank 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)		
2006	930.0	950.1	1,002.9	913.7
2007	935.8	928.0	950.2	903.2
2008	1,262.0	1,105.3	1,507.9	935.2
2009	1,163.7	1,270.0	1,532.8	1,163.7
2010	1,130.6	1,155.7	1,253.2	1,104.0
2011 (through June 14)	1,082.4	1,102.5	1,135.6	1,065.5
January	1,119.1	1,118.9	1,128.1	1,111.0
February	1,123.7	1,117.4	1,130.6	1,100.9
March	1,097.3	1,119.3	1,135.6	1,097.3
April	1,068.4	1,083.2	1,091.8	1,068.4
May	1,078.0	1,084.4	1,101.6	1,065.5
June (through June 14)	1,082.4	1,080.9	1,085.2	1,076.2

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

Note:

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

We have translated certain amounts in Korean Won, which appear in this annual report, into dollars for convenience. This does not mean that the Won amounts referred to could have been, or could be, converted into U.S. dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, translations of Won amounts to U.S. dollars are based on the Noon Buying Rate in effect on December 31, 2010, which was (Won)1,130.60 to US$1.00. On June 14, 2011, the Noon Buying Rate in effect was (Won)1,082.4 to US$1.00.

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

Not applicable.

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

Not applicable.

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

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

Risks Relating to the Recent Economic and Market Crisis

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

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

The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. Recent difficulties affecting the U.S. and global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have increased the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. Due to recent liquidity and credit concerns and volatility in the global financial markets, the value of the Won relative to the Dollar has also fluctuated significantly in recent years. Furthermore, as a result of adverse global and Korean economic conditions, there has been continuing volatility in the stock prices of Korean companies. While the rate of deterioration of the global economy slowed in the second half of 2009, with some signs of stabilization and improvement in 2010, the overall prospects for the Korean and global economy in 2011 and beyond remain uncertain. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

In particular, difficulties in financial and economic conditions could result in significant deterioration in the quality of our assets and accumulation of higher provisioning, allowances for loan losses and charge-offs as an increasing number of our corporate and retail customers declare bankruptcy or insolvency or otherwise face increasing difficulties in meeting their debt obligations. During the recent global financial crisis, our delinquent and non-performing loans increased significantly before returning largely to pre-crisis levels due in part to our preemptive measures and improvements in the general economy. For example, although Shinhan Bank s delinquent loans (loans with principal payments overdue by one day or more or interest payments overdue for 14 days or more) under Korean GAAP increased during the recent global crisis, they decreased as the economy showed signs of recovery. In 2010, however, Shinhan Bank s delinquent loans under Korean GAAP increased due to an increase in delinquent loans to borrowers in the construction industry, which resulted primarily from a sustained downturn in the real estate market. Accordingly, Shinhan Bank s delinquency ratio (total delinquent loans to total outstanding loans) under Korean GAAP increased from 0.62% in 2007 to 0.79% in 2008, decreased to 0.59% in 2009 and increased to 0.78% in 2010. As for Shinhan Card, while its delinquency ratio under the FSC guidelines has steadily decreased from 3.40% in 2007, to 3.14% in 2008, 2.67% in 2009 and 1.80% in 2010 notwithstanding the recent global financial crisis, it may experience a slight increase in delinquency ratio as it seeks to maintain or enlarge its assets amid intensifying competition among credit card companies to gain market share.

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

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

Risks Relating to Our Overall Business

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

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

In the banking sector, Shinhan Bank competes principally with other national commercial banks in Korea, but also faces competition from a number of additional banking institutions, including branches and subsidiaries of foreign banks operating in Korea, regional banks, government-owned development banks and Korea s specialized banks, such as Korea Development Bank, the Industrial Bank of Korea and the National Association of Agriculture and Fisheries, as well as various other types of financial service providers, including savings institutions (such as mutual savings and finance companies, credit unions and credit cooperatives), investment companies (such as securities brokerage firms, merchant banking corporations and asset management companies) and life insurance companies. As of December 31, 2010, Korea had seven major nationwide domestic commercial banks (including Citibank and Standard Chartered First Bank, both of which are domestic commercial banks acquired by global financial institutions), six regional commercial banks and branches and subsidiaries of 37 foreign banks. We believe that foreign financial institutions, many of which have greater experiences and resources than we do, will continue to enter the Korean market and compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions.

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

In the credit card sector, Shinhan Card competes principally with existing monoline credit card companies, credit card divisions of commercial banks, consumer finance companies, other financial institutions and, recently, credit card service providers allied with mobile telecommunications service providers in Korea. Competition has been intensifying in this sector and the market has seen further signs of saturation as existing and new credit card service providers, such as credit card companies recently spun off from KB Financial Group, have made significant investments and engaged in aggressive marketing campaigns and promotions to acquire new customers and target customers with high credit quality. In addition, other credit card issuers may compete with Shinhan Card for customers by offering lower interest rates and fees, higher credit limits, more attractive promotions and incentives and alternative products such as phone cards, gift cards and low-interest consumer loan products. As a result, Shinhan Card may lose customers or service opportunities to competing credit card issuers and/or incur higher marketing expenses. Customer attrition, together with any lowering of interest rates or fees and/or more extensive marketing and promotional campaigns that Shinhan Card might implement to acquire and retain customers, could reduce its revenues and earnings. Furthermore, the average credit quality of Shinhan Card s customers may decline if customers with higher credit quality borrow from Shinhan Card s competitors rather than from Shinhan Card.

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

Potential consolidation among our rival institutions may make the competitive landscape more adverse to us. The Korean banking industry may undergo further consolidation either voluntarily or as part of government-led initiatives. Some of the financial institutions resulting from these developments may, by virtue of their increased size, expanded business scope and more efficient operations, provide greater competition for us.

For example, in June 2008, the Government announced its plans to privatize Korea Development Bank, one of the Government s key policy banks, and in January 2010, the Government announced its intent to sell its controlling stake in Woori Financial Group, one of the top three financial holding companies in Korea in terms of assets as of December 31, 2010 with a similarly ranked banking operation. If Woori Financial Group were to be acquired by a rival bank or financial holding company, the consolidated entity will have a greater scale of operations, including a larger customer base, and financial resources than us, which may hurt our ability to compete effectively. In addition, Hana Financial Group is currently seeking to complete its acquisition of a majority stake in Korea Exchange Bank. Any of these developments, if materialized, may place us at a competitive disadvantage and outweigh any potential benefit to us in the form of opportunities to acquire new customers who are displeased with the level of services at the newly merged entities or to provide credit facilities to corporate customers who wish to maintain relationships with a wide range of banks in order to diversify their sources of funding.

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

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

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

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

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

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

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

In December 2010, the Basel Committee issued final rules in respect of (i) a global regulatory framework for more resilient banks and banking systems and (ii) an international framework for liquidity risk measurement, standards and monitoring, which together are commonly referred to as Basel III. The new minimum capital requirements are expected to be phased in from January 1, 2013, with full implementation required by January 1, 2019. The minimum common equity tier 1 requirement of 4.5% and additional capital conservation buffer requirement of 2.5% are expected to be phased in sequentially from January 1, 2013, becoming fully effective on January 1, 2019. Any additional countercyclical capital buffer requirements are also expected to be phased in starting in 2016, in parallel with the capital conservation buffer to a maximum level of 2.5% effective on January 1, 2019, although individual jurisdictions may choose to implement larger countercyclical capital buffers. The leverage ratio will be subject to a supervisory monitoring period, which commenced on January 1, 2011, and a parallel run period, which will commence from January 1, 2013 until January 1, 2017. Further calibration of the leverage ratio will be carried out in the first half of 2017, with a view to migrating to a pillar 1 requirement from January 1, 2018. The Basel Committee has increased the capital requirements for the trading book and complex securitization exposures which are due to be implemented on December 31, 2011. On January 13, 2011, the Basel Committee issued further minimum requirements to ensure that all classes of capital instruments fully absorb losses at the point of non-viability before taxpayers are exposed to loss. Instruments issued on or after January 1, 2013 may only be included in regulatory capital if the new requirements are met. The capital treatment of securities issued prior to this date will be phased out over a ten-year period commencing January 1, 2013. Currently, there is no public guidance as to how the requirements of Basel III will be implemented in Korea. Accordingly, there can be no assurance that such new requirements under Basel III will not require an increase in our banking subsidiaries credit risk capital requirements in the future, which may require our banking subsidiaries to either improve their asset quality or raise additional capital.

Our holding company is currently in compliance with Basel I requirements and our banking subsidiaries are currently in compliance with Basel II requirements, and we and our banking subsidiaries are taking active steps to comply with the additional requirements under Basel III, as it becomes applicable.

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

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

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

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

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

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

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

Commencing in the second half of 2008, interest rates in Korea have declined to historically low levels as the government has sought to stimulate the economy through active rate-lowering measures. As the Korean economy showed signs of recovery, the Korean government increased the base interest rate in July and November 2010 and in January, March and June 2011, to contain inflationary pressures. All else being equal, an increase in interest rates would lead to a decline in the value of traded debt securities. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. Rising interest rates may therefore require us to re-balance our assets and liabilities in order to minimize the risk of potential mismatches and maintain our profitability. In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to deterioration of our credit portfolio. Since most of our retail and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of our retail and corporate borrowers and could adversely affect their ability to make payments on their outstanding loans.

We may incur losses associated with our counterparty exposures.

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

Risks Relating to Our Banking Business

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

Our banking activities are conducted primarily through our wholly-owned subsidiary, Shinhan Bank. One of our core banking businesses has historically been and continues to be lending to small- and medium-sized enterprises (as defined in Item 4.B. Business Overview Our Principal Activities Corporate Banking Services Small- and Medium-sized Enterprises Banking). Our loans to such enterprises amounted to (Won)71,212 billion as of December 31, 2008, (Won)69,571 billion as of December 31, 2009 and (Won)66,890 billion as of December 31, 2010, representing 41.8%, 41.1% and 37.2%, respectively, of our total loan portfolio as of such dates.

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

Financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, recent economic difficulties in Korea and globally, as well as aggressive marketing and intense competition among banks to lend to this segment in recent years, have led to a deterioration in the asset quality of our loans to this segment. As of December 31, 2008, 2009 and 2010, under Korean GAAP, Shinhan Bank s delinquent loans to small- and medium-sized enterprises were (Won)820 billion, (Won)578 billion and (Won)807 billion, respectively, representing delinquency ratios (net of charge-offs and loan sales) of 1.33%, 0.98% and 1.41%, respectively. If Korean or global economy were to experience another economic downturn, the delinquency ratio for our loans to the small- and medium-sized may rise significantly.

Of particular concern is the significant exposure we have to enterprises in the real estate and leasing and construction industries. As of December 31, 2010, we had outstanding loans to the real estate and leasing and construction industries (many of which are small- and medium-sized enterprises) of (Won)13,952 billion and (Won)3,434 billion, respectively, representing 9.39% and 2.31%, respectively, of our total loan portfolio as of such date. We also have other exposure to borrowers in these sectors of the Korean economy, including extending guarantees for the benefit of such companies and holding debt and equity securities issued by such companies.

The enterprises in the real estate development and construction industries in Korea, concentrated in the housing market, are currently experiencing a prolonged downturn characterized by reduced real estate demand and stagnant real estate prices, especially in areas outside of Seoul, largely due to a combination of excessive investment in recent years in residential property development projects, sustained efforts by the Korean government to stem speculation in the housing market and the recent economic crisis in Korea and globally. We also have a limited exposure to real estate project financing, particularly by construction companies that have built residential units in provinces outside the metropolitan Seoul area, which have experienced a relatively low rate of pre-sales, the proceeds from which the construction companies primarily rely on as a source for their liquidity and cash flow. In addition, we also have limited exposure to borrowers in the shipping and shipbuilding industries, which were disproportionately hurt by the recent economic downturn following a particularly robust period and are currently experiencing slow recovery.

The delinquency ratio for the small- and medium-sized enterprises in the construction, shipbuilding and shipping industries may increase significantly if restructuring of troubled companies in these industries intensifies as a result of a Government initiative or concerted efforts by lending institutions to improve their asset quality. For example, in 2009 and 2010, in an effort to curtail further deterioration in the credit quality of troubled companies in certain industries that have been disproportionately affected by the recent global economic crisis, the Government encouraged a swift review of the credit quality of such companies and restructuring of troubled companies by creditor financial institutions, including Shinhan Bank. In accordance with such program, 29 construction companies and eight shipbuilding companies became subject to workouts in February and March 2009. In addition, on June 25, 2010, the Government announced that, following review of credit risk relating to 1,985 companies in Korea with outstanding debt of (Won)50 billion or more, 65 of such companies will be subject to restructuring in the form of workout, liquidation or court receivership. Of the 65 companies, 16 are construction companies, three are shipbuilding companies and one is a shipping company. According to the Government s announcement, such restructuring is expected to have a limited impact on the asset quality of the commercial banks in Korea given the relatively strong level of capital adequacy and financial position of commercial banks in Korea to absorb potential losses in respect of these troubled companies, if any. However, there is no assurance that the credit exposure to these trouble companies will not increase in the future as a result of an economic downturn or for other reasons, and additional restructuring may follow as a result of a Government initiative or otherwise. Any of the foregoing developments may result in deterioration in the asset quality of our banking subsidiaries. See Item 4.B. Business Description of Assets and Liabilities Credit Exposures to Companies in Workout, Court Receivership or Composition.

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, especially if the Korean economy were to face renewed difficulties and a subsequent deterioration in the liquidity and cash flow of these borrowers. A significant rise in the delinquency ratios among these borrowers would lead to increased charge-offs and higher provisioning and reduced interest and fee income from this segment in the future, which would have a material adverse effect on our business, financial condition and results of operation.

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

Most of our home and mortgage loans are secured by borrowers homes, other real estate, other securities and guarantees (which are principally provided by the Government and other financial institutions), and a substantial portion of our corporate loans are also secured, including by real estate. As of December 31, 2010, under Korean GAAP, the secured portion of Shinhan Bank s loans amounted to (Won)78,358 billion, or 61.9% of its total loans. There is no assurance that the collateral value will not materially decline in the future. Shinhan Bank s general policy for home and mortgage loans is to lend up to 40% to 60% of the appraised value of collateral and to periodically re-appraise its collateral. However, in light of the sustained downturn in the 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 make additional loan loss provisions. In Korea, foreclosure on collateral generally requires a written petition to a Korean court. Foreclosure procedures in Korea generally take seven months to one year from initiation to collection depending on the nature of the collateral, and foreclosure applications may be subject to delays and administrative requirements, which may result in a decrease in the recovery value of such collateral. There can be no assurance that we will be able to realize the full value of collateral as a result of, among others, delays in foreclosure proceedings, defects in the perfection of collateral and general declines in collateral value. Our failure to recover the expected value of collateral could expose us to significant losses.

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

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

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

Of our 20 largest corporate exposures as of December 31, 2010, 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 (Won)24,561 billion, or 9.71% of our total exposure. As of that date, our single largest outstanding *chaebol* exposure amounted to (Won)3,763 billion, or 1.49% of our total exposures. See Item 4.B. Business Overview Description of Assets and Liabilities Loans Loan Portfolio Exposure to Main Debtor Groups. If the credit quality of our exposures to large corporations, including those in the main debtor groups, declines, we may be required to record additional loan loss provisions in respect of loans and impairment losses in respect of securities, which would adversely affect our financial condition, results of operations and capital adequacy. We cannot assure you that the allowances we have established against these exposures will be sufficient to cover all future losses arising from such exposures, especially in the case of a renewed economic downturn.

In May 2010, creditor financial institutions entered into agreements with nine main debtor groups, largely comprised of *chaebols*, under which such groups agreed to undertake plans to improve their financial conditions, including through sale of subsidiaries. While Shinhan Bank was not the main creditor financial institution to any of these main debtor groups, Shinhan Bank was one of the creditor financial institutions and has exposure to a limited number of such corporations and main debtor groups. While these main debtor groups are making significant efforts to improve their financial conditions, such as by obtaining intragroup loans and entering into agreements to further improve their capital structures, none of them have exited the latest restructuring programs. In addition, there is no assurance that there will not be future restructuring with major corporate customers or that such restructuring will not result in significant losses to Shinhan Bank with less than full recovery. In addition, bankruptcies or financial difficulties of large corporations, including *chaebol* groups, may have the adverse ripple effect of triggering delinquencies and impairment of our loans to small- and medium-sized enterprises that supply parts or labor to such corporations. If we experience future losses from our exposures to large corporations, including *chaebol* groups, it may have a material adverse impact on our business, financial condition and results of operation. See Item 4.B. Business Overview Description of Assets and Liabilities Loans Loan Portfolio Exposure to Main Debtor Groups.

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

In the normal course of banking activities, we make various commitments and incur certain contingent liabilities in the form of guarantees and acceptances. Certain guarantees which are not derivative contracts have been recorded on our consolidated balance sheet at their fair value at inception. Other guarantees are recorded as off-balance sheet items in the footnotes to our financial statements and those guarantees that we have confirmed to make payments on become acceptances, which are recorded on the balance sheet. As of December 31, 2010, we had aggregate guarantees and acceptances of (Won)18,965 billion, for which we provided allowances for losses of (Won)136 billion. Such guarantees and acceptances include refund guarantees provided by us to shipbuilding companies, which involve guaranteeing a refund payment of the initial cash payment (typically 25% of the contract amount for ship orders) received by shipbuilders from buyers in the event that such shipbuilders are unable to deliver the ships in time or otherwise default under the shipbuilding contracts. In recent years, small- and medium-sized shipbuilding companies have faced increasing financial difficulties due to the global economic downturn and the resulting slowdown in shipbuilding orders, which has increased the risk that they may default on their shipbuilding contracts and we may have to make payments under the refund guarantees. The refund guarantees provided by us to small- and medium-sized shipbuilding companies amounted to approximately (Won)749 billion as of December 31, 2010. If there is significant deterioration in the quality of assets underlying our guarantees and acceptances, our allowances may be insufficient to cover actual losses resulting in respect of these liabilities, or the losses we incur on the relevant guarantees and acceptances may be larger than the outstanding principal amount of the underlying loans.

Risks Relating to Our Credit Card Business

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

In recent years, credit card and other consumer debt has increased significantly in Korea. As of December 31, 2008, 2009 and 2010, Shinhan Card s credit card assets amounted to (Won)8,578 billion, (Won)10,941 billion and (Won)13,363 billion, respectively, on a reported basis and (Won)14,011 billion, (Won)14,569 billion and (Won)16,997 billion, on a managed basis. Our large exposure to credit card and other consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers in general. For example, a rise in unemployment, an increase in interest rates, a downturn in the real estate market, or a general contraction or other difficulties affecting the Korean economy may lead Korean consumers to reduce spending (a substantial portion of which is conducted through credit card transactions), which in turn leads to reduced earnings for our credit card business, as well as to higher default rates on credit card loans, deterioration in the quality of our credit card assets and increased difficulties in recovering written-off assets from which a significant portion of Shinhan Card s revenues is derived. Any of these developments could have a material adverse effect on our business, financial condition and results of operation.

In line with industry practice, Shinhan Card restructured certain of its delinquent loan balances. As of December 31, 2010, these restructured loans outstanding amounted to (Won)211.2 billion.

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

Competition in the credit card and consumer finance businesses has increased substantially in recent years and is intense as existing credit card companies, commercial banks, consumer finance companies and other financial and mobile telecommunications institutions in Korea have made significant investments and engaged in aggressive marketing campaigns and promotions in these areas. 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 fee rates and incur higher marketing expenses, as well as Government regulation and social and economic developments in Korea, such as changes in consumer confidence levels, spending patterns or public perception of credit card usage and consumer debt. For example, other credit card issuers may compete with Shinhan Card for customers by offering lower interest rates and fees, higher credit limits, different product offerings and/or better customer service, which may lead to a loss by Shinhan Card of accounts and/or account balances to competing credit card issuers. Customer attrition from any or all of Shinhan Card s products, together with any lowering of interest rates or fees that Shinhan Card might implement to retain customers and higher marketing expenses could reduce its revenues and earnings. As the credit card market further matures and becomes more saturated in terms of the number of cardholders and transaction volume, the average credit quality of Shinhan Card s customers may deteriorate if customers with higher credit quality borrow from our competitors rather than Shinhan Card and it may become more difficult for Shinhan Card to attract and maintain qualified customers.

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

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

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

Risks Relating to Our Other Businesses

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

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

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

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

Other Risks Relating to Us

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

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

Companies in Korea are subject to certain legal and regulatory restrictions with respect to payment of dividends. For example, under the Korean Commercial Code, dividends may only be paid out of distributable income, which is calculated by subtracting the aggregate amount of a company s paid-in capital and certain mandatory legal reserves from its net assets, in each case as of the end of the prior fiscal year. In addition, financial companies in Korea, including banks, credit card companies, securities companies and life insurers, such as our subsidiaries, must meet minimum capital requirements and capital adequacy ratios applicable to their respective industries before dividends can be paid. For example, under the Banking Act, a bank also is required to credit at least 10% of its net profit to a legal reserve each time it pays dividends on distributable income until such time when this reserve equals the amount of its total paid-in capital, and under the Banking Act, the Specialized Credit Financial Business Act and the regulations promulgated by the Financial Services Commission, if a bank or a credit card company fails to meet its required capital adequacy ratio or is otherwise subject to the management improvement measures imposed by the Financial Services Commission, then the Financial Services Commission may restrict the declaration and payment of dividend by such a bank or credit card company. In addition, if 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 to maintaining our relationships with clients, investors, regulators and the general public. Our reputation can be damaged in numerous ways, including, among others, employee misconduct (including embezzlement), litigation, compliance failures, corporate governance issues, failure to properly address potential conflicts of interest, the activities of customers and counterparties over which we have limited or no control, prolonged or exacting scrutiny from regulatory authorities and customers regarding our trade practices, or uncertainty about our financial soundness and our reliability. If we are unable to prevent or properly address these concerns, we could lose our existing or prospective customers and investors, which could adversely affect our business, financial condition and results of operation.

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

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

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

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

During the recent global credit crisis, the Korean stock market suffered a downturn, which in turn caused a sharp fall in the rates of return of investment funds whose performance was tied to domestic and foreign stock markets. Consequently, investors in these funds have increasingly brought lawsuits against commercial banks in Korea that sold such investment fund products based on the allegation that such banks used defective sales practices in selling such funds, such as failing to comply with disclosure requirements or unfairly inducing them to invest in the funds. There have been cases in which the courts required the banks to compensate their customers for inadequate disclosure and unfair inducement. We cannot assure you that, despite due training, all of our employees in charge of such sales have not breached disclosure requirements, engaged in unfair inducement or committed similar acts or will not do the same in the future.

Our newly adopted accounting standards under IFRS effective January 1, 2011 may significantly impact the results of our financial reporting in the future.

Pursuant to regulatory requirements applicable to all listed companies on the Korea Exchange, we adopted the International Financial Reporting Standards (IFRS) as our new accounting standards effective

January 1, 2011, which will impact our financial reporting for financial years beginning in 2011. IFRS is the financial reporting standard adopted in more than 110 countries and has requirements that are substantially different from those under Korean GAAP or U.S. GAAP. In addition, compared to reporting standards under Korean GAAP or U.S. GAAP, IFRS provides for differing reporting requirements with respect to the scope of consolidation, goodwill valuation, allowance for losses, revenue recognition and determination of employee compensation, which may make it difficult for our shareholders and other investors to compare our future reported financial results under the IFRS to our reported financial results under the Korean GAAP or U.S. GAAP and thereby make their investment decisions on a sufficiently informed basis. For our continued SEC reporting obligations, we will prepare and report our financial statement under IFRS as issued by the International Accounting Standard Board (IASB).

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

We rely on our information technology systems for our daily operations including billing, online and offline financial transactions settlement and record keeping. We also upgrade from time to time our groupwide customer data-sharing and other customer relations management systems. We may experience disruptions, delays or other difficulties relating to our information technology systems, and may not timely upgrade our systems as 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 that are designed to maintain the safety and soundness of Korea s financial system, to ensure our compliance with economic and other obligations and to limit our risk exposure. These regulations may limit our activities, and changes in these regulations may increase our costs of doing business. Regulatory agencies frequently review regulations relating to our business and implement new regulatory measures, including increasing the minimum required provisioning levels, capital ratios or capital adequacy ratios applicable to us and our subsidiaries from time to time. We expect the regulatory environment in which we operate to continue to change. Changes in regulations applicable to us, our subsidiaries and our or their business or changes in the implementation or interpretation of such regulations could affect us and our subsidiaries in unpredictable ways and could adversely affect our business, results of operations and financial conditions.

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

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

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

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

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

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

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

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

As part of such initiatives, Shinhan Bank, like other commercial banks in Korea, entered into a memorandum of understanding in April 2009 with the Government under which Shinhan Bank would make efforts, among others, to provide greater liquidity into the general economy by extending a sizable volume of loans to small- to medium-sized enterprises. We may incur costs or losses as a result of providing such financial support.

In addition, in light of the sizable non-performing assets from project financings (mostly related to real estate project financings) by low-tiered commercial banks and merchant banks, the Government is currently in the process of establishing a project financing normalization bank with capital contributions and loans from seven major commercial and policy banks, namely, Woori Bank, Kookmin Bank, Nonghyup Bank, Shinhan Bank, Hana Bank, Korea Development Bank and Industrial Bank of Korea. These banks are expected to make

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capital contributions and loans in the aggregate amount of (Won)1,228 billion, of which Shinhan Bank will be responsible for capital contribution of (Won)92 billion and loans of (Won)19 billion. Given the poor quality of assets for such project financings, there is no assurance that Shinhan Bank will be able to recoup its investments into or have its loan repaid by this special bank.

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

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

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

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

The Act on Class Actions regarding Securities allows class action suits to be brought by shareholders of companies listed on the Korea Exchange, including ours, for losses incurred in connection with the purchase and sale of securities and other securities transactions arising from (i) false or inaccurate statements provided in registration statements, prospectuses and business reports; (ii) insider trading and (iii) market manipulation. This law permits 50 or more shareholders who collectively hold 0.01% or more of the shares of a company at the time when the cause of such damages occurred to bring a class action suit against us and our subsidiaries and our and their respective directors and officers. It is uncertain how the courts will apply this law, however, as this law has been enacted 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.

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Risks Relating to Korea

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

We are incorporated in Korea, where most of our assets are located and most of our income is generated. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea, and our business, results of operation and financial condition are substantially dependent on developments relating to the Korean economy. As Korea s economy is highly dependent on the health and direction of the global economy, and investor s reactions to developments in one country can have adverse effects on the securities price of companies in other countries, we are also subject to the fluctuations of the global economy and financial markets. Factors that determine economic and business cycles in 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:

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

Any future deterioration of the Korean economy could have an adverse effect on our business, financial condition and results of 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-range missiles. In response to such actions, the Republic decided to join the Proliferation Security Initiative, an international campaign aimed at stopping the trafficking of weapons of mass destruction, over Pyongyang s harsh rebuke and threat of war. After the United Nations Security Council passed a resolution on June 12, 2009, to condemn North Korea s second nuclear test and impose tougher sanctions such as a mandatory ban on arms exports, North Korea announced that it would produce nuclear weapons and take resolute military actions against the international community.

There recently has been increased uncertainty about the future of North Korea s political leadership and its implications for the economic and political stability of the region. In June 2009, Korean and U.S. officials announced that Kim Jong-il, the North Korean ruler who reportedly suffered a stroke in August 2008, designated his third son, Kim Jong-eun, who is reported to be in his twenties, to become his successor. In September 2010, Kim Jong-eun was made a general in the North Korean army, named the vice chairman of the Central Military Commission and appointed to the Central Committee of the Workers Party in a series of measures widely believed to be part of the succession plan. The succession plan, including its likelihood of success and its implications for the politics and economy of North Korea, however, remains uncertain. In addition, North Korea s economy faces severe challenges. For example, on November 30, 2009, North Korea redenominated its currency at a ratio of 100 to 1 as part of its first currency reform in 17 years as a way to control inflation and reduce the income gap among its citizens. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea.

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

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

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on deposit with the depositary bank at the time of such proposed deposit. We have consented to the deposit of outstanding shares of common stock as long as the number of American depositary shares outstanding at any time does not exceed 20,216,314. As a result, if you surrender American depositary shares and withdraw shares of common stock, you may not be able to deposit the shares again to obtain American depositary shares.

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

As part of the financing for the LG Card acquisition, we issued to 12 entities in Korea an aggregate of 14,721,000 redeemable convertible preferred shares, which are convertible into 3.01% of our total issued common shares on a fully diluted basis. These redeemable convertible preferred shares may be converted into our common shares at any time from January 26, 2008 through January 25, 2012. On August 19, 2010, Shinhan Financial Group redeemed a total of 9,383,459 Series 5 and 8 redeemable preferred stock held by Korea Deposit Insurance Corporation and general institutional investors, of which 9,316,793 shares were held by Korea Deposit Insurance Corporation and 66,666 shares were held by general institutional investors, for a redemption price per share (including accrued dividends) of (Won)18,546 for Series 5 redeemable preferred stock and (Won)150,009 for Series 8 redeemable preferred stock for a total redemption amount of (Won)182,794 million. Currently, we do not know when or what additional percentage of our redeemable convertible preferred shares will be converted, or disposed of following the conversion. Accordingly, we cannot currently predict the impact of such conversion or disposal.

Ownership of our shares is restricted under Korean law.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Risks

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

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

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

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

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

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

Based upon the past and projected composition of our income and valuation of our assets, we do not believe that we were a PFIC for 2010, and we do not expect to be a PFIC in 2011 or to become one in the foreseeable future, although there can be no assurance in this regard. If, however, we become a PFIC, such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. For example, if we become a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. Our PFIC status is determined on an annual basis and depends on the composition of our income and assets. Specifically, we will be classified as a PFIC for U.S. tax purposes if either: (i) 75% or more of our gross income in a taxable year is passive income, or (ii) the average percentage of our assets by value in a taxable year which produce or are held for the production of passive income (which generally includes cash) is at least 50%. Special rules treat certain income earned by a non-U.S. corporation engaged in the active conduct of a banking business as non-passive income. See Item 10.E. Taxation Certain United States Federal Income Tax Consequences Passive Foreign Investment Company Rules. We cannot assure you that we will not be a PFIC for 2011 or any future taxable year.

ITEM 4. *INFORMATION ON THE COMPANY*

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

Introduction

Incorporated on September 1, 2001, Shinhan Financial Group is the first privately-held financial holding company to be established in Korea. Since inception, we have developed and introduced a wide range of financial products and services in Korea and aimed to deliver comprehensive financial solutions to clients through a convenient one-portal network. According to reports by the Financial Supervisory Service, we are one of the three largest financial services providers in Korea as measured by total assets as of December 31, 2010 and operate the third largest banking business (as measured by total assets as of December 31, 2010) and the largest credit card business (as measured by the total credit purchase volume as of December 31, 2010) 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 21 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 17.8 million active customers, which we believe is the largest customer base in Korea, through approximately 19,800 employees at approximately 1,400 network branches groupwide. While substantially all of our revenues have been historically derived from Korea, we aim to serve the needs of our clients through a global network of our 59 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.

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

Our Strategy

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

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

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

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

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

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

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

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

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

- continual upgrades to optimize our operation management system;
- increased investment in employee training and professional development, with a focus on nurturing leaders for the next generation;
- brand promotion and bolstering a unified corporate culture that stresses flexibility and open-mindedness to new objectives and challenges;
- balanced risk-return management;
- enhancement of our customer relationship management system for better customization of our product offerings to the individual needs of our customers; and
- bolstering customer confidence and building up social capital through enhancement of our corporate governance and addressing demand for greater social responsibility by financial institutions.

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

- *in commercial banking*, our primary objective is to strengthen our competitive position and become the leading bank in Korea by enhancing customer satisfaction, locking in the loyalty of our existing banking customers and further enlarging our customer base. To this end, we plan to fully leverage the scale of our banking operation afforded by our extensive branch network, emphasize cross-selling non-banking products at our banking network, offer total financial service packages, bolster our brand image and further upgrade our customer service infrastructure, risk management systems and other operating processes. We also intend to enter, on a selective basis, into promising new businesses by strengthening our investment banking, private banking and other fee-based businesses, making significant inroads into the retirement pension market, and offering differentiated wealth management strategies and portfolios.
- *in credit card business*, our primary objective is to further solidify our market leadership as the largest credit card service provider in Korea through differentiated and tailored customer service based on a strategy that emphasizes soft and smart aspects of enhancing customer loyalty, brand recognition and revenue expansion. We will also emphasize further optimizing our risk management through preemptive risk prevention, creating new synergy opportunities through collaboration with our other Shinhan affiliates and enhanced use of the groupwide customer relationship management system. As a way of identifying and exploring new potential growth areas, we are also exploring, on a selective basis, entering into strategic alliances with telecommunications service providers and retail grocery and department store chains for further expansion of our distribution network.

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

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

Our History and Development

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

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

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

Notes:

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

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

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

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

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

In June 2010, CHB Valuemeet 2001 Second SPC and CHB Valuemeet 2002 First SPC, special purpose companies wholly owned by Shinhan Bank, were disaffiliated from Shinhan Financial Group. CHB Valuemeet 2001 Second SPC and CHB Valuemeet 2002 First SPC were established by Shinhan Bank to securitize its impaired loan assets.

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In August 2010, Shinhan Macquarie Financial Advisory, a 51:49 joint-venture with Macquarie Bank of Australia, was disaffiliated from Shinhan Financial Group through retirement of shares. Shinhan Macquarie Financial Advisory primarily focused on providing financial advisory services on public infrastructure projects, but due to a slowdown in such business beginning in 2008, Shinhan Macquarie Financial Advisory suffered losses and capital deficit. In addition, in light of the substantial overlap of such advisory business with those provided by Shinhan Bank and Shinhan Investment, we agreed to Macquarie s proposal to retire our shares in Shinhan Macquarie Financial Advisory.

In October 2010, Shinhan Investment established Shinhan Maritime Private Equity Fund I to provide investment banking services with a focus on taking advantage of fee-earning and capital gains opportunities in the maritime businesses in light of the anticipated rebound in the shipping and shipbuilding industries in the aftermath of the recent global financial crisis. Shinhan Investment currently holds a 7.1% equity interest in this fund.

In February 2011, Shinhan BNP Paribas Asset Management established Shinhan BNP Paribas Asset Management (Hong Kong) Limited as a wholly owned subsidiary in Hong Kong to identify investment opportunities overseas and eventually serve as a platform for providing asset management services at a global level. Created with support from BNP Paribas Investment Partners Asia, the formation of this subsidiary reflects the ongoing trend among domestic financial institutions to expand their international presence in order to meet the increasing demand from domestic customers for investment opportunities overseas.

Rights Offering

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

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ITEM 4.B. Business Overview

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

Our Principal Activities

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

- commercial banking services, consisting of:
  - retail banking services;
  - corporate banking services, primarily consisting of:

- small- and medium-sized enterprises banking; and

- large corporate banking;

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

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

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

Deposit-Taking Activities

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

Demand deposits. Demand deposits do not accrue interest or accrue interest at a lower rate than time or savings deposits and allow the customer to deposit and withdraw funds at any time. If interest-bearing, demand deposits have interest accruing at a fixed or variable rate depending on the period and the amount of deposit. Demand deposits constituted approximately 7.3% and 7.7% of our total deposits as of December 31, 2009 and 2010, respectively. Our demand deposits paid average interest of 0.45% and 0.49% in 2009 and 2010, respectively.

Savings deposits. Savings deposits allow the customer to deposit and withdraw funds at any time and accrue interest at an adjustable interest rate, which is typically lower than the rate applicable to time or installment deposits. Saving deposits constituted approximately 26.1% of our total deposits as of December 31, 2009 and paid average interest of 1.22% in 2009, and approximately 26.3% of our total deposits as of December 31, 2010 and paid average interest of 1.04% in 2010.

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Certificates of deposit. Certificates of deposit typically have maturities from 30 days to five years. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market interest rates. Certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificates of deposit. Certificates of deposit constituted approximately 5.4% and 2.3% of our total deposits as of December 31, 2009 and 2010, respectively. Our certificates of deposit paid average interest of 5.48% and 4.49% in 2009 and 2010, respectively.

Other time deposits. Other time deposits generally require the customer to maintain a deposit for a fixed term during which the deposit accrues interest at a fixed rate or a variable rate based on certain financial indexes, including the Korea Composite Stock Price Index (KOSPI). If the deposit is withdrawn prior to the end of the fixed term, the customer is paid a lower interest rate than that originally offered. The term typically ranges from one month to five years. Other time deposits constituted approximately 61.1% and 62.1% of our total deposits as of December 31, 2009 and 2010, respectively, and paid average interest of 3.91% and 3.54% in 2009 and 2010, respectively.

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

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

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

We also offer court deposit services for litigants in Korean courts, which involve providing effectively an escrow service for litigants involved in certain types of legal or other proceedings. Chohung Bank historically was a dominant provider of such services since 1958, and following the acquisition of Chohung Bank, we continue to hold a dominant market share in these services. Such deposits typically carry interest rates lower than the market rates (by approximately 1% per annum) and amounted to (Won)5,100 billion, (Won)5,706 billion and (Won)5,888 billion as of December 31, 2008, 2009 and 2010, 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 (Won)50 million per depositor per bank. See Supervision and Regulation Principal Regulations Applicable to Banks Deposit Insurance System.

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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 (Won)66,688 billion as of December 31, 2010.

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

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

Retail Lending Activities

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

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

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

As of December 31, 2010, our mortgage and home-equity loans and other retail loans accounted for 66.9% and 33.1%, respectively, of our retail loans (excluding credit card loans).

For secured loans, including mortgage and home equity loans, our policy is to lend up to 40% to 60% of the appraisal value of the collateral, after taking into account the value of any lien or other security interest that is prior to our security interest (other than petty claims). As of December 31, 2010, the loan-to-value ratio of mortgage and home equity loans, under Korean GAAP, of Shinhan Bank was approximately 47.2%. As of December 31, 2010, substantially all of our mortgage and home equity loans were secured by residential property.

Under the Regulation on the Supervision of the Banking Business currently in effect, our banking subsidiaries (i) are subject to limits on loan-to-value ratios ranging from 40% to 70% when extending home mortgage loans, depending on the maturity of the home mortgage loans, whether or not the home provided as collateral are apartments, and the location of such home provided as collateral; (ii) are required, in principle, to comply with a limit on debt-to-income ratio of less than 40% in granting home loans for purchasing new apartments, which are secured by such apartments appraised at a market value of more than (Won)600 million in areas of high speculation and Seoul National Capital areas (which includes Seoul, Incheon and Gyeonggi-do) of excessive investment; (iii) shall not, in principle, accept the apartment located in areas of high speculation as collateral from borrowers who have already obtained home mortgage loans; (iv) shall limit the extension of the maturity of the loans, thereby reducing the number of the loans to one for a borrower having two or more loans secured by an apartment in areas of high speculation; and (v) shall not extend home equity loans to minors.

In addition, the supervising authorities from time to time issue administrative instructions to banks, which have the effect of regulating the access of borrowers to housing loans and, as such, demand for real estate properties. For example, in August 2010, amid concerns regarding the sustained slump in the housing market, the

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Financial Supervisory Service issued an administrative instruction to financial institutions that allowed them to set the debt-to-income ratio at their discretion for non-homeowners or families with a single residence purchasing a house worth (Won)900 million or less that is not located within areas of high speculation until the end of March 2011. Our banking subsidiaries are currently extending home equity loans in compliance with the applicable regulations and administrative instructions by the relevant supervising authorities.

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

	As of December 31,		
	2008	2009	2010
	(In billions of Won, except percentages)		
Retail loans(1)			
Mortgage and home-equity(2)	(Won) 36,183	(Won) 40,022	(Won) 44,646
Other consumer(2)	25,026	23,307	22,042
Percentage of retail loans to total gross loans	35.9%	37.4%	37.1%

Notes:

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

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

Pricing

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

As of December 31, 2010, Shinhan Bank s three-month, six-month and twelve-month base rates were approximately 2.80%, 3.04% and 3.33%, respectively. As of December 31, 2010, Shinhan Bank s fixed rates for mortgage and home equity loans with a maturity of one year, two years and three years were 6.60%, 7.10% and 7.20%, respectively, and Shinhan Bank s fixed rates for other retail loans with a maturity of one year ranged from 9.00% to 13.50%, depending on the credit scores of its customers.

As of December 31, 2010, approximately 88.5% of Shinhan Bank s total retail loans were floating rate loans and approximately 11.5% were fixed rate loans. As of the same date, approximately 98.8% of Shinhan Bank s retail loans with maturity of more than one year were floating rate loans and approximately 1.2% was fixed rate loans.

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

Private Banking

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

As of December 31, 2010, Shinhan Bank operated 20 private banking centers nationwide, including 14 in Seoul, two in the suburbs of Seoul and four in cities located in other regions in Korea. As of December 31, 2010, Shinhan Bank had approximately 4,200 private banking customers, who are typically required to have (Won)500 million in deposit with us to qualify for private banking services.

Corporate Banking Services

Overview

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

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,					
	2008		2009		2010	
	(In billions of Won, except percentages)					
Small- and medium-sized enterprises loans(1)	(Won) 71,212	41.8%	(Won) 69,571	41.1%	(Won) 66,890	37.2%
Large corporate loans(2)	23,483	13.7%	21,238	12.5%	28,899	16.1%
Total corporate loans	(Won) 94,695	55.5%	(Won) 90,809	53.6%	(Won) 95,789	53.3%

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.

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Small- and Medium-sized Enterprises Banking

Under the Basic Act on Small- and Medium-sized Enterprises and its Presidential Decree, in order to qualify as a small- and medium-sized enterprise, (i) the number of regular employees of the enterprise must be less than 1,000, (ii) the enterprise s total assets at the end of the immediately preceding fiscal year must be less than (Won)500 billion, (iii) the enterprise must meet the standards prescribed by the Presidential Decree as to the type of its main business, and (iv) the enterprise must meet the standards of management independence from ownership as prescribed by the Presidential Decree, including non-membership in a conglomerate as defined in the Monopoly Regulations and Fair Trade Act. As of December 31, 2010, we made loans to 141,517 small- and medium-sized enterprises for an aggregate amount (Won)66,890 billion.

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

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

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

operates a relationship management system to provide targeted and tailored customer service to small-and medium-sized enterprises. Shinhan Bank currently has relationship management teams in 143 corporate banking branches, of which 38 are corporate banking branches and 105 are hybrid banking branches designed to serve retail customers and, to a limited extent, corporate customers. These relationship management teams market products and review and approve smaller loans that pose less credit risks; and

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

Large Corporate Banking

Large corporate customers consist primarily of member companies of *chaebols* and financial institutions. Our large corporate loans amounted to (Won)28,899 billion as of December 31, 2010.

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

Electronic Corporate Banking

Shinhan Bank offers to corporate customers a web-based total cash management service through Shinhan Bizbank. Shinhan Bizbank supports all types of banking transactions from basic transaction history inquiries and fund transfers to opening letters of credit, trade finance, payment management, collection management, sales settlement service, acquisition settlement service, business-to-business 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, 2010, working capital loans and facilities loans amounted to (Won)48,142 billion and (Won)18,010 billion, respectively, representing 72.8% and 27.2% 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 to five 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 and may be extended for a maximum term of five years from the date the relevant loan was initially made.

Loans to corporations may be unsecured or secured by real estate, deposits or guaranty certificates. As of December 31, 2010, under Korean GAAP, secured loans and guaranteed loans (including loans secured by guaranty certificates issued by credit guarantee insurance funds) accounted for 55.7% and 3.3%, respectively, of Shinhan Bank s Won-denominated loans to small- and medium-sized enterprises. Approximately 30.1% of the corporate loans were secured by real estate.

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

Pricing

Shinhan Bank determines the price for its corporate loan products based principally on their respective cost of funding and the expected loss rate based on the borrower s credit risk. As of December 31, 2010, 15.3% of Shinhan Bank s corporate loans with outstanding maturities of one year or more had interest rates that were not fixed but were variable by reference to their market rates.

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

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

Depending on the market condition and the agreement with the borrower, Shinhan Bank may use either its periodic market floating rate or the reference rate as the base rate in determining the interest rate for the borrower. As of December 31, 2010, Shinhan Bank s periodic market floating rates (which are based on a base rate determined for three-month, six-month, one-year, two-year, three-year or five-year periods derived using Shinhan Bank s market rate system) were 2.8% for three months, 3.02% for six months, 3.32% for one year, 3.66% for two years, 3.85% for three years and 4.51% for five years. As of the same date, Shinhan Bank s reference rate was 8.75%. The reference rate refers to the base lending rate used by Shinhan Bank. The reference rate is determined annually by Shinhan Bank s Asset & Liability Management Committee based on, among others, Shinhan Bank s funding costs, cost efficiency ratio and discretionary margin.

Transaction cost is added to reflect the standardized transaction cost assigned to each loan product and other miscellaneous costs, including contributions to the Credit Guarantee Fund, and education taxes. The Credit

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Guarantee Fund is a statutorily created entity that provides credit guarantees to loans made by commercial banks and is funded by mandatory contributions from commercial banks in the amount of approximately 0.2% of all loans made by them.

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

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

Treasury and Securities Investment

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

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

Treasury

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

Securities Investment and Trading

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

Derivatives Trading

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

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

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

equity and equity-linked options;

foreign currency forwards, swaps and options;

commodity forwards, options and swaps;

credit derivatives; and

KOSPI 200 indexed equity options.

Shinhan Bank s derivatives trading volume in terms of notional amount was (Won)621,776 billion and (Won)345,334 billion, in 2009 and 2010, respectively. Such derivative operations generally focus on addressing the needs of Shinhan Bank s corporate clients to hedge their risk exposure and back-to-back derivatives entered into to hedge Shinhan Bank s risk exposure that results from such client contracts.

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

International Business

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

Trust Account Management Services

Overview

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

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

Under the FSCMA and Trust Act, assets accepted in trust accounts are required to be segregated from other assets of the trustee bank and are not available to satisfy the claims of the depositors or other creditors of such bank. Accordingly, trust accounts are accounted for and reported separately from the bank accounts. See Supervision and Regulation. Trust accounts are regulated by the Trust Act and the FSCMA, and most national commercial banks offer similar trust account products. Shinhan Bank earns income from trust account management services, which is recorded as net trust management fees. See Item 5.A. Operating Results Results of Operation 2010 Compared to 2009 Non-interest Income.

As of December 31, 2009 and 2010, under Korean GAAP, Shinhan Bank had total trust assets of (Won)32,537 billion and (Won)33,240 billion, respectively, comprised principally of real property investments of (Won)10,030 billion and (Won)10,104 billion, respectively; securities investments of (Won)7,208 billion and (Won)6,274 billion, respectively; and loans with an aggregate principal amount of (Won)623 billion and (Won)527 billion, respectively. Securities investments consisted of corporate bonds, government-related bonds and other securities, primarily commercial paper. As of December 31, 2009 and 2010, debt securities accounted for 19.1% and 17.6%, respectively, and equity securities constituted 3.1% and 1.3%, respectively, of Shinhan Bank s total trust assets under Korean GAAP. Loans made by trust accounts are similar in type to those made by bank accounts, except that they are made only in Korean Won. As of December 31, 2009 and 2010, under Korean GAAP, approximately 61.6% and 61.6%, respectively, of the amount of loans from the trust accounts were collateralized or guaranteed. In making investment from funds received for each trust account, each trust product maintains investment guidelines applicable to each such product which set forth, among other things, company-, industry- and security-specific limitations.

Trust Products

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

Money trusts managed by Shinhan Bank s trust account business amounted to (Won)9,905 billion and (Won)11,920 billion as of December 31, 2009 and 2010, under Korean GAAP.

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

variable rate trust accounts. As of December 31, 2009 and 2010, under Korean GAAP, Shinhan Bank s variable rate trust accounts amounted to (Won)6,425 billion and (Won)8,553 billion, respectively, of which principal guaranteed variable rate trust accounts amounted to (Won)3,479 billion and (Won)3,366 billion, respectively. Variable rate trust accounts offer their holders variable rates of return on the principal amount of the deposits in the trust accounts and do not offer a guaranteed return on the principal of deposits, except in the limited cases of principal guaranteed variable rate trust accounts, for which payment of the principal amount is guaranteed. Shinhan Bank charges a lump sum or a fixed percentage of the assets held in such trusts as a management fee, and, depending on the trust products, is also entitled to additional fees in the event of early termination of the trusts by the customer. Korean banks, including Shinhan Bank, are currently allowed to guarantee the principal of the following types of variable rate trust account products: (i) existing individual pension trusts, (ii) new individual pension trusts, (iii) existing retirement pension trusts, (iv) new retirement pension trusts, (v) pension trusts and (vi) employee retirement benefit trusts.

guaranteed fixed rate trust accounts. As of December 31, 2009 and 2010, the guaranteed fixed rate trust products maintained by Shinhan Bank amounted to (Won)1.0 billion and (Won)1.0 billion, respectively, under Korean GAAP. Holders of guaranteed fixed rate trust accounts are entitled to a guaranteed return of the principal as well as an additional fixed rate of return. 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. Upon termination of these trusts, Shinhan Bank receives investment returns from the management of these trusts, net of the guaranteed returns paid to customers and any related expenses. Since January 1999, banks in Korea are prohibited from offering guaranteed fixed rate trust products, and the remaining amount of the guaranteed fixed rate trust products is fairly insignificant.

Credit Card Services

Overview

We currently provide our credit card services principally through our credit card subsidiary, Shinhan Card, and to a limited extent, Jeju Bank. Former Shinhan Card was originally formed as a result of the spin-off of Shinhan Bank s credit card business in June 2002. In April 2006, the credit card division of Chohung Bank was split and merged into former Shinhan Card concurrently with the merger of Chohung Bank and Shinhan Bank. Prior to the merger of former Shinhan Bank and Chohung Bank in April 2006, Chohung Bank had an active credit card business division. Chohung Bank was a member of BC Card Co., Ltd. (BC Card), which is owned by consortium banks. Shinhan Card currently holds 14.85% equity interest in BC Card. BC Card issues credit cards under the names of the member banks, substantially all of which are licensed to use MasterCard, Visa or JCB. This enables holders of BC Card to use their cards at any establishment which accepts MasterCard, Visa or JCB, as the case may be.

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

Products and Services

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

- *credit card services*, which involve providing cardholders with credit up to a preset limit to purchase products and services. Payment must be made either (i) in full at the end of a monthly billing cycle (the Lump-sum Basis) or (ii) on a revolving basis subject to a minimum monthly payment which is the lesser of (x) 5.0% of the amount outstanding or (y) (Won)30,000. Currently (the Revolving Payment Basis), the remaining outstanding balance generally accrue interest at the effective annual rates of approximately 8.3% to 26.8%.

- *cash advances*, for which payment must be made either on a lump-sum basis or a revolving basis. Currently, the lump-sum cash advances generally accrue interest at the effective annual rates of approximately 9.8% to 28.3% and the revolving cash advances generally accrue interest at a minimum rate of 5.0% of the outstanding balance. Cash advances may be made at ATM machines and bank branches.

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

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

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

The annual membership fees for credit cards vary depending on the type of credit card and the benefits offered thereunder. For its standard credit cards, Shinhan Card charges an annual membership fee ranging from (Won)3,000 to (Won)1,000,000 per credit card, depending on the type of the card and the cardholder profile. Annual membership fees for various affinity and co-branded cards vary from (Won)5,000 to (Won)50,000. Shinhan Card also charges cardholders fees charged by financial institutions for cash advances provided through each such financial institution s ATMs.

Any accounts that are unpaid when due are deemed to be delinquent accounts, for which Shinhan Card levies a late charge in lieu of the interest rates applicable prior to default. The late charge bears interest ranging from 25.0% to a maximum rate of 29.9% per annum.

Merchant discount fees, which are processing fees Shinhan Card charges to the merchants, can be up to 4.5% of the purchased amount depending on the merchant used, with the average charge being 2.0% in 2010.

Although making payments on a revolving basis is more common in many other countries, this payment method is still in its early stages of development in Korea. Cardholders in Korea are generally required to repay their purchases within approximately 15 to 45 days of purchase depending on their payment cycle, except in the case of installment purchases where the repayment term is typically three to six months. Accounts that remain unpaid after this period are deemed to be delinquent, and Shinhan Card levies late charges on and closely monitors such accounts. For purchases made on an installment basis, Shinhan Card charges interest on unpaid amounts at rates that vary according the terms of repayment.

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

In addition to credit card services, Shinhan Card also offers check cards, which are similar to debit cards in the United States and many other countries, to its individual retail customers as well as corporate customers. A check card can be used at any of the merchants that accept credit cards issued by Shinhan Card and the amount charged to a check card is directly debited from the cardholder s designated bank account. Check cards have a low risk of default and there are no procurement costs. Although Shinhan Card does not charge annual membership fees on check cards, merchants are charged fees on the amount purchased using check cards at a rate between 1.5% and 4.5%, depending on the type of business, which is lower than the corresponding fee charged for credit card use.

Credit Card Products

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

- cards that provide additional benefits such as frequent flyer miles and reward program points that can be redeemed by the customer for complementary services, prices and cash;
- gold cards, platinum cards and other preferential members cards which have higher credit limits and provide additional services in return for higher annual membership fees;
- cards with new features to preferred customers, such as revolving credit cards, travel services and insurance;
- cards with fraud detection and security systems to prevent the misuse of credit cards and to encourage the use of credit cards over the Internet;
- corporate and affinity cards that are issued to employees or members of particular companies or organizations; and
- mobile phone cards allowing customers to conduct wireless credit card transactions with their 3G mobile phones.

Customers and Merchants

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

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

	As of December 31,		
	2008	2009	2010
	(In thousands, except percentages)		
Shinhan Card:			
Number of credit card holders(1)	13,718	14,435	15,299
Personal accounts	13,617	14,324	15,183
Corporate accounts	101	111	116
Active ratio(2)	78.6%	77.0%	79.6%
Number of merchants	2,268	2,425	2,552

Notes:

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

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

Installment Finance

Shinhan Card provides installment finance services to customers in connection with purchases of durable consumer goods such as new and used cars, appliances, computers and other home electronics products. Revenues from installment finance operations accounted for 3.2% of Shinhan Card s total operating revenue in 2010 under Korean GAAP. Shinhan Card pays the merchants when Shinhan Card s customers purchase such goods, and the customers remit monthly installment payments to Shinhan Card over a number of months, generally up to 36 months (and, in the case of installment financings for automobile purchases, up to 60 months), as agreed with the customers. For installment finance products for new cars, Shinhan Card charges, in addition to interest, an initial financing fee of up to 4.4% of the purchase price, depending on the customer s credit score, the installment period and installment amount. Shinhan Card has installment financing arrangements with over 10,000 merchants in Korea, including major car dealers, manufacturers and large retailers with nationwide networks, such as electronics goods stores.

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

Auto Lease

Shinhan Card currently provides only auto leasing financing to retail customers. Revenues from auto lease operations accounted for 1.2% of Shinhan Card s total operating revenue in 2010 under Korean GAAP.

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Financial and Statistical Information

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

	As of or For the Year Ended December 31,		
	2008	2009	2010
	Shinhan Card	Shinhan Card	Shinhan Card
	(In billions of Won, except percentages)		
Interest income:			
Installments	(Won) 326	(Won) 311	(Won) 321
Cash advances	639	524	522
Card loans(1)	548	506	566
Annual membership			
Revolving	240	214	205
Late payments			
Total	(Won) 1,753	(Won) 1,555	(Won) 1,614
Credit card fees:			
Merchant fees(2)	(Won) 1,309	(Won) 1,422	(Won) 1,341
Other fees			
Total	(Won) 1,309	(Won) 1,422	(Won) 1,341
Charge volume:(3)			
General purchases	(Won) 45,624	(Won) 51,784	(Won) 63,867
Installment purchases	17,682	17,814	19,645
Cash advances	23,945	21,143	21,382
Total	(Won) 87,251	(Won) 90,741	(Won) 104,894
Outstanding balance (at year end)(4):			
General purchases	(Won) 3,046	(Won) 3,636	(Won) 4,183
Installment purchases	4,037	4,433	5,262
Cash advances	3,111	2,606	2,852
Revolving purchases	1,410	1,339	1,387
Card loans(2)	2,524	2,672	3,367
Others	470	391	395
Total	(Won) 14,598	(Won) 15,077	(Won) 17,446
Average balance	(Won) 14,458	(Won) 13,585	(Won) 15,699
Delinquent balances(5):			
From 1 day to 1 month	(Won) 663	(Won) 404	(Won) 436
Over 1 month:			
From 1 month to 3 months	(Won) 244	(Won) 113	(Won) 129
From 3 months to 6 months	171	111	116
Over 6 months			
Sub-total	415	224	245
Total	(Won) 1,078	(Won) 628	(Won) 681

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	As of or For the Year Ended December 31,		
	2008 Shinhan Card	2009 Shinhan Card	2010 Shinhan Card
	(In billions of Won, except percentages)		
Delinquency ratios(6):			
From 1 day to 1 month	4.5%	2.7%	2.50%
Over 1 month:			
From 1 month to 3 months	1.7%	0.7%	0.74%
From 3 months to 6 months	1.2%	0.7%	0.66%
Over 6 months(7)			
Sub-total	2.9%	1.5%	1.40%
Total	7.4%	4.2%	3.91%
Rewritten loans(8)	(Won) 220	(Won) 194	(Won) 190
Gross charge-offs	(Won) 521	(Won) 597	(Won) 569
Recoveries	509	394	577
Net charge-offs	(Won) 12	(Won) 203	(Won) (8)
Gross charge-off ratio(9)	3.60%	4.39%	3.62%
Net charge-off ratio(10)	0.08%	1.49%	(0.05)%
Non-performing loan ratio(11):			
Reported	2.91%	3.08%	1.88%
Managed	2.42%	2.53%	1.60%
Asset securitization(12)	(Won) 5,666	(Won) 3,734	(Won) 3,713
Ratio of total assets securitized to total managed assets	29.4%	19.2%	16.8%

Notes:

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

(2) 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.

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

(4) Represents amounts before allowance for loan losses.

(5) Includes the unbilled balances of installment purchases.

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

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

(8) Represents the delinquent credit card balances for credit card purchase and cash advances which are rewritten as credit card loans, thereby reducing the balance of delinquent accounts before the application of ASC 310-30, (formerly SOP 03-3) relating to the acquisition of LG Card, which reduced the outstanding balances by (Won)165 billion, (Won)84 billion and (Won)62 billion as of December 31, 2008, 2009 and 2010, respectively.

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

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

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

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

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Presentation of Managed Data for Shinhan Card s Asset Securitization Transactions

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

Securities Brokerage Services

Overview

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

As of December 31, 2010, according to internal data, Shinhan Investment s annual market share of Korean equity brokerage market was 5.37% (consisting of 4.23% in the retail segment, 0.48% in the institutional segment and 0.66% in the international segment) in terms of total brokerage volume, ranking second among securities firms in Korea, excluding discount brokers such as Mirae Asset Securities and Kiwoom Securities. As of the same date, according to internal data, Shinhan Investment held the largest annual market shares in options brokerage segments and the second largest annual market shares in the Kospi200 futures of 6.46% and 7.35%, respectively, in terms of total brokerage volume with respect to these products, which we believe will enable Shinhan Investment to further solidify its market position in its futures trading and brokerage services as it expands these services.

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

Products and Services

Shinhan Investment provides principally the following services:

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

- *institutional client services:*

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

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

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

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

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

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, 2010 and March 31, 2011, under Korean GAAP, Shinhan Life Insurance had total assets of (Won)10,437 billion and (Won)12,570.7 billion and net profits of (Won)190 billion and (Won)218 billion, respectively. During its calendar year 2010, among 23 life insurance companies in Korea, under Korean GAAP, Shinhan Life Insurance ranked fifth in terms of net profit and fifth in terms of insurance premium received, principally due to increased sales of health insurance policies, stable asset portfolio management and prudent risk management. We expect the insurance premium received by Shinhan Life Insurance to increase as a result of growing demands for both investment and annuity products and potential synergy effects from cross-selling between Shinhan Life Insurance and our banking and other subsidiaries.

Asset Management Services

In addition to personalized wealth management services provided as part of our private banking and securities brokerage services, we also provide asset management services through Shinhan BNP Paribas Asset

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Management, a joint venture with BNP Paribas Investment Partners, of which we and BNP Paribas Investment Partners hold 65:35 interests, respectively. Shinhan BNP Paribas Asset Management was formed on January 1, 2009 through the merger of Shinhan BNP Paribas Investment Trust Management, our 50:50 joint venture with BNP Paribas Investment Partners, and SH Asset Management, our wholly-owned subsidiary, in order to streamline our asset management services capabilities. Shinhan BNP Paribas Asset Management ranked third among asset managers in Korea in terms of assets under management as of December 31, 2010, and provides a wide range of investment products, including traditional equity/fixed income funds as well as alternative investment products, to retail and institutional clients. As a joint venture with BNP Paribas Investment Partners, we believe Shinhan BNP Paribas Asset Management has significantly benefited from BNP Paribas s global network of investment professionals and expertise in the asset management industry. As of December 31, 2010, Shinhan BNP Paribas Asset Management had assets under management amounting to approximately (Won)30.4 trillion. To a limited extent, Shinhan Investment also provides asset management services for discretionary accounts, see Securities Brokerage Services.

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

Other Services

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

Leasing and Equipment Financing

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

Regional Banking Services

We provide regionally focused commercial banking services, primarily in Jeju Island of Korea, through a majority-owned banking subsidiary, Jeju Bank. Jeju Bank provides retail banking, corporate banking, treasury and trust account management services, and has a network of 38 branches as of December 31, 2010.

Other Investment Banking and Advisory Services

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

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Loan Collection and Credit Reporting

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

Our Distribution Network

We offer a wide range of financial services to retail and corporate customers through a variety of distribution networks and channels established by our subsidiaries. The following table presents the geographical distribution of our distribution network based on the branch offices and other distribution channels of our principal subsidiaries, as of December 31, 2010.

Distribution Channels in Korea

	Shinhan Bank	Jeju Bank	Shinhan Card(1)	Shinhan Investment	Shinhan Life Insurance	Total
Seoul metropolitan	413	2	13	55	55	538
Kyunggi Province	208		12	16	17	253
Six major cities:	177	1	17	20	40	255
Incheon	58		3	3	12	76
Busan	42	1	4	6	12	65
Kwangju	13		3	2	5	23
Taegu	29		3	4	6	42
Ulsan	13		1	2	1	17
Taejon	22		3	3	4	32
Sub-total	798	3	42	91	112	1,046
Others	153	35	19	16	49	272
Total	951	38	61	107	161	1,318

Notes:

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

Banking Service Channels

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

As of December 31, 2010, Shinhan Bank s branch network in Korea comprised of 951 service centers, consisting of 818 retail banking service centers, 38 corporate banking service centers primarily designed to serve large corporate customers and 95 hybrid banking branches designed to serve retail as well as small-business corporate customers. Shinhan Bank s banking branches are designed to provide one-stop banking services tailored to their respective target customers.

Retail Banking Channels

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

Corporate Banking Channels

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

Self-Service Terminals

In order to complement its banking branch network, Shinhan Bank maintains an extensive network of automated banking machines, which are located in branches and in unmanned outlets. These automated banking machines consist of ATMs, cash dispensers and passbook printers. As of December 31, 2010, Shinhan Bank had 608 cash dispensers and 6,819 ATMs. Shinhan Bank has actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. We believe that use of Shinhan Bank s automated banking machines has increased in recent years. In 2010, automated banking machine transactions accounted for approximately 26.6% and 52.4% of total deposit and withdrawal transactions of Shinhan Bank in terms of the number of transactions and fee revenue generated, respectively.

Electronic Banking

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

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Overseas Distribution Network

The table below sets forth Shinhan Bank s overseas banking subsidiaries and branches as of December 31, 2010.

Business Unit	Location	Year Established or Acquired
Subsidiaries		
Shinhan Asia Ltd.	Hong Kong SAR, China	1982
Shinhan Bank Europe GmbH	Germany	1994
Shinhan Bank America	New York, U.S.A.	2003
Shinhan Vina Bank	Vietnam	2000
Shinhan Bank (China) Limited	Beijing, China	2008
Shinhan Khmer Bank Limited	Cambodia	2007
Shinhan Bank Kazakhstan Limited	Kazakhstan	2008
Shinhan Bank Canada	Toronto, Canada	2009
Shinhan Bank Japan(1)	Tokyo, Japan	2009
Shinhan Bank Vietnam(2)	Ho Chi Minh City, Vietnam	2009
Branches		
New York	U.S.A.	1989
Singapore	Singapore	1990
London	United Kingdom	1991
Mumbai	India	1996
Hong Kong	China	2006
New Delhi	India	2006
Vellore	India	2010
Representative Office		
Mexico Representative Office	Mexico City, Mexico	2008
Uzbekistan Representative Office	Tashkent, Uzbekistan	2009

Notes:

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

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

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

Japan, in order to enhance our presence and enable a greater flexibility in our service offerings in these markets.

Credit Card Distribution Channels

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

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The branch network for our credit card operations consisted of 951 branches as of December 31, 2010 of Shinhan Bank and 12 card sales branches, 11 installment sales branches, 10 debt collection branches and 15 combined operations branches (which includes card, installment and debt collection services) of Shinhan Card. The use of the established distribution network of Shinhan Bank is part of the groupwide cross-selling efforts of selling credit card products to existing banking customers. In 2010, the number of new cardholders acquired through our banking distribution network accounted for approximately 17.8% of the total number of new cardholders. We believe that the banking distribution network will continue to provide a stable and low-cost venue for acquiring high-quality credit cardholders.

The sales agents represented the most significant source of Shinhan Card s new cardholders in 2010, and the number of new cardholders acquired through sales agents accounted for approximately 58.2% of the total number of Shinhan Card s new cardholders in 2010. As of December 31, 2010, Shinhan Card had 8,131 sales agents, of which 7,108 were independent contractors and 1,023 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 the repayment patterns of the customers introduced by them, and we believe this system helps to minimize credit risk and enhance profitability.

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

Securities Brokerage Distribution Channels

Our securities brokerage services are conducted principally through Shinhan Investment. As of December 31, 2010, Shinhan Investment had 107 service centers nationwide, and three overseas subsidiaries based in New York, London and Hong Kong to service our corporate customers.

Approximately 72% of our brokerage branches are located in the Seoul metropolitan area with a focus on attracting high net worth individual customers as well as enhancing synergy with our retail and corporate banking branch network. We plan to continue to explore new business opportunities, particularly in the corporate customer segment, through further cooperation between Shinhan Investment and Shinhan Bank.

Insurance Sales and Distribution Channels

We sell and provide our insurance services primarily through Shinhan Life Insurance. Shinhan Life Insurance, in addition to distributing bancassurance products through our bank branches, also distributes a wide range of life insurance products through its own branch network, an agency network of financial planners and telemarketers, as well as through the Internet. As of March 31, 2011, Shinhan Life Insurance had 161 branches and seven customer support centers. These branches are staffed by financial planners, telemarketers, agent marketers and bancassurance to meet the various needs of our insurance and lending customers. Our groupwide customer support centers arrange for policy loans (namely loans secured by the cash surrender value of the underlying insurance policy) for our insurance customers and, to a limited extent, other loans to other customers, and also handle insurance payments.

Information Technology

We dedicate substantial resources to maintaining a sophisticated information technology system to support our operations management and provide high quality customer service. In order to maximize synergy among our subsidiaries, we are currently continuing to build and implement a single groupwide enterprise information technology system known as enterprise data warehouse . The enterprise data warehouse, which is being continuously upgraded, serves as the foundation to our enhanced customer relations management capabilities, our risk management system as well as our new data processing center currently under development. Since October 2009, we have operated our information and technology system at a groupwide level (rather than the previous subsidiary-specific level) based on a comprehensive groupwide information collection and processing.

In addition, we are currently continuing to upgrade the information technology systems for each of our subsidiaries to enhance the quality of our customer service specific to such subsidiary. We have completed the implementation of improved systems for Shinhan Life Insurance in November 2008 and Shinhan Investment in August 2009, and completed the IT integration for LG Card and former Shinhan Card in August 2008. With respect to Shinhan Bank, we are continually developing its information technology system to provide high quality customer service by upgrading its internet and mobile banking services, including developing a system which is compatible with smart phones and tablet PCs. In addition, we are continuing to upgrade the information technology systems of Shinhan Bank s subsidiaries, on a global basis, to enhance the quality of the customer service specific to each such subsidiary, including the AITHER System, which has been implemented in Shinhan Bank s subsidiaries in Japan, China and the United States and is scheduled to be implemented in Shinhan Bank s subsidiaries in Europe, New York and Canada in 2011.

We are also currently developing upgrades to Shinhan Card s information technology system to accommodate new business demands and strengthen response capabilities to system deficiencies. Shinhan Card s next generation system will increase operational efficiency through optimization of our software programs and data processing and will allow for, among other things, quicker response time to on-floor requests. Such upgrades are projected to be in place by October 2012, and will support Shinhan Card s competitive advantage and serve as a platform for increased customer revenues.

During 2010, our information technology initiatives included installing a financial reporting system meeting the IFRS standards, which commenced on January 1, 2011 and is currently monitored to ensure a stable system. Our current information technology initiatives include improving our groupwide security management system to further ensure secure financial transactions for our customers. Although we believe our ISO27001 certified security management system is one of the most sophisticated in the industry, we are continuously upgrading our groupwide security monitoring system in order to preempt and counter evolving external cyber invasions such as DDoS attacks and security breaches such as that recently experienced by Nonghyup Bank. Since 2008, our efforts to improve our information technology security capabilities on a groupwide level include upgrading our security guidelines, establishing an information technology security center, which includes a security help desk open 24 hours, seven days a week, creating a team dedicated to responding to security breaches, increasing investment in our security management system and strengthening our team of security experts. Going forward, we plan to implement such upgrades in each of our business segments.

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

Competition

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

In the banking sector, Shinhan Bank competes principally with other national commercial banks in Korea, but also faces competition from a number of additional banking institutions, including branches and subsidiaries of foreign banks operating in Korea, regional banks, government-owned development banks and Korea s specialized banks, such as Korea Development Bank, the Industrial Bank of Korea and the National Association of Agriculture and Fisheries, as well as various other types of financial service providers, including savings institutions (such as mutual savings and finance companies, credit unions and credit cooperatives), investment companies (such as securities brokerage firms, merchant banking corporations and asset management companies) and life insurance companies. As of December 31, 2010, Korea had seven major nationwide domestic commercial banks (including Citibank and Standard Chartered First Bank, both of which are domestic commercial banks acquired by global financial institutions), six regional commercial banks and branches and subsidiaries of 37 foreign banks. We believe that foreign financial institutions, many of which have greater experiences and resources than we do, will continue to enter the Korean market and compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions.

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

In the credit card sector, Shinhan Card competes principally with existing monoline credit card companies, credit card divisions of commercial banks, consumer finance companies, other financial institutions and, recently, credit card service providers allied with mobile telecommunications service providers in Korea. Competition has been intensifying in this sector and the market has seen further signs of saturation as existing and new credit card service providers, such as credit card companies recently spun off from KB Financial Group, have made significant investments and engaged in aggressive marketing campaigns and promotions to acquire new customers and target customers with high credit quality. In addition, other credit card issuers may compete with Shinhan Card for customers by offering lower interest rates and fees, higher credit limits, more attractive promotions and incentives and alternative products such as phone cards, gift cards and low-interest consumer loan products. As a result, Shinhan Card may lose customers or service opportunities to competing credit card issuers and/or incur higher marketing expenses. Customer attrition, together with any lowering of interest rates or fees and/or more extensive marketing and promotional campaigns that Shinhan Card might implement to acquire and retain customers, could reduce its revenues and earnings. Furthermore, the average credit quality of Shinhan Card s customers may decline if customers with higher credit quality borrow from Shinhan Card s competitors rather than from Shinhan Card.

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

Potential consolidation among our rival institutions may make the competitive landscape more adverse to us. The Korean banking industry may undergo further consolidation either voluntarily or as part of government-led initiatives. Some of the financial institutions resulting from these developments may, by virtue of their increased size, expanded business scope and more efficient operations, provide greater competition for us. For example, in June 2008, the Government announced its plans to privatize Korea Development Bank, one of the Government s key policy banks, and in January 2010, the Government announced its intent to sell its controlling stake in Woori Financial Group, one of the top three financial holding companies in Korea in terms of assets as of December 31, 2010 with a similarly ranked banking operation. If Woori Financial Group were to be acquired by a rival bank or financial holding company, the consolidated entity will have a greater scale of operations, including a larger customer base, and financial resources than us, which may hurt our ability to compete effectively. In addition, Hana Financial Group is currently seeking to complete its acquisition of a majority stake in Korea Exchange Bank. Any of these developments, if materialized, may place us at a

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competitive disadvantage and outweigh any potential benefit to us in the form of opportunities to acquire new customers who are displeased with the level of services at the newly merged entities or to provide credit facilities to corporate customers who wish to maintain relationship with a wide range of banks in order to diversify their sources of funding.

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

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

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

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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, 2010, our total gross loan portfolio was (Won)179,957 billion, which represented an increase of 6.32% from (Won)169,255 billion at December 31, 2009. The increase in the portfolio primarily reflects a 9.4% increase in commercial and industrial loans and 11.5% increase in mortgages and home equity loans.

Loan Types

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

			As of December 31,		
	2006	2007	2008	2009	2010
			(In billions of Won)		
Corporate					
Commercial and industrial(1)	(Won) 40,063	(Won) 48,485	(Won) 55,466	(Won) 54,479	(Won) 59,610
Other commercial(2)	27,319	30,312	37,637	34,770	34,601
Lease financing	585	1,370	1,592	1,560	1,578
Total Corporate	67,967	80,167	94,695	90,809	95,789
Consumer					
Mortgages and home equity	30,097	31,495	36,183	40,022	44,647
Other consumer(3)	20,458	25,475	25,026	23,307	22,042
Credit cards	3,924	14,681	14,637	15,117	17,479
Total Consumer	54,479	71,651	75,846	78,446	84,168
Total loans(4)	(Won) 122,446	(Won) 151,818	(Won) 170,541	(Won) 169,255	(Won) 179,957

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, 2008, 2009 and 2010, approximately 90.4%, 94.4% and 94.5% of our total gross loans, respectively, were Won-denominated.

Loan Portfolio

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

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Twenty Largest Exposures by Borrower

As of December 31, 2010, our 20 largest exposures, consisting of loans, securities and guarantees and acceptances, totaled (Won)40,187 billion and accounted for 15.89% of our total exposures. The following table sets forth our total exposures to these top 20 borrowers as of December 31, 2010.

	Loans in Won Currency	Loans in Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposure	Impaired Loans and Guarantees and Acceptances
				(In billions of Won)			
Ministry of Strategy and Finance	(Won)	(Won)	(Won) 31	(Won) 11,574	(Won)	(Won) 11,605	(Won)
The Bank of Korea				5,174		5,174	
Korea Development Bank			64	2,423		2,487	
Korea Deposit Insurance Corporation				2,315		2,315	
Industrial Bank of Korea.	498	17	3	1,753		2,271	
Korea Land & Housing Corporation			15	2,212		2,227	
Hyundai Heavy Industries Co., Ltd.	1,003	1			1,032	2,036	
National Agricultural Cooperative Federation				1,300		1,300	
Woori Bank.				1,222		1,222	
Songdo Cosmopolitan City Development Inc.	1,183					1,183	
Hana Bank	308			789		1,097	
Samsung Electronics Co., Ltd.		1,033				1,033	
Kookmin Bank				1,023		1,023	
POSCO			860	129		989	
SH Corporation	500		1	424		925	
Hyundai Samho Heavy Industries Co., Ltd.					819	819	
Korea Electric Power Corporation			12	734		746	
Small & medium Business Corporation				588		588	
Hyundai Mipo Dockyard Co., Ltd.					582	582	
Samsung Heavy Industries Co., Ltd.					565	565	
Total	(Won) 3,492	(Won) 1,051	(Won) 986	(Won) 31,660	(Won) 2,998	(Won) 40,187	(Won)

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Exposure to Main Debtor Groups

As of December 31, 2010, 9.71% of our total exposure was to the 39 main debtor groups, which are largely comprised of *chaebols*. The following table shows, as of December 31, 2010, our total exposures to the ten main debtor groups to which we have the largest exposure.

Main Debtor Groups	Loans in Won Currency	Loans in Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposure	Amounts of Impaired Loans and Guarantees and Acceptances
				(In billions of Won)			
Hyundai Heavy Industries	(Won) 1,068	(Won) 34	(Won) 18	(Won) 50	(Won) 2,593	(Won) 3,763	(Won)
Samsung	253	1,231	632	287	889	3,292	
Hyundai Motors	1,067	852	91	478	557	3,045	
SK	342	182	445	181	518	1,668	
POSCO	93	114	866	120	269	1,462	
LG	365	471	24	76	336	1,272	
Lotte	434	9	7	303	84	837	
LS	120	145	6	51	279	601	
STX	114	1	50		421	586	
GS	145	34	5	127	206	517	
Total	(Won) 4,001	(Won) 3,073	(Won) 2,144	(Won) 1,673	(Won) 6,152	(Won) 17,043	(Won)

Loan Concentration by Industry

The following table shows the aggregate balance of our corporate loans by industry concentration as of December 31, 2010.

Industry	Aggregate Loan Balance	Percentage of Total Corporate Loan Balance
	(In billions of Won)	(Percentages)
Manufacturing	(Won) 33,738	35.22%
Retail and wholesale	12,863	13.43
Real estate, leasing and service	17,618	18.39
Construction	5,431	5.67
Hotel and leisure(1)	3,373	3.52
Finance and insurance	2,697	2.82
Transportation, storage and communication	5,230	5.46
Other service	7,568	7.90
Other	7,271	7.59
Total	(Won) 95,789	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, 2010.

	Aggregate Loan Balance (In billions of Won)		Percentage of Total Loan Balance (Percentages)
Commercial and industrial			
Up to (Won)10 million	(Won)	187	0.10%
Over (Won)10 million to (Won)50 million		1,974	1.10
Over (Won)50 million to (Won)100 million		2,789	1.55
Over (Won)100 million to (Won)500 million		13,086	7.27
Over (Won)500 million to (Won)1 billion		7,254	4.03
Over (Won)1 billion to (Won)5 billion		15,939	8.84
Over (Won)5 billion to (Won)10 billion		5,931	3.30
Over (Won)10 billion to (Won)50 billion		9,632	5.35
Over (Won)50 billion to (Won)100 billion		2,030	1.13
Over (Won)100 billion		788	0.44
Sub-total	(Won)	59,610	33.11%
Other commercial			
Up to (Won)10 million	(Won)	371	0.21%
Over (Won)10 million to (Won)50 million		2,237	1.24
Over (Won)50 million to (Won)100 million		1,569	0.87
Over (Won)100 million to (Won)500 million		4,534	2.52
Over (Won)500 million to (Won)1 billion		2,045	1.14
Over (Won)1 billion to (Won)5 billion		4,729	2.63
Over (Won)5 billion to (Won)10 billion		4,308	2.39
Over (Won)10 billion to (Won)50 billion		7,086	3.94
Over (Won)50 billion to (Won)100 billion		2,084	1.16
Over (Won)100 billion		5,638	3.13
Sub-total	(Won)	34,601	19.23%
Lease financing			
Up to (Won)10 million	(Won)	7	%
Over (Won)10 million to (Won)50 million		400	0.22
Over (Won)50 million to (Won)100 million		252	0.14
Over (Won)100 million to (Won)500 million		177	0.10
Over (Won)500 million to (Won)1 billion		57	0.03
Over (Won)1 billion to (Won)5 billion		192	0.11
Over (Won)5 billion to (Won)10 billion		131	0.07
Over (Won)10 billion to (Won)50 billion		295	0.16
Over (Won)50 billion to (Won)100 billion		67	0.04
Over (Won)100 billion			
Sub-total	(Won)	1,578	0.87%

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	Aggregate Loan Balance (In billions of Won)		Percentage of Total Loan Balance (Percentages)
Mortgage and home equity			
Up to (Won)10 million	(Won)	370	0.21%
Over (Won)10 million to (Won)50 million		6,795	3.78
Over (Won)50 million to (Won)100 million		9,691	5.39
Over (Won)100 million to (Won)500 million		25,613	14.23
Over (Won)500 million to (Won)1 billion		1,856	1.03
Over (Won)1 billion to (Won)5 billion		322	0.18
Over (Won)5 billion to (Won)10 billion			
Over (Won)10 billion to (Won)50 billion			
Over (Won)50 billion to (Won)100 billion			
Over (Won)100 billion			
Sub-total	(Won)	44,647	24.82%
Other consumer			
Up to (Won)10 million	(Won)	4,059	2.26%
Over (Won)10 million to (Won)50 million		8,010	4.45
Over (Won)50 million to (Won)100 million		2,759	1.53
Over (Won)100 million to (Won)500 million		5,261	2.92
Over (Won)500 million to (Won)1 billion		886	0.49
Over (Won)1 billion to (Won)5 billion		696	0.39
Over (Won)5 billion to (Won)10 billion		249	0.14
Over (Won)10 billion to (Won)50 billion		47	0.03
Over (Won)50 billion		75	0.04
Over (Won)100 billion			
Sub-total	(Won)	22,042	12.25%
Credit cards(1)			
Up to (Won)10 million	(Won)	15,626	8.68%
Over (Won)10 million to (Won)50 million		1,192	0.66
Over (Won)50 million to (Won)100 million		46	0.03
Over (Won)100 million to (Won)500 million		59	0.03
Over (Won)500 million to (Won)1 billion		11	0.01
Over (Won)1 billion to (Won)5 billion		31	0.02
Over (Won)5 billion to (Won)10 billion		18	0.01
Over (Won)10 billion to (Won)50 billion		48	0.03
Over (Won)50 billion to (Won)100 billion		448	0.25
Over (Won)100 billion			
Sub-total		17,479	9.72%
Total	(Won)	179,957	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, 2010. The amounts disclosed are before deduction of attributable loan loss reserves.

	As of December 31, 2010			
	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	(Won) 51,374	(Won) 6,921	(Won) 1,315	(Won) 59,610
Other commercial	20,437	8,027	6,137	34,601
Lease financing	267	1,230	81	1,578
Total corporate	(Won) 72,078	(Won) 16,178	(Won) 7,533	(Won) 95,789
Consumer:				
Mortgage and home equity	(Won) 10,154	(Won) 8,715	(Won) 25,778	(Won) 44,647
Other consumer	19,575	2,263	204	22,042
Credit cards	16,645	834		17,479
Total consumer	(Won) 46,374	(Won) 11,812	(Won) 25,982	(Won) 84,168
Total domestic loans	(Won) 118,452	(Won) 27,990	(Won) 33,515	(Won) 179,957

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

Interest Rate Sensitivity

The following table shows our loans by interest rate sensitivity as of December 31, 2010.

	As of December 31, 2010		
	Due Within 1 Year	Due After 1 Year	Total
	(In billions of Won)		
Fixed rate loans(1)	(Won) 42,987	(Won) 12,453	(Won) 55,440
Variable rate loans(2)	70,836	53,681	124,517
Total gross loans	(Won) 113,823	(Won) 66,134	(Won) 179,957

Notes:

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

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

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

Nonaccrual Loans and Past Due Accruing Loans

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

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

Interest foregone is the interest due on nonaccrual loans that has not been accrued in our books of account. In 2006, 2007, 2008, 2009 and 2010, we would have recorded gross interest income of (Won)140 billion, (Won)155 billion, (Won)202 billion, (Won)151 billion and (Won)99 billion, respectively, on loans accounted for on a nonaccrual basis throughout the respective years, or since origination for loans held for part of the year, had the loans been current with respect to their original contractual terms. The amount of interest income on those loans that was included in our net income in 2006, 2007, 2008, 2009 and 2010 were (Won)107 billion, (Won)77 billion, (Won)109 billion, (Won)90 billion and (Won)55 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.

	2006(1)	2007(1)	As of December 31, 2008(1) (In billions of Won)	2009(1)	2010(1)
Loans accounted for on a nonaccrual basis					
Corporate	(Won) 1,187	(Won) 1,181	(Won) 1,457	(Won) 1,231	(Won) 1,157
Consumer	241	174	148	187	137
Credit cards	226	409	416	224	238
Sub-total	1,654	1,764	2,021	1,642	1,532
Accruing loans which are contractually past due one day or more as to principal or interest					
Corporate(2)	56	98	122	65	16
Consumer(3)	55	67	46	24	28
Credit cards					
Sub-total	111	165	168	89	44
Total	(Won) 1,765	(Won) 1,929	(Won) 2,189	(Won) 1,731	(Won) 2,233

Notes:

(1) Excludes past due loans within the grace period in the amount of (Won)334 billion, (Won)1,128 billion, (Won)1,119 billion, (Won)823 billion and (Won)656 billion as of December 31, 2006, 2007, 2008, 2009 and 2010 respectively.

(2) Includes accruing loans which are contractually past due 90 days or more in the amount of (Won)5 billion, (Won)2 billion, (Won)10 billion, (Won)8 billion and (Won)2 billion that are corporate loans as of December 31, 2006, 2007, 2008, 2009 and 2010, respectively.

(3) Includes accruing loans which are contractually past due 90 days or more in the amount of (Won)23 billion, (Won)27 billion, (Won)13 billion, (Won)8 billion and (Won)1 billion that are consumer loans as of December 31, 2006, 2007, 2008, 2009 and 2010, respectively.

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Troubled Debt Restructurings

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

	As of December 31,				
	2006	2007	2008	2009	2010
	(In billions of Won)				
Loans classified as troubled debt restructurings (excluding nonaccrual and past due loans)1	(Won) 111	(Won) 124	(Won) 557	(Won) 932	(Won) 1,003

Note:

(1) The total amount of loans classified as troubled debt restructurings, including nonaccrual and past due loans, amounted to (Won)343 billion, (Won)386 billion, (Won)747 billion, (Won)1,097 billion and (Won)1,275 billion for the year ended December 31, 2006, 2007, 2008, 2009 and 2010, respectively.

For the year ended December 31, 2006, 2007, 2008, 2009 and 2010, interest income that would have been recorded under the original contract terms of restructured loans amounted to (Won)5 billion, (Won)5 billion, (Won)21 billion, (Won)34 billion and (Won)38 billion, respectively, out of which (Won)4 billion, (Won)2 billion, (Won)18 billion, (Won)22 billion and (Won)31 billion was reflected as our interest income, respectively.

The following table presents a breakdown of the outstanding balance and specific allowance for loan losses as of December 31, 2010 of corporate loans classified as troubled debt restructurings under U.S. GAAP by the type of restructuring to which such loans are subject. The table provides a breakdown of the total amount of troubled debt restructurings (including nonaccrual and past due loans) for purposes of enhanced disclosure.

	As of December 31,			
	2009		2010	
	Outstanding balance	Allowance	Outstanding balance	Allowance
	(In billions of Won)			
Corporate loans classified as troubled debt restructurings (1):				
Workout	(Won) 866	(Won) 367	(Won) 1,201	(Won) 651
Composition	11	8	73	31
Court receivership				
Others(2)	220	107	1	1
Total	(Won) 1,097	(Won) 482	(Won) 1,275	(Won) 683

Notes:

(1) Includes nonaccrual and past due loans.

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

With respect to the retail loans (including nonaccrual and past due loans) subject to workouts under the pre-workout program for retail borrowers (which loans are not part of the aforementioned corporate loans and therefore not included in the table above), the outstanding loan balance and specific allowance for loan losses amounted to (Won)13.2 billion and (Won)4.3 billion, respectively, as of December 31, 2009 and (Won)194.3 billion and (Won)65.2 billion, respectively, as of December 31, 2010. For more information on the pre-workout program, see Credit Exposures to Companies in Workout, Court Receivership or Composition Credit Rehabilitation Programs for Delinquent Consumer and Small- and Medium-sized Enterprise Borrowers.

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As of December 31, 2009 and 2010, the amount of restructured loans that are considered impaired was (Won)1,097 billion and (Won)1,275 billion, respectively, of which (Won)165 billion and (Won)272 billion, respectively, was classified as nonaccrual and (Won)932 billion and (Won)1,003 billion, respectively, was classified as accruing, in each case, pursuant to our general interest accrual policy as described below. In 2009 and 2010, the charge-off on restructured loans amounted to (Won)192 billion and (Won)208 billion, respectively, of which (Won)78 billion and (Won)20 billion, respectively, were related to loans converted into equity securities as part of restructuring.

Credit Exposures to Companies in Workout, Court Receivership or Composition

Our credit exposures to restructuring are managed and collected by our Corporate Credit Collection Department. As of December 31, 2010, 0.7% of our total loans, or (Won)1,275 billion (of which (Won)272 billion was classified as nonaccrual and (Won)1,003 billion was classified as accruing), was under restructuring. Restructuring of our credit exposures principally takes the legal form of workout, court receivership or composition.

Workout

Under the Corporate Restructuring Promotion Act, which became reinstated in August 2007 to remain effective until December 31, 2010, all creditors to borrowers that are financial institutions are required to participate in a creditors committee. The Corporate Restructuring Promotion Act is mandatorily applicable to a wide range of financial institutions in Korea, which include commercial banks, insurance companies, asset management companies, securities companies, merchant banks, the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation. Under this act, the approval of financial institution creditors holding not less than 75% of the total debt outstanding of a borrower is required for such borrower s restructuring plan, including debt restructuring and provision of additional funds, which plan is binding on all the financial institution creditors of the borrower, provided that any financial institution creditor that disagrees with the final restructuring plan approved by the creditors committee has the right to request the creditors committee to purchase its claims at a mutually agreed price. In the event that the creditors committee and the dissenting financial institution creditor fail to come to an agreement, a mediation committee consisting of seven experts is set up to resolve the matter. There is a risk that these procedures may require us to participate in a plan we do not agree with or may require us to sell our claims at prices that we do not believe are adequate. With respect to any workout for which the lead creditor bank calls for a meeting of the creditors committee while the old Corporate Restructuring Promotion Act was still effective, the procedures applicable to such creditors committee and the related workout remain subject to the Corporate Restructuring Promotion Act until the suspension or conclusion of such workout, provided that such workout becomes subject to the procedures under the reinstated Corporate Restructuring Promotion Act as of its effective date, as opposed to the old Corporate Restructuring Promotion Act, even if such workout began while the old law was in effect. Under the reinstated Corporate Restructuring Promotion Act, if any of our borrowers becomes subject to corporate restructuring procedures, we may be forced to (i) restructure our credits pursuant to restructuring plans approved by other creditor financial institutions holding 75% or more of the total outstanding debt (and 75% or more of the total outstanding secured debt, if the restructuring plan includes the restructuring of existing secured debt) of the borrower or (ii) dispose of our credits to other creditors on unfavorable terms. This law remained effective until April 29, 2011 and became reinstated on May 19, 2011 to remain effective until December 31, 2013.

The total loan amount currently undergoing workout as of December 31, 2010 was (Won)1,201 billion.

Court Receivership and Composition

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

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.

As of December 31, 2010, the total loan amount subject to composition proceedings was (Won)73 billion. No loan amount was subject to court receivership.

Loans in the process of workout, court receivership or composition are reported as nonaccrual loans on our balance sheet as described in Nonaccrual Loans and Past Due Accruing Loans above since generally, they are past due by more than one day and interest 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. Such restructured loans are disclosed as either loans or securities on our balance sheet depending on the type of instrument we receive after the restructuring.

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

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

Under the Debtor Rehabilitation and Bankruptcy Act, which took effect in 2006, a qualified individual debtor with outstanding debts in an aggregate amount not exceeding threshold amounts of (Won)500 million of unsecured debt and/or (Won)1 billion of secured debt may restructure his or her debts through a court-supervised debt restructuring that is binding on creditors.

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

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

In March 2009, the Financial Services Commission requested Korean banks, including us, to establish a pre-workout program, including a credit counseling and recovery service, for retail borrowers with short-term outstanding debt. The pre-workout program is expected to be in operation from April 2009 to April 2013. Under the pre-workout program, maturity extensions and/or interest rate adjustments are provided for retail borrowers with the following standards: (i) total loans of less than (Won)500 million who are in arrears on their payments for more than 30 days but less than 90 days, (ii) new debt obligations created within the 6-month period from the application for the pre-work program do not exceed 30% of the total debt obligations, (iii) the debt-to-income ratio is below 30% and (iv) the total assets do not exceed (Won)600 million.

Loan Modification Programs for Loans Under Restructuring

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

The following table presents a breakdown of the gross amount of loans under restructuring as of December 31, 2009 and 2010 by our loan modification programs, as further categorized according to the loan category and performing versus nonperforming status.

Modification Programs		2009	
	Nonperforming	Performing	Total
		(In billions of Won)	
Extension of due date for principal and interest:			
Commercial and industrial	(Won) 47	(Won) 370	(Won) 417
Other commercial	3	111	114
Subtotal	(Won) 50	(Won) 481	(Won) 531
Reduction of interest rate:			
Commercial and industrial	(Won) 3	(Won) 27	(Won) 30
Other commercial	1	135	136
Subtotal	(Won) 4	(Won) 162	(Won) 166
Forgiveness of principal:			
Commercial and industrial			
Other commercial	(Won) 3		(Won) 3
Subtotal	(Won) 3		(Won) 3
Equity Conversion:			
Commercial and industrial	(Won) 10	(Won) 24	(Won) 34
Other commercial	1	1	2
Subtotal	(Won) 11	(Won) 25	(Won) 36
Additional):			
Commercial and industrial		(Won) 110	(Won) 110
Other commercial		62	62
Subtotal		(Won) 172	(Won) 172
Others(2):			
Commercial and industrial	(Won) 76	(Won) 53	(Won) 129
Other commercial	12	48	60

Subtotal	(Won) 88	(Won) 101	(Won) 189
Total:	(Won) 156	(Won) 941	(Won) 1,097

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Modification Programs	Nonperforming	2010 Performing (In billions of Won)	Total
Extension of due date for principal and interest:			
Commercial and industrial	(Won) 18	(Won) 101	(Won) 119
Other commercial	2	76	78
Subtotal	(Won) 20	(Won) 177	(Won) 197
Reduction of interest rate:			
Commercial and industrial	(Won) 134	(Won) 209	(Won) 343
Other commercial	21	32	53
Subtotal	(Won) 155	(Won) 241	(Won) 396
Forgiveness of principal:			
Commercial and industrial	(Won)	(Won)	(Won)
Other commercial			
Subtotal	(Won)	(Won)	(Won)
Equity Conversion:			
Commercial and industrial	(Won) 15	(Won) 10	(Won) 25
Other commercial			
Subtotal	(Won) 15	(Won) 10	(Won) 25
Additional lending(1):			
Commercial and industrial	(Won) 3	(Won) 160	(Won) 163
Other commercial		73	73
Subtotal	(Won) 3	(Won) 233	(Won) 236
Others(2):			
Commercial and industrial	(Won) 26	(Won) 230	(Won) 256
Other commercial	25	140	165
Subtotal	(Won) 51	(Won) 370	(Won) 421
Total:	(Won) 244	(Won) 1,031	(Won) 1,275

Notes:

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

(2) Principally consists of restructured loans whose restructuring terms were not determined as of December 31, 2010. A loan is deemed to be subject to restructuring upon the commencement of the composition or court receivership proceedings or when the relevant creditors committee or our credit officer determines that the borrower will be subject to workout, and in many cases the restructuring terms for such loans are not determined at the time such loans are deemed to be subject to restructuring.

Debt-equity Conversion

We distinguish between loans that we consider to be collectible under modified terms and loans that we consider to be uncollectible regardless of any modification of terms. With respect to a loan that we consider to be uncollectible regardless of any modification of terms, we convert a portion of such loan into equity securities following negotiation with the borrower and charge off the remainder of such loan as further described below. The equity securities so converted are recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable. In 2010, we converted into equity securities restructured loans amounting to (Won)46 billion, of which (Won)20 billion was subsequently treated as charge-off and (Won)26 billion was treated as the new cost basis of the equity securities.

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

Evaluation of Loan Modification Programs

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

One, in the case of large corporations subject to or about to be subject to restructuring, which represent the most significant restructuring cases in Korea, the restructuring process is generally not driven by us, but by a creditors committee involving several large creditor financial institutions, and in the case of very large corporations or corporations that are members of large business conglomerates, the process frequently involves the guidance of the government in light of the potential ripple effects of the restructuring on the general economy. Hence, it is difficult for us to collect data that would help us to evaluate the success of a particular concession based on the credit profile of the borrower and the type of concessions offered.

Two, the unavailability of systematic analysis notwithstanding, our general sense is that the restructuring cases in Korea have, to a large part, been successful as measured in terms of the ability of the borrowers to exit restructuring programs relatively quickly and further that the failed cases have not been particularly material.

As a result, to-date we have not found it particularly necessary or helpful to expend the time and resources required to conduct a systematic analysis for purposes of evaluating the success of concessions by the type of a particular concession offered.

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

Accrual Policy for Restructured Loans

For purposes of our accrual policy, we classify restructured loans principally into (i) loans subject to workout pursuant to the Corporate Restructuring Promotion Act and (ii) loans subject to court receivership or composition pursuant to the Debtor Rehabilitation and Bankruptcy Act, which is the comprehensive bankruptcy-related law in Korea. See Credit Exposures to Companies in Workout, Court Receivership or Composition. As for loans subject to workout, our general policy is to discontinue accruing interest on a loan when payment of principal and/or interest thereon becomes past due by one day or more, as described above in Nonaccrual

Loans and Past Due Accruing Loans.   Interest is recognized on these loans on a cash basis (i.e., when collected) from the date such loan is reclassified as non-accruing, and such loans are not reclassified as accruing until the overdue principal and/or interest amounts are paid in full. This general policy also applies to loans subject to workout even if such loans are restructured loans. In the case of loans subject to court receivership or composition, we discontinue accruing interest immediately upon the borrowers becoming subject to court receivership or composition (notwithstanding the absence of delinquency of such loans) in light of the heightened uncertainty regarding the borrower s ability to repay, interest on such loans are recognized on a cash basis and such loans are not reclassified as accruing until the borrower exits court receivership or composition, as the case may be. Accordingly, under to our accrual policy, the number of payments made on a nonaccrual restructured loan is not a relevant factor in determining whether to reinstate such loan to accrual status.

Determination of Performance of Restructured Loans

In determining whether a borrower has demonstrated performance under the previous terms of the loan, we rely principally on the payment history of the borrower, namely whether the borrower has been delinquent by one day or more pursuant to our general interest accrual policy. In determining whether a borrower has shown the capacity to continue to perform under the restructured terms, we primarily rely upon the assessment of our credit officers (or the creditors   committee in the case of large corporate borrowers with significant outstanding loans) of the likelihood of the borrower s ability to repay under the restructured terms, which assessment takes into account the size of the loans in question, the credit profile of the borrower, the original terms of the loans and other factors deemed relevant by the relevant credit officers. Depending on various factors such as the size of the loans in question and the credit profile of the borrower, we or the relevant creditors   committee, as the case may be, sometimes engage an outside advisory firm to perform further due diligence in order to supplement the aforementioned assessment. In certain cases, the borrowers also submit self-help measures to facilitate obtaining the approval for restructuring, which measures are then also taken into consideration by our credit officers or the relevant creditors   committees, as the case may be, in determining their future capacity to continue to perform under the restructured terms.

Charge-off of Restructured Loans

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

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

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

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

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Potential Problem Loans

As of December 31, 2010, we had (Won)228 billion of loans rated as normal or precautious under the guidelines of the Financial Services Commission, which represent loans that are current as to payment of principal and interest but carry serious doubt as to the ability of the borrower to repay in the near future. These loans are classified as impaired and included in the calculation of loan loss allowance under U.S. GAAP.

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.

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. In making these classifications, we take into account a number of factors, including the financial position, profitability and transaction history of the borrower, the value of any collateral or guarantee taken as security for the extension of credit, probability of default and loss amount in the event of default. This classification method, and our related provisioning policy, is intended to reflect the borrower s capacity to repay. To the extent there is any conflict between the Financial Services Commission guidelines and our internal analysis in such classifications, we adopt whichever is more conservative.

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

Corporate Loans

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

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

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

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- loans that are more than 90 days past due; and
- loans which are troubled debt restructurings as defined under U.S. GAAP.

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

Loans individually identified for review and considered impaired

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

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

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

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

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

Loans collectively evaluated for impairment

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

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

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

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

	As of December 31,		
	2008	2009	2010
		(Percentages)	
Normal	0.77%	0.82%	1.22%
Precautionary	11.66	8.78	21.47
Substandard	23.27	39.49	45.49
Doubtful	81.97	86.47	75.67
Estimated loss	89.19	86.55	86.84

Loans not specifically identified as impaired

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

Leases

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

Retail Loans

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

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

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

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

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

Credit Cards

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

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

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

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

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

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

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

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

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

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Following the recent global financial crisis, which led to substantial gross charge-off in its aftermath, we also began to apply to off-balance sheet unused credit card limits the same methodology used in calculating probabilities of default (PDs) for credit card receivables. This methodology was further developed in 2009 based on the credit risk assessment system meeting the Basel standards and have been used in internally assessing and managing credit risks since January 2010.

Loan Aging Schedule

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

As of December 31,	Current Amount	%	Past Due Up to 3 Months Amount	%	Past Due 3-6 Months Amount	%	Past Due More Than 6 Months Amount	%	Total Amount
	(In billions of Won, except percentages)								
2006	120,222	98.18	971	0.79	172	0.14	1,081	0.89	122,446
2007	148,597	97.88	1,899	1.25	315	0.21	1,007	0.66	151,818
2008	167,064	97.96	2,120	1.24	420	0.25	937	0.55	170,541
2009	166,620	98.44	1,220	0.72	245	0.14	1,170	0.70	169,255
2010	177,725	98.76	1,232	0.68	505	0.28	495	0.28	179,957

Non-Performing Loans

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

	As of December 31, 2006	2007	2008	2009	2010
	(In billions of Won, except percentages)				
Total non-performing loans	(Won) 1,253	(Won) 1,322	(Won) 1,357	(Won) 1,415	(Won) 1,001
As a percentage of total loans	1.02%	0.87%	0.80%	0.84%	0.56%

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Analysis of Non-Performing Loans

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

As of December 31,													
2006			2007			2008			2009			201	
al ns	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	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans	Total Loans	Pe
(In billions of Won, except percentages)													
40,063	(Won) 760	1.90%	(Won) 48,485	(Won) 748	1.54%	(Won) 55,466	(Won) 755	1.36%	(Won) 54,479	(Won) 823	1.51%	(Won) 59,610	(W
27,319	256	0.94	30,312	272	0.90	37,637	332	0.88	34,770	337	0.97	34,601	
585	8	1.37	1,370	7	0.51	1,592	5	0.31	1,560	4	0.26	1,578	
67,967	1.024	1.51	80,167	1,027	1.28	94,695	1,092	1.15	90,809	1,164	1.28	95,789	
30,097	68	0.23	31,495	45	0.14	36,183	40	0.11	40,022	29	0.07	44,647	
20,458	119	0.58	25,475	85	0.33	25,026	54	0.22	23,307	51	0.22	22,042	
3,924	42	1.07	14,681	165	1.12	14,637	171	1.17	15,117	171	1.13	17,479	
54,479	229	0.42	71,651	295	0.41	75,846	265	0.35	78,446	251	0.32	84,168	
22,446	(Won) 1,253	1.02%	(Won) 151,818	(Won) 1,322	0.87%	(Won) 170,541	(Won) 1,357	0.80%	(Won) 169,255	(Won) 1,415	0.84%	(Won) 179,957	(W

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Non-Performing Loans by Industry

The following table sets forth a breakdown of our non-performing loans by industry as of December 31, 2010.

Industry	Aggregate Non-Performing Loan Balance (In billions of Won)		Percentage of Total Non-Performing Corporate Loan Balance (Percentages)
Manufacturing(1)	(Won)	235	23.48%
Retail and wholesale		31	3.10
Real estate, leasing and service		114	11.39
Construction		201	20.07
Hotel and leisure		9	0.90
Finance and insurance		66	6.59
Transportation, storage and communication(2)		24	2.40
Other service		92	9.19
Other		229	22.88
Total	(Won)	1,001	100.00%

Notes:

(1) Includes shipbuilding industry.

(2) Includes shipping industry.

Top 20 Non-Performing Loans

As of December 31, 2010, our 20 largest non-performing loans accounted for 36.5% of our total non-performing loan portfolio. The following table shows, at the date indicated, certain information regarding our 20 largest non-performing loans.

		As of December 31, 2010				
		Industry	Gross Principal Outstanding		Allowance for Loan Losses	
			(In billions of Won)			
1	Borrower A	Finance and insurance	(Won)	64	(Won)	15
2	Borrower B	Manufacturing		51		49
3	Borrower C	Real estate, leasing, and service		50		26
4	Borrower D	Other service		39		24
5	Borrower E	Manufacturing		22		5
6	Borrower F	Construction		18		13
7	Borrower G	Manufacturing		13		1
8	Borrower H	Manufacturing		13		11
9	Borrower I	Manufacturing		11		
10	Borrower J	Transportation, storage, and communication		10		
11	Borrower K	Real estate, leasing, and service		9		1

12	Borrower L	Manufacturing		9		8
13	Borrower M	Other service		8		3
14	Borrower N	Real estate, leasing, and service		8		
15	Borrower O	Other service		8		2
16	Borrower P	Manufacturing		7		1
17	Borrower Q	Real estate, leasing, and service		7		1
18	Borrower R	Manufacturing		6		4
19	Borrower S	Manufacturing		6		6
20	Borrower T	Other service		6		
			(Won)	365	(Won)	170

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

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

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

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

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

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

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

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

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

- selling non-performing loans to third parties including the Korea Asset Management Corporation;
- entering into asset-backed securitization transactions with respect to non-performing loans;

managing retail loans that are three months or more past due through Shinhan Credit Information under an agency agreement; and

using third-party collection agencies including credit information companies such as Solomon Credit Information.

In 2010, we sold non-performing loans in the amount of (Won)661 billion to third parties, of which (Won)107 billion was transferred to Korea Asset Management Corporation. These loans met the criteria of true sale and were derecognized accordingly. No other non-performing loans were sold to third parties in 2010.

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Allocation of Allowance for Loan Losses

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

	As of December 31,									
	2006		2007		2008		2009		2010	
	Amt.	Loans% of Total Loans	Amt.	Loans% of Total Loans	Amt.	Loans% of Total Loans	Amt.	Loans% of Total Loans	Amt.	Loans% of Total Loans
	(In billions of Won, except percentages)									
Corporate										
Commercial and Industrial	(Won) 900	32.72%	(Won) 963	31.94%	(Won) 1,592	32.53%	(Won) 1,982	32.19%	(Won) 1,844	33.12%
Other commercial	359	22.31	427	19.97	846	22.07	987	20.54	926	19.23
Lease financing	10	0.48	16	0.90	11	0.93	13	0.92	26	0.88
Total corporate	1,269	55.51	1,406	52.81	2,449	55.53	2,982	53.65	2,796	53.23
Consumer										
Mortgages and home equity	4	24.58	4	20.75	8	21.22	11	23.65	19	24.81
Other consumer	175	16.71	150	16.77	149	14.67	170	13.77	116	12.25
Credit cards	127	3.20	539	9.67	595	8.58	475	8.93	465	9.71
Total consumer	306	44.49	693	47.19	752	44.47	656	46.35	600	46.77
Total allowance for loan losses	(Won) 1,575	100.00%	(Won) 2,099	100.00%	(Won) 3,201	100.00%	(Won) 3,638	100.00%	(Won) 3,396	100.00%

Our total allowance for loan losses decreased by (Won)242 billion, or 6.65%, to (Won)3,396 billion as of December 31, 2010 from (Won)3,638 billion as of December 31, 2009. During 2010, the allowance for loan losses decreased primarily as a result of a decrease of loss rate in corporate loans.

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Analysis of the Allowance for Loan Losses

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

	2006	2007	2008	2009	2010
			(In billions of Won, except percentages)		
Balance at the beginning of the period	(Won) 1,512	(Won) 1,575	(Won) 2,099	(Won) 3,201	(Won) 3,638
Amounts charged against income	252	40	1,319	1,751	943
Gross charge-offs:					
Corporate:					
Commercial and industrial	130	89	144	1,047	1,077
Other commercial	76	64	142	40	94
Lease financing		9	6	(19)	19
Consumer:					
Mortgage and home equity		(2)	6	(1)	1
Other consumer	96	123	98	227	123
Credit cards	211	418	521	597	317
Total gross charge-offs	(513)	(701)	(917)	(1,891)	(1,627)
Recoveries:					
Corporate:					
Commercial and industrial	47	15	16	81	120
Other commercial	154	104	27	42	14
Lease financing	5			1	2
Consumer:					
Mortgage and home equity	5	3	2	1	7
Other consumer	43	71	107	59	31
Credit cards	70	451	548	393	268
Total recoveries	324	644	700	577	442
Net charge-offs	(189)	(57)	(217)	(1,314)	(1,185)
Acquisition of Shinhan Life Insurance					
Acquisition of LG Card		541			
Balance at the end of the period	(Won) 1,575	(Won) 2,099	(Won) 3,201	(Won) 3,638	(Won) 3,396
Ratio of net charge-offs during the period to average loans outstanding during the period	0.17%	0.04%	0.13%	0.78%	0.69%

Loan Charge-offs

Our level of gross charge-offs increased from (Won)917 billion in 2008 to (Won)1,891 billion in 2009 primarily due to an increase in charge-off for credit card loans. Our level of gross charge-offs decreased from (Won)1,891 billion in 2009 to (Won)1,627 billion in 2010 primarily due to a decrease in charge-off for consumer loans and credit card loans, as a result of a decrease in the deterioration in asset quality in 2010 as compared to 2009.

In 2010, the charge-off on restructured loans amounted to (Won)208 billion, of which (Won)20 billion was related to loans converted into equity securities as part of restructuring. With respect to a loan that we consider to be uncollectible regardless of any modification of terms, we convert a portion of such loan into equity securities following negotiation with the borrower and charge off the remainder of such loan as previously discussed in Troubled Debt Restructurings Charge-off of Loans Subject to Restructuring. The equity securities so converted are recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable.

Basic Principles

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

Loans to be Charged-off

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

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

Procedure for Charge-off Approval

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

Treatment of Loans Charged-off

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

Treatment of Collateral

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

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U.S. GAAP Financial Statement Presentation

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

Investment Portfolio

Investment Policy

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

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

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

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

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Book Value and Market Value

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

	As of December 31, 2008		As of December 31, 2009		As of December 31, 2010	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
			(In billions of Won)			
Available-for-sale securities						
Marketable equity securities	(Won) 2,170	(Won) 2,170	(Won) 2,964	(Won) 2,964	(Won) 2,867	(Won) 2,867
Debt securities:						
Korean treasury and governmental agencies	6,254	6,254	8,722	8,722	10,502	10,502
Debt securities by financial institutions	15,550	15,550	11,164	11,164	9,532	9,532
Corporate debt securities	1,918	1,918	2,308	2,308	2,400	2,400
Debt securities issued by foreign government	123	123	170	170	150	150
Mortgage-backed and asset-backed securities	3,001	3,001	2,284	2,284	1,947	1,947
Total Available-for-sale	29,016	29,016	27,612	27,612	27,398	27,398
Held-to-maturity securities						
Debt securities:						
Korean treasury and governmental agencies	4,009	4,126	8,139	8,148	9,662	9,985
Debt securities by financial institutions	4,279	4,331	4,093	4,117	2,267	2,334
Corporate debt securities	245	247	363	372	469	482
Debt securities issued by foreign government	9	9	36	36	59	60
Mortgage-backed and asset-backed securities	154	160	163	167	130	133
Total Held-to-maturity	8,696	8,873	12,794	12,840	12,587	12,994
Trading Securities						
Marketable equity securities	705	705	747	747	831	831
Debt securities:						
Korean treasury and governmental agencies	528	528	1,524	1,524	3,225	3,225
Financial institutions	3,279	3,279	2,104	2,104	4,887	4,887
Corporations	1,264	1,264	1,177	1,177	1,897	1,897
Mortgage-backed and asset-backed securities	889	889	873	873	471	471
Other trading assets(1)	59	59	256	256	153	153
Total Trading	6,724	6,724	6,681	6,681	11,464	11,464
Total securities	(Won) 44,436	(Won) 44,613	(Won) 47,087	(Won) 47,133	(Won) 51,449	(Won) 51,856

Note:

(1) Consists of commodity-indexed deposits.

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Maturity Analysis

The following table categorizes our securities by maturity and weighted average yield as of December 31, 2010.

	As of December 31, 2010									
	1 Year or Less		Over 1 but within 5 yrs		Over 5 but within 10 yrs		Over 10 yrs		Total	
	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)	Carrying Amount	Weighted Average Yield(1)
	(In billions of Won, except percentages)									
Available-for-sale securities:										
Korean Treasury securities and government agencies	(Won) 1,163	4.21%	(Won) 7,327	4.54%	(Won) 1,977	4.92%	(Won) 35	5.15%	(Won) 10,502	4.58%
Debt securities issued by financial institutions	5,574	2.85	3,096	3.55	628	3.79	234	3.16	9,532	3.14
Corporate debt securities	757	3.01	1,546	4.27	97	3.67			2,400	3.85
Debt securities issued by foreign governments	59		6	4.64	4	4.87	80	4.81	150	2.99
Mortgage Backed Securities and Asset Backed Securities	1,054	0.06	843	0.60	50	5.01			1,947	0.42
Total	8,607	2.69%	12,818	4.01%	2,756	4.63%	349	3.77%	24,531	3.60%
Held-to-maturity securities:										
Korean Treasury securities and government agencies	908	5.08%	6,216	4.82%	1,894	4.92%	643	5.29%	9,662	4.89%
Debt securities issued by financial institutions	612	4.63	1,285	3.26	190	5.39	180	4.34	2,267	3.89
Corporate debt securities	106	1.96	244	4.33	110	2.82	10	5.72	469	3.47
Debt securities issued by foreign governments			39	0.45	21	3.93			59	1.67
Mortgage Backed Securities and Asset Backed Securities	2		128	1.35					130	1.33
Total	1,628	4.70%	7,912	4.47%	2,215	4.85%	833	5.09%	12,587	4.61%
Trading securities:										
Korean Treasury securities and government agencies	1,030	2.85%	956	2.98%	22	4.80%	1,217	3.76%	3,225	3.24%
Debt securities issued by financial institutions	842	2.88	1,093	3.94			2,951	3.55	4,887	3.52
Corporate debt securities	1,195	2.05	297	4.76	10		395	4.54	1,897	3.02
Mortgage Backed Securities and Asset Backed Securities	213	3.69	20	4.40			237	4.08	471	3.92
Total	3,280	2.63%	2,366	3.66%	32	4.70%	4,800	3.71%	10,480	3.36%
Total	(Won) 13,514		(Won) 23,096		(Won) 5,003		(Won) 5,982		(Won) 47,597	

Note:

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

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Concentrations of Risk

As of December 31, 2010, we held the following securities of individual issuers where the aggregate book value of those securities exceeded 10% of our stockholders equity, which was (Won)23,208 billion as of such date.

	As of December 31, 2010	
	Book Value	Market Value
	(In billions of Won)	
Name of issuer:		
Ministry of Strategy and Finance	(Won) 11,772	(Won) 11,976
The Bank of Korea	5,174	5,177
Total	(Won) 16,946	(Won) 17,153

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

Credit-Related Commitments and Guarantees

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

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

	As of December 31,		
	2008	2009	2010
	(In billions of Won)		
Commitments to extend credit:			
Corporate	(Won) 49,873	(Won) 49,590	(Won) 52,528
Credit cards(1)	52,577	64,904	67,117
Consumer	8,350	8,795	9,391
Commercial letters of credit(2)	3,006	3,319	4,311
Standby letters of credit, other financial and performance guarantees and liquidity facilities to special purpose entities	14,859	13,392	11,934
Total	(Won) 128,665	(Won) 140,000	(Won) 145,281

Notes:

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

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

We have credit-related commitments that are not reflected on the balance sheet, which primarily consist of commitments to extend credit and commercial letters of credit. Commitments to extend credit, including credit lines, represent unfunded portions of authorizations to extend credit in the form of loans. These commitments expire on fixed dates and a customer is required to comply with predetermined conditions to draw funds under the commitments.

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

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

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

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

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

Derivatives

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

The following shows, as of December 31, 2010, the gross notional or contractual amounts of derivatives held or issued for (i) trading (ii) nontrading that qualify for hedge accounting and (iii) nontrading that do not qualify for hedge accounting.

	As of December 31, 2010		
	Underlying Notional Amount(1)	Estimated Fair Value Assets	Estimated Fair Value Liabilities
		(In billions of Won)	
Trading:			
Foreign exchange derivatives:			
Swaps	(Won) 14,437	(Won) 635	(Won) 860
Future and forward contracts	45,434	787	450
Options purchased	877	146	
Options written	798		11
Sub-total	61,546	1,568	1,321
Interest rate derivatives:			
Swaps	164,835	596	765
Future and forward contracts			
Options purchased	4,670	43	
Options written	4,689		43
Sub-total	174,194	639	808

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	As of December 31, 2010		
	Underlying Notional Amount(1)	Estimated Fair Value Assets (In billions of Won)	Estimated Fair Value Liabilities
Equity derivatives:			
Swaps	899	34	2
Future and forward contracts			
Options purchased	9,630	1,220	
Options written	9,195		1,213
Sub-total	19,724	1,254	1,215
Credit derivatives:			
Protection sell	88		
Sub-total	88		
Other derivatives:			
Commodity swaps			
Options purchased	89	6	
Options written	56		5
Sub-total	145	6	5
Total	(Won) 255,697	(Won) 3,467	(Won) 3,349
Nontrading:			
Hedge accounting:			
Foreign exchange derivatives:			
Swaps	300		19
Interest rate derivatives:			
Swaps:	1,583	27	34
Sub-total	1,883	27	53
Nontrading that do not qualify for hedge accounting(2):			
Foreign exchange derivatives:			
Swaps:	593	62	2
Future and forward contracts:	2		
Interest rate derivatives:			
Swaps:	8,365	285	66
Sub-total	8,960	347	68
Total	(Won) 10,843	(Won) 374	(Won) 121

Notes:

(1) Notional amounts in foreign currencies were converted into Won at prevailing exchange rates as of December 31, 2010.

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

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Funding

We obtain funding from a variety of sources, both domestic and foreign. Our principal source of funding is customer deposits obtained from our banking operations, and we from time to time issue equity and debt securities, including preferred shares to fund large-scale acquisitions such as Chohung Bank and LG Card and a recent rights offering in anticipation of greater liquidity and capital requirements during the recent global financial crisis. In addition, our subsidiaries acquire funding through call money, borrowings from the Bank of Korea, other short-term borrowings, corporate debentures and other long-term debt, including debt and equity securities issuances, asset-backed securitizations and repurchase transactions, to complement, or if necessary, replace funding through customer deposits. For further details relating to funding by us and our subsidiaries, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

Deposits

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

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

	2008		2009		2010	
	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid
	(In billions of Won, except percentages)					
Interest-bearing deposits:						
Interest-bearing demand deposits	(Won) 5,786	0.78%	(Won) 7,399	0.45%	(Won) 8,985	0.49%
Savings deposits	30,877	2.32	36,876	1.22	46,221	1.04
Certificates of deposit	16,152	5.94	11,802	5.48	4,985	4.49
Other time deposits	60,437	4.94	77,961	3.91	94,348	3.54
Mutual installment deposits(2)	291	3.78	189	3.70	129	3.53
Total interest-bearing deposits(3)	(Won) 113,543	4.15%	(Won) 134,227	3.12%	(Won) 154,668	2.65%

Notes:

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

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

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

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

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Certificates of Deposit and Other Time Deposits

The following table presents the balance and remaining maturities of our other time deposits, certificates of deposit and mutual installment deposits which had a fixed maturity in excess of (Won)100 million or more as of December 31, 2010.

	As of December 31, 2010			
	Certificates of Deposit	Other Time Deposits	Mutual Installment Deposits	Total
	(In billions of Won)			
Maturing within three months	(Won) 997	(Won) 21,656	(Won)	(Won) 22,653
After three but within six months	544	7,898		8,442
After six but within 12 months	1,526	38,331		39,857
After 12 months	195	4,021	2	4,218
Total	(Won) 3,262	(Won) 71,906	(Won) 2	(Won) 75,170

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

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Short-term Borrowings

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

	2008					2009					2010		
e ing	Average Balance Outstanding(1)	Highest Balances at Any Month-end	Weighted Average Interest Rate(2)	Year-end Interest Rate	Balance Outstanding	Average Balance Outstanding(1)	Highest Balances at Any Month-end	Weighted Average Interest Rate(2)	Year-end Interest Rate	Balance Outstanding	Average Balance Outstanding(1)	Highest Balances at Any Month-end	V
					(In billions of Won, except for percentages)								
259	(Won) 964	(Won) 1,285	2.54%	0.10-2.75%	(Won) 1,434	(Won) 1,369	(Won) 1,490	1.11%	1.25-3.50%	(Won) 996	(Won) 1,306	(Won) 1,637	
878	2,875	4,878	5.41	0.40-6.93	2,398	3,087	5,943	2.42	1.35-10.50	1,334	2,271	1,934	
088	17,874	19,839	4.12	1.08-8.10%	5,883	12,723	18,262	3.85	0.77-6.25%	5,741	7,288	6,141	
225	(Won) 21,713	(Won) 26,002	4.22%		(Won) 9,715	(Won) 17,179	(Won) 25,695	3.38%		(Won) 8,071	(Won) 10,865	(Won) 9,712	

Notes:

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

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

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

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

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

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Risk Management

Overview

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

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

In particular, our groupwide risk management is guided by the following core principles:

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

We take the following steps to implement the foregoing risk management principles:

- *risk capital management* Risk capital refers to capital necessary to compensate for losses in case of a potential risk being realized, and risk capital management refers to the process of asset management based on considerations of risk exposure and risk appetite among total assets so that we can maintain an appropriate level of risk capital. As part of our risk capital management, we and our subsidiaries have adopted and maintain various risk planning processes and reflect such risk planning in our business and financial planning. We also have adopted and maintain a risk limit management system to ensure that risks in our business do not exceed prescribed limits.
- *risk monitoring* We are currently installing a multidimensional risk monitoring system under which we will, on a periodic basis, proactively and preemptively review risks that could impact our overall operations. Currently, each of our subsidiaries is required to report to the holding company any factors that could have a material impact on the groupwide risk management, and the holding company reports to our chief risk officer and other members of our senior management the results of risk monitoring on a weekly,

monthly and continual basis.

risk review Prior to entering any new business, offering any new products or changing any major policies, we review any relevant risk factors based on a prescribed risk management checklist and, in the case of changes for which assessment of risk factors is difficult, promote reasonable decision-making in order to avoid taking any unduly risky action. The risk management departments of all our subsidiaries are required to review all new businesses, products and services prior to their launch and closely monitor the development of any related risks following their launch, and in the case of any action that involves more than one subsidiary, the relevant risk management departments are required to consult with the risk management team at the holding company level prior to making any independent risk reviews.

risk management We maintain a groupwide risk management system to detect the early warnings signals of any crisis and, in the event of a crisis actually happening, to respond on a timely, efficient and flexible basis so as to ensure our survival as a going concern. Each of our subsidiaries maintains crisis

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planning for three levels of contingencies, namely, alert , imminent crisis and crisis , determination of which is made based on quantitative and qualitative monitoring and consequence analysis, and upon the happening of any such contingency, is required to respond according to a prescribed contingency plan. At the holding company level, we maintain and install a crisis detection and response system which is applied consistently groupwide, and upon the happening of any contingency at a subsidiary level, we directly take charge of the situation so that we manage it on a concerted groupwide basis.

Organization

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

At the holding company level:

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

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

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

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

At the subsidiary level:

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

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

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

Credit Risk Management

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

Credit Risk Management of Shinhan Bank

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

achieve profit level corresponding to the level of risks involved;

improve asset quality and achieve optimal industrial and rating loan portfolios;

focus on the small- and medium-sized enterprises and markets;

avoid excessive loan concentration in a particular borrower or sector;

focus on the borrower s ability to repay the debt; and

provide financial support to advance the growth of select customers.

Major policies for Shinhan Bank s credit risk management are determined by the Credit Policy Committee of Shinhan Bank, the executive decision-making body for management of credit risk. The Credit Policy Committee is led by the Deputy President and head of the Risk Management Group. The Credit Policy Committee further consists of chief officers from eight business groups. In order to separate the loan approval functions from credit policy decision-making, Shinhan Bank has a Credit Review Committee which performs credit review evaluations and operates separately from the Credit Policy Committee. Both the Credit Policy Committee and the Credit Review Committee make decisions by a vote of two-thirds or more of the attending members for the respective committees, which must constitute at least two-thirds of the relevant committee members to satisfy the respective quorum.

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

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

Credit Evaluation and Approval

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

Retail Loans

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

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

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

Corporate Loans

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

In addition, in order to enhance the accuracy of its internal credit reviews, Shinhan Bank also considers reports prepared by external credit rating services, such as Nice Information Service and Korea Enterprise Data, and monitors and improves the effectiveness of the credit risk-rating systems using a database that it updates continually with actual default records.

Based on the scores calculated under the credit rating system, which takes into account the evaluation criteria described above and the probability of default, Shinhan Bank assigns the borrower one of 20 grades (from the highest of AAA to the lowest of D). Grades AA through B are further broken down into +, 0 or -. Grades AAA through B- are classified as normal, grade CCC precautionary, and grades CC through D non-performing. The credit risk-rating model is further differentiated by the size of the corporate borrower and the type of credit facilities.

Loan Approval Process

Loans are generally approved after evaluations and approvals by the relationship manager at the branch level as well as the committee of the applicable business unit at Shinhan Bank. The approval limit for retail loans is made based on Shinhan Bank s automated credit scoring system. In the case of large corporate loans, approval limits are also reviewed and approved by a Credit Officer at the headquarters level. Depending on the size and the importance of the loan, the approval process is further reviewed by the Credit Officer Committee or the Master Credit Officer Committee. If the loan is considered significant or the amount exceeds the discretion limit of the Master Credit Officer Committee, further evaluation is made by the Credit Review Committee, which is Shinhan Bank s highest decision-making body in relation to credit approval. The Credit Review Committee s evaluation and approval of loan limits vary depending on the credit ratings of the borrowers as determined by Shinhan Bank s internal credit rating system. For example, for borrowers with a credit rating of B-, the Credit Review Committee evaluates and approves unsecured loans in excess of (Won)10 billion and secured loans in excess of (Won)15 billion, whereas for borrowers with a credit rating of AAA, the Credit Review Committee evaluates and approves unsecured loans in excess of (Won)30 billion and secured loans in excess of (Won)80 billion. Meetings to approve applications for large-sized loans whose principal amounts exceed prescribed levels set by the Credit Review Committee are held twice a week.

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

The reviewer at each level of the review process may in its discretion approve loans up to a maximum amount per loan assigned to such level. The discretionary loan approval limit for each level of the loan approval process takes into account the total amount of loans extended to the borrower, the credit level of the applicant based on credit review, the existence and value of collateral and the level of credit risk established by the credit rating system. The discretionary loan amount approval limit ranges from (Won)30 million for unsecured retail loans with a credit rating of B-, which are subject to approvals by the retail branch manager, to (Won)80 billion for secured loans with a credit rating of AAA, which are subject to approvals by the top-level credit review committee. Any loans exceeding the maximum discretionary loan amount approval limit must be approved by the Credit Review Committee.

Credit Review and Monitoring

Shinhan Bank continually reviews and monitors existing credit risks primarily with respect to borrowers. In particular, Shinhan Bank s automated early warning system conducts daily examination for borrowers using over 117 financial and non-financial factors, and the relationship manager and the credit officer must conduct periodic loan review and report to independent loan review team which analyzes in detail the results and adjusts credit rating accordingly. Based on these reviews, Shinhan Bank adjusts a borrower s credit rating, credit limit, applied interest rates and credit policies. In addition, the group credit rating of the borrower s group, if applicable, may be adjusted following a periodic review of the main debtor groups, mostly comprised of *chaebols*, as identified by the Governor of the Financial Supervisory Service based on their outstanding credit exposures, of which 41 were identified as such as of December 31, 2010. Shinhan Bank also continually reviews other factors, such as industry-specific conditions for the borrower s business and its domestic and overseas asset base and operations, in order to ensure that the assigned ratings are appropriate. The Credit Review Department provides credit review reports, independent of underwriting, to Chief Risk Officer on a monthly basis.

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

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

Credit Risk Assessment and Control

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

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

Shinhan Bank measures credit risk using internally accumulated data. Shinhan Bank measures expected and unexpected losses with respect to total assets monthly, which Shinhan Bank refers to when setting risk limits for, and allocating capital to, its business groups. Expected loss is calculated based on the probability of default, the loss given default, the exposure at default and the past bankruptcy rate and recovery rate, and Shinhan Bank provides allowance for loan losses accordingly. In 2010, Shinhan Bank provided for such allowance for loan losses under Korean GAAP, and starting 2011, will do so under Korean IFRS. Shinhan Bank makes provisioning at a level which is the higher of the Financial Supervisory Service requirement or Shinhan Bank s internal calculation. Unexpected loss is predicted based on value at risk (VaR), which is used to determine compliance with the aggregate credit risk limit for Shinhan Bank as well as the credit risk limit for the relevant department within Shinhan Bank. We use the Monte Carlo simulation method to compute the VaR, compared to the historical simulation method used previously, as the Monte Carlo method provides a more systematic method for reflecting concentration risks and portfolio effects.

Credit Risk Management of Shinhan Card

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

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

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

improve asset quality and achieve optimal asset portfolios; and

focus on borrower s ability to repay the debt.

Credit Card Approval Process

Shinhan Card uses an automated credit scoring system to approve credit card applications or credit card authorizations. The credit scoring system is divided into two sub-systems: the application scoring system and the behavior scoring system. The behavior scoring system is based largely on the credit history, and the application scoring system is based largely on personal information of the applicant. For credit card applicants with whom we have an existing relationship, Shinhan Card s credit scoring system considers internally gathered information such as repayment ability, total assets, the length of the existing relationship and the applicant s contribution to profitability. The credit scoring system also automatically conducts credit checks on all credit card applicants. Shinhan Card gathers information about applicants transaction history with financial institutions, including banks and credit card companies, from a number of third party credit reporting agencies including, among others, National Information & Credit Evaluation Inc. and Korea Credit Bureau. These credit checks reveal a list of the delinquent customers of all the credit card issuers in Korea.

If a credit score awarded to an applicant is above a minimum threshold, the application is approved unless overridden based on other considerations such as delinquencies with other credit card companies. For a credit card application by a long-standing customer with a good credit history, Shinhan Card may, on a discretionary basis, waive the assigned credit score unless overridden by other considerations. All of these factors also serve as the basis for setting a credit limit if Shinhan Card approves the related application.

The following describes the process on how Shinhan Card sets credit limits for credit cards, cash advances and card loans:

*Credit purchase and cash advance limit*s These limits are set based on the applicant s limit request and Shinhan Card s credit screening criteria. Except where an accountholder has requested for a credit purchase and/or a reduction in the cash advance limit, Shinhan Card is required to provide prior notice to the accountholder for any reduction in such accountholder s limit. However, where the accountholder has defaulted or the accountholder s credit limit is reduced according to the terms of the card agreement, Shinhan Card is entitled to lower the credit limit before notifying the accountholder.

Card loan limit This limit is set monthly by Shinhan Card based on the accountholder s credit rating and transaction history. The card loan limit can be adjusted monthly based on the accountholder s credit standing without prior notification.

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Monitoring

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

Loan Application Review and On-going Credit Review

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

Fraud Loss Prevention

Shinhan Card seeks to minimize losses from the fraudulent use of credit cards issued by it. Shinhan Card focuses on preventing fraudulent uses and, following the occurrence of a fraudulent use, makes investigations in order to make the responsible party bear the losses. Misuses of lost credit cards account for a substantial majority of Shinhan Card s fraud losses. Through its fraud loss prevention system, Shinhan Card seeks to detect, on a real-time basis, transactions that are unusual or inconsistent with prior usage history and calls are made to the relevant cardholders to confirm their purchases. A team at Shinhan Card dedicated to investigating fraud losses also examines whether the cardholder was at fault by, for example, not reporting a lost card or failing to endorse the card, or whether the relevant merchant was negligent in checking the identity of the user. Fault may also lie with delivery companies that fail to deliver credit cards to the relevant applicant. In such instances, Shinhan Card attempts to recover fraud losses from the responsible party. To prevent misuse of a card as well as to manage credit risk, Shinhan Card s information technology system will automatically suspend the use of a card (i) when, as a result of ongoing monitoring, fraudulent use or loss of the card is suspected based on the accountholder s credit score, or (ii) at the request of the accountholder.

Approximately 80% of Shinhan Card s cardholders have consented to Shinhan Card accessing their travel records to detect any misuse of credit cards while they are traveling abroad. Shinhan Card also offers cardholders additional fraud protection through a fee-based short message service. At the cardholder s option, Shinhan Card notifies the cardholder of any credit card activity in his or her account by sending a text message to his or her mobile phone. This monitoring service allows customers to quickly and easily identify any fraudulent use of their credit cards.

Credit Risk Management of Shinhan Investment

In accordance with the guidelines of the Financial Supervisory Service, Shinhan Investment assesses its credit risks (including through VaR analyses) and allocates the maximum limit for the credit amount at risk by department. Shinhan Investment also assesses the counterparty risks in all credit-related transactions, such as loans, acquisitions financing and derivative transactions and takes corresponding risk management measures. In assessing the credit risk of a corporate counterparty, Shinhan Investment considers such counterparty s corporate credit rating obtained from Shinhan Bank s internal corporate rating database. Through its risk management system, Shinhan Investment also closely monitors credit risk exposures by counterparty, industry, conglomerates, credit ratings and country. Shinhan Investment conducts credit risk stress tests on a daily basis based on hypothetical extreme market scenarios and also conducts more advanced stress tests from time to time, the results of which are then reported to its management as well as Shinhan Financial Group s credit risk officer to support groupwide credit risk management.

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Market Risk Management

Market risk is the risk of loss generated by fluctuations in market prices such as interest rates, foreign exchange rates and equity prices. The principal market risks to which we are exposed are interest rate risk and, to a lesser extent, equity price risk, foreign exchange risk and commodity risk. These risks stem from our trading and non-trading activities relating to financial instruments such as loans, deposits, securities and financial derivatives. We divide market risk into risks arising from trading activities and risks arising from non-trading activities.

Our market risks arise primarily from Shinhan Bank, and to a lesser extent, Shinhan Investment, our securities trading and brokerage subsidiary, which incurs market risk relating to its trading activities. For Shinhan Bank s market risk management, Shinhan Bank s Risk Management Committee establishes overall market risk management principles for both the trading and non-trading activities of Shinhan Bank. Based on these principles, Shinhan Bank s Asset & Liability Management Committee, or the ALM Committee, assesses and controls market risks arising from trading and non-trading activities. The ALM Committee, which consists of seven executive vice presidents, the head of the Risk Management Department and the head of the Treasury Department of Shinhan Bank, is the executive decision-making body for Shinhan Bank s risk management and asset and liability management operations. At least on a monthly basis, the ALM Committee reviews and approves reports, which include the position and VaR with respect to Shinhan Bank s trading activities and the position, VaR, duration gap and market value analysis and net interest income simulation with respect to its non-trading activities. Shinhan Bank measures market risk with respect to all assets and liabilities in the bank accounts and trust accounts in accordance with the regulations promulgated by the Financial Services Commission.

Shinhan Investment manages its market risk based on its overall risk limit established by its risk management committee as well as the risk limits and detailed risk management guidelines for each product and department established by its management s committee. Shinhan Investment assesses the adequacy of these limits at least annually. In addition, Shinhan Investment assesses the market risks of its trading assets. The assessment procedure is based on the standard procedures set by the Financial Supervisory Services as well as an internally developed model. Shinhan Investment assesses the risk amount and VaR, and manages the risk by setting a risk limit per sector as well as a VaR limit.

Shinhan Life Insurance manages its market risk based on its overall risk limit established by its risk management committee. Shinhan Life Insurance manages market risk in regard to assets that are subject to trading activities and foreign exchange positions.

Shinhan Card does not have any assets with significant exposure to market risks and therefore does not maintain a risk management policy with respect to market risks.

We use Korean GAAP numbers on a non-consolidated basis for our market risk management and, unless otherwise specified, the numbers presented for quantitative market risk disclosure have been prepared in accordance with Korean GAAP on a non-consolidated basis.

Market Risk Exposure from Trading Activities

Shinhan Bank s trading activities principally consist of:

- trading activities to realize short-term trading profits in debt and stock markets and foreign exchange markets based on Shinhan Bank s short-term forecast of changes in market situation and customer demand, for its own account as well as for the account of the trust accounts of Shinhan Bank s customers; and

- trading activities primarily to realize profits from arbitrage transactions in derivatives such as swap, forward, futures and option transactions, and, to a lesser extent, to sell derivative products to Shinhan Bank s customers and to cover market risk incurred from those trading activities.

Shinhan Investment s trading activities principally consist of trading for customers and for proprietary accounts equity and debt securities and derivatives based on stocks, stock indexes, interest rates, foreign exchange and commodity.

As a result of these trading activities, Shinhan Bank is exposed principally to interest rate risk, foreign exchange risk and equity risk, and Shinhan Investment is exposed principally to equity risk and interest rate risk.

Interest Rate Risk

Shinhan Bank s exposure to interest rate risk arises primarily from Won-denominated debt securities, directly held or indirectly held through beneficiary certificates, and, to a lesser extent, from interest rate derivatives. Shinhan Bank s exposure to interest rate risk arising from foreign currency-denominated trading debt securities is minimal since its net position in those securities is not significant. As Shinhan Bank s trading accounts are marked-to-market daily, it manages the interest rate risk related to its trading accounts using VaR, a market value-based tool.

Shinhan Investment s interest rate risk arises primarily from management of its interest rate-sensitive asset portfolio, which mainly consists of debt securities, interest rate swaps and government bond futures, and the level of such risk exposure depends largely on the variance between the interest rate movement assumptions built into the asset portfolio and the actual interest rate movements and the spread between a derivative product and its underlying assets. Shinhan Investment quantifies and manages the interest rate-related exposure by daily conducting VaR and stress tests on a marked-to-market basis.

Foreign Exchange Risk

Foreign exchange risk arises because of Shinhan Bank s assets and liabilities, including derivatives such as foreign exchange forwards and futures and currency swaps, which are denominated in currencies other than the Won. Shinhan Bank manages foreign exchange risk on an overall position basis, including its overseas branches, by covering all of its foreign exchange spot and forward positions in both trading and non-trading accounts.

Shinhan Bank s net foreign currency open position, which is the difference between its foreign currency assets and liabilities as offset against forward foreign exchange positions, is Shinhan Bank s foreign exchange risk. The ALM Committee oversees Shinhan Bank s foreign exchange exposure for both trading and non-trading activities by establishing limits for the net foreign currency open position, loss limits and VaR limits. The management of Shinhan Bank s foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage Shinhan Bank s overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps. Shinhan Bank sets a limit for net open positions by currency and the limits for currencies other than the U.S. dollars and Japanese yen are set in a conservative manner in order to minimize other foreign exchange trading.

Shinhan Investment carries foreign exchange risk in relation to the following product offerings: currency forwards, currency swaps and currency futures. Transactions of such products are centrally monitored and managed by Shinhan Investment s Fixed Income, Currency & Commodities Department. Shinhan Investment s Risk Management Administration Committee, which has been delegated the decision-making authority over the approval of foreign exchange-related transactions and limits on the related open positions, manages the related foreign exchange risk by setting nominal limits on the amounts of foreign exchange-related products and monitoring compliance with such limits on a daily basis. As of December 31, 2010, Shinhan Investment s net open position related to foreign exchange-related products (excluding cross-currency products) was US$(14 million), and its open positions related to the sale of U.S. dollar forwards and Won-U.S. dollar futures were US$11 million and US$3 million, respectively.

The net open foreign currency positions held by our other subsidiaries are insignificant. In the case of Shinhan Capital which incurs a considerable amount of foreign exchange exposure from its leasing business, it maintains its net exposure below US$3 million by hedging its foreign exchange positions using forwards and currency swaps.

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The following table shows Shinhan Bank s net foreign currency open positions as of December 31, 2008, 2009 and 2010. Positive amounts represent long exposures and negative amounts represent short exposures.

Currency	2008	As of December 31, 2009 (In millions of US$)	2010
U.S. dollars	US $ (41.6)	US$ (41.6)	US$ (621.0)
Japanese yen	(43.7)	23.3	(21.1)
Euro	(10.8)	(2.7)	1.1
Others	59.3	34.0	556.6
Total	US$ (36.8)	US$ 13.1	US$ (84.4)

Equity Risk

Equity risk for Shinhan Bank s trading activities results from trading equity portfolios of Korean companies and Korea Stock Price Index futures and options. The trading equity portfolio consists of stocks listed on the KRX KOSPI Market or the KRX KOSDAQ Market of the Korea Exchange and nearest-month or second nearest-month futures contracts under strict limits on diversification as well as limits on positions. Shinhan Bank maintains strict scrutiny of these activities in light of the volatility in the Korean stock market. In addition, Shinhan Bank pays close attention to the loss limits. Although Shinhan Bank holds a substantially smaller amount of equity securities than debt securities in its trading accounts, the VaR of trading account equity risk is generally higher than that of trading account interest rate risk due to high volatility in the value of equity securities. As of December 31, 2008, 2009 and 2010, Shinhan Bank held (Won)13.4 billion, (Won)80.6 billion and (Won)67.0 billion, respectively, of equity securities in its trading accounts (including the trust accounts).

Equity risk for Shinhan Investment s trading activities also results from the trading of equity portfolio of Korean companies and Korea Stock Price Index futures and options. As of December 2008, 2009 and 2010, the total amount of equity securities at risk held by Shinhan Investment was (Won)5.7 billion, (Won)29.9 billion and (Won)15.1 billion, respectively.

Equity positions held by our other subsidiaries are insignificant.

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Management of Market Risk from Trading Activities

The following tables present an overview of market risk, measured by VaR, from trading activities of Shinhan Bank and Shinhan Investment, respectively, for the year ended and as of December 31, 2010. For market risk management purposes, Shinhan Bank includes its trading portfolio in bank accounts and assets in trust accounts for which it guarantees principal or fixed return in accordance with the Financial Services Commission regulations.

	Trading Portfolio VaR for the Year 2010			
	Average	Minimum	Maximum	As of December 31, 2010
	(In billions of Won)			
Shinhan Bank:(1)				
Interest rate	(Won) 33.3	(Won) 9.5	(Won) 67.7	(Won) 13.8
Foreign exchange(2)	6.1	1.1	19.5	13.9
Equities	4.1	1.8	11.5	4.7
Option volatility(3)	0.4	0.1	1.3	0.5
Less: portfolio diversification(4)	8.8	(0.2)	32.5	7.8
Total VaR(5)	(Won) 35.2	(Won) 12.7	(Won) 67.5	(Won) 25.1
Shinhan Investment: (1)(6)				
Interest rate	(Won) 7.38	(Won) 3.98	(Won) 17.65	(Won) 4.36
Equities	5.54	3.84	5.07	2.68
Option volatility(3)	1.37	1.29	0.82	0.76
Less: portfolio diversification(4)	(5.99)	(5.02)	(4.59)	(3.3)
Total VaR	(Won) 10.06	(Won) 5.04	(Won) 19.76	(Won) 5.26

Notes:

(1) Shinhan Bank and Shinhan Investment s ten-day VaR is based on a 99% confidence level.

(2) Includes both trading and non-trading accounts as Shinhan Bank manages foreign exchange risk on a total position basis.

(3) Volatility implied from the option price using the Black-Scholes or a similar model.

(4) Calculation of portfolio diversification effects may occur on different days for different risk components. Total VaRs are less than the simple sum of the risk component VaRs due to offsets resulting from portfolio diversification.

(5) Includes trading portfolio in Shinhan Bank s bank accounts and assets in trust accounts for which it guarantees principal or fixed return.

(6) The average change in market value of the portfolio of Shinhan Investment was (Won)5.59 billion per day in 2010.

Shinhan Bank generally manages its market risk from trading activities of its portfolios on an aggregated basis. To control its trading portfolio market risk, Shinhan Bank uses position limits, VaR limits, stop loss limits, Greek limits and stressed loss limits. In addition, it establishes appropriate limits for investment securities. Shinhan Bank maintains risk control and management guidelines for derivative trading based on the regulations and guidelines promulgated by the Financial Services Commission, and measures market risk from trading activities to monitor and control the risk of its operating divisions and teams that perform trading activities.

Value-at-risk analysis. Shinhan Bank uses ten-day and one-day VaRs to measure its market risk. Shinhan Bank calculates VaRs on a daily basis based on data for the previous 12 months for the holding periods of ten days. A ten-day VaR is a statistically estimated maximum amount of loss that can occur for ten days under normal market conditions. We use a 99.9% confidence level to measure the VaRs, which means the actual amount of loss may exceed the VaR, on average, once out of 1,000 business days. One-day VaR is used as VaR limit for each trading desk.

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Shinhan Investment uses one-day VaRs to measure its market risk. Shinhan Investment calculates VaRs on a daily basis based on data for the previous 12 months for the holding periods of one day. We use a 99% confidence level to measure the VaRs for Shinhan Investment Shinhan Investment is currently using a variance-covariance methodology called delta-gamma method for its overall VaR calculation and uses historical simulation and Monte Carlo simulation for stress test and calculation of VaRs for individual risks of options. Variance-covariance method assumes a normal distribution of risks which may underestimate market risk when the distribution of market risk is not normal. This method also does not provide accurate analysis for risks of non-linear products such as options.

Value-at-risk is a commonly used market risk management technique. However, VaR models have the following shortcomings:

- VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a reliable indicator of future events, particularly potential future events that are extreme in nature.

- VaR may underestimate the probability of extreme market movements.

- Shinhan Bank s VaR models assume that a holding period of generally one to ten days is sufficient prior to liquidating the underlying positions, but the length of the holding period so assumed may actually be insufficient or excessive.

- The 99.9% confidence level does not take into account or make any statement about, any losses that might occur beyond this confidence level.

- VaR does not capture all complex effects of various risk factors on the value of positions and portfolios and could underestimate potential losses.

Currently, Shinhan Bank and Shinhan Investment conduct back-testing of VaR results against actual outcomes on a daily basis.

Shinhan Bank operates an integrated market risk management system which manages Shinhan Bank s Won-denominated and foreign-denominated accounts. This system uses historical simulation to measure both linear risks arising from such products as equity and debt securities and nonlinear risks arising from other products including options. We believe that this system enables Shinhan Bank to generate elaborate and consistent VaR numbers and perform sensitivity analysis and back testing to check the validity of the models on a daily basis. Jeju Bank and Shinhan Life also measure market risks based on a VaR analysis.

Stress test. In addition to VaR, Shinhan Bank performs stress test to measure market risk. As VaR assumes normal market situations, Shinhan Bank assesses its market risk exposure to unlikely abnormal market fluctuations through stress test. Stress test is an important way of supplementing VaR since VaR does not cover potential loss if the market moves in a manner which is outside Shinhan Bank s normal expectations. Stress test projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio.

Shinhan Bank uses seven relatively simple but fundamental scenarios for stress test taking into account four market risk components such as foreign exchange rates, stock prices and Won-denominated and foreign currency-denominated interest rates. For the worst case scenario, we assumed instantaneous and simultaneous movements in the four market risk components depreciation of Won by 20%, decrease in Korea Exchange Composite Index by 30%, and increases in Won-denominated and U.S. dollar-denominated interest rates by 200 basis points and 200 basis points, respectively. In the case of this worst-case scenario, the change in market value of Shinhan Bank s trading portfolio was a decline of (Won)217 billion as of December 31, 2010. Shinhan Bank performs stress test on a daily basis and reports the results to the ALM Committee and the Risk Management Committee on a monthly basis.

Shinhan Investment uses five scenarios for stress tests, taking into account two market risk components: stock prices (both in terms of stock market indices and ß-based individual stock prices) and interest rates for Won-denominated loans. As of December 31, 2010, for the worst case scenario, which was in the case of

instantaneous and simultaneous drops in Korea Stock Price Index 200 by 10% and a 1% point increase in the three-year government bond yield, the change in market value of Shinhan Investment s trading portfolio was (Won)20.4 billion for one day.

Shinhan Life Insurance conducts a stress test semi-annually based on a bad scenario and a worst-case scenario, and the results of the stress test include expected losses and impacts on capital adequacy. Shinhan Life Insurance takes preemptive measures on the basis of the results from its stress tests.

Shinhan Bank sets limits on stress testing for its overall operations. Although Shinhan Life Insurance does not set any limits on stress testing, it monitors the impact of market turmoil or any abnormality. Shinhan Investment sets limits on stress testing for its overall operations as well as at its department level. In the case of Shinhan Bank, Shinhan Investment and Shinhan Life Insurance, if the impact is large, their respective chief risk officer may request a portfolio restructuring or other proper action.

Hedging and Derivative Market Risk

The principal objective of our groupwide hedging strategy is to manage market risk within established limits. We use derivative instruments to hedge our market risk as well as to make profits by trading derivative products within pre-approved risk limits. Our derivative trading includes interest rate and cross-currency swaps, foreign currency forwards and futures, stock index and interest rate futures, and stock index and currency options.

While we use derivatives for hedging purposes, derivative transactions by nature involve market risk since we take trading positions for the purpose of making profits. These activities consist primarily of the following:

- arbitrage transactions to make profits from short-term discrepancies between the spot and derivative markets or within the derivative markets;
- sales of tailor-made derivative products that meet various needs of our corporate customers, principally of Shinhan Bank and Shinhan Investment, and related transactions to reduce its exposure resulting from those sales (in the case of Shinhan Investment, these activities commenced from February 2003 when it acquired the relevant license);
- taking positions in limited cases when we expect short-swing profits based on its market forecasts; and
- trading to hedge our interest rate and foreign currency risk exposure as described above.

Market risk from derivatives is not significant for Shinhan Bank since its derivative trading activities involve primarily arbitrage and customer transactions with limited open trading positions.

In relation to our adoption of ASC 820-10 (formerly SFAS No. 157, *Fair Value Measurements*), we have implemented internal processes which include a number of key controls designed to ensure that fair value is measured appropriately, particularly where a fair value model is internally developed and used to price a significant product.

Shinhan Bank assesses the adequacy of the fair market value of a new product derived from its internal model prior to the launch of such product. The assessment process involves the following:

- computation of an internal dealing system market value (based on assessment by the quantitative analysis team of the adequacy of the formula and the model used to compute the market value as derived from the dealing system);
- computation of the market value as obtained from an outside credit evaluation company; and

following comparison of the market value derived from an internal dealing system to that obtained from outside credit evaluation companies, determination as to whether to use the internally developed market value based on inter-departmental agreement.

The dealing system market value, which is used officially by Shinhan Bank after undergoing the assessment process above, does not undergo a sampling process that confirms the value based on review of individual transactions, but is subject to an additional assessment procedure of comparing such value against the profits derived from the dealing systems based on the deal portfolio sensitivity.

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Shinhan Investment follows an internal policy as set by its Fair Value Evaluation Committee for computing and assessing the adequacy of fair value of all of its over-the-counter derivative products. Shinhan Investment computes the fair value based on an internal model and internal risk management systems and assesses the adequacy of the fair value through cross-departmental checks as well as comparison against fair values obtained from outside credit evaluation companies.

See Item 5.A. Operating Results Critical Accounting Policies and Notes 28 and 29 of the notes to our consolidated financial statements.

Market risk from derivatives is not significant since derivative trading activities of Shinhan Bank and Shinhan Investment are primarily driven by arbitrage and customer deals with very limited open trading positions. Market risk from derivatives is also not significant for Shinhan Life Insurance as its derivative trading activities are limited to those within pre-approved risk limits and are subject to heavy regulations imposed on the insurance industry. Market risk from derivatives is not significant for our other subsidiaries since the amount of such positions by our other subsidiaries is insignificant.

Market Risk Management for Non-trading Activities

Interest Rate Risk

Principal market risk from non-trading activities of Shinhan Bank is interest rate risk. Interest rate risk is the risk of loss resulting from interest rate fluctuations that adversely affect the financial condition and results of operations of Shinhan Bank. Shinhan Bank s interest rate risk arises primarily due to differences between the timing of rate changes for interest-earning assets and interest-bearing liabilities.

Interest rate risk affects Shinhan Bank s earnings and the economic value of Shinhan Bank s net assets:

Earnings: interest rate fluctuations have an effect on Shinhan Bank s net interest income by affecting its interest-sensitive operating income and expenses.

Economic value of net assets: interest rate fluctuations influence Shinhan Bank s net worth by affecting the present value of cash flows from the assets, liabilities and other transactions of Shinhan Bank.

Accordingly, Shinhan Bank measures and manages interest rate risk for non-trading activities by taking into account effects of interest rate changes on both its income and net asset value. Shinhan Bank measures and manages interest rate risk on a daily/monthly basis with respect to all interest-earning assets and interest-bearing liabilities in Shinhan Bank s bank accounts (including derivatives denominated in Won which are interest rate swaps for the purpose of hedging) and in the trust accounts, except that it measures VaRs on a monthly basis. Most of Shinhan Bank s interest-earning assets and interest-bearing liabilities are denominated in Won.

Interest Rate Risk Management

The principal objectives of Shinhan Bank s interest rate risk management are to generate stable net interest income and to protect Shinhan Bank s net asset value against interest rate fluctuations. To this end, the ALM Committee sets out Shinhan Bank s interest rate risk limits at least annually and the Risk Management Department monitors Shinhan Bank s compliance with these limits and reports the monitoring results to the ALM Committee on a monthly basis. Shinhan Bank uses interest rate swaps to control its interest rate exposure limits.

On a daily/monthly basis, Shinhan Bank uses various analytical methodologies to measure and manage its interest rate risk for non-trading activities, including the following:

Interest Rate Gap Analysis: Interest rate gap analysis measures the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and re-pricing date for a specific time frame.

Duration Gap Analysis: Duration gap analysis measures durations of Shinhan Bank s interest-earning assets and interest-bearing liabilities, which are weighted average maturities of these assets and liabilities calculated based on discounted cash flows from these assets and liabilities using yield curves.

Market Value Analysis: Market value analysis measures changes in the market value of Shinhan Bank s interest-earning assets and interest-bearing liabilities based on the assumption of parallel shifts in interest rates.

Net Interest Income Simulation Analysis: Net interest income simulation analysis uses deterministic analysis methodology to measure changes in Shinhan Bank s annual net interest income (interest income less interest expenses) under the current maturity structure, using different scenarios for interest rates (assuming parallel shifts) and funding requirements.

Interest Rate Gap Analysis

Interest rate gap analysis measures the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and re-pricing date by preparing interest rate gap tables in which Shinhan Bank s interest-earning assets and interest-bearing liabilities are allocated to the applicable time categories based on the expected cash flows and re-pricing dates. On a daily basis, Shinhan Bank performs interest rate gap analysis for Won and foreign currency denominated assets and liabilities in its bank and trust accounts. Shinhan Bank s gap analysis includes Won-denominated derivatives (which are interest rate swaps for the purpose of hedging) and foreign currency-denominated derivatives (which are currency swaps for the purpose of hedging) whose management is centralized at the FX & Derivatives Department. Through the interest rate gap analysis that measures interest rate sensitivity gaps, cumulative gaps and gap ratios, Shinhan Bank assesses its exposure to future interest risk fluctuations. For interest rate gap analysis, Shinhan Bank assumes and uses the following maturities for different assets and liabilities:

With respect to the maturities and re-pricing dates of Shinhan Bank s assets, Shinhan Bank assumes that the maturity of Shinhan Bank s prime rate-linked loans is the same as that of its fixed-rate loans. Shinhan Bank excludes equity securities from interest-earning assets.

With respect to the maturities and re-pricing of Shinhan Bank s liabilities, Shinhan Bank assumes that money market deposit accounts and non-core demand deposits under the Financial Services Commission guidelines have a maturity of one month or less for both Won-denominated accounts and foreign currency-denominated accounts.

With respect to core demand deposits under the Financial Services Commission guidelines, Shinhan Bank assumes that they have maturities of eight different intervals ranging from one month to five years.

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The following tables show Shinhan Bank s interest rate gaps as of December 31, 2010 for (1) Won-denominated non-trading bank accounts, including derivatives for the purpose of hedging and (2) foreign currency-denominated non-trading bank accounts, including derivatives for the purpose of hedging.

Won-denominated non-trading bank accounts(1)

	As of December 31, 2010						
	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2-3 Years	Over 3 Years	Total
	(In billions of Won, except percentages)						
Interest-earning assets	(Won) 101,570	(Won) 27,645	(Won) 11,840	(Won) 8,345	(Won) 6,690	(Won) 12,394	(Won) 168,484
Fixed rates	20,196	6,856	9,854	6,820	5,480	9,673	58,879
Floating rates	80,725	20,289	1,085	487	524	81	103,190
Interest rate swaps	650	500	902	1,038	685	2,640	6,415
Interest-bearing liabilities	(Won) 84,311	(Won) 18,598	(Won) 31,377	(Won) 9,559	(Won) 7,578	(Won) 13,797	(Won) 165,220
Fixed liabilities	41,024	14,364	30,934	9,334	7,515	13,108	116,279
Floating liabilities	36,872	4,234	444	225	63	688	42,526
Interest rate swaps	6,415						6,415
Sensitivity gap	17,259	9,047	(19,537)	(1,214)	(888)	(1,403)	3,264
Cumulative gap	17,259	26,306	6,769	5,555	4,667	3,264	3,264
% of total assets	10.24%	15.61%	4.02%	3.30%	2.77%	1.94%	1.94%

Foreign currency-denominated non-trading bank accounts(1)

	As of December 31, 2010					
	0-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Total
	(In millions of US$, except percentages)					
Interest-earning assets	$ 13,285	$ 3,420	$ 1,419	$ 1,842	$ 2,201	$ 22,168
Interest-bearing Liabilities	11,931	2,453	2,732	2,864	3,215	23,195
Sensitivity gap	1,355	967	(1,313)	(1,021)	(1,014)	(1,027)
Cumulative gap	1,355	2,322	1,008	(13)	(1,027)	(1,027)
% of total assets	6.11%	10.47%	4.55%	(0.06)%	(4.63)%	(4.63)%

Note:

(1) Includes merchant banking accounts

Duration Gap and Market Value Analysis

Shinhan Bank performs a duration gap analysis to measure effects of interest rate risk on the market value of its assets and liabilities. Shinhan Bank measures, on a daily basis and for each operating department, account, product and currency, durations of interest-earning assets and interest-bearing liabilities. Shinhan Bank also measures, on a daily basis, changes in the market value of Shinhan Bank s interest-earning assets and interest-bearing liabilities.

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The following tables show duration gaps and market values of Shinhan Bank s Won-denominated interest-earning assets and interest-bearing liabilities in its not-trading accounts as of December 31, 2010 and changes in these market values when interest rate increases by one percentage point.

Duration as of December 31, 2010 (for non-trading Won-denominated bank accounts(1))

	Duration as of December 31, 2010(1) (In months)
Interest-earning assets	9.04
Interest-bearing liabilities	9.27
Gap	0.13

Market Value as of December 31, 2010 (for non-trading Won-denominated bank accounts(1))

	Market Value as of December 31, 2010(1)		
	Actual	1% Point Increase	Changes
		(In billions of Won)	
Interest-earning assets	(Won) 172,303	(Won) 171,116	(Won) (1,187)
Interest-bearing liabilities	166,481	165,286	(1,195)
Gap	5,822	5,831	8

Note:

(1) Includes merchant banking accounts and derivatives for the purpose of hedging.

Net Interest Income Simulation

Shinhan Bank performs net interest income simulation to measure the effects of the change in interest rate on its results of operations. Such simulation measures the estimated changes in Shinhan Bank s annual net interest income (interest income less interest expenses) under the current maturity structure, using different scenarios for interest rates and funding requirements. For simulations involving interest rate changes, Shinhan Bank applies three scenarios of parallel shifts in interest rate: (1) no change, (2) a 1% point increase in interest rates and (3) a 1% point decrease in interest rates. For simulations involving changes in funding requirements, Shinhan Bank uses two scenarios: (1) no change in funding requirements and (2) a 10% increase in funding requirements.

The following tables illustrate by way of an example the simulated changes in Shinhan Bank s annual net interest income for 2010 with respect to Won-denominated interest-earning assets and interest-bearing liabilities, using Shinhan Bank s net interest income simulation model, when it assumes (a) the maturity structure and funding requirement of Shinhan Bank as of December 31, 2010 and (b) the same interest rates as of December 31, 2010 and a 1% point increase or decrease in the interest rates.

Simulated Net Interest Income for 2010
(For Non-Trading Won-Denominated Bank Accounts)(1)

Assumed Interest Rates			Change in Net Interest Income		Change in Net Interest Income	
No Change	1% Point Increase	1% Point Decrease	Amount (1% Point Increase)	% Change (1% Point	Amount (1% Point Decrease)	% Change (1% Point

					Increase)		Decrease)
			(In billions of Won, except percentages)				
Simulated interest income	(Won) 8,627	(Won) 9,642	(Won) 7,613	(Won) 1,015	11.76%	(Won) (1,015)	(11.76)%
Simulated interest expense	4,648	5,384	3,911	736	15.84%	(736)	(15.84)%
Net interest income	3,980	4,258	3,701	278	6.99%	(278)	(6.99)%

Note:

(1) Excludes Merchant Banking account and derivatives for the purpose of hedging.

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Shinhan Bank s Won-denominated interest earning assets and interest-bearing liabilities in non-trading accounts have a maturity structure that benefits from an increase in interest rates, because the re-pricing periods of the interest-earning assets in Shinhan Bank s non-trading accounts tend to be shorter than those of the interest-bearing liabilities in these accounts. This is primarily due to a continuous decrease in interest rate in the recent years in Korea, which resulted in a significant increase in floating rate loans, resulting in the maturities or re-pricing periods of Shinhan Bank s loans shorter. As a result, Shinhan Bank s net interest income tends to increase when the market interest rates rise.

Interest Rate VaRs for Non-trading Assets and Liabilities

Shinhan Bank measures VaRs for interest rate risk from non-trading activities on a monthly basis. The following table shows, as of and for the year ended December 31, 2010, the VaRs of interest rate mismatch risk for other assets and liabilities, which arises from mismatches in the re-pricing dates of Shinhan Bank s non-trading interest-earning assets and interest-bearing liabilities including available-for-sale investment securities. Under the Financial Services Commission regulations, Shinhan Bank includes in calculation of these VaRs interest-earning assets and interest-bearing liabilities in its bank accounts and its merchant banking accounts.

	VaR for the Year 2010(1)			
	Average	**Minimum**	**Maximum**	**As of December 31**
	(In billions of Won)			
Interest rate mismatch non-trading assets and liabilities	(Won) 259	(Won) 168	(Won) 394	(Won) 194

Note:

(1) One-year VaR results with a 99% confidence level.

Interest Rate Risk for Other Subsidiaries

Shinhan Card also monitors and manages its interest rate risk for all its interest-bearing assets and liabilities (including off-balance sheet items) in terms of impact on its earnings and net asset value from changes in interest rates. Shinhan Card primarily uses interest rate VaR and earnings at risk (EaR) analyses to measure its interest rate risk.

The interest rate VaR analysis used by Shinhan Card principally focuses on the maximum impact on its net asset value from adverse movements in interest rates and comprises of (i) historical interest rate VaR analysis and (ii) interest rate gap analysis. The historical interest rate VaR analysis is made through simulation of net asset value based on the interest rate volatility over a fixed past period to produce expected future interest rate scenarios and computes the maximum value at risk at a 99.9% confidence level by analyzing the net present value distribution under each such scenario. As for interest rate gap analysis, Shinhan Card computes the value at risk based on the duration proxies and interest rate shocks for each time bucket as recommended under the Basel Accord.

The interest rate EaR analysis used by Shinhan Card computes the maximum loss in net interest income for a one-year period following adverse movements in interest rates, based on an interest rate gap analysis using the time buckets and the middle of time band as recommended under the Basel Accord.

In addition, Shinhan Life Insurance monitors and manages its interest rate risk for its investment assets and liabilities based on simulations of its asset-liability management system. These simulations typically involve subjecting Shinhan Life Insurance s current and future assets and liabilities to more than 2,000 market scenarios based on varying assumptions, such as new debt purchases and target investment portfolios, so as to derive its net asset value forecast for the next three years at a 99% confidence level.

Interest rate risk for our other subsidiaries is not materially significant.

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Equity Risk

Substantially all of Shinhan Bank s equity risk results from its portfolio of stocks of Korean companies. As of December 31, 2010, Shinhan bank held an aggregate amount of (Won)34 billion of equity interest in unlisted foreign companies (including (Won)21 billion invested in unlisted private equity funds).

The equity securities in Won held in Shinhan Bank s investment portfolio consist of stocks listed on the KRX KOSPI Market or the KRX KOSDAQ Market of the Korea Exchange and certain non-listed stocks. Shinhan Bank measures VaRs for all of these equity securities but does not manage most of the related risk using VaR limits, as most of these securities are held for reasons other than normal investment purposes. As of December 31, 2010, Shinhan Bank held equity securities in an aggregate amount of (Won)3,997 billion in its non-trading accounts, including equity securities in the amount of (Won)292 billion that it held, among other reasons, for management control purposes and as a result of debt-to-equity conversion as a part of reorganization proceedings of the companies to which it had extended loans.

As of December 31, 2010, Shinhan Bank did not hold any Won-denominated convertible bonds and foreign currency-denominated exchangeable bonds in its non-trading accounts. Shinhan Bank does not measure equity risk with respect to convertible and exchangeable bonds and the interest rate risk of these bonds are measured together with the other debt securities. As such, Shinhan Bank measures interest rate risk VaRs but not equity risk VaRs for these equity-linked securities.

The following table shows the VaRs of Shinhan Bank s equity risk for listed equity for the year and as of December 31, 2010.

	VaR for the Year 2010(1)			
	Average	**Minimum**	**Maximum**	**As of December 31**
	(In billions of Won)			
Listed equities	(Won) 5.5	(Won) 2.4	(Won) 15.2	(Won) 6.2

Note:

(1) Ten-day VaR results with a 99.9% confidence level.

Liquidity Risk Management

Liquidity risk is the risk of insolvency, default or loss due to disparity between inflow and outflow of funds, including having to obtain funds at a high price or to dispose of securities at an unfavorable price due to lack of available funds or losing attractive investment opportunities.

Shinhan Bank applies the following basic principles for liquidity risk management:

- raise funding in sufficient amounts, at the optimal time at reasonable costs;
- maintain risk at appropriate levels and preemptively manage them through a prescribed risk limit system and an early warning signal detection system;
- secure stable sources of revenue and minimize actual losses by implementing an effective asset-liability management system based on diversified sources of funding with varying maturities;

monitor and manage daily and intra-daily liquidity positions and risk exposures for timely payment and settlement of financial obligations due under both normal and crisis situations;

conduct periodic contingency analysis in anticipation of any potential liquidity crisis and establish and implement emergency plans in case of a crisis actually happening; and

consider liquidity-related costs, benefits of and risks in determining the pricing of our products and services, employee performance evaluations and approval of launching of new products and services.

Each of our subsidiaries manages liquidity risk in accordance with the risk limits and guidelines established internally as well as by the relevant regulatory authorities. Pursuant to principal regulations applicable to

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financial holding companies and banks as promulgated by the Financial Services Commission, we, at the holding company, are required to keep specific Won and foreign currency liquidity ratios. These ratios require us to keep the ratio of liquid assets to liquid liabilities above certain minimum levels.

Shinhan Bank manages its liquidity risk within the limits set on Won and foreign currency accounts in accordance with the regulations of the Financial Services Commission. The Financial Services Commission requires Korean banks to maintain a Won liquidity ratio of at least 100.0% and a foreign currency liquidity ratio of at least 85%. The Financial Services Commission defines the foreign currency liquidity ratio as foreign currency-denominated liquid assets (including marketable securities) due within three months divided by foreign currency-denominated liabilities due within three months. As for the Won liquidity ratio, prior to October 2008, the Financial Services Commission defined it as Won-denominated liquid assets (including marketable securities) due within three months divided by Won-denominated liabilities due within three months, but since October 2008 defines it as Won-denominated liquid assets (including marketable securities) due within one month divided by Won-denominated liabilities due within one month.

Shinhan Bank s Treasury Department is in charge of liquidity risk management with respect to Shinhan Bank s Won and foreign currency funds. The Treasury Department submits Shinhan Bank s monthly funding and asset management plans to Shinhan Bank s ALM Committee for approval, based on the analysis of various factors, including macroeconomic indices, interest rate and foreign exchange movements and maturity structures of Shinhan Bank s assets and liabilities. Shinhan Bank s Risk Management Department measures Shinhan Bank s liquidity ratio and liquidity gap ratio on a daily basis and reports whether they are in compliance with the limits to Shinhan Bank s ALM Committee on a monthly basis.

The following tables show Shinhan Bank s liquidity status and limits for Won-denominated and foreign currency-denominated accounts (including derivatives and merchant banking accounts) as of December 31, 2009 in accordance with the regulations of the Financial Services Commission.

Shinhan Bank s Won-denominated accounts (including derivatives and merchant banking accounts)

	As of December 31, 2010							
Won-Denominated Accounts	**0-1 Months**	**1-3 Months**	**3-6 Months**	**6-12 Months**	**1-3 Years**	**Over 3 years**	**Sub-standard or below**	**Total**
	(In billions of Won, except percentages)							
Assets:	(Won) 54,646	(Won) 22,791	(Won) 28,714	(Won) 39,199	(Won) 24,554	(Won) 43,724	(Won) 1,757	(Won) 215,384
Liabilities:	45,787	17,975	15,853	51,620	15,689	51,570		198,493
For one month or less:								
Liquidity gap	8,859							
Liquidity ratio	119.35%							
Limit	100.00%							

Shinhan Bank s foreign currencies-denominated accounts (including derivatives and merchant banking accounts)

	As of December 31, 2010							
Foreign Currencies Denominated Accounts:	**7 Days or Less**	**7 Days-1 Months**	**3 Months**	**3-6 Months**	**6-12 Months**	**Over 1 Year**	**Sub-Standard or Below**	**Total**
	(In millions of US$, except percentages)							
Assets:	$ 6,260	$ 14,087	$ 24,239	$ 33,684	$ 39,727	$ 48,201	$ 209	$ 48,410
Liabilities	6,547	13,873	23,093	29,181	35,829	49,134		49,134
For three months or less:								
Assets			44,586					
Liabilities			43,513					

Liquidity ratio	102.47%
Limit	85.00%

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Shinhan Bank maintains diverse sources of liquidity to facilitate flexibility in meeting its funding requirements. Shinhan Bank funds its operations principally by accepting deposits from retail and corporate depositors, accessing the call loan market (a short-term market for loans with maturities of less than one month), issuing debentures and borrowing from the Bank of Korea. Shinhan Bank uses the funds primarily to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

Shinhan Card manages its liquidity risk according to the following principles: (i) it must be able to provide a sufficient volume of necessary funding in a timely manner at a reasonable cost, (ii) it must establish an overall liquidity risk management strategy, including in respect of liquidity management targets, policy and internal control systems, and (iii) it must manage its liquidity risk in conjunction with other risks based on a comprehensive understanding of the interaction among the various risks. In managing its liquidity risks, Shinhan Card focuses on a prompt response system based on periodic monitoring of the relevant early signals, stress testing and contingency plan formulations. Shinhan Card identifies its funding needs on a daily, monthly, quarterly and annual basis based on the maturity schedule of its liabilities as well as short-term liquidity needs, based upon which it formulates its funding plans using diverse sources such as corporate debentures, commercial papers, asset-backed securitizations and credit line facilities. Shinhan Card also has in place master asset-backed securitization arrangements through which it can securitize assets with minimum delay, and when entering into asset-backed securitizations, it provides sufficient credit enhancements to avoid triggering early amortization events. In addition, Shinhan Card formulates long-term funding plans with a time horizon of three years, enters into derivative arrangements to hedge interest rate- and foreign currency-related risks and conducts pre-transaction risk analyses before entering into any new type of derivative arrangements.

Furthermore, Shinhan Card also manages its liquidity risk within the limits set on Won accounts in accordance with the regulations of the Financial Services Commission. Under the Specialized Credit Financial Business Act and the regulations thereunder, credit card companies in Korea are required to maintain a Won liquidity ratio of at least 100.0%.

The following tables show Shinhan Card s liquidity status and limits for Won-denominated accounts as of December 31, 2010 in accordance with the regulations of the Financial Services Commission.

Shinhan Card s Won-denominated accounts

Won-Denominated Accounts	7 Days or Less	1 Months or less	3 Months or less	6 Months or less	1 Year or less	Over 1 Year	Total
Assets	(Won) 1,966	(Won) 8,708	(Won) 13,161	(Won) 14,823	(Won) 17,426	(Won) 3,942	(Won) 21,368
Liabilities	553	2,448	3,450	4,591	6,440	7,744	14,184
Liquidity ratio	355.74%	355.74%	381.46%	322.89%	270.58%	50.9%	150.6%

Shinhan Investment manages its liquidity risk for its Won-denominated accounts by setting a limit of (Won)100 billion on each of its seven-day and one-month liquidity gap, a limit of 110% on its three-months liquidity ratio and a limit of (Won)10 billion on its liquidity VaR. As for its foreign currency-denominated accounts, Shinhan Investment manages the liquidity risk on a quarterly basis in compliance with the guidelines of the Financial Supervisory Service, which requires the one-week and one-month maturity mismatch ratios to be 0% and -10% or less, respectively, and the three months liquidity ratio to be 80% or higher.

Our other subsidiaries fund their operations primarily through call money, bank loans, commercial paper, corporate debentures and asset-backed securities. Our holding company acts as a funding vehicle for long-term financing of our subsidiaries whose credit ratings are lower than the holding company, including Shinhan Card and Shinhan Capital, to lower the overall funding costs within regulatory limitations. Under the Monopoly Regulation and Fair Trade Act of Korea, however, a financial holding company is prohibited from borrowing funds in excess of 200% of its total stockholders equity. In addition, pursuant to our liquidity risk management policies designed to ensure compliance with required capital adequacy and liquidity ratios, we have set limits to the amount of liquidity support by our holding company to our subsidiaries to 70% of our total stockholders equity and the amount of liquidity support to a single subsidiary to 35% of our total stockholders equity.

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In addition to liquidity risk management under the normal market situations, we have contingency plans to effectively cope with possible liquidity crisis. Liquidity crisis arises when we would not be able to effectively manage the situations with our normal liquidity management measures due to, among other reasons, inability to access our normal sources of funds or epidemic withdrawals of deposits as a result of various external or internal factors, including a collapse in the financial markets or abrupt deterioration of our credit. We have contingency plans corresponding to different stages of liquidity crisis, cautionary stage, near-crisis stage and crisis stage, based on the following liquidity indices:

- indices that reflect the market movements such as interest rates and stock prices;
- indices that reflect financial market psychology such as the size of money market funds; and
- indices that reflect our internal financial condition.

Operational Risk Management

Operational risk is difficult to quantify and subject to different definitions. The Basel Committee defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from other external events. Similarly, we define operational risk as the risks related to our overall management other than credit risk, market risk, interest rate risk and liquidity risk. These include risks arising from system failure, human error or non-adherence to policy and procedures, from fraud or inadequate internal controls and procedures, from environmental changes, resulting in financial and non-financial loss, including reputational loss. We monitor and assess operational risks related to our business operations, including administrative risk, information technology risk, managerial risk, legal risk and reputation risk, with a view to minimizing such losses.

The Group Internal Audit Department at our holding company, reporting directly to our Audit Committee, is directly responsible for overseeing our operational risk management with a focus on legal, regulatory, operational and reputational risks. Our holding company s Audit Committee oversees and monitors our operational compliance with legal and regulatory requirements. At the holding company level, we define each subsidiary s operational process and establish an internal review system applicable to each subsidiary. Each subsidiary s operational risk is internally monitored and managed at the subsidiary level and the Group Internal Audit Activity continuously monitors the integrity of our subsidiaries operational risk management system. Our holding company s Board of Directors and the Group Risk Management Committee establish our basic policies for operational risk management at the group level. To monitor and manage operational risks, Shinhan Bank maintains a system of comprehensive policies and has in place a control framework designed to provide a stable and well-managed operational environment throughout the organization. Currently, the primary responsibility for ensuring compliance with our banking operational risk procedures remains with each of the business units and operational teams. In addition, the Audit Department, the Risk Management Department and the Compliance Department of Shinhan Bank also play important roles in reviewing and maintaining the integrity of Shinhan Bank s internal control environment.

The operational risk management system of Shinhan Bank is managed by the operational risk team under the Risk Management Department. The current system principally consists of risk control self-assessment, risk quantification using key risk indicators, loss data collection, scenario management and operational risk capital measurement. Shinhan Bank operates several educational and awareness programs designed to familiarize all of its employees to this system. In addition, Shinhan Bank has a designated operational risk manager at each of its departments and branch offices, serving the role of a coordinator between the operational risk team at the headquarters and the employees in the field and seeking to provide centralized feedback to further improve the operational risk management system.

As of December 31, 2010, Shinhan Bank has conducted risk control self-assessments on its departments as well as domestic and overseas branch offices, from which it collects systematized data on all of its branch offices, and uses the findings from such self-assessments to improve the procedures and processes for the relevant departments or branch offices. In addition, Shinhan Bank has accumulated risk-related data since 2003, improved the procedures for monitoring operational losses and is developing risk simulation models. In addition, Shinhan Bank selects and monitors, at the department level, approximately 160 key risk indicators.

Shinhan Investment, through its operational risk management system, conducts self-assessments of risks, collects loss data and manages key risk indicators. The operational risk management system is supervised by its audit department, compliance department and operational risk management department, as well as a risk management officer in each of Shinhan Investment s departments.

The audit committee of Shinhan Bank, which consists of three board members, including two outside directors, is an independent inspection authority that supervises Shinhan Bank s internal controls and compliance with established ethical and legal principles. The audit committee performs internal audits of, among other matters, Shinhan Bank s overall management and accounting, and supervises its Audit Department that assists Shinhan Bank s audit committee. Shinhan Bank s audit committee also reviews and evaluates Shinhan Bank s accounting policies and their changes, financial and accounting matters and fairness of financial reporting.

Shinhan Bank s Audit Committee and the Audit Department supervise and perform the following audits:

- general audits, including full-scale audits performed annually for the overall operations, sectional audits of selected operations performed when necessary, and periodic and irregular spot audits;

- special audits, performed when the Audit Committee or standing auditor deems it necessary or pursuant to requests by the chief executive officer or supervisory authorities such as the Financial Supervisory Service;

- day-to-day audits, performed by the standing auditor for material transactions or operations that are subject to approval by the heads of Shinhan Bank s operational departments or senior executives;

- real-time monitoring audits, performed by the computerized audit system to identify any irregular transactions and take any necessary actions; and

- self-audits as a self-check by each operational department to ensure its compliance with our business regulations and policies, which include daily audits, monthly audits and special audits.

In addition to these audits and compliance activities, Shinhan Bank s Audit Department designates operational risk management examiners to monitor the appropriateness of operational risk management frameworks and the functions and activities of the board of directors, relevant departments and business units, and conducts periodic checks on the operational risk and reports such findings. Shinhan Bank s Audit Department also reviews in advance proposed banking products or other business or service plans with a view to minimizing operational risk.

As for Shinhan Investment, its audit department conducts an annual inspection as to whether the internal policy and procedures of Shinhan Investment relating to its overall operation risk management are being effectively complied. The inspection has a particular focus on the appropriateness of the scope of operational risks and the collection, maintenance and processing of relevant operating data.

General audits, special audits, day-to-day audits and real-time monitoring audits are performed by our examiners, and self-audits are performed by the self-auditors of the relevant operational departments.

In addition to internal audits and inspections, the Financial Supervisory Service conducts general annual audits of our and our subsidiaries operations. The Financial Supervisory Service also performs special audits as the need arises on particular aspects of our and our subsidiaries operations such as risk management, credit monitoring and liquidity. In the ordinary course of these audits, the Financial Supervisory Service routinely issue warning notices where it determines that a regulated financial institution or such institution s employees have failed to comply with the applicable laws or rules, regulations and guidelines of the Financial Supervisory Service. We and our subsidiaries have in the past received, and expect in the future to receive, such notices and we have taken and will continue to take appropriate actions in response to such notices. 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 (Won)22.0 billion of Shinhan Bank s funds, which we expect to recover approximately (Won)5.3 billion. With regard to this incident, the Financial Supervisory Service has issued a cautionary warning to Shinhan Bank s Chief Executive Officer and has imposed punitive measures against the officers and employees who were involved with the incident. In June 2010, the Financial Supervisory Service issued a notice to implement certain remedial measures and accordingly, Shinhan Bank implemented a policy to issue balance

certificates as part of its Fund Deposit Balance Information Service and improved its operational processes. In an effort to further strengthen its internal control system, Shinhan Bank has established more detailed parameters to define each unit manager s internal control responsibilities, scope and periods.

We consider legal risk as a part of operational risk. The uncertainty of the enforceability of obligations of our customers and counterparties, including foreclosure on collateral, creates legal risk. Changes in laws and regulations could also adversely affect us. Legal risk is higher in new areas of business where the law is often untested in the courts although legal risk can also increase in our traditional business to the extent that the legal and regulatory landscape in Korea is changing and many new laws and regulations governing the banking industry remain untested. We seek to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers. The Compliance Department operates Shinhan Bank s compliance inspection system. This system is designed to ensure that all of Shinhan Bank s employees comply with the law. The compliance inspection system s main function is to monitor the degree of improvement in compliance with the law, maintain internal controls (including ensuring that each department has established proper internal policies and that it complies with those policies) and educate employees about observance of the law. The Compliance Department also supervises the management, execution and performance of self-audits. Shinhan Investment also maintains a legal department and a compliance department to manage legal risks and compliance risks, respectively. The functions of these are department are similar to those of their counterparts at Shinhan Bank.

Upgrades and Integration of Risk Management

Shinhan Bank

In December 2007, Shinhan Bank obtained approval from the Financial Supervisory Service to use an internal market risk evaluation model, and in April 2008, Shinhan Bank obtained approval from the Financial Supervisory Service to use the foundation internal rating-based (F-IRB) method with respect to the Basel II credit risks related to loan portfolios of large companies, small- and medium-sized enterprises and retail outlets. In addition, in September 2009, Shinhan Bank applied for approval from the Financial Supervisory Service to use an internal credit scoring system for its SOHO customers and is currently undergoing the review process.

The approval to use the internal credit evaluation model enables Shinhan Bank to gain a pricing advantage compared to other banks, as this model makes it easier for Shinhan Bank to manage its capital and meet the BIS equity ratio through a differentiated risk assessment based on the borrower s credit rating.

Since 2003, in anticipation of the Basel II requirements, Shinhan Bank has taken measures to improve its risk management system, including the design and operation of its credit evaluation model, quantitative modeling of risk factors and testing the adequacy of such factors, and management and monitoring of credit risks, to a level consistent with international practice. Consistent with this approach, since 2005, Shinhan Bank has been reflecting the cost of credit based on expected loss in the computation of its pre-tax profits. Shinhan Bank has also adopted the Risk Adjusted Return on Capital (RAROC) system to evaluate risk adjusted performance, and it expects to give further weight to the use of the RAROC evaluation system in determining the lending rates and the risk-adjusted profitability of such loans.

Shinhan Bank aims to apply the Basel II standards and principles more systematically in its systems governing the lending process, price determination, portfolio and risk management, allocation of capital, performance evaluations and incentive determinations. In particular, Shinhan Bank aims to further develop portfolio management techniques to optimize the investment of its own capital in light of the differentiated determination of regulatory capital based on the level of risk under Basel II.

In response to recent regulatory changes, including as a result of the recent implementation of IFRS and Basel III regulations, Shinhan Bank has upgraded its risk management systems to monitor and calculate credit, market, interest and liquidity risks in accordance with the IFRS. See Item 4.B. Business Overview Information Technology . In addition, Shinhan Bank has commenced re-evaluating its liquidity risk management standards to comply with such standards under Basel III.

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In addition, in order to improve its ability to respond to sudden changes in internal and external economic situations, Shinhan Bank overhauled its crisis management system in 2010. Specifically, Shinhan Bank has established a crisis management council to act as a control tower over its entire crisis management system, enhanced the crisis detection functionality of its crisis monitoring matrix and prepared bank-wide systematic crisis response plans in case of a crisis. In addition, Shinhan Bank adopted a credit risk dashboard system to closely monitor the size and risk levels of credit risk-bearing assets by segment and formulate a response plan in relation to any particular asset segment showing signs of extraordinary risk.

Furthermore, in light of the ongoing and potential expansion of its overseas operations and asset size and in order to facilitate their stable growth, Shinhan Bank is currently in the process of strengthening the risk management systems of its overseas operations. Specifically, beginning in 2010, Shinhan Bank has set an overall risk limit for its overseas subsidiaries to foster appropriate risk-adjusted growth, monitors their risk profiles and adopts and implements improved risk management plans based on such monitoring. Shinhan Bank also plans to support the self-monitoring initiatives by its overseas subsidiaries by helping to build further risk management-related infrastructure, such as credit evaluation modeling, risk-related database and market risk management systems.

Shinhan Card

Following the split-merger of LG Card and former Shinhan Card in October 2007, Shinhan Card commenced in August 2008 a comprehensive upgrade of its risk measurement and management infrastructure in order to integrate the infrastructures hitherto separately operated by LG Card and former Shinhan Card, as a result of which Shinhan Card launched an enterprise risk management system (ERMS) in October 2010. Subsequently, in tandem with the groupwide efforts to improve the overall risk management system, Shinhan Card continued to make substantial improvements to its ERMS, including by enhancing the corporate governance structure for risk management and its risk measurement and monitoring systems, as well as by adopting a formal policy for risk review processes.

As for the methodology for measuring risk and the basic operating systems for risk management, Shinhan Card s ERMS follows the standard guidelines for risk management in the credit card industry promulgated by the Financial Supervisory Service, which is based on the Basel II standards, as the basic framework, while seeking to enhance flexibility in the management of liquidity risk and credit risk in light of the credit card crisis in 2003, which was engendered in part by the inability of credit card companies to take customer deposit, which tends to be a stable source of funding. Since 2010, Shinhan Card has been developing a further upgraded risk measurement system that is designed to meet the Basel II standards, as well as other regulatory requirements and internal needs, in light of the increased volatility in the economic and regulatory environment following the recent global financial crisis.

Supervision and Regulation

Principal Regulations Applicable to Financial Holding Companies

General

The Korean financial holding companies and their subsidiaries are regulated by the Financial Holding Companies Act (last amended on July 31, 2009, Law No. 9788). In addition, Korean financial holding companies and their subsidiaries are subject to the regulations and supervision of the Financial Services Commission and the Financial Supervisory Service.

Pursuant to the Financial Holding Companies Act, the Financial Services Commission regulates various activities of financial holding companies. For instance, it approves the application for setting up a new financial holding company and promulgates regulations on the capital adequacy of financial holding companies and their subsidiaries and other regulations relating to the supervision of financial holding companies.

The Financial Supervisory Service is subject to the instructions and directives of the Financial Services Commission and carries out supervision and examination of financial holding companies and their subsidiaries. In particular, the Financial Supervisory Service sets forth liquidity and capital adequacy requirements for financial holding companies and reporting requirements pursuant to the authority delegated to the Financial Supervisory Service under the Financial Services Commission regulations, pursuant to which financial holding companies are required to submit quarterly reports on business performance, financial status and other matters prescribed in the Presidential Decree of the Financial Holding Companies Act.

Under the Financial Holding Companies Act, the establishment of a financial holding company must be approved by the Financial Services Commission. A financial holding company is required to be mainly engaged in controlling its subsidiaries by holding the shares or equities of the subsidiaries in the amount of not less than 50% of aggregate amount of such financial holding company s assets based on the latest balance sheet. A financial holding company is prohibited from engaging in any profit-making businesses other than controlling the management of its subsidiaries and certain ancillary businesses as prescribed in the Presidential Decree of the Financial Holding Companies Act which include the following businesses:

- financially supporting its subsidiaries and the subsidiaries of its subsidiaries (the direct and indirect subsidiaries);
- raising capital necessary for the investment in subsidiaries or providing financial support to its direct and indirect subsidiaries;
- supporting the business of its direct and indirect subsidiaries for the joint development and marketing of new product and the joint utilization of facilities or IT systems; and
- pursuing any other activities exempted from authorization, permission or approval under the applicable laws and regulations.

The Financial Holding Companies Act requires every financial holding company (other than any financial holding company that is controlled by any other financial holding company) or its subsidiaries to obtain the prior approval from the Financial Services Commission before acquiring control of another company or to file with the Financial Services Commission a report within thirty (30) days after acquiring such control. Permission to liquidate or to merge with any other company must be obtained in advance from the Financial Services Commission. A financial holding company must report to the Financial Services Commission regarding certain events including:

- when there is a change of its officers;
- when there is a change of its largest shareholder;
- when there is a change of principal shareholders of a bank holding company;
- when the shareholding of the largest shareholder or a principal shareholder as prescribed under the Financial Holding Companies Act or a person who is in a special relationship with such largest or principal shareholder (as defined under the Presidential Decree of the Financial Holding Companies Act) changes by 1% or more of the total issued and outstanding voting shares of the financial holding company;
- when there is a change of its name;
- when there is a cause for dissolution; and

when it or its subsidiary ceases to control any of its respective direct and indirect subsidiaries by disposing of the shares of such direct and indirect subsidiaries.

Capital Adequacy

The Financial Holding Companies Act does not provide for a minimum paid-in capital of financial holding companies. All financial holding companies, however, are required to maintain a specified level of solvency. In addition, in its allocation of the net profit earned in a fiscal term, a financial holding company is required to set aside in its legal reserve an amount equal to at least 10% of the net income after tax each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

From January 1, 2007, a financial holding company controlling banks or other financial institutions conducting banking business as prescribed in the Financial Holding Company Act (hereinafter, the bank holding company) is required to maintain a minimum consolidated equity capital ratio of 8.0%. Consolidated equity capital ratio is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with the Financial Services Commission requirements that have been formulated based on the Bank of International Settlements standards. Equity capital, as applicable to bank holding companies, is defined as the sum of Tier I capital, Tier II capital, and Tier III capital less any deductible items, each as defined under the Regulation on the Supervision of Financial Holding Companies. Risk-weighted assets is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

Liquidity

All financial holding companies are required to match the maturities of their assets to those of liabilities in accordance with the Financial Holding Companies Act in order to ensure liquidity. Financial holding companies are required to submit quarterly reports regarding their liquidity to the Financial Supervisory Service and must:

- maintain a Won liquidity ratio (defined as Won assets due within three months, including marketable securities, divided by Won liabilities due within three months) of not less than 100%;

- maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 80% except for financial holding companies with a foreign currency liability to total assets ratio of less than 1%;

- maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days divided by total foreign currency assets of not less than 0%, except for financial holding companies with a foreign currency liability to total assets ratio of less than 1%; and

- maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month divided by total foreign currency assets of not less than negative 10% except for financial holding companies with a foreign currency liability to total assets ratio of less than 1%.

Financial Exposure to Any Single Customer and Major Shareholders

Subject to certain exceptions, the total sum of credit (as defined in the Financial Holding Companies Act, the Banking Act and the Financial Investment Services and Capital Markets Act, respectively) of a financial holding company and its direct and indirect subsidiaries which are banks, merchant banks or securities companies (Financial Holding Company Total Credit) extended to a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act will not be permitted to exceed 25% of the Net Total Equity Capital.

Net Total Equity Capital for the purpose of the calculation of financial exposure to any single customer and Major Shareholder (as defined below) is defined under the Presidential Decree of the Financial Holding Companies Act as

(a) the sum of:

(i) in case of a financial holding company, the net asset which is total assets less total liabilities on balance sheet as of the end of the most recent quarter;

(ii) in case of a bank, the capital amount which is the sum of Tier I and Tier II capital amounts determined according to the standards set by the BIS;

(iii) in case of a merchant bank, the capital amount which is the sum of Tier I and Tier II capital amounts determined according to the standards set by the BIS, subject to further adjustments determined by the Financial Services Commission; and

(iv) in case of a financial investment company with a dealing or brokerage license, the total asset amount less the total liability amount in the balance sheet as of the end of the most recent fiscal year and adjusted as determined by the Financial Services Commission, such as the amount of increase or decrease in paid-in capital after the end of the most recent fiscal year;

(b) less the sum of:

(i) the amount of shares of direct and indirect subsidiaries held by the financial holding company;

(ii) the amount of shares which are cross-held by each direct and indirect subsidiary that is a bank, a merchant bank or a financial investment company with a dealing or brokerage license; and

(iii) the amount of shares of a financial holding company held by such direct and indirect subsidiaries which are banks, merchant banks or financial investment companies with a dealing or brokerage license.

The Financial Holding Company Total Credit to a single individual or legal entity will not be permitted to exceed 20% of the Net Total Equity Capital.

Furthermore, the total sum of credits (as defined under the Financial Holding Companies Act, the Banking Act and the Financial Investment Services and Capital Markets Act, respectively) of a bank holding company and its direct and indirect subsidiaries (Bank Holding Company Total Credit) extended to a Major Shareholder (together with the persons who have special relationship with such Major Shareholder) (as defined below) will not be permitted to exceed the smaller of (x) 25% of the Net Total Equity Capital and (y) the amount of the equity capital of the financial holding company multiplied by the shareholding ratio of such Major Shareholder, except in certain cases.

Major Shareholder is defined under the Financial Holding Companies Act as follows:

(a) a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Financial Holding Companies Act) in excess of 10% (or in the case of a financial holding company controlling regional banks only, 15%) in the aggregate of the financial holding company s total issued and outstanding voting shares; or

(b) a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Financial Holding Companies Act) more than 4% in the aggregate of the total issued and outstanding voting shares of the financial holding company controlling national banks (other than a financial holding company controlling regional banks only), excluding shares related to the shareholding restrictions on non-financial business group companies as described below, where such shareholder is the largest shareholder or has actual control over the major business affairs of the financial holding company through, for example, appointment and dismissal of the officers pursuant to the Presidential Decree of the Financial Holding Companies Act.

In addition, the total sum of the Bank Holding Company Total Credit extended to all of a bank holding company s Major Shareholder must not exceed 25% of the Net Total Equity Capital. Furthermore, the bank holding company and its direct and indirect subsidiaries that intend to extend the Bank Holding Company Total Credit to the bank holding company s Major Shareholder not less than the lesser of (i) the amount equivalent to 0.1% of the Net Total Equity Capital or (ii) (Won)5 billion, with respect to a single transaction, must obtain prior unanimous board resolutions and then, immediately after the completion of the transaction, must file a report with the Financial Services Commission and publicly disclose the filing of such report (for example, through a website).

Restrictions on Transactions Among Direct and Indirect Subsidiaries and Financial Holding Company

Generally, a direct or indirect subsidiary of a financial holding company may not extend credit to the financial holding company which directly or indirectly controls such subsidiary. In addition, a direct or indirect subsidiary of a financial holding company may not extend credit to any other single direct or indirect subsidiary of the financial holding company in excess of 10% of its stockholders equity and to any other direct and indirect subsidiaries of the financial holding company in excess of 20% of its stockholders equity in the aggregate. The direct or indirect subsidiaries of a financial holding company must obtain an appropriate level of collateral for the credits extended to the other direct and indirect subsidiaries unless otherwise approved by the Financial Services Commission. The appropriate level of collateral for each type of such collateral is as follows:

(i) For deposits and installment savings, obligations of the Korean government or The Bank of Korea, obligations guaranteed by the Korean government or The Bank of Korea, obligations secured by securities issued or guaranteed by the Korean government or The Bank of Korea: 100% of the amount of the credit extended;

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(ii) (a) For obligations of local governments under the Local Autonomy Act, local public enterprises under the Local Public Enterprises Act, and investment institutions and other quasi-investment institutions under the Basic Act on the Management of Government-Invested Institution (hereinafter, the public institutions and others); (b) obligations guaranteed by the public institutions and others; and (c) obligations secured by the securities issued or guaranteed by public institutions and others: 110% of the amount of the credit extended; and

(iii) For any property other than those set forth in the above (i) and (ii): 130% of the amount of the credit extended.

Subject to certain exceptions, a direct or indirect subsidiary of a financial holding company is prohibited from owning the shares of any other direct or indirect subsidiaries (other than those directly controlled by the direct and indirect subsidiaries in question) in common control by the financial holding company. However, a direct or indirect subsidiary of a financial holding company may invest as a limited partner in a private equity fund that is a direct or indirect subsidiary of the same financial holding company. The transfer of certain assets subject to or below the precautionary criteria between the financial holding company and its direct or indirect subsidiary or between the direct and indirect subsidiaries of a financial holding company is prohibited except for (i) the transfer to an asset-backed securitization company, typically a special purpose entity, or the entrustment with a trust company, under the Asset-Backed Securitization Act, (ii) the transfer to a mortgage-backed securitization company under the Mortgage-Backed Securitization Company Act, (iii) the transfer or in-kind contribution to a corporate restructuring vehicle under the Corporate Restructuring Investment Company Act or (iv) the acquisition by a corporate restructuring company under the Industrial Development Act.

Disclosure of Management Performance

For the purpose of protecting the depositors and investors in the subsidiaries of the financial holding companies, the Financial Services Commission requires financial holding companies to disclose certain material matters including (i) financial condition and profit and loss of the financial holding company and its direct and indirect subsidiaries, (ii) how capital was raised by the financial holding company and its direct and indirect subsidiaries and how such capital was used, (iii) any sanctions levied on the financial holding company and its direct and indirect subsidiaries under the Financial Holding Companies Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry or (iv) occurrence of any non-performing assets or financial incident which may have a material adverse effect.

Restrictions on Shareholdings in Other Companies

Subject to certain exceptions, a bank holding company may not own more than 5% of the total issued and outstanding shares of another company (other than its direct and indirect subsidiaries). If the financial holding company owns shares of another company (other than its direct and indirect subsidiaries) which is not a finance-related company, the financial holding company is required to exercise its voting rights in the same manner and same proportion as the other shareholders of the company exercise their voting rights in favor of or against any resolutions under consideration at the shareholders meeting of the company.

Restrictions on Shareholdings by Direct and Indirect Subsidiaries

Generally, a direct subsidiary of a financial holding company is prohibited from controlling any other company; *provided* that a direct subsidiary of a financial holding company may control (as an indirect subsidiary of the financial holding company): (i) subsidiaries in foreign jurisdiction which are engaged in a financial business, (ii) certain financial institutions which are engaged in the business that the direct subsidiary may conduct without any licenses or permits, (iii) certain financial institutions whose business is related to the business of the direct subsidiary as prescribed under the Presidential Decree of the Financial Holding Companies Act (e.g., the companies which a bank subsidiary may control are limited to credit information companies, credit card companies, trust business companies, securities investment management companies, investment advisory companies, futures business companies, and asset management companies), (iv) certain financial institutions whose business is related to financial business as prescribed by the regulations of the Ministry of Strategy and Finance, and (v) certain companies which are not financial institutions but whose business is related to the financial business of the financial holding company as prescribed by the Presidential Decree of the Financial Holding Companies Act (e.g. finance-related research company, finance-related information technology company, etc.). Acquisition by the direct subsidiaries of such indirect subsidiaries requires a prior permission from the Financial Services Commission or a report to be submitted to the Financial Services Commission, depending on the types of the indirect subsidiaries and the amount of total assets of the indirect subsidiaries.

An indirect subsidiary of a financial holding company is prohibited from controlling any other company, provided, however, that in the case where a company held control over another company at the time such company initially became an indirect subsidiary of a financial holding company, such indirect subsidiary shall be required to dispose of its interest in such other company within two (2) years after becoming an indirect subsidiary of a financial holding company.

A subsidiary of a financial holding company may invest in a special purpose company as its largest shareholder for purposes of making investments under the Act on Private Investment in Social Infrastructure without being deemed as controlling such special purpose company.

In addition, a private equity fund established in accordance with the Financial Investment Services and Capital Markets Act is not considered to be a subsidiary of a financial holding company even if the financial holding company is the largest investor in the private equity fund unless the financial holding company is the asset management company for the private equity fund.

Restrictions on Transactions Between a Financial Holding Company and its Major Shareholder

A bank holding company and its direct and indirect subsidiaries are prohibited from acquiring (including acquisition by a trust account of its subsidiary bank) shares issued by such bank holding company s Major Shareholder in excess of 1% of the Net Total Equity Capital. In addition, the financial holding company and its direct and indirect subsidiaries which intend to acquire shares issued by such Major Shareholder not less than the lesser of (i) the amount equivalent to 0.1% of the Equity Capital or (ii) W5 billion, with respect to a single transaction, must obtain prior unanimous board resolutions and then, immediately after the acquisition, must file a report with the Financial Services Commission and publicly disclose the filing of such report (for example, through a website).

Restrictions on Financial Holding Company Ownership

Under the Financial Holding Companies Act, subject to certain exceptions, a financial institution may not control any financial holding company. In August 2007, the Financial Holding Companies Act was amended to permit foreign financial institutions to establish financial holding companies in Korea. Pursuant to the Presidential Decree of the Financial Holding Companies Act, which was also amended in November 2007 to reflect the change in the statute, a foreign financial institution can control a financial holding company if, subject to satisfying certain other conditions, it, together with its specially-related persons, holds 100% of the total shares in the financial holding company.

In addition, any single shareholder and persons who stand in a special relationship with such shareholder (as defined under the Presidential Decree to the Financial Holding Companies Act) may acquire beneficial ownership of up to 10% of the total issued and outstanding shares with voting rights of a financial holding company controlling national banks (or 15% in the case of a financial holding company controlling regional banks only). The Government and the Korea Deposit Insurance Corporation are not subject to such a ceiling.

However, non-financial business group companies (as defined below) may not acquire beneficial ownership of shares of a bank holding company in excess of 9% of such financial holding company s outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of up to 10% of such financial holding company s 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 9% limit. In addition, any person (whether a Korean national or a foreigner), with the exception of non-financial business group companies described above, may also acquire in excess of 10% of total voting shares issued and outstanding of a financial holding company which

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controls national bank, provided that an approval from the Financial Services Commission is obtained in instances where the total holding exceeds 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 bank holding company. Also, in the event a person (whether a Korean national or a foreigner, but excluding persons prescribed under the Presidential Decree to the Financial Holding Companies Act) (i) acquires in excess of 4% of the total voting shares issued and outstanding of any financial holding company (other than a financial holding company controlling regional banks only), (ii) becomes the largest shareholder of such financial holding company in which such person acquired in excess of 4% of the total voting shares issued and outstanding, or (iii) has its shareholding in such financial holding company, in which it had acquired in excess of 4% of the total voting shares issued and outstanding shares, changed by not less than 1% of the total voting share issued and outstanding of such financial holding company, a report as prescribed by the Presidential Decree to the Financial Holding Companies Act shall be filed with the Financial Services Commission.

Non-financial business group companies are defined under the Financial Holding Companies Act as the companies, which include:

(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 (Won)2 trillion; or

(iii) any mutual fund in which a same shareholder group identified in (i) or (ii) above holds more than 9% of the total shares issued and outstanding of such mutual fund.

Financial Investment Services and Capital Markets Act

General

On July 3, 2007, the National Assembly of Korea passed the Financial Investment Services and Capital Markets Act, a new law consolidating six laws regulating capital markets. The Financial Investment Services and Capital Markets Act became effective as of February 4, 2009.

Consolidation of Capital Markets-Related Laws

Prior to the effective date of the Financial Investment Services and Capital Markets Act, separate laws (for example, the Securities and Exchange Act, the Futures Business Act, and the Indirect Investment Asset Management Business Act) regulated various types of financial institutions depending on the type of the financial institution (for example, securities companies, futures companies, trust business companies, and asset management companies) and subjected financial institutions to different licensing and ongoing regulatory requirements. By applying a uniform set of rules to the same financial business having the same economic function, the Financial Investment Services and Capital Markets Act attempts to improve and address issues caused by the previous regulatory system under which same economic functions relating to capital markets-related business were governed by multiple regulations. To this end, the Financial Investment Services and Capital Markets Act categorizes capital markets-related business into six different functions, as follows:

- dealing (trading and underwriting of financial investment products (as defined below));
- brokerage (brokerage of financial investment products);
- collective investment (establishment of collective investment schemes and the management thereof);
- investment advice;
- discretionary investment management; and

trusts (together with the five business set forth above, the Financial Investment Businesses).

Accordingly, all financial business relating to financial investment products are reclassified as one or more of the Financial Investment Businesses described above, and financial institutions are subject to the regulations applicable to their relevant Financial Investment Businesses, irrespective of the type of the financial institution it is. For example, under the Financial Investment Services and Capital Markets Act, derivative businesses conducted by securities companies and future companies will be subject to the same regulations under the Financial Investment Services and Capital Markets Act, at least in principle.

The banking business and insurance business are not subject to the Financial Investment Services and Capital Markets Act and will continue to be regulated under separate laws; provided, however, that they may become subject to the Financial Investment Services and Capital Markets Act if their activities involve any financial investment businesses requiring a license based on the Financial Investment Services and Capital Markets Act.

Comprehensive Definition of Financial Investment Products

In an effort to encompass the various types of securities and derivative products available in the capital markets, the Financial Investment Services and Capital Markets Act sets forth a comprehensive term financial investment products, defined to mean all financial products with a risk of loss in the invested amount (in contrast to deposits, which are not financial investment products for which the invested amount is protected or preserved). Financial investment products are classified into two major categories: (i) securities (relating to financial investment products where the risk of loss is limited to the invested amount) and (ii) derivatives (relating to financial investment products where the risk of loss may exceed the invested amount). As a result of the general and open-ended manner in which financial investment products are defined, any future financial product could potentially fall under the definition of financial investment products, which would enable Financial Investment Companies (as defined below) to handle a broader range of financial products. Under the Financial Investment Services and Capital Markets Act, securities companies, asset management companies, futures companies and other entities engaging in any Financial Investment Business are classified as Financial Investment Companies.

New License System

Financial Investment Companies will be able to choose what Financial Investment Business to engage in (through the check the box method set forth in the relevant license application), by specifying the desired (i) Financial Investment Business, (ii) financial investment product and (iii) target customers to which financial investment products may be sold (i.e., general investors or professional investors). Licenses will be issued under the specific business sub-categories described above. For example, it would be possible for a Financial Investment Company to obtain a license to engage in the Financial Investment Business of (i) dealing (ii) over the counter derivatives products (iii) only with professional investors.

Expanded Business Scope of Financial Investment Companies

Under the previous regulatory regime in Korea, it was difficult for a financial institution to explore a new line of business or expand upon its existing line of business. For example, a financial institution licensed as a securities company generally could not engage in the asset management business. In contrast, under the Financial Investment Services and Capital Markets Act, pursuant to the integration of its current business involving financial investment products into a single Financial Investment Business, a licensed Financial Investment Company is permitted to engage in all types of Financial Investment Businesses, subject to compliance with the relevant regulations, for example, maintaining an adequate Chinese Wall, to the extent required. As to incidental businesses (i.e., a financial related business which is not a Financial Investment Business), the Financial Investment Services and Capital Markets Act generally allows a Financial Investment Company to freely engage in such incidental businesses by shifting away from the previous system of permitting only the listed activities towards a more comprehensive system. In addition, a Financial Investment Company is permitted (i) to outsource marketing activities by contracting with introducing brokers that are individuals but not employees of the Financial Investment Company, (ii) to engage in foreign exchange business related to their Financial Investment Business and (iii) to participate in the settlement network, pursuant to an agreement among the settlement network participants.

Improvement in Investor Protection Mechanism

While the Financial Investment Services and Capital Markets Act broadens the scope of financial businesses in which financial institutions are permitted to engage, a more rigorous investor-protection mechanism is imposed upon Financial Investment Companies dealing in financial investment products. The Financial Investment Services and Capital Markets Act makes a distinction between general investors and sophisticated investors and provides new or enhanced protections to general investors. For instance, the Financial Investment Services and Capital Markets Act expressly provides for strict know-your-customer rules for general investors and imposes an obligation on Financial Investment Companies that they should market financial investment products suitable to each general investor considering his or her personal attributes, including investment objective, net worth, and investment experience. Under the Financial Investment Services and Capital Markets Act, a Financial Investment Company can be held liable if a general investor proves (i) damages or losses relating to such general investor s investment in financial investment products solicited by such Financial Investment Company and (ii) absence of explanation, false explanation, or omission of material fact (without having to prove fault or causation). In case there are any conflicts of interest between the Financial Investment Companies and investors, the Financial Investment Services and Capital Markets Act expressly requires (i) disclosure of any conflict of interest to investors and (ii) mitigation of conflicts of interest to a comfortable level or abstention from the relevant transaction.

Other Regulatory Changes Related to Securities and Investments

The Financial Investment Services and Capital Markets Act brought changes to various rules in securities regulations including those relating to public disclosure, insider trading and proxy contests, which had previously been governed by the Securities and Exchange Act. For example, the 5% and 10% reporting obligations under the Securities and Exchange Act have become more stringent under the Financial Investment Services and Capital Markets Act. For instance, the numbers of events requiring an investor to update its 5% report have increased under the Financial Investment Services and Capital Markets Act. Previously, only a change in the shareholding of 1% or more or in the purpose of shareholding (such as an intention to influence management) could trigger the obligation to update the 5% report. The Government has issued detailed regulations stipulating additional events requiring updates to 5% reports, such as the change in the type of holding and change in any major aspect of the relevant contract. As for the 10% report filing obligation, the initial filing is expected to be required to be made within five business days of the date of the event triggering the 10% reporting obligation, compared to 10 calendar days under the previous law. The due date for reporting a subsequent change after the initial 10% report filing has been reduced from the 10th day of the first month immediately following the month in which such change took place to five business days of the date of such change. Under the previous law, there had been a limitation on the type of investment vehicles that could be used in a collective investment scheme (namely, to trusts and corporations), the type of funds that could be used for collective investments, and the types of assets and investment securities a fund could invest in. However, the Financial Investment Services and Capital Markets Act significantly liberalizes these restrictions, permitting all legal entities, including limited liability companies or partnerships, to be used for the purpose of collective investments, allowing the formation of fund complexes and permitting investment funds to invest in a wide variety of different assets and investment instruments.

Principal Regulations Applicable to Banks

General

The banking system in Korea is governed by the Banking Act of 1950, as amended (the Banking Act) and the Bank of Korea Act of 1950, as amended (the Bank of Korea Act). In addition, Korean banks are subject to the regulations and supervision of the Bank of Korea, the Bank of Korea s Monetary Policy Committee, the Financial Services Commission and its executive body, the Financial Supervisory Service.

The Bank of Korea, established in June 1950 under the Bank of Korea Act, performs the customary functions of a central bank. It seeks to contribute to the sound development of the national economy by price stabilization through establishing and implementing efficient monetary and credit policies. The Bank of Korea acts under instructions of the Monetary Policy Committee, the supreme policy-making body of the Bank of Korea.

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Under the Bank of Korea Act, the Monetary Policy Committee s primary responsibilities are to formulate monetary and credit policies and to determine the operations, management and administration of the Bank of Korea. The Financial Services Commission, established on April 1, 1998, regulates commercial banks pursuant to the Banking Act, including establishing guidelines on capital adequacy of commercial banks, and promulgates regulations relating to supervision of banks. Furthermore, pursuant to the Amendment to the Government Organization Act and the Banking Act on May 24, 1999, the Financial Services Commission, instead of the Ministry of Strategy and Finance, now regulates market entry into the banking business.

The Financial Supervisory Service is subject to the instructions and directives of the Financial Services Commission and carries out supervision and examination of commercial banks. In particular, the Financial Supervisory Service sets requirements both for the prudent control of liquidity and for capital adequacy and establishes reporting requirements pursuant to the authority delegated to it under the Financial Services Commission regulations, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

Under the Banking Act, approval to commence a commercial banking business or a long-term financing business must be obtained from the Financial Services Commission. Commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of deposits for a period not exceeding one year or, subject to the limitation established by the Financial Services Commission, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of deposits with maturities of at least one year, or the issuance of bonds or other securities. A bank wishing to enter any business other than commercial banking and long-term financing businesses, such as the trust business, must obtain approval from the Financial Services Commission. Approval to merge with any other banking institution, to liquidate, to close a banking business or to transfer all or a part of a business must also be obtained from the Financial Services Commission.

If the Korean government deems a bank s financial condition to be unsound or if a bank fails to meet the applicable capital adequacy ratio set forth under Korean law, the government may order:

- capital increases or reductions;
- stock cancellations or consolidations;
- transfers of a part or all of business;
- sale of assets;
- closures of branch offices;
- mergers or becoming a subsidiary under the Financial Holding Companies Act of a financial holding company;
- acquisition of a bank by a third party;
- suspensions of a part or all of business operation; or
- assignments of contractual rights and obligations relating to financial transactions.

Capital Adequacy

The Banking Act requires nationwide banks to maintain a minimum paid-in capital of (Won)100 billion and regional banks to maintain a minimum paid-in capital of (Won)25 billion.

In addition to minimum capital requirements, all banks including foreign bank branches in Korea are required to maintain a prescribed solvency position. A bank must also set aside as its legal reserve an amount equal to at least 10% of its net profits after tax each time it pays dividends on net profits earned until such time when the reserve equals the amount of its total paid-in capital.

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Under the Banking Act, the capital of a bank is divided into two categories: Tier I and Tier II capital. Tier I capital (core capital) consists of stockholders equity, capital surplus, retained earnings and equity representing new types of equity securities deemed to be functionally equivalent to capital which are designated by the Financial Services Commission. Tier II capital (supplementary capital) consists of revaluation reserves, gain on valuation of investment in securities, allowance for bad debts set aside for loans classified as normal or precautionary, perpetual subordinated debt, cumulative preferred shares, redeemable preferred shares (with a right to redeem after the fifth anniversary of the date of issuance) and certain other subordinated debt.

All banks must meet standards regarding minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with the Financial Services Commission requirements that have been formulated based on the Bank for International Settlement (BIS) Standards. These standards were adopted and became effective in 1996. Under these regulations, all domestic banks and foreign bank branches were required to meet the minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%.

The Financial Services Commission amended the Regulation on the Supervision of the Banking Business in November 2002 to introduce a more conservative risk-weighting system on certain newly extended mortgage and home equity loans, requiring Korean banks to apply the risk-weighted ratio of 50%, 60%, or 70% in respect of home mortgage loans depending on the borrowers debt ratios and whether the home mortgage loans are overdue. On June 28, 2007, the Financial Services Commission further amended the Detailed Regulations on the Supervision of the Banking Business, and, as a result, Korean banks have been applying the following risk-weight ratios in respect of their home mortgage loans starting from 1st January, 2008:

(1) for those banks adopting a standardized approach for calculating credit risk capital requirements, the risk-weight ratio of 35%; and

(2) for those banks adopting an internal ratings-based approach for calculating credit risk capital requirements, a risk-weight ratio calculated with reference to the probability of default, loss given default and exposure at default, each as defined in the Detailed Regulations on the Supervision of the Banking Business.

In Korea, Basel II, the new convention entered into by the Basel committee in June 2004 for the purpose of improving risk management and increasing capital adequacy of banks, was implemented in January 2008. Pursuant to Basel II, operational risk, such as inadequate procedure, loss risk by employees, internal system, occurrence of unexpected event, as well as credit risk and market risk, is taken into account in calculating the risk-weighted assets, in addition to maintaining the capital adequacy ratio of 8% for banks. Under Basel II, the capital requirements for credit risk can be calculated by the internal rating based (IRB) approach or the standardized approach.

Under the standardized approach, a home mortgage loan fully secured by a residential property, which is or will be occupied by a borrower, is risk-weighted at 35%.

Under the Regulation on the Supervision of the Banking Business, banks generally must maintain allowances for credit losses in respect of their outstanding loans and other credits (including confirmed guarantees and acceptances and trust account loans) in an aggregate amount covering not less than:

- 0.85% of normal credits (or 0.9% in the case of normal credits comprising loans to certain industries including construction, retail and wholesale sales, accommodations, restaurant, real estate and lease, and 1.0% in the case of normal credits comprising loans to individuals and households and 1.5% in the case of normal credits comprising outstanding credit card receivables and card loans);

- 7% of precautionary credits (or 10% in the case of precautionary credits comprising loans to individuals and households, and 15% in the case of precautionary credits comprising outstanding credit card receivables and card loans);

- 20% of substandard credits;

50% of doubtful credits (or 55% in the case of doubtful credits comprising loans to individuals and households, and 60% in the case of doubtful credits comprising outstanding credit card receivables and card loans); and

100% of estimated loss credits.

Furthermore, under an amendment in 2006 to the Regulation on the Supervision of the Banking Business, banks must maintain allowances for credit losses in respect of their confirmed guarantees (including confirmed acceptances) and outstanding non-used credit lines as of the settlement date in an aggregate amount calculated at the same rates applicable to normal, precautionary, substandard and doubtful credits comprising their outstanding loans and other credits as set forth above.

Liquidity

All banks are required to match the maturities of their assets and liabilities in accordance with the Banking Act in order to ensure adequate liquidity. Banks may not invest in excess of an amount exceeding 60% of their Tier I and Tier II capital (less any capital deductions) in stocks and other securities with a period remaining to maturity of over three years. However, this restriction does not apply to government bonds or to Monetary Stabilization Bonds issued by the Bank of Korea.

The Financial Services Commission requires each Korean bank to maintain a Won liquidity ratio (defined as Won assets due within one month, including marketable securities, divided by Won liabilities due within one month) of not less than 100% and to make monthly reports to the Financial Supervisory Service. The Financial Services Commission also requires each Korean bank to (1) maintain a foreign-currency liquidity ratio due within three months (defined as foreign-currency liquid assets due within three months divided by foreign-currency liabilities due within three months) of not less than 85%, (2) maintain a ratio of foreign-currency liquid assets due within seven days (defined as foreign-currency liquid assets due within seven days less foreign-currency liabilities due within seven days, divided by total foreign-currency assets) of not less than negative 3% and (3) maintain a ratio of foreign-currency liquid assets due within a month (defined as foreign-currency liquid assets due within a month less foreign currency liabilities due within a month, divided by total foreign-currency assets) of not less than negative 10%. The Financial Services Commission also requires each Korean bank to submit monthly reports with respect to its compliance with these ratios.

The Monetary Policy Committee is authorized to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is 7.0% of average balances for Won-denominated demand deposits outstanding, 0.0% of average balances for Won-denominated employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding and 2.0% of average balances for Won-denominated time and savings deposits, mutual installments, housing installments and certificates of deposit outstanding. For foreign currency deposit liabilities, a 2.0% minimum reserve ratio is applied to savings deposits outstanding and a 7.0% minimum reserve ratio is applied to demand deposits, while a 1.0% minimum reserve ratio is applied for offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Financial Exposure to Any Single Customer and Major Shareholders

Under the Banking Act, the sum of material credit exposures by a bank, namely, the total sum of its credits to single individuals, legal entities or business groups that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions), must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions), subject to certain exceptions. Subject to certain exceptions, no bank is permitted to extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and such other transactions which directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to a single individual or a legal entity, and no bank may grant credit in excess of 25% of the sum of Tier I and Tier II capital (less any capital deductions) to a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act.

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Under the Banking Act, certain restrictions apply to extending credits to a major shareholder. The definition of a major shareholder is as follows:

- a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Banking Act) in excess of 10% (or in the case of regional banks, 15%) in the aggregate of the bank s total issued and outstanding voting shares; or

- a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Banking Act) more than 4% in the aggregate of the total issued and outstanding voting shares of a bank (other than a regional bank), where such shareholder is the largest shareholder or is able to actually control the major business affairs of the bank, for example, through appointment and dismissal of the chief executive officer or of the majority of the executives.

Under the Banking Act, banks are prohibited from extending credits in the amount greater than the lesser of (1) 25% of the sum of such bank s Tier I and Tier II capital (less any capital deductions) and (2) the relevant major shareholder s shareholding ratio multiplied by the sum of the bank s Tier I and Tier II capital (less any capital deductions) to a major shareholder (together with persons who have special relationship with such major shareholder as defined in the Presidential Decree of the Banking Act). Also, no bank is allowed to grant credit to its major shareholders in the aggregate in excess of 25% of its Tier I and Tier II capital (less any capital deductions).

When managing the credit risk of banks, among the methods for providing credit support by banks, a loan agreement, a purchase agreement for asset-backed commercial papers, purchase of subordinate beneficiary certificates, and assumption of liability by providing warranty against default under asset-backed securitization are examples of creating financial exposure to banks.

Interest Rates

Korean banks remain dependent on the acceptance of deposits as their primary source of funds. Currently, there are no legal controls on interest rates on bank loans in Korea except for the cap of 44% on the default interest rate under the Act on Lending Business. Historically, interest rates on deposits and lending rates were regulated by the Monetary Board of the Bank of Korea. Under the government s Financial Reform Plan issued in May 1993, controls on deposit interest rates in Korea have been gradually reduced. In February 2004, the Korean government removed restrictions on all interest rates, except for the prohibition on interest payments on current account deposits. Deregulation of interest rates on deposits has increased competition for deposits based on interest rates offered and therefore may increase our banking operation s interest expense.

Lending to Small- and Medium-sized Enterprises

In order to obtain funding from the Bank of Korea at concessionary rates for their small- and medium-sized enterprise loans, banks are required to extend to small- and medium-sized enterprises a certain minimum percentage of any monthly increase in their Won-denominated lending. Currently, this minimum percentage is 45% in the case of national banks and 60% in the case of regional banks. If a bank does not comply with the foregoing, all or a portion of the Bank of Korea funds provided to such bank in support of loans to small-and medium-sized enterprises may have to be prepaid to the Bank of Korea or the credit limit from the Bank of Korea for such bank may be decreased.

Disclosure of Management Performance

For the purpose of enforcing mandatory disclosure of management performance so that the general public, especially depositors and stockholders, will be in a better position to monitor banks, the Financial Services Commission requires commercial banks to disclose certain matters as follows:

- loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to such borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits) except where the loan exposure to a single business group is not more than (Won)4 billion;

occurrence of any financial event involving embezzlement, malfeasance or misappropriation of funds the amount of which exceeds 1% of the sum of the bank s Tier I and Tier II capital (less any capital deductions), unless the bank has lost or expects to lose not more than (Won)1 billion as a result thereof, or the Governor of the Financial Supervisory Service has made a public announcement regarding such an occurrence; and

any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) as of the end of the previous month except where the loss is not more than (Won)1 billion;

Restrictions on Lending

According to the Banking Act, commercial banks are prohibited from making any of the following categories of loans:

loans made directly or indirectly on the pledge of a bank s own shares (subject to certain exceptions with respect to financing for infrastructure projects);

loans made directly or indirectly to enable a natural or a legal person to buy the bank s own shares; and

loans made to any of the bank s officers or employees other than de minimis loans of up to (1) (Won)20 million in the case of a general loan, (2) (Won)50 million in the case of a general loan plus a housing loan, or (3) (Won)60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions.

Restrictions on Investments in Property

A bank may possess real estate property only to the extent necessary for conducting its business; provided that the aggregate value of such real estate property must not exceed 60% of the sum of its Tier I and Tier II capital (less any capital deductions). Any property acquired by a bank (1) through the exercise of its rights as a secured party or (2) the acquisition of which is prohibited by the Banking Act must be disposed of within one year, subject to certain exceptions.

Restrictions on Shareholdings in Other Companies

Under the Banking Act, a bank may not own more than 15% of shares outstanding with voting rights of another company, except where, among other reasons:

the company issuing such shares is engaged in a business that falls under the category of financial businesses set forth by the Financial Services Commission (including private equity funds); or

the acquisition of shares by the bank is necessary for corporate restructuring of such company and is approved by the Financial Services Commission.

In the above cases, a bank must satisfy either of the following requirements:

the total investment in companies in which the bank owns more than 15% of the outstanding shares with voting rights does not exceed 15% of the sum of Tier I and Tier II capital (less any capital deductions); or

the acquisition satisfies the requirements determined by the Financial Services Commission.

The Banking Act provides that a bank using its bank accounts and its trust accounts is not permitted to acquire the shares issued by the Major Shareholder of such bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Restrictions on Bank Ownership

Under the Banking Act, subject to certain exceptions, a single shareholder and persons who stand in a special relationship with such shareholder (as described in the Presidential Decree to the Banking Act) may

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acquire beneficial ownership of up to 10% of a national bank s total issued and outstanding shares with voting rights and up to 15% of a regional bank s total issued and outstanding shares with voting rights. The government, the Korea Deposit Insurance Corporation and financial holding companies qualifying under the Financial Holding Companies Act are not subject to such ceilings. However, non-financial business group companies i.e., (1) any same shareholder group with an aggregate net assets of all non-financial companies belonging to such group of not less than 25% of the aggregate net assets of all corporations that are members of such group; (2) any group with aggregate assets of all non-financial companies belonging to such group of not less than (Won)2 trillion; (3) any mutual fund in which a same shareholder group, as described in items (1) and (2) above, owns more than 9% of the total shares issued and outstanding; (4) a private equity fund (under the Financial Investment Services and Capital Markets Act) where (i) the general partner of such private equity fund, (ii) the limited partner whose equity holding ratio in such private equity fund is 18% or more, or (iii) the limited partners, being member companies of a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act, whose aggregate equity holding ratio in such private equity fund is 36% or more falls under either of item (1) to (3) above; or (5) a special purpose company of a private equity fund where a private equity fund, as described in item (4) above, owns 9% or more of the special purpose company s issued and outstanding shares or has actual control over the major business affairs of the special purpose company through, for example, appointment and dismissal of the officers may not acquire beneficial ownership of shares of a national bank in excess of 4% of such bank s outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of:

- up to 10% of a national bank s outstanding voting shares with the approval of the Financial Services Commission under the condition that such non-financial group companies will not exercise voting rights in respect of such shares in excess of the 4% limit; and

- in the event that a foreigner, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a national bank s outstanding voting shares, up to 10% of such bank s outstanding voting shares without the approval of the Financial Services Commission, and in excess of 10%, 25% or 33% of such bank s outstanding voting shares, with the approval of the Financial Services Commission, up to the number of shares owned by such foreigner.

In addition, any person (whether a Korean national or a foreigner), with the exception of non-financial business group companies described above, may also acquire in excess of 10% of a national bank s total voting shares issued and outstanding, provided that an approval from the Financial Services Commission is obtained in instances where the total holding exceeds 10% (or 15% in the case of regional banks), 25% or 33% of the bank s total voting shares issued and outstanding.

Deposit Insurance System

The Depositor Protection Act provides, through a deposit insurance system, insurance for certain deposits of banks in Korea. Under the Depositor Protection Act, all banks governed by the Banking Act, including Shinhan Bank and Jeju Bank, are required to pay to the Korea Deposit Insurance Corporation an insurance premium on a quarterly basis at such rate as determined by the Presidential Decree to the Depositor Protection Act, which shall not exceed 0.5% of the bank s insurable deposits in any given year. The current insurance premium is 0.02% of insurable deposits for each quarter. If the Korea Deposit Insurance Corporation pays the insured amount, it will acquire the claims of the depositors within the payment amount. Under current rules, the Korea Deposit Insurance Corporation insures only up to a total of (Won)50 million per an individual for deposits and interest in a single financial institution, regardless of when the deposits were made and the size of the deposits.

Restrictions on Foreign Exchange Position

Under the Korean Foreign Exchange Transaction Regulations, a bank s net over purchased and oversold positions are each limited to 50% of the stockholders equity as of the end of the prior month.

Trust Business

A bank that intends to enter into the trust business must obtain the approval of the Financial Services Commission. Trust activities of banks are governed by the Financial Investment Services and Capital Markets Act. Banks engaged in the banking business and trust business are subject to certain legal and accounting procedures requirements, including the following:

- under the Banking Act, assets accepted in trust by a bank in Korea must be segregated from its other assets in the accounts of such bank; accordingly, banks engaged in the banking and trust businesses must maintain two separate accounts, the banking accounts and the trust accounts, and two separate sets of records which provide details of their banking and trust businesses, respectively; and

- assets comprising the trust accounts are not available to depositors or other general creditors of such bank in the event the trustee is liquidated or is wound up.

On January 17, 2005, in accordance with the amendment to the Trust Business Act, a comprehensive trust system was introduced to allow banks engaged in trust businesses to accept in trust two or more properties such as money, securities, or real estate with one trust deed. In addition, intellectual property rights can also be held as trust asset.

The Indirect Investment Asset Management Business Act, which applied to unspecified money trust account products under the Trust Business Act, securities investment trusts under the Securities Investment Trust Business Act, securities investment companies under the Securities Investment Company Act and variable insurance products under the Insurance Business Act, took effect on January 5, 2004. In accordance with the Indirect Investment Asset Management Business Act, we ceased offering unspecified money trust account products from Shinhan Bank and instead began to offer products developed by our investment trust management business that fulfills the requirements as an asset management company.

Since February 4, 2009, a trust business conducted by a bank has been governed by the Financial Investment Services and Capital Markets Act which replaced and superseded the Trust Business Act and the Indirect Investment Asset Management Business Act. In the event that a bank qualifies and operates as an asset management company, a trustee, a custodian or a general office administrator under the Financial Investment Services and Capital Markets Act, it is required to establish relevant operation and management systems to prevent potential conflicts of interest among the banking business, the asset management business, the trustee or custodian business and general office administration. These measures include:

- prohibitions against officers, directors and employees of one particular business operation from serving as an officer, director and employee in another business operation, except where an officer or a director (1) serving in two or more business operations with no significant conflict of interest in accordance with the Presidential Decree on the Financial Investment Services and Capital Markets Act or (2) serving in a trustee business or a custodian business and simultaneously serving in a general office administrator business in accordance with the Financial Investment Services and Capital Markets Act;

- prohibitions against the joint use or sharing of computer equipment or office equipment; and

- prohibitions against the sharing of information by and among officers, directors and employees engaged in the different business operations.

A bank which qualifies and operates as an asset management company may engage in the sale of beneficiary certificates of investment trusts which are managed by such bank. However, such bank is prohibited from engaging in the following activities:

- acting as trustee of an investment trust managed by such bank;

purchasing with such bank s own funds beneficiary certificates of an investment trust managed by such bank;

using in its sales activities information relating to the trust property of an investment trust managed by such bank;

selling through a financial institution established under the Banking Act beneficiary certificates of an investment trust managed by such bank;

establishing a short-term financial indirect investment vehicle; and

establishing a mutual fund.

Laws and Regulations Governing Other Business Activities

To enter the foreign exchange business, a bank must register with the Minister of the Ministry of Strategy and Finance. The foreign exchange business is governed by the Foreign Exchange Transaction Law. To enter the securities business, a bank must obtain the approval of the Financial Services Commission. The securities business is governed by regulations under the Financial Investment Services and Capital Markets Act. Pursuant to the above-mentioned laws, banks are permitted to engage in the foreign exchange business and the underwriting business for government and other public bonds.

Principal Regulations Applicable to Credit Card Companies

General

Any person, including a bank, wishing to engage in the credit card business must obtain a license from the Financial Services Commission. In addition, in order to enter the credit card business, a bank must obtain a license from the Financial Services Commission (hereinafter, a bank which obtains such license is defined as licensed bank engaged in the credit card business). The credit card business is regulated and governed by the Specialized Credit Financial Business Act. Under the Specialized Credit Financial Business Act and regulations thereunder, a company in the same conglomerate group (as defined in the Monopoly Regulation and Fair Trade Act) may engage in the credit card business even though another company in the same conglomerate group is already engaged in such business, which was previously not permitted.

The Specialized Credit Financial Business Act establishes guidelines on capital adequacy and provides for other regulations relating to the supervision of credit card companies. The Specialized Credit Financial Business Act delegates regulatory authority over credit card companies to the Financial Services Commission and its executive body, the Financial Supervisory Service.

A licensed bank engaging in the credit card business is regulated by the Financial Services Commission and the Financial Supervisory Service.

The Financial Services Commission regulates credit card companies and licensed banks engaged in the credit card business by establishing guidelines or regulations on management of such companies. Moreover if the Financial Services Commission deems the financial condition of a credit card company or a licensed bank engaged in the credit card business to be unsound or such companies fail to satisfy the guidelines or regulations, the Financial Services Commission may take certain measures to improve the financial condition of such companies.

Restrictions on Scope of Business

Under the Specialized Credit Financial Business Act, a credit card company may conduct only the following types of business: (i) credit card business as licensed or other specialized credit finance businesses as registered pursuant to the Specialized Credit Financial Business Act; (ii) the businesses ancillary to the credit card business, (for example, providing cash advance loans to existing credit card members, issuing and settling of debit cards and issuing, selling and settling of pre-paid cards); (iii) provision of unsecured or secured loans; (iv) provision of discount on notes; (v) purchase, management and collection of account receivables originated by companies in the course of providing goods and services; (vi) provision of payment guarantee; (vii) asset management business under the Asset Backed Securitization Act; (viii) credit investigation; and (ix) other incidental businesses related to the foregoing. As a result of the amendment to the Specialized Credit Financial Business Act on January 27, 2005, a credit card company s scope of business presently includes businesses that utilize existing manpower, assets or facilities in a credit card company, as designated by the Financial Services Commission. Under the current regulation established by the Financial Services Commission, a credit card company may engage in various types of business including, but not limited to, e-commerce, operation of insurance agency, delegation of card issuance , supply of payment settlement system, loan brokerage and brokerage of collective investment securities.

Pursuant to the Presidential Decree of the Specialized Credit Financial Business Act, as of the end of each quarter, a credit card company s average balance of claim amounts during such quarter from engaging in the businesses set forth above in (iii) and (iv), excluding claim amounts arising from the provision of loans to companies, extension of new loans in connection with rescheduling of outstanding loans, the provision of mortgage loans and the provision of cash advances or any other loans to credit card members, may not exceed the average balance of claim amounts during such quarter from engaging in the businesses set forth above in (i), excluding a credit card business, and (v); provided, however, that with respect to any excess amount existing as of April 21, 2004, credit card companies have until December 31, 2008 to eliminate such excess amount.

Capital Adequacy

The Specialized Credit Financial Business Act provides for a minimum paid-in capital amount of: (i) (Won)20 billion in the case of a specialized credit financial business company which wishes to engage in no more than two kinds of core businesses (i.e. credit card, installment finance, leasing and new technology business) and (ii) (Won)40 billion in the case of an specialized credit financial business company, which wishes to engage in three or more kinds of core businesses.

Under the Specialized Credit Financial Business Act and regulations thereof, a credit card company must maintain a capital adequacy ratio, defined as the ratio of adjusted equity capital to adjusted total asset, of 8% or more and a delinquent claim ratio, defined as the ratio of delinquent claims to total claims as set forth under the regulations relating to the Specialized Credit Financial Business Act, of less than 10%.

Under the Specialized Credit Financial Business Act and regulations thereof, the minimum ratio of allowances for losses on loans, leased assets (except assets subject to an operating lease) and suspense receivables as of the date of accounting settlement (including semiannual preliminary accounts settlement) would be 0.5% of normal assets, 1% of precautionary assets and 20% of substandard assets, 75% of doubtful assets and 100% of estimated loss assets, and the minimum ratio of allowances for losses on credit card receivables and cash advances would be 1.5% of normal assets, 15% of precautionary assets, 20% of substandard assets, 60% of doubtful assets and 100% of estimated loss assets. In addition, a credit card company has to reserve a certain amount calculated according to relevant regulations as loss allowances for unused credit limits.

Liquidity

Under the Specialized Credit Financial Business Act and regulations thereunder, a credit card company must maintain a Won liquidity ratio (Won-denominated current assets/Won-denominated current liabilities) of 100% or more. In addition, once a credit card company is registered as a foreign exchange business institution with the Minister of the Ministry of Strategy and Finance, such credit card company is required to (1) maintain a foreign-currency liquidity ratio within three months (defined as foreign-currency liquid assets due within three months divided by foreign-currency liabilities due within three months) of not less than 80%, (2) maintain a ratio of foreign-currency liquid assets due within seven days (defined as foreign-currency liquid assets due within seven days less foreign-currency liabilities due within seven days, divided by total foreign-currency assets) of not less than 0% and (3) maintain a ratio of foreign-currency liquid assets due within a month (defined as foreign-currency liquid assets due within a month less foreign-currency liabilities due within a month, divided by total foreign-currency assets) of not less than negative 10%. The Financial Services Commission requires a credit card company to submit quarterly reports with respect to the maintenance of these ratios.

Restrictions on Funding

Under the Specialized Credit Financial Business Act, a credit card company may raise funds using only the following methods: (i) borrowing from financial institutions, (ii) issuing corporate debentures or notes, (iii) selling securities held by the credit card company, (iv) transferring claims held by the credit card company,

(v) transferring claims held by the credit card company in connection with its businesses, or (vi) issuing securities backed by the claims held by the credit card company relating to its businesses.

Furthermore, a credit card company may borrow funds from offshore or issue foreign currency denominated securities once it is registered as a foreign exchange business institution with the Minister of the Ministry of Strategy and Finance.

With respect to the issuance of debentures and notes, a credit card company may issue debentures up to an amount equal to ten times the company s total equity capital. In addition, a credit card company may issue, on a temporary basis, debentures exceeding the maximum limit for the purpose of redeeming the outstanding debentures, but must repay such outstanding debentures within one month after the date of issuance of new debentures.

Restrictions on Loans to Affiliate Companies

Under the Specialized Credit Financial Business Act and regulations thereof, a credit card company may not provide loans exceeding 100% of its equity capital, in the aggregate, to its specially related persons (as defined under the relevant laws) including, but not limited to, its affiliates.

Restrictions on Assistance to Other Companies

Under the Specialized Credit Financial Business Act, a credit card company may not engage in any of the following acts in conjunction with other financial institutions or companies: (i) holding voting shares under cross shareholding or providing credit for the purpose of avoiding the restrictions on loans to affiliate companies; (ii) acquiring shares under cross shareholding for the purpose of avoiding the limitation on purchase of its treasury shares under the Korean Commercial Code or the Financial Investment Services and Capital Markets Act; or (iii) other acts which are likely to have a material adverse effect on the interests of transaction parties as stipulated by the Presidential Decree to the Specialized Credit Financial Business Act, which are not yet provided.

A credit card company also may not extend credit for enabling another person to purchase the shares of such credit card company or to arrange financing for the purpose of avoiding the restrictions on loans to affiliate companies.

Restrictions on Investment in Real Estate

Under the Specialized Credit Financial Business Act and the regulations thereof, a credit card company may possess real estate only to the extent that such business conduct is designated by such laws and regulations, with certain exceptions such as for the purposes of factoring or leasing or as a result of enforcing its security rights, provided that the Financial Services Commission may limit the maximum amount a credit card company may invest in real estate investments for business purposes up to a percentage equal to or in excess of 100% of its equity capital.

Restrictions on Shareholding in Other Companies

Under the Specialized Credit Financial Business Act and the Act on the Structural Improvement of the Financial Industry, a credit card company and its affiliate financial institutions (together a group) are required to obtain prior approval of the Financial Services Commission if such credit card company, together with its affiliate financial institutions, (i) owns 20% or more of outstanding voting shares of a target company or (ii) owns 5% or more of outstanding voting shares of a target company, and shall be deemed to have control of the target company, including being the largest shareholder of such target company or otherwise.

Disclosure and Reports

Pursuant to the Specialized Credit Financial Business Act and the regulations thereof, the ordinary disclosure requirement for a credit card company is to disclose any material matters relating to management performance, profits and losses, corporate governance, competence of the employees or risk management within

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three months from the end of each fiscal year and within two months from the end of the first half of the fiscal year. In addition, a credit card company is required to disclose on an on-going basis certain matters such as the occurrence of non-performing loans, a financial incident or losses exceeding certain amounts. Prior to December 29, 2005, a credit card company or a licensed bank engaging in the credit card business was required to submit its business reports and reports on actual results of management to the Financial Services Commission within one month from the end of each quarter. However, after the amendment to the regulations issued by the Financial Services Commission on December 29, 2005, a credit card company or a licensed bank engaging in the credit card business must submit such report as required by the Governor of Financial Supervisory Service, with certain important matters being reported as frequently as each month. In addition, all companies engaged in the specialized credit financial business under the Specialized Credit Financial Business Act, including, without limitation, credit card companies, must file a report to the Financial Supervisory Service regarding the result of settlement of accounts within one month after the end of its fiscal year. Also, these companies are required to conduct a provisional settlement of accounts for each quarter and file a report to the Financial Supervisory Service within one month after the end of such quarter.

Risk of Loss Due to Lost, Stolen, Forged or Altered Credit Cards

Under the Specialized Credit Financial Business Act, upon notice from the holder of a credit card or a debit card of its loss or theft, a credit card company or a licensed bank engaged in the credit card business, as the case may be, is liable for any loss arising from the unauthorized use of credit cards or debit cards thereafter as well as any loss from unauthorized transactions made within 60 days prior to such notice. However, a credit card company or a licensed bank engaged in the credit card business, as the case may be, may transfer to the cardholder all or part of the risks of loss associated with unauthorized transactions made within 60 days prior to such notice, in accordance with the standard terms and conditions agreed between the credit card company or the licensed bank engaged in the credit card business, as the case may be, and the cardholder, provided that the loss or theft must be due to the cardholder s willful misconduct or negligence. Disclosure of a cardholder s password under duress or threat to the cardholder s or his/her family s life or health will not be deemed as the cardholder s willful misconduct or negligence.

Moreover, a credit card company or a licensed bank engaged in the credit card business, as the case may be, is also responsible for any losses resulting from the use of forged or altered credit cards, debit cards and pre-paid cards. However, a credit card company or a licensed bank engaged in the credit card business, as the case may be, may transfer all or part of this risk of loss to holders of credit cards in the event of willful misconduct or gross negligence by holders of such cards if the terms and conditions of the written agreement entered between the credit card company or a licensed bank engaged in the credit card business, as the case may be, and holders of such cards specifically provide for such transfer. For these purposes, disclosure of a customer s password that is made intentionally or through gross negligence, or the transfer of or giving as collateral of the credit card or debit card, is considered willful misconduct or gross negligence.

In addition, the Specialized Credit Financial Business Act prohibits a credit card company from transferring to merchants the risk of loss arising from lost, stolen, forged or altered credit cards, debit cards or pre-paid cards; provided, however, that a credit card company may enter into an agreement with a merchant under which the merchant agrees to be responsible for such loss if caused by the merchant s gross negligence or willful misconduct.

Each credit card company or a licensed bank engaged in the credit card business must institute appropriate measures such as establishing reserves, purchasing insurance or joining a cooperative association in order to fulfill its obligations related to the risk of loss arising from unauthorized use due to lost, stolen, forged or altered credit cards, debit cards or pre-paid cards.

Pursuant to the Specialized Credit Financial Business Act, the Financial Services Commission may either impose a limit or take other necessary measures against a credit card company or a licensed bank engaged in the credit card business including, without limitation, with respect to the following:

set maximum limits for cash advances on credit cards;

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- use restrictions on debit cards with respect to per day or per transaction usage; or

- aggregate issuance limits and maximum limits on the amount per card on pre-paid cards.

Lending Ratio in Ancillary Business

Pursuant to the Presidential Decree to the Specialized Credit Financial Business Act, as amended in December 2003, a credit card company or a licensed bank engaged in the credit card business, as the case may be, must maintain an aggregate quarterly average outstanding lending balance to credit card holders (including cash advances and credit card loans, but excluding restructured loans and revolving cash advances) no greater than its aggregate quarterly average outstanding credit card balance arising from the purchase of goods and services (excluding receivables arising from the purchase of goods and services by specially-related persons using exclusive use card for business purposes, as defined in the Tax Incentives Limitation Act) plus its aggregate quarterly amount of payments made by members using their debit cards; provided that, with respect to any excess amount existing as of December 31, 2003, the credit card companies have a grace period until December 31, 2007 to eliminate such excess amount.

Issuance of New Cards and Solicitation of New Card Holders

The Presidential Decree to the Specialized Credit Financial Business Act establishes the conditions under which a credit card company or a licensed bank engaged in the credit card business may issue new cards and solicit new members. Specifically, new credit cards may be issued only to the following persons: (i) persons who are at the age of 18 years or more at the time of applying for issuance of a credit card; (ii) persons whose capability to pay bills as they come due, as determined according to standards established by the credit card company or a licensed bank engaging in the credit card business, is verified; (iii) in the case of minors, persons who submit a guardian s consent along with documents evidencing income, such as an employment certificate or a tax certificate; and (iv) persons whose identity have been verified.

In addition, a credit card company or a licensed bank engaged in the credit card business, as the case may be, may not engage in the following methods of soliciting credit card members: (i) providing economic benefits or conditioning such benefits in excess of 10% of the annual credit card fee (in the case of no-annual fee credit cards, the average annual fees will be (Won)10,000) in connection with issuance of credit cards; (ii) solicitation on streets and private roads as prescribed under the Road Act and Private Road Act, public place and corridors used by the general public; (iii) solicitation through visits, except those visits made upon prior consent and visits to a business area; (iv) solicitation through pyramid sales methods; and (v) solicitation through the Internet, as further discussed below.

In addition, a credit card company or a licensed bank engaged in the credit card business is required to check whether the credit card applicant has any delinquent debt owed to any other credit card company or other financial institutions which the applicant is unable to repay, and also require, in principle, with respect to solicitations made through the Internet, the certified electronic signature of the applicant. Moreover, persons who intend to engage in solicitation of credit card applicants must register with the Financial Services Commission, unless the solicitation is made by officers or employees of a credit card company or a company in business alliance with such credit card company.

Compliance Rules on Collection of Receivable Claims

Pursuant to the Specialized Credit Financial Business Act and its regulations, a credit card company or a licensed bank engaged in the credit card business are prohibited from collecting its claims by way of:

- exerting violence or threat of violence;

- informing a Related Party (a guarantor of the debtor, blood relative or fiancée of the debtor, a person living in the same household as the debtor or a person working in the same workplace as the debtor) of the debtor s liability without just cause;

- providing false information relating to the debtor s obligation to the debtor or his or her Related Party;

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threatening to sue or suing the debtor for fraud despite lack of affirmative evidence to establish that the debtor has submitted forged or false documentation with respect to his/her capacity to make payment;

visiting or telephoning the debtor during late hours between 9:00 p.m. and 8:00 a.m.; and

utilizing other uncustomary methods to collect the receivables thereby invading the privacy or the peacefulness in the workplace of the debtor or his or her Related Party.

Principal Regulations Applicable to Financial Investment Companies

General

The securities business is regulated and governed by the Financial Investment Services and Capital Markets Act. Financial investment companies are under the regulation and supervision of the Financial Services Commission, the Financial Supervisory Service and the Securities and Futures Commission.

Under the Financial Investment Services and Capital Markets Act, a financial investment company may engage in dealing, brokerage, collective investment, investment advice, discretionary investment management or trust businesses if it has obtained relevant licenses from the Financial Services Commission.

A financial investment company may also engage in certain businesses ancillary to the primary business or certain other additional businesses by submitting a report to the Financial Services Commission at least seven days prior to the commencement of the business without obtaining any separate license. Approval to merge with any other entity or to transfer all or substantially all of a business must also be obtained from the Financial Services Commission.

Under the Act on the Structural Improvement of the Financial Industry, if the Korean government deems a financial investment company s financial condition to be unsound or if a financial investment company fails to meet the applicable Net Operating Equity Ratio (as defined below), the government may order certain sanctions, including among others, sanctions against a financial investment company or its officers or employees, capital increase or reduction and a suspension or assignment of a part or all of business operation.

Regulations on Financial Soundness Capital Adequacy

The Financial Investment Services and Capital Markets Act sets forth various types of brokerage and/or dealing business licenses based on (i) the scope of products and services that may be provided by each type of the brokerage and/or dealing licensee and (ii) the type of customers to which such products and services may be provided. For example, a financial investment company engaged in the brokerage, dealing and underwriting businesses with retail investors as well as professional investors in connection with all types of securities is required to have a minimum paid-in capital of (Won)53 billion in order to obtain a license for such brokerage, dealing and underwriting businesses.

The financial soundness of a financial investment company is to be assessed, pursuant to the Financial Investment Services and Capital Markets Act and the regulations of the Financial Services Commission, in accordance with the Net Operating Equity Ratio of the company, which is to be calculated as follows and to be expressed as a percentage.

Net Operating Equity Ratio = Net Operating Equity/Total Risk × 100

The terms Net Operating Equity and Total Risk for the purpose of the above-stated formula are defined and elaborated in the regulations of the Financial Services Commission. Generally, the Net Operating Equity and the Total Risk are to be calculated according to the following formula:

Net Operating Equity = Net assets (total assets total liabilities) the total of items that may be deducted + the total of items that may be added

Total Risk = market risk + counterparty risk + management risk

The regulations of the Financial Services Commission requires, among other things, financial investment companies to maintain the net operating equity ratio at a level equal to or higher than 150% at the end of the each quarter of the fiscal year.

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In addition, all Korean companies, including financial investment companies, are required to set aside, as a legal reserve, 10% of the cash portion of the annual dividend or interim dividend in each fiscal year until the reserve reaches 50% of the stated capital.

Under the Financial Investment Services and Capital Markets Act and regulations thereunder, the minimum ratio of allowances for losses on loans and suspense receivables specified under such regulations is 0.5% of normal assets, 2% of precautionary assets, 20% of substandard assets, 75% of doubtful assets and 100% of estimated loss assets.

Other Provisions on Financial Soundness

The Financial Investment Services and Capital Markets Act, the Presidential Decree of the Financial Investment Services and Capital Markets Act and the regulations of the Financial Services Commission also include certain provisions which are designed to regulate certain types of activities relating to the management of the assets of a securities company, subject to certain exceptions. Such provisions include:

- restrictions on the holdings by a securities company of securities issued by another company which is the largest shareholder or the major shareholder (each as defined under the Financial Investment Services and Capital Markets Act) of such securities company; and

- restrictions on providing money or credit to the largest shareholder (including specially-related persons of such shareholder), major shareholders, officers and specially-related persons of the securities company.

Principal Regulations Applicable to Insurance Companies

General

Insurance companies are regulated and governed by the Insurance Business Act, as amended (the Insurance Business Act). In addition, insurance companies in Korea are under the regulation and supervision of the Financial Services Commission and its governing entity, the Financial Supervisory Service.

Under the Insurance Business Act, approval to commence an insurance business must be obtained from the Financial Services Commission based on the type of insurance businesses, which are classified as life insurance business, non-life insurance business and third type insurance business. Life insurance business means an insurance business which deals with life insurance policies or pension insurance policies (including retirement insurance policies). Non-life insurance business means an insurance business which deals with fire insurance policies, marine insurance policies, car insurance policies, guaranty insurance policies, reinsurance policies, liability insurance policies or other insurance policies prescribed under the Presidential Decree of the Insurance Business Act. Third type insurance business means an insurance business which deals with injury insurance policies, health insurance policies or nursing care insurance policies. Under the Insurance Business Act, insurance companies are not allowed to engage in both a life insurance business and a non-life insurance business, subject to certain exceptions.

If the Korean government deems an insurance company s financial condition to be unsound or if an insurance company fails to properly manage the business as set forth under relevant Korean law, the government may order certain sanctions including, among others, sanctions against an insurance company or its officers or employees, capital increase or reduction and a suspension or assignment of a part or all of business operation.

Capital Adequacy

The Insurance Business Act requires a minimum paid-in capital of (Won)30 billion for an insurance company; provided, that, the insurance company which intends to engage in only certain types of insurance policies may have a lower paid-in capital pursuant to the Presidential Decree of the Insurance Business Act.

In addition to the minimum capital requirement, an insurance company is required to maintain a Solvency Margin Ratio of 100% or more. Solvency Margin Ratio is the ratio of the Solvency Margin to the Standard Amount of the Solvency Margin. Solvency Margin is the aggregate amount of paid-in capital, reserve for dividends to policyholders, allowance for bad debt and subordinated debt amount and others similar thereto as set

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out in the regulation of the Financial Services Commission, less non-amortized acquisition costs, goodwill and others similar thereto as appearing in the regulation of the Financial Services Commission. The Standard Amount of Solvency Margin for life insurance companies is defined under the regulation of the Financial Services Commission and is calculated as follows:

1. (net premium type policy reserve non-amortized acquisition cost) × (corresponding ratio of risk factor for policy reserve) (4%); and

2. (risk insurance benefits) × (corresponding ratio of insurance risk factor).

The Financial Services Commission amended the Regulation on Supervision of Insurance Business on March 23, 2009 to introduce the risk based capital regime. Under the risk based capital regime, the Standard Amount of Solvency Margin for life insurance companies is calculated as follows:

* *Insurance Risk, Interest Risk, Credit Risk, Market Risk and Operation Risk are defined under the Regulation on Supervision of Insurance Business.*

Under the applicable provisions of the Regulation on Supervision of Insurance Business, as amended on March 23, 2009, an insurance company can opt to comply with the solvency margin requirements under the previous regulation for another two years following April 1, 2009. The stated intention of the regulators is that the change in the solvency margin regime to the risk based capital regime should not have any adverse effect on the insurance companies. Accordingly, until March 31, 2011, an insurance company may choose between solvency margin ratio calculated under the previous regulation and the risk based capital regime (whichever is more favorable to the insurance company). Since April 1, 2011, however, all insurance companies will be required to comply with the risk based capital regime.

Under the Insurance Business Act, the Presidential Decree and other regulations thereunder, for each accounting period, insurance companies are required to appropriate policy reserve that is earmarked for future payments of insurance money, refund and dividends to policyholders (hereinafter collectively referred to as Insurance Money) for each insurance contract. However, if an insurance company has reinsured a portion of its insurance contracts with a creditworthy reinsurance company in order to lower its overall risk, in principle, the insurance company is not required to appropriate policy reserve for the reinsured contracts. Instead, the reinsurance company is required to appropriate such policy reserve for the reinsured contracts. However, from April 1, 2008, if an insurance company transfers more than 50% of its risk to a reinsurance company, the amount of risk transferred in excess of 50% will be disallowed for purposes of calculating the solvency margin ratio. In particular, if the ratio of the risks transferred to the reinsurance company to the total risks insured by an insurance company exceeds 50%, such insurance company will be required to have net assets in relation to such risks transferred in excess of the 50% threshold for purposes of the solvency margin requirement. The Insurance Business Act was amended on January 24, 2011 to classify the insurance products into two categories: (i) reportable insurance products and (ii) voluntary insurance products. Under this amendment, only the changes to the terms and conditions of the reportable insurance products require a prior report and approval from the FSS and the voluntary insurance products can be sold without prior approval from the FSS. The policy reserve needs to be appropriated in accordance with the policy reserve calculation method for each insurance product as stipulated in amended Insurance Business Act.

The policy reserve amount consists of the following: (i) premium reserves and prepaid insurance premiums which are calculated under the methods determined by the written calculation methods for insurance premiums and policy reserves by insurance types or by lapses of insurance period, with regard to the contracts for which the causes for payment of the Insurance Money have yet to occur as of the end of each accounting period; (ii) amounts for which a lawsuit is pending on the Insurance Money or amounts for which a payment has been fixed with regard to the contracts for which the causes for payment of Insurance Money have occurred as of the end of each accounting period, and amounts which have not been paid yet due to an unsettled amount for paying the Insurance Money, even if the causes for payment of the Insurance Money have already occurred; and (iii) amounts reserved by an insurance company for allocation to policyholders.

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Pursuant to the regulations established by the Financial Services Commission, insurance companies are required to maintain allowances for outstanding loans, accounts receivables and other credits (including accrued income, payment on account, and bills receivables or dishonored) in an aggregate amount covering not less than 0.5% of normal credits (excluding confirmed guarantees and acceptances), 2% of precautionary credits, 20% of substandard credits, 50% of doubtful credits and 100% of estimated loss credits, provided that the minimum ratio of allowances for certain type of outstanding loans by insurance companies to individuals and households (including, retail loans, housing loans, and other forms of retail loans extended to individuals not registered for business), is increased to 0.75% of normal credits and 5% of precautionary credits. Furthermore, the regulations on insurance companies became more stringent in September 2010 by adding a requirement that insurance companies maintain allowance for bad debts in connection with real estate project financing loans in excess of 0.9% of normal credits and 7% of precautionary credits.

Variable Insurance and Bancassurance Agents

Variable insurance is regulated pursuant to the Insurance Business Act and the Financial Investment Services and Capital Markets Act. In order for an insurance company to sell variable insurance to a policyholder and operate such variable insurance, the insurance company must obtain a license with respect to collective investment business from the Financial Services Commission and register as a selling company with the Financial Services Commission. In this case, according to the Financial Investment Services and Capital Markets Act, an insurance company will be regulated as an investment trust and assets acquired in connection with variable insurance must be held by a trust company that is registered with the Financial Services Commission pursuant to the Financial Investment Services and Capital Markets Act.

According to the Financial Investment Services and Capital Markets Act, insurance companies may operate variable insurance through (i) mandating all of the management and the management instruction business to another asset management company, (ii) operating by way of discretionary investment all of the assets constituting the investment advisory assets out of the investment trust assets, or (iii) operating all of the investment trust assets into other collective investment securities, thereby allowing all of the particular variable insurance assets to be outsourced.

The Insurance Business Act permits banks, securities companies, credit card companies and other financial institutions to register as insurance agents or insurance brokers and engage in the insurance business (the Bancassurance Agents). Under the Insurance Business Act and the related regulations, the range of insurance products to be sold by the Bancassurance Agents expanded in four stages: the first stage at the time of the amendments, the second stage in April 2005, the third stage in October 2006, and the fourth stage in April 2008 when all types of life and non-life insurance products were to be sold by the Bancassurance Agents. The original expansion plan contemplated that protection type insurance products, such as whole life insurance, critical illness insurance and automobile insurance, would be included in the fourth stage of expansion. However, pursuant to the amendment to the Presidential Decree of the Insurance Business Act in March 2008 following a decision by the Finance and Economy Committee of the National Assembly in February 2008, the protection type insurance products were excluded from the fourth stage of expansion and therefore are not allowed to be sold through Bancassurance Agents.

Restrictions on Investment of Assets

According to the Insurance Business Act, insurance companies are prohibited from making any of the following investment of assets:

- subject to certain exceptions, owning precious metals, antiques, paintings and writings;

- owning any real estate (excluding any real estate owned as a result of enforcing their own security interest) other than real estate for conducting its business as designated by the Presidential Decree. In any case, the total amount of real estate owned by an insurance company must not exceed 15% of its Total Assets, provided that investment in real estate for a separate account is limited to 15% of the assets of such separate account;

- loans made for the purpose of speculation in commodities or securities;

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- loans made directly or indirectly to enable a natural or legal person to buy their own shares;

- loans made directly or indirectly to finance political campaigns and other similar activities; and

- loans made to any of the insurance company s officers or employees other than loans based on insurance policy or de minimis loans of up to (1) (Won)20 million in the case of a general loan, (2) (Won)50 million in the case of a general loan plus a housing loan, or (3) (Won)60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions.

In addition, insurance companies are not allowed to exceed the following limits in making the following investments:

- with respect to holding foreign currency under the Foreign Exchange Transaction Act or owning offshore real estate, 30% of its Total Assets; and

- with respect to the sum of margins for a futures exchange designated by the Presidential Decree or a foreign futures exchange, and commitment amounts of over-the-counter derivatives must not exceed 6% of its Total Assets, provided that the over-the-counter derivative trades are limited to 3%. The derivatives trades of a separate account are limited to 6% of the assets of separate account, provided that the over-the-counter derivatives trades are limited to 3%.

Life insurance companies are required to lend 35% or greater of the annual increase in their corporate loans (with the exclusion of those to banks and securities companies) to the small- and medium -sized enterprises.

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ITEM 4.C. ***Organizational Structure***

As of the date hereof, we have 11 direct and 21 indirect subsidiaries. The following diagram provides an overview of our organizational structure, including our significant subsidiaries and our ownership of such subsidiaries as of the date of this annual report:

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 Europe GmbH (incorporated in Germany);

Shinhan Bank Kazakhstan Limited (incorporated in Kazakhstan);

Shinhan Bank Japan (incorporated in Japan);

Shinhan Khmer Bank Limited (incorporated in Cambodia);

Shinhan Vina Bank (incorporated in Vietnam);

Shinhan Vietnam Bank (incorporated in Vietnam);

Shinhan Investment Corp., Europe Ltd. (incorporated in the United Kingdom);

Shinhan Investment Corp., USA Inc. (incorporated in the United States);

Shinhan Investment Corp., Asia Ltd. (incorporated in Hong Kong); and

Shinhan BNP Paribas Asset Management (Hong Kong) Limited (incorporated in Hong Kong).

ITEM 4.D. ***Properties***

The following table provides information regarding certain of our properties in Korea.

		Area (In square meters)	
Type of Facility	**Location**	**Building**	**Site (If Different)**
Registered office and corporate headquarters	120, 2-Ga, Taepyung-Ro, Jung-Gu, Seoul 100-102, Korea	59,519	5,418
Shinhan Investment Corp.	23-2, Youido-Dong, Youngdungpo-Gu, Seoul, Korea 150-312	70,170	4,765
Shinhan Centennial Building	117, Samgak-Dong, Jung-Gu, Seoul, Korea	19,697	1,389
Shinhan Bank Gwanggyo Branch	14, 1-Ga, Namdaemun-Ro, Jung-Gu, Seoul, Korea	16,727	6,783
Shinhan Myongdong Branch	53-1, 1-Ga, Myong-Dong, Jung-Gu, Seoul, Korea	8,936	1,014
Shinhan Youngdungpo Branch	57, 4-Ga, Youngdungpo-Dong, Youngdungpo-Gu, Seoul, Korea	6,171	1,983
Shinhan Back Office Support Center	781, Janghang-Dong, Ilsan-Gu, Goyang-Si, Kyunggi Province, Korea	24,496	5,856
Shinhan Bank Back Office and Call Center	731, Yoksam-Dong, Kangnam-Gu, Seoul, Korea	23,374	7,964
Shinhan Bank Back Office and Storage Center	1704-Ga, Yongam-Dong, Sangdang-Gu, Cheongju-Si, Chungcheongbuk-Do, Korea	5,756	6,398
Shinhan Card Yoksam-Dong Building	790-5, Yoksam-Dong, Kangnam-Gu, Seoul, Korea	7,348	1,185

Our subsidiaries own or lease various land and buildings for their branches and sales offices.

As of December 31, 2010, Shinhan Bank had a countrywide network of 951 branches. Approximately 28% of these facilities were housed in buildings owned by us, while the remaining branches were leased properties. As of December 31, 2010, Jeju Bank had 38 branches of which we own 18 of the buildings in which the facilities are located, representing 47% of its total branches. Lease terms are generally from two to three years, and seldom exceed five years.

As of December 31, 2010, Shinhan Card had 49 branches, all but one of which were leased. Lease terms are generally from one to two years. We also lease Shinhan Card s headquarters for a term of three years. Shinhan Bank houses its central mainframe computer system at its information technology centers in Ilsan, one of the suburban districts outside of Seoul. As of December 31, 2010, Shinhan Investment had 105 branches of which we own 10 of the buildings in which the facilities are located, representing 2% of its total branches. Lease terms are generally from four to five years, and seldom exceed five years. As of December 31, 2010, Shinhan Life had 109 branches which we leased for a term of generally one to three years.

The net book value of all the properties owned by us at December 31, 2010 was (Won)1,952 billion. We do not own any material properties outside of Korea.

ITEM 4A. ***UNRESOLVED STAFF COMMENTS***

We do not have any unresolved comments from the staff of the U.S. Securities and Exchange Commission regarding our periodic reports under the Securities Exchange Act of 1934, as amended.

ITEM 5. ***OPERATING AND FINANCIAL REVIEW AND PROSPECTS***

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and notes thereto included in this annual report. The following discussion is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP.

ITEM 5.A. ***Operating Results***

Overview

We are one of the leading financial institutions in Korea in terms of total assets, revenues, profitability and capital adequacy, among others. Incorporated on September 1, 2001, we are the first privately-held financial holding company to be established in Korea. Since inception, we have developed and introduced a wide range of financial products and services in Korea and aimed to deliver comprehensive financial solutions to clients through a convenient one-portal network. According to reports by the Financial Supervisory Service, we are one of the three largest financial services providers in Korea as measured by total assets as of December 31, 2010 and operate the third largest banking business (as measured by total assets as of December 31, 2010) and the largest credit card business (as measured by the total credit purchase volume as of December 31, 2010) in Korea.

Most of our assets are located in, and we generate most of our income from, Korea. Accordingly, our business and profitability are largely dependent on the general economic and social conditions in Korea, including interest rates, inflation, exports, personal expenditures and consumption, unemployment, demand for business products and services, debt service burden of households and businesses, the general availability of credit, the asset value of real estate and securities and other factors affecting the financial well-being of our corporate and retail customers. The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. In recent years, the global economy and financial markets experienced hardship, which also had a significant adverse impact on the Korean economy and in turn on our business and profitability. See Item 3.D. Risk Factors Risks Relating to our Banking Business Difficult conditions and turbulence in the Korean and global economy and financial markets may adversely affect our business, asset quality, capital adequacy and earnings .

The recent financial crisis and economic downturn in Korea and globally presented a number of difficulties and challenges for financial institutions in Korea, including us, particularly in the form of deterioration in asset quality as an increasing number of corporate borrowers faced a liquidity crisis and were forced to undergo restructuring, sometimes under the guidance of the Government which was concerned with containing the risk of systemic collapse by undertaking a preemptive and aggressive fast track restructuring program in collaboration with major creditor financial institutions with respect to troubled companies in industries that were particularly hard hit by the economic crisis, such as real estate development, construction, shipbuilding and shipping.

Following the onset of the crisis, we experienced a significant deterioration in the quality of our assets, particularly with respect to corporate loans made to small- and medium-sized enterprises, which represents our traditional core customers. For example, Shinhan Bank s delinquency ratio under Korean GAAP for corporate loans increased from 0.78% as December 31, 2007 to 1.06% as of December 31, 2008. In response to the crisis, we took active steps to enhance our risk management in substantially all areas of our operations, including concerted efforts to improve the quality of our assets through prudent charge-offs and provisioning. For example, in 2008, 2009 and 2010, Shinhan Bank made substantial charge-offs of corporate loans (which amounted to (Won)252 billion in 2008, (Won)659 billion in 2009 and (Won)769 billion in 2010 compared to (Won)109 billion in 2007) and set aside provisioning for corporate loans (which amounted to (Won)1,164 billion in 2008, (Won)973 billion in 2009 and (Won)867 billion in 2010 compared to (Won)196 billion in 2007). In addition, in an attempt to further strengthen our capital base following the onset of the global financial crisis, we made a rights offering in March 2009 in the amount of (Won)1,310 billion. As a result of our such efforts, and also driven in part by the recovery of the Korean economy beginning in the second half of 2009, the quality of our assets and our capital adequacy have returned largely to pre-crisis levels by the end of 2009, as evidenced by a decrease in Shinhan Bank s delinquency ratio under Korean GAAP for corporate loans to 0.53% and 0.61% as of December 31, 2009 and 2010, respectively, and our BIS ratio of 12.60% and 12.97% as of December 31, 2009 and 2010, respectively, compared to 9.77% and 10.19% as of December 31, 2007 and 2008, respectively. The increase in Shinhan Bank s delinquency ratio under Korean GAAP for 2010 compared to 2009 was primarily due to the slowdown in the construction industry caused by the sustained downturn in the real estate market.

Compared to their impact on the corporate sector, the recent financial crisis and economic downturn had a less severe impact on our retail businesses, particularly in our retail banking and credit card businesses. This was largely because our retail loans are mostly home mortgage loans collateralized by residential properties and individuals and households traditionally are less prone to default on home mortgage loans. As a result, Shinhan Bank s delinquency ratio under Korean GAAP for retail loans decreased modestly from 0.33% as of December 31, 2008 to 0.23% as of December 31, 2009 but slightly increased to 0.30% as of December 31, 2010. As for our credit card business, partly as a result of active tightening of its risk management policy and a more disciplined credit approval policy, Shinhan Card s delinquency ratio under Korean GAAP actually showed a decrease from 3.1% as of December 31, 2008 to 2.7% as of December 31, 2009 and 1.8% as of December 31, 2010.

We derive most of our income from interest earned on our corporate and retail loans, net of funding costs (which primarily consist of interest payable on customer deposits). Net interest income is largely a function of the average volume of loans and the net interest spread thereon. During the recent crisis, the average volume of loans and deposits increased. The average volume of loans increased largely as we continued to make secured housing loans while reducing exposure to unsecured lending, and corporate customers relied on bank loans as their sources of funding due to difficulties in finding alternative sources of funding in capital markets due to the credit crisis and the volatility in financial markets. However, due to the active involvement by the Government to maintain low interest rates in order to add liquidity to the general economy, net interest spreads continued to tighten from 2008 to 2009. From 2008 to 2009, the rate effect outweighed the volume effect, and Shinhan Bank s net interest income decreased from (Won)4,344 billion in 2008 to (Won)3,701 billion in 2009. From 2009 to 2010, the average rate on interest-earning liabilities decreased faster than the average yield on interest-earning assets and the volume effect outweighed the rate effect. Accordingly, Shinhan Bank s net interest income increased from (Won)3,701 billion in 2009 to (Won)4,439 billion in 2010. Net interest income after provision for loan losses, which Shinhan Bank significantly increased in 2008 and 2009 due to its enhanced risk management policies, including prudent additional provisioning, amounted to (Won)3,415 billion, (Won)2,494 billion and (Won)3,479 billion in, 2008, 2009 and 2010, respectively.

As for Shinhan Card, its net interest income is largely dependent on the transaction volume and less sensitive to interest rate movements than our banking business, since merchant fees (representing a fixed percentage of a credit card purchase amount) provide a stable source of income and our credit card business enjoys more diversified sources of funding, including commercial paper, corporate debentures (which have maturities longer than most bank deposit products) and asset-backed securitizations. The credit card transaction volume is largely dependent on the overall trends of the general economy, such as general consumer spending patterns. As a result, net interest income from Shinhan Card decreased from (Won)1,250 billion in 2008 to (Won)1,068 billion in 2009 due to the adverse impact of the recent global financial crisis on retail spending. Net interest income from Shinhan Card increased to (Won)1,088 billion in 2010, largely due to increased volume of credit card loans, as well as a relative decrease in the cost of funding mainly as a result of the general decrease in the base interest rate set by the Government.

The following provides a discussion of the major trends surrounding the general economy and the financial services sector in Korea in 2010 and our current outlook for 2011 as they relate to our core businesses. The following discussion represents the subjective view of our management and may significantly differ from the actual results for 2011.

Recent Developments and Outlook for Korean Economy

In 2010, Korean economy showed strong signs of recovery from the recent global financial crisis, as evidenced by a real GDP growth of 6.1% year-on-year, which was the highest since 2002. The rebound was attributable to both strong exports, which was primarily based on exports to China and other emerging markets despite continued sluggishness in the developed economies, and strong domestic consumption and investment.

In 2011, we expect that the Korean economy will experience stable growth, partly driven by an expected recovery in the U.S. economy, which is one of Korea s largest export markets. However, uncertainties remain in the form of, among others, the ongoing fiscal crisis in certain countries in Europe, the global rise in the costs of raw materials and tightening monetary policies in China and other emerging markets, all of which may trigger another general slowdown in the global economy, and in turn, Korean economy.

In 2011, inflation is expected to be a primary concern for Korean economy. Inflation has been rising recently due to the rise in raw material costs globally, excess liquidity in the Korean financial markets and the general economic recovery in Korea. As a result, we expect that pressure will grow for the Korean government to further increase the base interest rates, although in incremental steps given its potential adverse impact on economic growth prospects and also in light of the high household leverage ratio in Korea. A rise in interest rates generally results in an improvement of net interest margin for our banking business. See Interest Rates below. However, a general increase in market interest rates, especially if inappropriately timed, not properly coordinated with other macroeconomic policy, or at excessive levels, may unduly dampen economic recovery and trigger another credit crisis, which would adversely affect the liquidity and financial condition of our corporate and retail borrowers, which in turn may lead to deterioration in our credit exposure.

Recent Developments and Outlook for the Korean Financial Sector

Commercial Banking

Since the onset of the recent global financial crisis, commercial banks in Korea have experienced a slowdown in the growth of loan volume, mainly due to the Government policy to emphasize safe and stable economic growth as well as continued sluggishness in the real estate market, which has reduced demand for mortgage and home equity loans, which comprise a significant portion of loans held by the Korean commercial banks. We currently do not expect this trend to reverse in the remainder of 2011. However, there may be opportunities to generate additional revenue from asset management services, mobile banking and financing for green energy projects.

In terms of profitability, the Korean commercial banks generally experienced positive growth in 2010 largely due to improvements in net interest margins, which had significantly deteriorated in 2008 and 2009. In 2008 and 2009, profitability decreased primarily due to an increase in bad debt expense. In 2010, however, bad debt obligations decreased and in 2011, bad debt expense is expected to stabilize as a result of our continuous and active management of asset quality.

However, due to the significant volume of assets with poor quality resulting from the recent global financial crisis, allowance for loan losses is expected to continue to be significant and thereby limit the scope of improvement in profitability in 2011.

On the regulatory side, we expect that the Government will introduce measures that are designed to further strengthen the asset quality of commercial banks as well as protect banking customers. We believe that such measures will have the effect of curtailing the extent to which commercial banks can expand their operations.

On the competitive environment, we expect that competition will further intensify as a result of further consolidation. Hana Bank is currently seeking to complete the acquisition of Korea Exchange Bank, and the Government has announced that it plans to sell Woori Financial Group and privatize Korea Development Bank, and there are market speculations that Korea Development Bank may acquire or merge with Woori Financial Group.

As a result, we expect that the results of operation for our banking business will, at least in the short term, will depend on our ability to maintain quality customers through differentiated services and selectively seek and engage in new business opportunities.

Credit Cards

Due to the widespread social acceptance of using credit cards for product purchases, the number of cardholders and the proportion of credit card usage in product purchasers in Korea have surpassed their respective levels prior to the credit card crisis in 2003 and 2004. In 2010, due to prudent risk management policies and strengthening consumer confidence in the aftermath of the global financial crisis, we were able to maintain a strong level of profitability, notwithstanding the reduction in fees chargeable on credit card purchases and card loans as mandated by the Government.

In 2011, we expect that revenue growth from the credit card business will slowdown as a result of a reduced level of consumer confidence as economic recovery cools down in Korea and a reduction in tax benefits afforded to credit card usage, and its profitability may also decrease as a result of intensifying competition in the credit card industry and continuing demand from the Government and merchants for further reduction on fees chargeable on credit card purchases. Furthermore, asset quality of credit card companies, including us, may deteriorate, especially if the market interest rates continue to rise, in light of the already high level of household leverage ratio and an increase of cash advances and card loans (especially to subprime customers) as a proportion of total card assets due to increasing marketing focus among credit card service providers on such products, which carry a higher risk-return profile compared to regular card purchases.

On the competitive environment, we expect competition to further intensify in 2011 as the credit card companies recently spun off from KB Financial Group and to be spun off from Woori Financial Group, together with mid-tier credit card companies, vie for greater market shares. Furthermore, telecommunication service providers, such as Korea Telecom, may acquire an interest in credit card companies, such as BC Card, and offer credit card services, which would add further competition to the credit card industry by way of convergence between telecommunications and credit card services.

As a result, we expect that the results of operation for our credit card business, at least in the short term, will depend on our ability to adequately monitor and manage risk in order to avert potential deterioration in asset quality and seek and engage in new business opportunities, for example, through strategic alliances with telecommunications service providers and/or retail grocery and department store chains.

Securities

As of December 31, 2010, partly due to the turnaround in the stock market following the recent global financial crisis, the total assets for securities companies in Korea increased by 22% to approximately Won 200 trillion compared to December 31, 2009.

In 2011, to the extent that the stock market continues to rally, we expect further net inflow of investment funds into brokerage accounts, which will increase the revenues and profitability of our brokerage business. We also expect that due to the further deregulation of the investment industry in Korea, including through reforms in the Financial Services and Capital Markets Act, the securities sector will expand in other areas as securities firms offer a wider array of investment products and operate their business with less regulatory restriction.

Life Insurance

In 2010, our life insurance business continued to post solid revenue growth primarily due to an increase in insurance premium, including premium earned from lump-sum payment insurance products, and an improved rate of customer retention. In 2011, we expect that life insurance companies in Korea will continue to grow in revenues and improve profitability, mainly as a result of continued recovery in the general economy and the financial markets. Given the Government s policy focus on stable growth, however, the scope of such positive developments is expected to be limited. More specifically, we expect that premium income will continue to grow in 2011 largely due to strong performance in variable products, which is tied to the stock market movements, as well as growing demand for retirement and health insurance products in light of aging demographics and the proliferation of nuclear families. We also expect that profitability will generally improve for insurance companies due to the revenue growth, including with respect to investment income, and the general trend among major life insurance companies (especially the top market leaders which recently became public companies) to focus on profitability rather than market share.

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On the regulatory side, we expect a number of major developments in 2011. First, the overhaul at the end of 2010 of the workplace retirement benefits system in Korea is expected to significantly expand the pension fund and retirement insurance market in Korea, which will in turn increase competition in this market. Secondly, the Insurance Business Act, as amended on July 23, 2010 with effect from January 24, 2011, which enhances customer protection by subjecting insurance sale practices to further regulatory scrutiny, may curtail the sales and marketing activities by the insurance companies in the short term but may also have the benefit of restoring customer confidence in insurance companies and thereby contributing to overall revenue growth in the long term. Third, the International Financial Reporting System and a risk-based capital system took effect in the first half of 2011, which require significant enhancement of the risk management system, including in respect of asset quality management.

Interest Rates

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

The following table shows certain benchmark Won-denominated borrowing interest rates as of the dates indicated.

	Corporate Bond Rates(1)	Treasury Bond Rates(2)	Certificate of Deposit Rates(3)
June 30, 2006	5.20	4.92	4.59
December 31, 2006	5.29	4.92	4.86
June 30, 2007	5.66	5.26	5.00
December 31, 2007	6.77	5.74	5.82
June 30, 2008	6.88	5.90	5.37
December 31, 2008	7.72	3.41	3.93
June 30, 2009	5.39	4.16	2.41
December 31, 2009	5.53	4.41	2.86
June 30, 2010	4.77	3.86	2.46
December 31, 2010	4.27	3.38	2.80

Source: Korea Securities Dealers Association
Notes:

(1) Measured by the yield on three-year AA- rated corporate bonds.

(2) Measured by the yield on three-year treasury bonds.

(3) Measured by the yield on certificates of deposit (with maturity of 91 days).

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Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with U.S. GAAP, including prevailing practices within the financial services industry. The preparation of consolidated financial statements requires management to make judgments, involving significant estimates and assumptions, in the application of certain accounting policies about the effects of matters that are inherently uncertain. These estimates and assumptions, which may materially affect the reported amounts of certain assets, liabilities, revenues and expenses, are based on information available to us as of the date of the financial statements, and changes in this information over time could materially impact amounts reported in the financial statements as a result of the use of different estimates and assumptions. Certain accounting policies, by their nature, have a greater reliance on the use of estimates and assumptions, and could produce results materially different from those originally reported.

Based on the sensitivity of financial statement amounts to the methods, estimates and assumptions underlying reported amounts, we have identified the following significant accounting policies that involve critical accounting estimates. These policies require subjective or complex judgments, and as such could be subject to revision as new information becomes available. Our significant accounting policies are described in more detail in Note 1 in the notes to our consolidated financial statements included in this annual report.

Allowance for Credit Losses

The allowance for credit losses includes allowance for loan losses and allowance for off-balance sheet credit instruments. The allowance for loan losses is reported as a reduction of loans and the allowance for off-balance sheet credit instruments is reported in other liabilities. The allowance for credit losses represents the amount available for estimated probable credit losses existing in our lending portfolio. The methodology used to provide the appropriate level of reserve is inherently subjective and involves many complex estimates and assumptions. We perform periodic systematic reviews of our credit portfolios to identify inherent losses and assess the overall probability of collection. Each loan portfolio is evaluated based on its respective characteristics.

We evaluate large impaired corporate loans individually as part of our normal corporate review practice due to the unique characteristics of such borrowers. As described in more detail in the footnotes to our consolidated financial statements, we consider a loan to be impaired when, after consideration of risk characteristics and current information and events, we believe it is probable that we will be unable to collect all amounts owed under the contractual terms of the agreement, including principal and interest, according to the contractual terms of the loan.

We generally consider the following corporate loans to be impaired:

- 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 restructuring as defined under U.S. GAAP.

Once we have identified a loan as impaired, we value that loan either based on the present value of expected future cash flows discounted at the loan s effective interest rate or, as a practical expedient, at the loan s observable market price or the fair value of the collateral if the loan is collateral dependent. Each of these variables involves judgment and the use of estimates. For instance, discounted cash flows are based on estimates of the amount and timing of expected future cash flows. Forecasts of expected future cash flows are based on various data including restructuring plans, due diligence reports, as well as industry forecasts among other quantitative tools. The fair value of collateral is determined by using third party valuation reports. Additional consideration is given to recent auction results and court valuations. If the resulting value is less than the carrying amount of the loan, we establish a specific allowance for the difference.

We generally evaluate retail loans and certain smaller balance corporate loans, including leases, mortgage and home equity loans, and credit card balances, as individual pools for credit loss allowance purposes due to their homogeneous nature based on historical loss experience. Such allowances have been established using several modeling tools, including a risk rating migration model, when considering retail loans and corporate loans, and a delinquency roll-rate model when considering credit cards.

The allowance for off-balance sheet credit instruments represents the amounts available for estimated probable credit loss existing in our unfunded credit facilities such as commitments to extend credit, guarantees, acceptances, standby and commercial letters of credit and other financial instruments. As stated above, we perform periodic systematic reviews of our credit portfolio including off-balance sheet credit instruments to identify inherent losses and assess the overall probability of collection.

When we evaluate large impaired corporate loans individually for specific allowance, the related guarantees and acceptances made to the same borrowers are also evaluated for inherent loss. We generally evaluate the remaining guarantees and acceptances, which are generally smaller balances, on a pool basis. Allowance for the remaining guarantees and acceptances is generally established using estimated payout ratios and loss severity which are based on historical loss experience and various factors such as macroeconomic factors.

The determination of the allowance for credit losses requires a great deal of judgment and the use of estimates as discussed above. As such, we have also considered changes in underwriting, credit monitoring, the Korean and global economic environment, industry concentrations, and delinquencies among other factors when concluding on the level of the allowance for credit losses.

Fair Value Measurements

We invest in debt and marketable equity securities, equity securities that do not have readily determinable fair values and derivatives. Financial instruments are measured at fair value based on various inputs that are observable or unobservable, depending on the type of securities, utilizing assumptions of the marketplace and our management is required to make estimate and judgment in valuing them.

We adopted ASC 820-10 (formerly SFAS No. 157, *Fair Value Measurements*) effective January 1, 2008. ASC 820-10 defines fair value, expands disclosure requirements about fair value and specifies a three-level fair value hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. We determine the fair value of the financial instruments that are recognized or disclosed at fair value in the financial statements, whether on a recurring or non-recurring basis, in accordance with ASC 820-10. We adopted certain provisions of ASC 820-10 related to nonfinancial assets and nonfinancial liabilities that are not measured at fair value on a recurring basis since January 1, 2009.

ASC 820-10 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is an, exit price, defined as a price received in exchange of assets disposed or paid in transferring liabilities between market participants, at the measurement date. As such, the Group s own assumptions reflect those market participants used in pricing the asset or liability at the measurement date. The following is the description of fair value hierarchy based on pricing inputs.

Level 1 Quoted prices for identical instruments in active markets. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurements. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques based on significant unobservable inputs, as well as management judgments or estimates that are significant to valuation.

Fair value is best determined based on quoted market prices, if available, and are classified as Level 1. If quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves as well as other relevant factors. Our management applies judgments in assessing the variables used in the fair valuation process and also if certain external market variables are less readily available and such significant assumptions or judgments employed in fair valuation could render subject securities to Level 3. Changes in model assumptions, market conditions and unexpected circumstances can affect the fair values of the securities and trading assets and liabilities.

Debt securities and equity securities with readily determinable fair values classified as available-for-sale are carried at fair value with corresponding changes recognized in other comprehensive income within stockholders equity, net of taxes. Debt securities classified as held-to-maturity securities are recorded at amortized cost. Equity securities that do not have readily determinable fair values are carried at cost except in the cases specific industry accounting practice is applied, e.g., Shinhan PEF 1^{st} and 2^{nd}, the Group s wholly owned subsidiaries, are subject to accounting for investment companies and accordingly underlying assets are fair valued. Additionally, certain alternative investments classified as other investments under other assets which meet both of the criteria under ASC 820-10-15-4 are measured at fair value determined by net asset value per share and the resulting valuation gain or loss is recognized through profit or loss. Whether the equity securities have readily determinable fair values or not, when it is determined that other-than-temporary-impairment has occurred, the entire difference between market value and cost is recognized in earnings as realized loss. For debt securities, if an investor has the intent to sell the securities, or if it is more likely than not that it will be required to sell the securities before recovery of amortized cost basis, other-than-temporary-impairment must be recognized by the entire difference between market value and cost. However, when an investor does not have the intent to sell, or if it is more likely than not that it will not be required to sell the debt securities, only the credit related loss is recognized in current-period earnings, while non-credit related loss is recognized in other comprehensive income (OCI). In determining the credit loss amount, we measure the difference between the amortized cost basis and the net present value of the security, where we use our best estimate of the present value of cash flows expected to be collected from the debt security. The net present value is calculated by discounting the expected cash flows at the effective interest rate implicit in the security at the date of acquisition. Additionally, we perform regular assessment of various quantitative and qualitative factors to determine whether impairment is other-than-temporary. Such factors include the duration and extent of the decline in the fair values of securities, the current operating and future expected performance, market values of comparable companies, and changes in industry and market prospects. These factors can be adversely affected by changing economic conditions that are global or regional in nature or are issuer or industry specific. For certain securities without readily determinable fair values, we may periodically utilize external valuations performed by qualified independent valuation firms.

Trading assets and liabilities are carried at fair value with the corresponding changes recognized in earnings. The majority of our trading assets and liabilities that are actively traded are valued based on quoted market prices except for derivatives. Since few derivatives are actively traded, the majority of our derivatives are valued using internally developed models based on external market variables that can be independently validated by third party sources. However, certain derivatives are valued based on external market variables that are less readily available and are subject to management s judgment. Also, in connection with ASC 820-10 adoption, we made some amendments to the valuation techniques used in measuring the fair value of derivatives and other positions. These amendments change the way that the probability of default of a counterparty is factored into the valuation of derivative positions and include the impact of our own credit risk on derivatives and other liabilities measured at fair value. We make adjustments to reflect such changes in credit risk of the counterparties and our own based on market-based measures of credit risk to the extent available, such as CDS spread, and also take into account collateral factors designed to reduce our credit exposure. For certain derivatives not valued by our internally developed models, we periodically utilize external valuations performed by qualified independent valuation firms.

For collateral dependent loans, impairment is measured based on the fair value of the collateral underlying the subject loan. When the carrying amount of the subject loan is higher than the fair value of the collateral, the carrying amount is written down to the fair value of the collateral in accordance with the fair value requirements of ASC 820-10. The fair value of the collateral is determined as the present value of the estimated realizable value of the collateral at the expected time of the sale of such collateral. Once the valuation report of the court-appointed appraiser becomes publicly available as part of a foreclosure proceeding, we use the appraisal value for the collateral indicated in such report as the estimated realizable value of the collateral. However, until such publication, we use the valuation amount for the collateral as determined by outside independent appraisers at the time that the subject loan was initially approved, with adjustments made for the change in value from the effect of time passage and current market circumstances that may impact the value of the collateral.

Since there is no secondary market where collateral dependent loans are actively traded, they are measured for impairment based on the fair value of the underlying collateral. While outside appraisers (whether court-appointed or in connection with the initial approval of the subject loan) consider observable inputs such as the sale prices of assets similar to such collateral, additional adjustments based on unobservable inputs are warranted in the valuation of collateral subject to a court-supervised foreclosure proceeding since the auction from such proceeding tends to result in a sale price less than that obtainable from a sale transaction conducted in the ordinary course of business. This use of unobservable inputs makes it necessary to classify collateral dependent loans as Level 3.

As a general rule, we adjust the appraisal values of our collateral-dependent loans if the most recent appraisal by the outside appraiser was made more than two years prior to the completion of our annual review of such loans at year-end. In the case of collateral in the form of land, we estimate its fair value using the publicly available standard land price as officially published by the government, together with the relevant real estate market conditions at the time of the review. As for collateral in the form of other depreciable real estate assets, we derive their fair value by deducting the depreciation amount from the final appraisal value unless market prices are available from public sources, in which case we estimate the value of the collateral based on the prevailing market price. After making such adjustments, we also internally appraise each collateral at least annually in order to ensure that the adjusted value is fair and reasonable.

Goodwill and Intangible Assets

Effective January 1, 2002, we adopted ASC 350 (formerly SFAS No. 142, *Goodwill and Other Intangible Assets*), as required by the accounting principles generally accepted in the United States.

ASC 350 classified intangible assets into three categories: (1) intangible assets with definite lives subject to amortization; (2) intangible assets with indefinite lives not subject to amortization; and (3) goodwill. For intangible assets with definite lives, tests for impairment must be performed if conditions exist that indicate the carrying amount may not be recoverable. For intangible assets with indefinite lives and goodwill, tests for impairment must be performed at least annually.

We recognized a significant amount of goodwill in connection with our acquisition of LG Card in 2007. In addition, we acquired the credit card relationship intangible asset, in connection with the acquisition of LG Card. For discussions on the nature and accounting for goodwill and intangible assets see Notes 1 and 10 in Index to Financial Statements Notes to the consolidated financial statements of Shinhan Financial Group.

Our core deposit, credit card relationship, brokerage customer relationship, deposit held at Korean Securities Finance Corporation, valuation of business acquisition, or VOBA, intangibles determined to have finite lives are amortized over their useful lives. If conditions exist that indicate the carrying amount may not be recoverable, we review these intangible assets with definite lives for impairment to ensure they are appropriately valued. Such conditions may include adverse changes in business or political climate, actions by regulators and customer account run-off rates.

We do not amortize goodwill or indefinite-lived intangibles consisting of court deposits and borrowings from Korea Securities Finance Corporation. Instead, we perform tests for impairment of goodwill annually or more frequently if events or circumstances indicate it might be impaired. Such tests include comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value is less than the carrying value, a second test is required to measure the amount of goodwill impairment. The second step of the goodwill impairment test compares the implied fair value of reporting unit goodwill with the carrying value of that goodwill. If the carrying value of reporting unit goodwill exceeds the implied fair value of that goodwill, we recognize an impairment loss in an amount equal to that excess. Tests for indefinite-lived intangible assets, including borrowings from Korea Securities Finance Corporation and court deposits at Shinhan Bank, are also carried out on an annual basis on an asset-by-asset basis, or more frequently if events or circumstances indicate they might be impaired. Impairment assessments are performed using a variety of valuation methodologies, including discounted cash flow estimates. Management estimates the future cash flows expected to be derived from the use and, if applicable, the terminal value of the assets. The key variables that management must estimate include, among other factors, market trading volume, market share, fee income, growth rate and profitability margin. A discount rate is applied to the cash flow estimates considering cost of capital rate and specific country and industry risk factors. The cash flows of Shinhan Bank s reporting units were discounted using discount rates ranging from 12.78% to 13.49% during 2010.

The assumptions and conditions for goodwill and intangible assets reflect management s best assumptions and estimates. However, these items involve inherent uncertainties, as described above, that may or may not be controllable by management. Economic and political conditions, such as movements in interest rates, delinquencies in Korea and tension with North Korea, represent uncertainties that are not controllable by management. As a result, if other assumptions and conditions had been used in the current period, the carrying amount of goodwill and other intangible assets could have been materially different. Furthermore, if management uses different assumptions, including the discount rates used to determine the implied fair value of reporting units, or if different conditions occur in future periods, future operating results could be materially impacted.

See Notes 3 and 10 in the notes to our consolidated financial statements included in this annual report for additional information related to goodwill and intangible assets.

Consolidation

ASC 810-10, *Consolidation* (formerly FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (revised December 2003) (FIN 46(R)) (FIN 46(R)) and SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167), a variable interest entity (VIE) is consolidated by the company which has both the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. All other entities are evaluated for consolidation under other subtopics of ASC 810-10 (formerly Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, and SFAS No. 94, *Consolidation of All Majority-Owned Subsidiaries*). The company that consolidates a VIE is referred to as the primary beneficiary. In assessing whether an enterprise has both the power criterion and the losses/benefits criterion in an entity, it should consider the entity s purpose and design, including the risks that the entity was designed to create and pass through to its variable interest holders. For an enterprise to determine whether it has the power to direct the activities of the VIE that most significantly impact the VIE s economic performance, it must identify which activities most significantly impact the entity s economic performance, and then identify who has power over those activities. Determining whether an enterprise has the obligation to absorb losses of or the right to receive benefits from the VIE that could be potentially significant to the VIE is not based on a quantitative expected loss/expected residual return calculation required under the previous model. Rather, this assessment is intended to be a qualitative judgment-based analysis which considers all of the facts and circumstances about the terms and characteristics of the variable interest(s), the design and characteristics of the VIE and the other involvement that the enterprise may have with the VIE.

In our case, ASC 810-10 apply to certain asset securitization transactions involving our corporate loans, credit card receivables, mortgage and student loans, financing activities conducted for corporate clients, including conduits that we administer and/or provide liquidity facilities, as well as for our own funding needs, and investing activities conducted for our own account, such as beneficial certificates in investment trusts and for our customers, such as guaranteed trusts.

See Note 39 of the notes to our consolidated financial statements included in this annual report for additional information related to VIEs.

Contingent Liabilities

We are subject to contingent liabilities, including judicial, tax, regulatory and arbitration proceedings, commitments provided to our customers and other claims arising from the conduct of our business activities. We establish allowances against these contingencies in our financial statements based on our assessment of the probability of occurrence and our estimate of the obligation. We involve internal and external advisors, such as attorneys, consultants and other professionals, in assessing probability and in estimating any amounts involved. Throughout the life of a contingency, we or our advisors may learn of additional information that can affect our assessments about probability or about the estimates of amounts involved. Changes in these assessments can lead to changes in allowances recorded on our financial statements. In addition, the actual costs of resolving these claims may be substantially higher or lower than the amounts provided in our financial statements for those claims. See Note 31 of the notes to our consolidated financial statements included in this annual report for additional information related to commitments and contingencies.

Future Policy Benefits

Our liability for future policy benefits is primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums. Major assumptions used for future policy benefits are mortality and interest rate and such assumptions could be affected from the change in circumstances and market situations. If changes are significant, we may be required to provide for expected future losses on a product by establishing premium deficiency reserves. Premium deficiency reserves, if required, are determined based on assumptions at the time the premium deficiency reserve is established and do not include a provision for the risk of adverse deviation. Also included in our liability for future policy benefits is a liability for unpaid claims and claim adjustment expenses.

Deferred Policy Acquisition Costs (DAC)

Deferred policy acquisition costs, which are included in other assets, represent the costs of acquiring new business, principally commissions, certain underwriting and agency expenses, and the cost of issuing policies. Deferred policy acquisition costs are reviewed to determine if they are recoverable from future income, including investment income, and, if not recoverable, are charged to expense. All other acquisition expenses are charged to operations as incurred.

Valuation Allowance for Deferred Income Tax Assets

We recognize deferred tax assets and liabilities for the future tax consequences attributes to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, net operating loss carryforwards and tax credits. A valuation allowance is maintained for deferred tax assets that we estimate are more likely than not to be unrealizable based on available evidence at the time the estimate is made. Determining the valuation allowance requires significant management judgments and assumptions. In determining the valuation allowance, we use historical and forecasted future operating results, based upon approved business plans, including a review of the eligible carryforward periods, tax planning opportunities and other relevant considerations.

We believe that the accounting estimate related to the valuation allowance is a critical accounting estimate because the underlying assumptions can change from period to period. For example, tax law changes or variance in future projected operating performance could result in a change in the valuation allowance. If we were not able to realize all or part of our net deferred tax assets in the future, an adjustment to our deferred tax assets valuation allowance would be charged to income tax expense in the period such determination was made.

In 2010, we decided that it is more likely than not that we will not be able to utilize in the future certain net deferred tax assets of net operating loss carryforwards of Shinhan Financial Group. Thus we recorded valuation allowance of (Won)81 billion on such deferred tax assets.

Our valuation allowance reflects the tax loss carryforwards and deductible temporary differences associated Shinhan Financial Group Co., Ltd., and its subsidiary Shinhan Bank America. In determining the proper amount of the valuation allowance, we considered all of the positive and negative evidence set forth in ASC 740-10-30-21 and 22.

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Shinhan Bank America recorded tax losses in 2008, 2009 and 2010 (when the tax loss amounted to (Won)6 billion). We established valuation allowance against the tax loss carryforward of Shinhan Bank America based on our determination that its non-performing loans is unlikely to improve in asset quality in the foreseeable future. As for Shinhan Financial Group Co., Ltd., it has continued to record tax losses since its founding as its interest expense on the borrowings made to acquire subsidiaries has continued to exceed its taxable income, and given its repayment obligations in the foreseeable future, we expect that Shinhan Financial Group Co., Ltd. will continue to generate tax losses in the foreseeable future and it is, therefore, unlikely that the tax benefit related to its deductible temporary differences and tax loss carryforwards will be realized in the foreseeable future.

We are not currently relying on any particular tax planning strategies for the realization of our deferred tax assets since (i) we expect that our subsidiaries other than Shinhan Financial Group Co., Ltd. and Shinhan Bank America (for each of which we made full valuation allowance against the deferred tax assets based on projected future losses) will generate taxable income that is larger than its deductible temporary differences, and (ii) therefore based on their projected future taxable income it is highly likely that their deferred tax assets will be realized in the foreseeable future.

See Note 24 of the notes to our consolidated financial statements included in this annual report for additional information related to deferred tax assets and valuation allowance.

Average Balance Sheet and Volume and Rate Analysis

Average Balance Sheet and Related Interest

The following table shows our average balances and interest rates, as well as the net interest spread, net interest margin and asset liability ratio, in 2008, 2009 and 2010.

	Year Ended December 31,								
	2008			2009			2010		
	Average Balance(1)	Interest Income/ Expense	Yield / Rate	Average Balance(1)	Interest Income/ Expense	Yield / Rate	Average Balance(1)	Interest Income/ Expense	Yield / Rate
	(In billions of Won, except percentages)								
Assets:									
Interest-bearing deposits	(Won) 5,458	(Won) 282	5.17%	(Won) 7,114	(Won) 191	2.68%	(Won) 9,746	(Won) 228	2.34%
Call loans and securities purchased under resale agreements	2,862	99	3.46	5,600	102	1.82	5,991	116	1.94
Trading assets	8,726	469	5.37	8,035	227	2.83	13,643	387	2.84
Securities(2)	32,837	1,775	5.41	38,433	1,852	4.82	40,645	1,847	4.54
Loans(3):									
Commercial and industrial	56,002	3,778	6.75	54,838	3,186	5.81	57,357	3,220	5.61
Other commercial	29,929	2,236	7.47	35,171	1,923	5.47	32,676	1,904	5.83
Lease financing	1,487	94	6.32	1,592	100	6.28	1,570	92	5.86
Total corporate	87,418	6,108	6.99	91,601	5,209	5.69	91,603	5,216	5.69
Mortgage and home equity	33,579	2,314	6.89	37,991	1,775	4.67	42,743	1,956	4.58
Credit cards	14,458	1,765	12.21	13,585	1,568	11.54	15,699	1,667	10.62
Other consumer	25,803	1,922	7.45	23,869	1,673	7.01	23,577	1,607	6.82
Total consumer	73,840	6,001	8.13	75,445	5,016	6.65	82,019	5,230	6.38

Total loans	161,258	12,109	7.51	167,046	10,225	6.12	173,622	10,446	6.02
Other interest-earning assets									
Total interest-earning assets(4)	(Won) 211,141	(Won) 14,734	6.98%	(Won) 226,228	(Won) 12,597	5.57%	(Won) 243,647	(Won) 13,024	5.35%
Non-interest-earning assets:									
Cash and cash equivalents	4,546			5,132			4,839		
Other assets	32,514			35,381			30,693		
Total assets	(Won) 248,201	(Won) 14,734		(Won) 266,741	(Won) 12,597		(Won) 279,179	(Won) 13,024	
Liabilities:									
Interest-bearing deposits:									
Interest-bearing demand deposits	(Won) 5,786	(Won) 45	0.78%	(Won) 7,399	(Won) 33	0.45%	(Won) 8,985	(Won) 44	0.49%

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	Year Ended December 31,								
	2008			2009			2010		
	Average Balance(1)	Interest Income/ Expense	Yield / Rate	Average Balance(1)	Interest Income/ Expense	Yield / Rate	Average Balance(1)	Interest Income/ Expense	Yield / Rate
	(In billions of Won, except percentages)								
Savings deposits	30,877	716	2.32	36,876	449	1.22	46,221	481	1.04
Certificates of deposit	16,152	959	5.94	11,802	647	5.48	4,986	224	4.49
Other time deposits	60,437	2,983	4.94	77,961	3,052	3.91	94,347	3,344	3.54
Mutual installment deposits	291	11	3.78	189	7	3.70	129	4	3.10
Total interest-bearing deposits	113,543	4,714	4.15	134,227	4,188	3.12	154,668	4,097	2.65
Short-term borrowings (including call money)	21,713	916	4.22	17,180	580	3.38	10,865	386	3.57
Secured borrowings	9,473	563	5.94	7,995	331	4.14	6,307	225	3.57
Long-term debt	49,876	2,762	5.54	46,847	2,277	4.86	46,630	2,142	4.59
Other interest-bearing liabilities									
Total interest bearing liabilities	(Won) 194,605	(Won) 8,955	4.60%	(Won) 206,249	(Won) 7,376	3.58%	(Won) 218,470	(Won) 6,850	3.14%
Non-interest-bearing liabilities:									
Non-interest-bearing deposits	2,615			2,439			2,503		
Trading liabilities	6,710			8,543			4,045		
Bank acceptance outstanding	401			2,418			3,560		
Accrued expenses and other liabilities	22,847			25,019			26,173		
Total Group stockholders equity	20,761			21,751			372		
Noncontrolling interest	262			322			24,056		
Total liabilities and equity	(Won) 248,201	(Won) 8,955		(Won) 266,741	(Won) 7,376		(Won) 279,179	(Won) 6,850	
Net interest spread(4)			2.38%			1.99%			2.21%
Net interest margin(5)			2.74%			2.31%			2.53%
Average asset liability ratio(6)			108.50%			109.69%			111.52%

Notes:

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

(2) Represents the average balance and yield on securities are based on amortized cost. The yield on the available-for-sale portfolio is based on average historical cost balances, therefore, the yield information does not give effect to changes in fair value that are reflected as a component of stockholders equity.

(3) Non-accruing loans are included in the respective average loan balances. Income on such non-accruing loans is no longer recognized from the date the loan is placed on nonaccrual status. We reclassify loans as accruing when interest (including default interest) and principal payments are current.

(4) Represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities.

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

(6) Represents the ratio of average interest-earning assets to average interest-bearing liabilities.

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Analysis of Changes in Net Interest Income   Volume and Rate Analysis

The following tables provide an analysis of changes in interest income, interest expense and net interest income between changes in volume and changes in rates for (i) 2009 compared to 2008 and (ii) 2010 compared to 2009. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest-earning assets and average interest-bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to the absolute volume and rate change.

	From 2008 to 2009 Interest Increase (Decrease) Due to Change in		
	Volume	Rate	Change
	(In billions of Won)		
Increase (decrease) in interest income			
Interest-bearing deposits	(Won) 70	(Won) (161)	(Won) (91)
Call loans and securities purchased under resale agreements	65	(62)	3
Trading assets	(35)	(207)	(242)
Securities	282	(205)	77
Loans:			
Commercial and industrial	(77)	(515)	(592)
Other commercial	350	(663)	(313)
Lease financing	7	(1)	6
Total corporate	280	(1,179)	(899)
Mortgage and home equity	276	(815)	(539)
Credit cards	(104)	(93)	(197)
Other consumer	(139)	(110)	(249)
Total consumer	33	(1,018)	(985)
Total loans	313	(2,197)	(1,884)
Other interest-earning assets			
Total interest income	695	(2,832)	(2,137)
Increase (decrease) in interest expense			
Interest bearing deposits:			
Demand deposits	10	(22)	(12)
Savings deposits	120	(387)	(267)
Certificates of deposit	(243)	(69)	(312)
Other time deposits	761	(692)	69
Mutual installment deposits	(4)		(4)
Total interest-bearing deposits	644	(1,170)	(526)
Short-term borrowings	(172)	(164)	(336)
Secured borrowings	(79)	(153)	(232)
Long-term debt	(161)	(324)	(485)
Other interest-bearing liabilities			
Total interest expense	232	(1,811)	(1,579)

Net increase (decrease) in net interest income	(Won) **463**	(Won) **(1,021)**	(Won) **(558)**

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	From 2009 to 2010 Interest Increase (Decrease) Due to Change in		
	Volume	Rate	Change
	(In billions of Won)		
Increase (decrease) in interest income			
Interest-bearing deposits	(Won) 64	(Won) (27)	(Won) 37
Call loans and securities purchased under resale agreements	7	7	14
Trading assets	159	1	160
Securities	103	(108)	(5)
Loans:			
Commercial and industrial	144	(111)	33
Other commercial	(141)	122	(19)
Lease financing	(1)	(7)	(8)
Total corporate	2	4	6
Mortgage and home equity	216	(35)	181
Credit cards	231	(132)	99
Other consumer	(20)	(46)	(66)
Total consumer	427	(213)	214
Total loans	429	(209)	220
Other interest-earning assets			
Total interest income	763	(336)	427
Increase (decrease) in interest expense			
Interest bearing deposits:			
Demand deposits	8	3	11
Savings deposits	103	(71)	32
Certificates of deposit	(322)	(101)	(423)
Other time deposits	600	(308)	292
Mutual installment deposits	(2)	(1)	(3)
Total interest-bearing deposits	387	(478)	(91)
Short-term borrowings	(226)	32	(194)
Secured borrowings	(64)	(42)	(106)
Long-term debt	(11)	(124)	(135)
Other interest-bearing liabilities			
Total interest expense	86	(612)	(526)
Net increase (decrease) in net interest income	(Won) **677**	(Won) **276**	(Won) **953**

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Results of Operation

2010 Compared to 2009

Net Interest Income

The following table shows, for the periods indicated, the principal components of our net interest income.

	Year Ended December 31, 2009	2010	% Change
	(In billions of Won, except percentages)		
Interest and dividend income:			
Interest and fees on loans	(Won) 10,225	(Won) 10,446	2.2%
Interest and dividends on securities	1,852	1,847	(0.3)
Trading assets	227	387	70.5
Other interest income	293	344	17.4
Total interest and dividend income	(Won) 12,597	(Won) 13,024	3.4%
Interest expense:			
Interest on deposits	(Won) 4,188	(Won) 4,097	(2.2)%
Interest on short-term borrowings	555	378	(31.9)
Interest on secured borrowings	331	225	(32.0)
Interest on long-term debt	2,277	2,140	(6.0)
Other interest expense	25	10	(60.0)
Total interest expense	7,376	6,850	(7.1)
Net interest income	(Won) 5,221	(Won) 6,174	18.3%
Net interest margin(1)	2.31%	2.53%	

N/M = not meaningful

Note:

(1) Represents the ratio of net interest income to average interest-earning assets. See Average Balance Sheet and Volume and Rate Analysis Average Balance Sheet and Related Interest.

Interest and dividend income. The 3.4% increase in interest and dividend income was due primarily to a 2.2% increase in interest and fees on loans. The increase in interest and fees on loans largely resulted from an increase in the volume of loans made, which was partially offset by a decrease in the average lending rate. The average balance of our loans increased by 3.94% from (Won)167,046 billion in 2009 to (Won)173,622 billion in 2010, principally due to increases in the average balances of credit card receivables, mortgage and home equity loans and commercial and industrial loans, which were partially offset by a decrease in the average balance of other commercial loans, as further explained below. The average lending rate on our loans decreased from 6.12% in 2009 to 6.02% in 2010, principally due to a decrease in the average lending rate for consumer loans from 6.65% in 2009 to 6.38% in 2010. The decrease in lending rates for consumer loans was principally due to an increase in liquidity in the Korean financial markets in general as a result of the Government s policy to maintain low interest rates in order to keep the momentum for economic recovery, as well as a net inflow of foreign capital into Korean financial markets in light of Korea s relatively faster economic recovery compared to other economies from the recent global financial crisis. The aggregate effect of the foregoing led to an overall decrease in the market lending rates from 2009 to 2010, notwithstanding the incremental increases in base interest rates set by the Government in the second half of 2010 in response to inflationary concerns, which had a disproportionately greater impact on interest and fees earned on asset classes with a relatively large portion of loans or receivables with shorter maturity, such as credit card receivables, trading assets and other commercial loans.

More specifically, the increase in interest and dividend income was due to the following:

a 10.3% increase in interest and fees on mortgage and home equity loans from (Won)1,775 billion in 2009 to (Won)1,956 billion in 2010, which was primarily due to an increase on the average balance of mortgage and home equity loans from (Won)37,991 billion in 2009 to (Won)42,743 billion in 2010, which was partially offset by a decrease in the average lending rate for such loans from 4.67% in 2009 to 4.58% in 2010. The average balance for mortgage and home equity loans increased largely a result of an increase in the volume of housing loans taken by households to pay for installment amounts due for home purchases previously made. The average lending rate for such loans decreased largely a result of the overall decrease in the market interest rates;

a 15.6% increase in interest and fees on credit cards from (Won)1,568 billion in 2009 to (Won)1,667 billion in 2010, which was primarily due to an increase on the average balance of credit card loans from (Won)13,585 billion in 2009 to (Won)15,699 billion in 2010, which was partially offset by a decrease in the average lending rate for such loans from 11.54% in 2009 to 10.62% in 2010. The average balance for credit card loans increased largely as a result of an increase in the volume of credit card purchases arising from increased consumer confidence amid signs of economic recovery, as well as increased marketing efforts among credit card companies, including our credit card subsidiary. The average lending rate for credit cards decreased largely as a result of a decrease on interest rates charged on installment purchases and other pricing discounts offered as part of our credit card subsidiary s enhanced marketing campaign, as well as the decrease in the market interest rates;

a 1.0% increase in interest and fees on commercial and industrial loans from (Won)3,186 billion in 2009 to (Won)3,220 billion in 2010, which was primarily due to a increase in the average balance of commercial and industrial loans from (Won)54,838 billion in 2009 to (Won)57,357 billion in 2010, which was partially offset by a decrease in the average lending rate for such loans from 5.81% in 2009 to 5.61% in 2010. The average balance of commercial and industrial loans increased largely as a result of increased lending to large corporate customers due to their increased demand for loans as part of economic recovery as well as pursuant to our policy to enhance our overall asset quality by lending to safer customers, such as large corporations compared to small- to medium-sized enterprises or SOHOs. The average lending rate for commercial and industrial loans decreased largely as a result of the decrease in the market interest rates;

a 1.1% decrease in interest and fees on other commercial loans from (Won)1,923 billion in 2009 to (Won)1,904 billion in 2010, which was primarily due to a decrease in the average balance of other commercial loans from (Won)35,171 billion in 2009 to (Won)32,676 billion in 2010, which was partially offset by an increase in the average lending rate for such loans from 5.47% in 2009 to 5.83% in 2010. The average balance of other commercial loans decreased largely due to our increased purchase of commercial papers issued by asset-backed commercial paper vehicles in the secondary market (in which case the commercial papers held by us are recorded as trading assets) rather than in the primary market (in which case the commercial papers held by us are recorded as other commercial loans) in light of the additional fees levied beginning in 2009 on commercial papers purchased in the primary market, and to a lesser extent, due to a decrease in the volume of loans made in connection with social infrastructure projects. The average lending rate for other commercial loans increased largely as a result of an increase in the interest rates on privately placed corporate debentures in the second half of 2010, following a similar increase in the base rate set by the Government; and

a 4.0% decrease in interest and fees on other consumer loans from (Won)1,673 billion in 2009 to (Won)1,607 billion in 2010, which was primarily due to a decrease in the average balance of other consumer loans from (Won)23,869 billion in 2009 to (Won)23,577 billion in 2010 and a decrease in the average lending rate for such loans from 7.01% in 2009 to 6.82% in 2010. The average balance of other consumer loans decreased largely as a result of our active policy of reducing our exposure to unsecured loans, which comprise the substantial majority of other consumer loans and tend to be riskier than secured loans. The average lending rate for other consumer loans decreased largely as a result of a general decrease in market interest rates.

We recorded a 70.5% increase in interest and dividends on trading assets from (Won)227 billion in 2009 to (Won)387 billion in 2010, due primarily to a 69.8% increase in the average balance of trading assets from (Won)8,035 billion in 2009 to (Won)13,643 billion in 2010 and an increase in the average yield on the trading assets from 2.83% in 2009 to 2.84% in 2010. The average balance of trading assets increased largely as a result of the increase in our purchase of commercial papers in the secondary market in 2010 (in which case the commercial papers held by us are recorded as trading assets) rather than in the primary market (in which case the commercial papers held by us are recorded as other commercial loans) for the reasons set out above. The average yield on the trading assets increased largely as a result of the increase in the base rate set by the Government in the second half of 2010, on which the yield on commercial papers is based.

We also recorded a slight decrease in interest and dividends on securities from (Won)1,852 billion in 2009 to (Won)1,847 billion in 2010, due primarily to a 5.8% increase in the average balance of securities from (Won)38,433 billion in 2009 to (Won)40,645 billion in 2010, which was partially offset by a decrease in the average yield on securities from 4.82% in 2009 to 4.54% in 2010. The average balance of securities increased largely due to valuation gains in the equity securities we held as a result of the sustained rally in the Korean stock market as well as an increased purchase by us of equity and debt securities as part of our liquidity management strategy. The average yield on securities decreased largely as a result of a decrease in the interest earned on our debt securities following the overall decline in the market interest rates.

Interest expense. Interest expense decreased by 7.1% from (Won)7,376 billion in 2009 to (Won)6,850 billion in 2010, due primarily to a 2.2% decrease in interest expense on interest-bearing deposits from (Won)4,188 billion in 2009 to (Won)4,097 billion in 2010 and a 13.6% decrease in interest expense on borrowings from (Won)3,188 billion in 2009 to (Won)2,753 billion in 2010.

The decrease in interest expense on interest-bearing deposits was due to a decrease in the average interest rate payable by us on interest-bearing deposits from 3.12% in 2009 to 2.65% in 2010, which more than offset a 15.2% increase in the average balance of interest-bearing deposits from (Won)134,227 billion in 2009 to (Won)154,668 billion in 2010.

The decrease in the average interest rate payable on interest-bearing deposits resulted mainly from the overall decrease in the market interest rates following the increase in liquidity in Korean economy for reasons described above, which led to a decrease in the average interest rates payable on savings deposits, certificates of deposits and other time deposits from 1.22%, 5.48% and 3.91%, respectively, in 2009 to 1.04%, 4.49% and 3.54%, respectively, in 2010. However, the average interest rate payable on demand deposits (which have no fixed term and therefore promptly follows the trends in the base interest rates set by the Government) increased from 0.45% in 2009 to 0.49% in 2010 due to the increase in the base interest rates set by the Government in the second half of 2010.

The increase in the average balance of interest-bearing deposits was primarily due to a 30.1% increase in the average balance of other time deposits from (Won)77,961 billion in 2009 to (Won)94,347 billion in 2010, which was partially offset by a 57.8% decrease in the average balance of certificates of deposit from (Won)11,802 billion in 2009 to (Won)4,986 billion in 2010. The overall increase in the average balance of interest-bearing deposits was due to the increase in liquidity in the Korean economy, which led customers to keep their funds in depositary institutions as well as other forms of investments, and the migration from certificates of deposit to other time deposits was due to our active policy of encouraging customers to make other time deposits instead of purchasing certificates of deposit so that we may secure a more stable source of funding. Generally, among certificates of deposits, products with a three-month maturity are most popular among our customers, while customers typically make other time deposits for a maturity of one year or more, and hence other time deposits represent a more stable source of funding than certificates of deposits.

The decrease in interest expense on borrowings was due to an overall decrease in the average balance of borrowings as well as an overall decrease in the average interest payable on borrowings. The average balance of borrowings decreased overall largely as a result of our active policy of reducing borrowings in favor of customer deposits, which are generally a more stable and less expensive source of funding than borrowings, in light of ample availability of customer deposits due to the expanded liquidity in Korean economy. The average interest rate payable on borrowings decreased overall largely as a result of the overall decrease in the market interest

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rates for reasons set out above. More specifically, the average balance of borrowing decreased as a result of a 36.8% decrease in the average balance of short-term borrowings from (Won)17,180 billion in 2009 to (Won)10,865 billion in 2010, a 21.1% decrease in the average balance of secured borrowings from (Won)7,995 billion in 2009 to (Won)6,307 billion in 2010, a 0.5% decrease in the average balance of long-term debt from (Won)46,847 billion in 2009 to (Won)46,630 billion in 2010. The average interest rates for borrowings decreased as a result of a 57 basis points decrease in secured borrowing rates from 4.14% in 2009 to 3.57% in 2010 and a 27 basis points decrease in long-term debt rates from 4.86% in 2009 to 4.59% in 2010, which was partially offset by a 19 basis increase in short-term borrowing rates from 3.38% in 2009 to 3.57% in 2010, which resulted from the increase in the base rates set by the Government in the second half of 2010.

Net interest margin. Net interest margin represents the ratio of net interest income to the average balance of interest-earning assets. Our overall net interest margin increased by 22 basis points from 2.31% in 2009 to 2.53% in 2010, primarily due to an increase by 22 basis points in net interest spread from 1.99% in 2009 to 2.21% in 2010, which was partially offset by the 7.7% increase in the average volume of interest-earning assets from (Won)226,228 billion in 2009 to (Won)243,647 billion in 2010. Net interest spread, which represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities, increased from 2009 to 2010 primarily due to a decrease in interest paid on the interest-bearing liabilities, which resulted largely from the continued increase in customer deposits (compared to borrowings) as a proportion of our interest-bearing liabilities, as well as the generally shorter time lag for interest-earning assets compared to interest-bearing liabilities in reflecting the increase in base interest rates set by the Bank of Korea in the second half of 2010. The increase in the proportion of customer deposits relative to borrowings was largely due to our active policy to migrate to customer deposits, which is more stable and less expensive than borrowings, as our primary funding source as explained above. The time lag for reflecting changes in base interest rates set the Government is generally shorter for interest-bearing assets compared to interest-bearing liabilities because interest rates for interest rates for variable-rate corporate and retail loans, which represent the substantial majority of our interest-earning assets, are typically reset on a quarterly basis, while interest rates for time and savings deposits, which the substantial majority of our interest-bearing deposits, are typically reset on an annual basis and corporate debentures issued by us typically carry a fixed rate for a term of one year or more.

Provision for Loan Losses

For a discussion of our loan loss provisioning policy, see Item 4.B. Business Overview Description of Assets and Liabilities Loans Provisioning Policy.

Our provision for loan losses decreased by 46.1% from (Won)1,751 billion in 2009 to (Won)943 billion in 2010, primarily due to improvements in overall asset quality, a decrease in net charge-off and the relatively high level of allowances for loan losses as of December 31, 2009, which reduced the need for provision in 2010. Allowances for loan losses decreased by 6.7% from (Won)3,638 billion as of December 31, 2009 to (Won)3,396 billion as of December 31, 2010, primarily as a result of improved asset quality and liquidation of certain asset-backed securitization vehicles for loan receivables, which was partially offset by an increase in the average balance of loans. The liquidation of the securitization vehicles was made in 2010 partly on account of the anticipated adoption in 2011 of the IFRS, under which such vehicles are consolidated.

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The following table sets forth for the periods indicated the components of provision for loan and other credit losses by product type.

	2009	As of December 31, 2010 (In billions of Won, except percentages)	% Change
Total (reversal of) provision for loan losses (A):			
Corporate	(Won) 1,477	(Won) 864	(41.5)%
Mortgages and home equity	1	1	0.0
Other consumer	189	38	(79. 9)
Credit cards	84	40	(52.4)
	1,751	943	(46.2)%
Total (reversal of) provision for off-balance sheet credit instruments (B):			
Guarantees and acceptances	(Won) 93	(Won) (175)	(288.2)
Unused portions of credit line	357	(95)	(126.6)
	450	(270)	(160.0)
Total provision for credit losses (A+B)	(Won) 2,201	(Won) 673	(69.4)%

N/M = not meaningful

Provision for loan losses for corporate loans decreased by 41.5% from (Won)1,477 billion in 2009 to (Won)864 billion in 2010 and allowance for corporate loan losses decreased by 6.2% from (Won)2,982 billion as of December 31, 2009 to (Won)2,796 billion as of December 31, 2010, primarily as a result of an overall improvement in the asset quality of corporate loans (including a slowdown in asset quality deterioration of the troubled sectors of shipping, shipbuilding and real estate development sectors for which we established a relatively high level of allowance for loan losses as of December 31, 2009), which was partially offset by the increase in the average balance of corporate loans. Net charge-offs of our corporate loans increased by 11.4% from (Won)944 billion in 2009 to (Won)1,052 billion in 2010, primarily as a result of the liquidation of asset-backed securitization vehicles in 2010 as described above. The non-performing loan ratio of our corporate loans decreased from 1.28% as of December 31, 2009 to 0.86% as of December 31, 2010, primarily as a result of improvements in the asset quality of corporate loans as well as the overall increase in the overall balance of corporate loans.

Provision for loan losses for mortgage and home equity loans and other consumer loans decreased by 79.9% from (Won)189 billion in 2009 to (Won)39 billion in 2010, primarily as a result of mortgage loans, which tend to have a higher asset quality than unsecured retail loans, comprising a larger portion of the average balance of retail loans in 2010 as compared to 2009 as a result of our enhanced risk management policies to reduce unsecured retail loans as well as a substantial decrease in net charge-off for these loans in 2010. Net charge-off of our mortgage and home equity loans and other consumer loans decreased by 51.8% from (Won)166 billion in 2009 to (Won)86 billion in 2010. Such decrease in net charge-off was primarily due to an improvement in the asset quality of retail loans. The non-performing loan ratio of our mortgage and home equity loans and other consumer loans decreased from 0.29% in 2009 to 0.10% in 2010, primarily as a result of general improvement in asset quality of our loans. Total allowance for losses for our mortgage and home equity loans and other consumer loans decreased by 25.4% from (Won)181 billion in 2009 to (Won)135 billion in 2010 primarily as a result of the application of a lower allowance ratio due to improvement in the asset quality of retail loans, which impact was partially offset by an increase in the average balance of retail loans.

Provision for loan losses against credit card loans decreased by 52.4% from (Won)84 billion in 2009 to (Won)40 billion in 2010, primarily as a result of improvement in the asset quality of credit card receivables and a decrease in net charge-off due to increased recovery, which was partially offset by an increase in the average balance of credit card receivables. The non-performing loan ratio of our credit card loans decreased from 1.13% in 2009 to 0.65% in 2010, and total allowances for credit card loans decreased by 2.1% from (Won)475 billion in 2009 to (Won)465 billion in 2010, in each case, primarily due to the decrease of delinquent loans and general improvement in asset quality of our loans in part as a result of our strict risk management policy.

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We recorded provision for off-balance sheet credit instruments of (Won)450 billion in 2009 compared to reversal of such provision of (Won)270 billion in 2010, primarily as a result of provision for guarantees and acceptances relating to one shipbuilding company in the amount of (Won)190 billion recorded in 2009 that was subsequently reversed in 2010, as well as reversal of provision for unused portions of credit line mainly as a result of a decrease in loss rate due to general improvement in the Korean economy, which led to a lower average level of provisioning for unused portions of credit lines.

Non-interest Income

The following table sets forth for the periods indicated the components of our noninterest income.

	As of December 31,		
	2009	2010	% Change
	(In billions of Won, except percentages)		
Noninterest income			
Commissions and fees from non-trust management:			
Brokerage fees and commissions(1)	(Won) 569	(Won) 537	(5.6)%
Other fees and commissions(2)	2,132	2,104	(1.3)
Net trust management fees(3)	69	41	(40.6)
Net trading profits	(517)	937	N/M
Net gains (losses) on securities	308	732	137.7
Gain on other investment	268	332	23.9
Net gain (loss) on foreign exchange	956	(410)	N/M
Insurance income	1,229	1,040	(15.4)
Other	671	487	(27.4)
Total noninterest income	(Won) 5,685	(Won) 5,800	2.0%

N/M = not meaningful

Notes:

(1) Consists of commissions, fees and markup on securities brokerage activities.

(2) Includes commissions received on remittance, commissions received on imports and export letters of credit and commissions received from foreign exchange transactions.

(3) Consists principally of fees from management of trust accounts in our banking operations.

The 2.0% increase in non-interest income was largely due to an increase in net gains on securities. Our net gains on securities increased by 137.7% from (Won)308 billion in 2009 to (Won)732 billion in 2010 primarily as a result of our disposal of securities during a sustained rally in the Korean stock market. We recorded net trading profits of (Won)937 billion in 2010 compared to net trading losses of (Won)517 billion in 2009, which were partially offset by net loss on foreign exchange of (Won)410 billion in 2010 and the net gain on foreign exchange of (Won)956 billion in 2009. In general, our trading profits (or losses) relate principally to gains or losses from our trading activities related to foreign currency derivative products, substantially all of which transactions are hedged through use of derivatives. Since we structure our trading activities and attendant hedging activities through derivatives transactions are structured to yield a fixed margin on an aggregated basis, whether such margin results from trading profits or net gain on foreign exchange is immaterial for purposes of analyzing our non-interest income with respect to these two activities.

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Non-interest Expenses

The following table shows, for the periods indicated, the components of our noninterest expense.

	Year Ended December 31,		
	2009	2010	% Change
	(In billions of Won, except percentages)		
Employee compensation and other benefits	(Won) 2,000	(Won) 1,934	(3.3)%
Depreciation and amortization	714	605	(15.3)
General and administrative expenses	868	1,037	19.5
Credit card fees	742	875	17.9
Provision (reversal) for other losses	166	58	(65.1)
Insurance fees on deposits	162	191	17.9
Other fees and commission expenses	454	475	4.6
Taxes (except income taxes)	143	179	25.2
Insurance operating expense	1,456	1,749	20.1
Other	432	799	85.0
Total noninterest expenses	(Won) 7,137	(Won) 7,902	10.7%

N/M = not meaningful

The 10.7% increase in non-interest expense was principally due to increases in other expense, insurance operating expense, general and administrative expenses and credit card fees, which were partially offset by decreases in provision for other losses and depreciation and amortization. Other expense, general and administrative expense and insurance operating expense increased largely due to a corresponding increase in expenses resulting from our expanded operations in 2010, including marketing and adverting. Credit card fees, which comprise mostly of fees payable to merchants upon credit card transactions by our customers increased largely as a result of the expansion of our credit card operations in 2010. Depreciation and amortization decreased mainly due to the decreasing rate of amortization over time of our intangible assets relating to our acquisition of Chohung Bank, LG Card and Shinhan Life Insurance according to a prescribed schedule.

Income Tax Expense

Income tax expense increased by 36.1% from (Won)424 billion in 2009 to (Won)577 billion in 2010 as a result of an increase in our taxable income. Our effective rate of income tax decreased from 27.1% in 2009 to 17.0% in 2010 largely as a result of a tax refund of (Won)196 billion received in 2010 in relation to overpayments of corporate income taxes made in 2008 and 2009.

Net Income Before Extraordinary Items

As a result of the foregoing, our net income before extraordinary items increased by 150.9% from (Won)1,134 billion in 2009 to (Won)2,845 billion in 2010.

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2009 Compared to 2008

Net Interest Income

The following table shows, for the periods indicated, the principal components of our net interest income.

	Year Ended December 31, 2008	2009	% Change
	(In billions of Won, except percentages)		
Interest and dividend income:			
Interest and fees on loans	(Won) 12,109	(Won) 10,225	(15.6)%
Interest and dividends on securities	1,775	1,852	4.3
Trading assets	469	227	(51.6)
Other interest income	381	293	(23.1)
Total interest and dividend income	(Won) 14,734	(Won) 12,597	(14.5)%
Interest expense:			
Interest on deposits	(Won) 4,714	(Won) 4,188	(11.2)%
Interest on short-term borrowings	866	555	(35.9)
Interest on secured borrowings	563	331	(41.2)
Interest on long-term debt	2,762	2,277	(17.6)
Other interest expense	50	25	(50.0)
Total interest expense	8,955	7,376	(17.6)
Net interest income	(Won) 5,779	(Won) 5,221	(9.7)%
Net interest margin(1)	2.74%	2.31%	

N/M = not meaningful

Note:

(1) Represents the ratio of net interest income to average interest-earning assets. See Average Balance Sheet and Volume and Rate Analysis Average Balance Sheet and Related Interest.

Interest and dividend income. The 14.5% decrease in interest and dividend income was due primarily to a 15.6% decrease in interest and fees on loans. The decrease in interest and fees on loans was due primarily to a decrease in the average lending rate, which was partially offset by an increase in the volume of loans made. The average lending rate decreased from 7.51% in 2008 to 6.12% in 2009, as a result of a decrease in the average lending rate for corporate loans from 6.99% in 2008 to 5.69% in 2009 and a decrease in the average lending rate for retail loans from 8.13% in 2008 to 6.65% in 2009. The decrease in lending rates for both corporate and retail loans was principally due to the lowering of the base rate set by the Bank of Korea in an effort by the Government to increase the supply of liquidity in the Korean financial markets in light of the recent global credit crisis, and the base rate remained low throughout the rest of 2008 and 2009. The average balance of our loans increased by 3.6% from (Won)161,258 billion in 2008 to (Won)167,046 billion in 2009. The average balance of our corporate loans increased by 4.8% from (Won)87,418 billion in 2008 to (Won)91,601 billion in 2009, primarily due to an increase in other commercial loans, which was largely due to our significant purchase of commercial papers beginning in the second half of 2008 and throughout 2009 from third-party asset securitization vehicles as part of our enhanced risk management policy (as the commercial papers issued by asset securitization vehicles tend to be safer than those issued by general corporations). The average balance of our consumer loans increased by 2.2% from (Won)73,840 billion in 2008 to (Won)75,445 billion in 2009, primarily due to an increase in mortgage and home equity lending, which more than offset a decrease in unsecured lending, resulting mainly from our enhanced risk management policy to reduce unsecured loans to improve asset quality.

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More specifically, the decrease in interest and dividend income was due to the following:

- a 16.4% decrease in interest and fees on consumer loans from (Won)6,001 billion in 2008 to (Won)5,016 billion in 2009 and a 14.7% decrease in interest and fees on corporate loans from (Won)6,108 billion in 2008 to (Won)5,209 billion in 2009, which was largely due to a decrease in lending rates charged for variable rate retail and corporate loans as a result of the decrease in the base rate set by the Government, which more than offset an increase in the average balances of retail and corporate loans;

- a 15.7% decrease in interest and fees on commercial and industrial loans from (Won)3,778 billion in 2008 to (Won)3,186 billion in 2009, which was primarily due to a decrease in the average balance of commercial and industrial loans from (Won)56,002 billion in 2008 to (Won)54,838 billion in 2009, which resulted largely from increased repayment of existing loans by large corporate borrowers in light of the greater liquidity in the domestic credit market;

- a 14.0% decrease in interest and fees on other commercial loans from (Won)2,236 billion in 2008 to (Won)1,923 billion in 2009, which was primarily due to a general decrease in market interest rates, the effect of which was partially offset by an increase in the amount of commercial papers held by us as explained above as well as an increase in the amount of discounted notes held by us as part of our asset management strategy;

- a 23.3% decrease in interest and fees on mortgage and home equity loans from (Won)2,314 billion in 2008 to (Won)1,775 billion in 2009, which was primarily due to a decrease from 6.89% to 4.67% in the average lending rate on mortgage and home equity loans, which more than offset the steady increase in the average balance of the mortgage and home equity loans from (Won)33,579 billion in 2008 to (Won)37,991 billion in 2009 due to the improved housing market in the second half of 2009 compared to 2008; and

- a 13.0% decrease in interest and fees on other consumer loans from (Won)1,922 billion in 2008 to (Won)1,673 billion in 2009, which was primarily due to a decrease in the average balance of other consumer loans from (Won)25,803 billion in 2008 to (Won)23,869 billion in 2009, resulting largely from a decrease in unsecured lending in line with our enhanced risk management policy in light of the recent global financial crisis.

The 4.3% increase in interest and dividends on securities from (Won)1,775 billion in 2008 to (Won)1,852 billion in 2009 was due primarily to a 17.0% increase in the average balance of securities from (Won)32,837 billion in 2008 to (Won)38,433 billion in 2009, which was more than offset by a 59 basis points decrease in the average yield on securities from 5.41% in 2008 to 4.82% in 2009. The average balance of securities increased as a result of valuation gain of our equity securities as a result of the rally of the Korean stock market following the initial decline after the recent global credit crisis. The decrease in the average yield of securities was largely due to the general decrease in market interest rates in Korea in 2009, which similarly impacted the average yield of debt securities held by us.

Interest expense. Interest expense decreased by 17.6% from (Won)8,955 billion in 2008 to (Won)7,376 billion in 2009, due primarily to a 11.2% decrease in interest expense on interest-bearing deposits from (Won)4,714 billion in 2008 to (Won)4,188 billion in 2009 and a 24.8% decrease in interest expense on borrowings from (Won)4,241 billion in 2008 to (Won)3,188 billion in 2009.

The decrease in interest expense on interest-bearing deposits was due to a 103 basis points decrease in the average interest rate payable by us on interest-bearing deposits from 4.15% in 2008 to 3.12% in 2009, which more than offset a 18.2% increase in the average balance of interest-bearing deposits (particularly time and savings deposits) from (Won)113,543 billion in 2008 to (Won)134,227 billion in 2009. The decrease in the average interest rate payable on interest-bearing deposits resulted mainly from the overall decrease in the market interests as governments worldwide, including the Korean government, actively lowered base rates in order to increase the supply of liquidity in response to the global credit crisis. As a result, the average interest rates payable on demand deposits, savings deposits, certificates of deposits and other time deposits decreased from 0.78%, 2.32%, 5.94% and 4.94%, respectively, in 2008 to 0.45%,1.22%, 5.48% and 3.91%, respectively, in 2009. The increase in the average balance of interest-bearing deposits was primarily due to a 25.8% increase in the average balance of time and savings deposits from (Won)91,314 billion in 2008 to (Won)114,837 billion in 2009, which mainly resulted from the increasing preference among consumers for depositary products which are safer and more stable compared to alternative investment products with higher risk-return profiles, such as stocks, in light of the volatile equity markets following the recent global financial crisis, as well as a change in our groupwide funding

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strategy in the aftermath of such crisis to rely more on quality long-term deposits rather than borrowings or corporate debentures as the primary source of our funding. The average balance of demand deposits increased by 27.9% from (Won)5,786 billion in 2008 to (Won)7,399 billion in 2009 for similar reasons. However, the average balance of certificates of deposit decreased by 26.9% from (Won)16,152 billion in 2008 to (Won)11,802 billion in 2009 largely due to our active policy of increasing other time deposits instead of certificates of deposit for reasons set out above.

The decrease in interest expense on borrowings was due to a 36.7% decrease in the average balance of short-term borrowings from (Won)916 billion in 2008 to (Won)580 billion in 2009, a 41.2% decrease on secured borrowings from (Won)563 billion in 2008 to (Won)331 billion in 2009, a 17.6% decrease on long-term debt from (Won)2,762 billion in 2008 to (Won)2,277 billion in 2009, and a 84 basis points decrease in the short term borrowing rates from 4.22% in 2008 to 3.38% in 2009, a 180 basis points decrease in the secured borrowing rates from 5.94% in 2008 to 4.14% in 2009 and a 68 basis points decrease in the long-term debt rates from 5.54% in 2008 to 4.86% in 2009, respectively, mainly as a result of our enhanced risk management policies to increase the proportion of the more risk-averse interest-bearing deposits compared to borrowings in our liabilities portfolio following the global credit crisis.

Net interest margin. Our overall net interest margin decreased by 43 basis points from 2.74% in 2008 to 2.31% in 2009, primarily due to a 39 basis points decrease in net interest spread from 2.38% in 2008 to 1.99% in 2009, which more than offset the 7.1% increase in the average volume of interest-earning assets from (Won)211,141 billion in 2008 to (Won)226,228 billion in 2009. Net interest spread decreased primarily due to the relatively longer time lag for interest-bearing liabilities compared to interest-earning assets in reflecting the reduction in the base interest rates set by the Government.

Provision for Loan Losses

For a discussion of our loan loss provisioning policy, see Item 4.B. Business Overview Description of Assets and Liabilities Loans Provisioning Policy.

Our provision for loan losses increased by 32.8% from (Won)1,319 billion in 2008 to (Won)1,751 billion in 2009, primarily due to an increased in charge-off of low-quality assets as part of our enhanced risk management policy to improve the overall quality of assets held by us in the aftermath of the recent global financial crisis. Loan loss allowance against our loans increased by 13.7% from (Won)3,201 billion as of December 31, 2008 to (Won)3,638 billion as of December 31, 2009, primarily as a result of an increase in our consumer loan assets and deterioration in asset quality of corporate loans, particularly in the shipping, shipbuilding and real estate development sectors.

The following table sets forth for the periods indicated the components of provision for loan and other credit losses by product type.

	As of December 31,		
	2008	**2009**	**% Change**
	(In billions of Won, except percentages)		
Total (reversal of) provision for loan losses (A):			
Corporate	(Won) 1,288	(Won) 1,477	14.7%
Mortgages and home equity	8	1	(87.5)
Other consumer	(3)	189	N/M
Credit cards	26	84	N/M
	1,319	1,751	32.8%
Total (reversal of) provision for off-balance sheet credit instruments (B):			
Guarantees and acceptances	(Won) 170	(Won) 93	(45.3)%
Unused portions of credit line	(52)	357	N/M
	118	450	N/M
Total provision for credit losses (A+B)	(Won) 1,437	(Won) 2,201	53.2%

N/M = not meaningful

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Provision for loan losses for corporate loans increased by 14.7% from (Won)1,288 billion in 2008 to (Won)1,477 billion in 2009, primarily due to an increase in charge-off of low-quality corporate loan assets as part of our enhanced risk management policy to improve the overall quality of assets held by us in the aftermath of the recent global financial crisis. Loan loss allowance against our corporate loans increased by 21.8% from (Won)2,449 billion as of December 31, 2008 to (Won)2,982 billion as of December 31, 2009, primarily as a result of deterioration in asset quality of corporate loans, particularly in the shipping, shipbuilding and real estate development sectors. Specifically, in December 2008, the Government announced a program to promote a fast-track restructuring of such borrowers by their Korean creditor financial institutions, under the supervision of major commercial banks. In accordance with such program, 29 construction companies and eight shipbuilding companies became subject to workout in February and March 2009, following review by their creditor financial institutions (including Shinhan Bank) and the Korean government. Currently, ten construction companies and two shipbuilding companies remain under our supervision in connection with such program. Our total exposure to such companies amounted to (Won)503 billion as of December 31, 2009, we have established an allowance for the loans and off-balance sheet credit instruments for such companies amounting to (Won)119 billion and (Won)18 billion, respectively, as of December 31, 2009. In addition, we continued to be involved in fast-track restructuring of other companies, particularly, small- to medium-sized enterprises in the shipping, shipbuilding and real estate development sectors. Net charge-offs of our corporate loans increased significantly from (Won)249 billion in 2008 to (Won)944 billion in 2009, primarily as a result of prudent charge-off undertaken by us in 2009 in the aftermath of the recent global financial crisis. The non-performing loan ratio of our corporate loans increased from 1.15% as of December 31, 2008 to 1.28% as of December 31, 2009, primarily as a result of deterioration in asset quality of corporate loans, particularly in the shipping, shipbuilding and real estate development sectors.

Provision for loan losses for mortgage and home equity loans and other consumer loans significantly increased from (Won)5 billion in 2008 to (Won)190 billion in 2009, primarily as a result of active charge-off undertaken by us in 2009 in the aftermath of the recent global financial crisis. We recorded reversal of net charge-off of our mortgage and home equity loans and other consumer loans in the amount of (Won)5 billion in 2008 compared to net charge-off of (Won)166 billion in 2009. Total allowance for losses for our mortgage and home equity loans and other consumer loans increased by 15.3% from (Won)157 billion in 2008 to (Won)181 billion in 2009 primarily as a result of an increase in the volume of retail loans.

Provision for credit loan losses increased significantly from (Won)26 billion in 2008 to (Won)84 billion in 2009, primarily as a result of increased charge-off as part of our enhanced risk management policy in the aftermath of the global financial crisis. The non-performing loan ratio of our credit card loans decreased from 1.17% in 2008 to 1.13% in 2009, and total allowances for credit card loans decreased by 20.2% from (Won)595 billion in 2008 to (Won)475 billions in 2009, in each case, primarily due to the decrease of non-delinquent loans and general improvement in asset quality of our loans primarily as a result of increased charge-offs in 2009.

Provision for off-balance sheet credit instruments significantly increased from (Won)118 billion in 2008 to (Won)450 billion in 2009, primarily as a result of a change in accounting policy related to such provision, increased credit card usage for cash advances and prudent provisioning for off-balance sheet credit instruments in respect of credit card usage in anticipation of lower interest rates applicable to cash advances, which became effective in April 2010.

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Non-interest Income

The following table sets forth for the periods indicated the components of our noninterest income.

	As of December 31, 2008	2009	% Change
	(In billions of Won, except percentages)		
Noninterest income			
Commissions and fees from non-trust management:			
Brokerage fees and commissions(1)	(Won) 626	(Won) 569	(9.1)%
Other fees and commissions(2)	1,969	2,132	8.3
Net trust management fees(3)	69	69	
Net trading profits	584	(517)	N/M
Net gains (losses) on securities	(135)	308	N/M
Gain on other investment	317	268	(15.5)
Net gain (loss) on foreign exchange	(566)	956	N/M
Insurance income	1,329	1,229	(7.5)
Other	379	671	77.0)
Total noninterest income	(Won) 4,572	(Won) 5,685	24.3%

N/M = not meaningful

Notes:

(1) Consists of commissions, fees and markup on securities brokerage activities.

(2) Includes commissions received on remittance, commissions received on imports and export letters of credit and commissions received from foreign exchange transactions.

(3) Consists principally of fees from management of trust accounts in our banking operations.

The 24.3% increase in non-interest income was largely due to the net gain on foreign exchange translation related to the appreciation of the Won compared to the U.S. dollar, net gain from increased volume of foreign exchange transactions and net gain on securities which resulted from the sale of available-for-sale securities which appreciated in value. Such gains more than offset the loss from net trading profits related to foreign currency derivative transactions resulting from decreased transaction and translation gains**.**

Non-interest Expenses

The following table shows, for the periods indicated, the components of our noninterest expense.

	Year Ended December 31, 2008	2009	% Change
	(In billions of Won, except percentages)		
Employee compensation and other benefits	(Won) 1,817	(Won) 2,000	10.1%

Depreciation and amortization	871	714	(18.0)
General and administrative expenses	882	868	(1.6)
Credit card fees	700	742	6.0
Provision (reversal) for other losses	(18)	166	N/M
Insurance fees on deposits	133	162	21.8
Other fees and commission expenses	422	454	7.6
Taxes (except income taxes)	179	143	(20.1)
Insurance operating expense	1,038	1,456	40.3
Other	703	432	(38.5)
Total noninterest expenses	(Won) 6,727	(Won) 7,137	6.1%

N/M = not meaningful

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The 6.1% increase in non-interest expense was principally due to an increase in employee compensation and other benefits and in insurance operating expense, which more than offset a decrease in other expense related to the depreciation and amortization of intangible assets, depreciated on an accelerated basis. Employee compensation and other benefits increased by 10.1 %, mainly due to increased severance payments related to voluntary retirements, offsetting aggressive cost-cutting campaigns for wage and fringe benefits**.** Insurance operating expense increased mainly due to an increase in insurance payouts as well as increased policy reserve to renew the current policies.

Income Tax Expense

Income tax expense decreased by 39.0% from (Won)695 billion in 2008 to (Won)424 billion in 2009 as a result of a decrease in our taxable income as well as a decline in the statutory tax rate from 27.5% in 2008 to 24.2% in 2009. Our effective rate of income tax decreased to 27.1% in 2009 from 31.8% in 2008.

Net Income Before Extraordinary Items

As a result of the foregoing, our net income before extraordinary items decreased by 23.4% from (Won)1,481 billion in 2008 to (Won)1,134 billion in 2009.

Results by Principal Business Segment Under Korean GAAP

As of December 31, 2010, we were organized into eight major business segments as follows:

- the following banking services, which are principally provided by Shinhan Bank:
  - retail banking;
  - corporate banking;
  - treasury and international banking; and
  - other banking services;
- credit card services, which are provided by Shinhan Card;
- securities brokerage services, which are provided by Shinhan Investment;
- life insurance services, which are provided by Shinhan Life Insurance; and
- other.

The following discussion of our results of operations by principal business segment is provided on a Korean GAAP basis since this was the basis of accounting on which we conducted our business until 2010. Our senior management regularly makes decisions about resources to be allocated to these activities and assesses performance of the activities using this information, and consequently this forms the basis of our segment reporting included in Note 34 in the notes to our consolidated financial statements included in this annual report.

	Segment Results(1)			Total Revenues(2)		
	Year Ended December 31,					
	2008	2009	2010	2008	2009	2010
	(In billions of Won, except percentages)					
Shinhan Bank:						
Retail banking	(Won) 1,124	(Won) 527	(Won) 1,005	(Won) 4,310	(Won) 2,915	(Won) 3,322
Corporate banking	2,058	157	350	7,815	1,845	1,545
Treasury and international business	(556)	141	438	27,383	28,251	11,057
Other banking services	(723)	242	301	2,907	2,708	2,067
Shinhan Card	1,324	1,101	1,181	3,590	3,134	3,413
Shinhan Investment	209	57	184	1,716	1,470	1,623
Shinhan Life Insurance	186	224	278	2,862	3,417	3,929
Other subsidiaries	(3)	(91)	(41)	657	395	405
Total(3)	(Won) 3,619	(Won) 2,358	(Won) 3,696	(Won) 51,240	(Won) 44,135	(Won) 27,361

Notes:

(1) Represents income per segment before income taxes.

(2) Represents net interest income plus non-interest income.

(3) Presented on a reported basis before elimination or adjustments.

Retail Banking

The retail banking segment primarily consists of banking and other services provided by Shinhan Bank s retail banking branches to the branch customers, which principally consist of individuals and households and, to a lesser extent, small businesses and non-corporate institutions such as government entities and hospitals. The retail banking products principally consist of mortgage and home equity loans and other retail loans, deposits and other savings products and fees earned from the sale of investment and bancassurance products. The table below provides the income statement data for the retail banking segment for the periods indicated.

	Year Ended December 31,			% Change	
	2008	2009	2010	2008/2009	2009/2010
	(In billions of Won, except percentages)				
Income statement data					
Net interest income	(Won) 2,311	(Won) 2,245	(Won) 2,759	(2.9)%	22.9%
Non-interest income	1,999	670	563	(66.5)	(16.0)
Total revenues	4,310	2,915	3,322	(32.4)	14.0
Provision for loan losses	362	558	440	54.1	(21.1)
Non-interest expense including depreciation and amortization	2,824	1,830	1,877	(35.2)	2.6
Segment results(1)	(Won) 1,124	(Won) 527	(Won) 1,005	(53.1)%	90.7%

Note:

(1) Net income per segment before income taxes.

Comparison of 2010 to 2009

The overall segment results for retail banking increased by 90.7% from (Won)527 billion in 2009 to (Won)1,005 billion in 2010.

Net interest income increased by 22.9% due primarily to a decrease in interest expense and, to a lesser extent, an increase in the average volume of lending to individuals and households. The decrease in interest expense in 2010 was due primarily to a decrease in the average balance of debentures resulting from Shinhan Bank s active policy to increase the proportion of interest-bearing deposits, which is the more stable and less expensive source of funding, relative to borrowings in its funding portfolio.

Non-interest income decreased by 16.0% due primarily to a decrease in fees earned from the sale of foreign currency-related derivative products resulting from the relative stability of foreign exchange rates in 2010 as compared to 2009, which led to a decrease in the volume of transactions relating to these products.

Provision for loan losses decreased by 21.1% primarily as a result of an improvement in the asset quality of Shinhan Bank s retail loans. This improvement was primarily due to mortgage loans, which tend to have a higher asset quality than unsecured retail loans, comprising a larger portion of the average balance of retail loans in 2010 as compared to 2009 as a result of Shinhan Bank s enhanced risk management policies to reduce unsecured retail loans.

Non-interest expense including depreciation and amortization increased by 2.6% due primarily to an increase in fees and commission expense and general and administrative expense (including salaries and wages), which was partially offset by a decrease in expenses associated with foreign currency-related derivative products resulting from a decrease in the volume of related transactions. Such transaction volume decreased due to the relative stability of the foreign exchange rates in 2010 as compared to 2009.

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Comparison of 2009 to 2008

The overall segment results for retail banking decreased by 53.1% from (Won)1,124 billion in 2008 to (Won)527 billion in 2009.

Net interest income decreased by 2.9% due primarily to a decrease in net interest spread, which more than offset an increase in the volume of lending to individuals and households and an increase in the volume of customer deposits. The decrease in net interest spread in 2009 was due primarily to the relatively longer time lag on average taken by the rates payable on interest-bearing deposits compared to the rates payable on interest-earning loans in reflecting the reduction in base rates set by the Government in 2009 in response to the global financial crisis. The increase in the volume of lending to individuals and households was primarily due to an increase in mortgage and home equity loans as a result of lower lending rates. The increase in customer deposits was primarily due to the increasing customer preference for safer depositary products compared to other investment products, such as stocks, in light of the volatility in stock markets during the recent global financial crisis, notwithstanding the lower interest rates paid on deposit products compared to those in prior periods.

Non-interest income decreased by 66.5% due primarily to a decrease in fees earned from the sale of investment fund and bancassurance products resulting from the volatility in stock markets and a decrease in fees earned from the sale of foreign currency-related derivative products due to the relatively stability of the foreign exchange rates in 2009 following the initial shock of the global financial crisis.

Provision for loan losses on retail loans increased by 54.1% due primarily to the increase in the average volume of retail loans and Shinhan Bank s more prudent provisioning policy during the recent global financial crisis.

Non-interest expense including depreciation and amortization decreased by 35.2% due primarily to a decrease in expenses associated with foreign currency-related derivative products resulting from a decrease in the volume of related transactions. Such transaction volume decreased due to the relatively stability of the foreign exchange rates in 2009 following the initial shock of the global financial crisis.

Corporate Banking

The corporate banking segment primarily consists of banking and other services provided by Shinhan Bank s corporate banking branches to their corporate customers, most of which are small- and medium-sized enterprises and large corporations, including members of the *chaebol* groups. The corporate banking services primarily consist of general lending and providing overdrafts and other credit facilities. The table below provides the income statement data for the corporate banking segment for the periods indicated.

	Year Ended December 31,			% Change	
	2008	2009	2010	2008/2009	2009/2010
	(In billions of Won, except percentages)				
Income statement data					
Net interest income	(Won) 2,476	(Won) 876	(Won) 1,047	(64.6)%	19.5%
Non-interest income	5,339	969	498	(81.9)	(48.6)
Total revenues	7,815	1,845	1,545	(76.4)	(16.3)
Provision for loan losses	326	465	385	42.6	(17.2)
Non-interest expense including depreciation and amortization	5,431	1,223	810	(77.5)	(33.8)
Segment results(1)	(Won) 2,058	(Won) 157	(Won) 350	(92.4)%	122.9%

Note:

(1) Net income per segment before income taxes.

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Comparison of 2010 to 2009

The overall segment results for corporate banking increased by 122.9% from (Won)157 billion in 2009 to (Won)350 billion in 2010.

Net interest income increased by 19.5% due primarily to a decrease in interest expenses and an increase in the average volume of lending to corporations. The decrease in interest expense in 2010 was due primarily to Shinhan Bank s policy to migrate to customer deposits from borrowings as its primary source of funding given that the former is a more stable and less expense source of funding.

Non-interest income decreased by 48.6% due primarily to a decrease in fees earned from the sale of foreign currency-related derivative products due to the relative stability of the foreign exchange rates in 2010 as compared to 2009.

Provision for loan losses on corporate loans decreased by 17.2% mainly as a result of a slowdown in asset quality deterioration of corporate loans in 2010 as compared to 2009, which was partially offset by an increase in the average volume of corporate loans.

Non-interest expense decreased by 33.8% due primarily to a decrease in expenses associated with foreign currency-related derivative products resulting from a decrease in the volume of related transactions. Such transaction volumes decreased due to the relative stability of foreign exchange rates in 2010 as compared to 2009.

Comparison of 2009 to 2008

The overall segment results for corporate banking decreased by 92.4% from (Won)2,058 billion in 2008 to (Won)157 billion in 2009.

Net interest income decreased by 64.6% due primarily to a decrease in net interest spread, which more than offset an increase in the volume of lending to corporations. The decrease in net interest spread in 2009 was due primarily to the reduction in base rates set by the Government in 2009 in response to the global financial crisis and the relatively higher funding rates for the interest-bearing liabilities in the corporate banking segment, which included a greater portion of borrowings and a lower portion of low-cost deposits compared to the retail banking segment. The increase in the volume of lending was primarily due to increased purchases by Shinhan Bank of call loans and loans bought under resale program as part of Shinhan Bank s investment strategy. The volume of lending by Shinhan Bank s corporate customers remained largely stable.

Non-interest income decreased by 81.9% due primarily to a decrease in fees earned from the sale of foreign currency-related derivative products due to the relatively stability of the foreign exchange rates following the initial shock of the global financial crisis.

Provision for loan losses on corporate loans increased by 42.6% due primarily to the increase in the average volume of corporate loans and Shinhan Bank s more prudent provisioning policy during the recent global financial crisis, particularly in anticipation of the corporate restructuring programs during the first half of 2009.

Non-interest expense including depreciation and amortization decreased by 77.5% due primarily to a decrease in expenses associated with foreign currency-related derivative products resulting from a decrease in the volume of related transactions. Such transaction volumes decreased due to the relative stability of the foreign exchange rates in 2009 following the initial shock of the global financial crisis.

Treasury and International Banking

The treasury and international banking segment primarily consists of Shinhan Bank s non-deposit funding activities, including trading of, and investment in, debt securities and, to a lesser extent, in equity securities for its own accounts, handling its treasury activities, such as inter-segment lending and borrowing, and entering into

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derivatives transactions. This segment also includes the results of operations of its overseas subsidiaries and branches. The table below provides the income statement data for the treasury and international banking segment for the periods indicated.

	Year Ended December 31,			% Change	
	2008	2009	2010	2008/2009	2009/2010
	(In billions of Won, except percentages)				
Income statement data					
Net interest income (expense)	(Won) (578)	(Won) 337	(Won) 511	N/M	51.6%
Non-interest income	27,961	27,914	10,546	(0.2)	(62.2)
Total revenues	27,383	28,251	11,057	3.2	(60.9)
Provision (reversal) for loan losses	(4)	51	14	N/M	(72.5)
Non-interest expense including depreciation and amortization	27,943	28,059	10,605	0.4	(62.2)
Segment results(1)	(Won) (556)	(Won) 141	(Won) 438	N/M	210.6%

N/M = not meaningful

Note:

(1) Net income (or loss) per segment before income taxes.

Comparison of 2010 to 2009

The overall segment results for treasury and international banking increased by 210.6% from (Won)141 billion in 2009 to (Won)438 billion in 2010.

Net interest income of treasury and international banking increased by 51.6% from (Won)337 billion in 2009 to (Won)511 billion in 2010 primarily due to a general decline in the interest rates for corporate debentures and borrowings in 2010 as compared to 2009 as a result of the overall decrease in market interest rates as governments worldwide, including the Government, actively lowered rates in order to increase the supply of liquidity and thereby stimulate economic recovery in 2010.

Non-interest income decreased by 62.2% from (Won)27,914 billion in 2009 to (Won)10,546 billion in 2010 primarily due to a reduction in the volume of foreign currency-related derivative transactions resulting from the reduced volatility of foreign exchange rates in 2010 as compared to 2009.

Non-interest expense including depreciation and amortization decreased by 62.2% from (Won)28,059 billion in 2009 to (Won)10,605 billion in 2010 primarily due to a decrease in expense from the sale of foreign currency-related derivative products as a result of the relative stability of foreign exchange rates in 2010 as compared to 2009.

Comparison of 2009 to 2008

The overall segment results for treasury and international banking changed from net loss before income taxes of (Won)556 billion in 2008 to net income before income taxes of (Won)141 billion in 2009.

The treasury and international banking segment recorded net interest income of (Won)337 billion in 2009 compared to net interest expense of (Won)578 billion in 2008 primarily due to a decrease in the average volume of, and interest rate payable on, corporate debentures and borrowings in 2009. The average volume of corporate debentures and borrowings decreased in 2009 as part of Shinhan Bank s enhanced risk management policy to reduce the proportion of corporate debentures and borrowings relative to low-cost deposits in its overall funding portfolio in response to the global financial crisis. The decrease in interest rates payable on corporate debentures and borrowings was due to the general decline in market borrowing rates as a result of greater market liquidity following the initial shock of the global financial crisis.

Non-interest income and non-interest expense including depreciation and amortization remained largely stable.

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Other Banking Services

This segment primarily consists of Shinhan Bank s trust account management services, cash management account (CMA) services, merchant banking services and non-performing loan collection services. The table below provides the income statement data for the other banking services segment for the periods indicated.

	Year Ended December 31,			% Change	
	2008	2009	2010	2008/2009	2009/2010
	(In billions of Won, except percentages)				
Income statement data					
Net interest income	(Won) 135	(Won) 243	(Won) 123	80.0%	(49.4)%
Non-interest income	2,772	2,465	1,944	(11.1)	(21.1)
Total revenues	2,907	2,708	2,067	(6.8)	(23.7)
Provision for loan losses	245	133	121	(45.7)	(9.0)
Non-interest expense including depreciation and amortization	3,385	2,333	1,645	(31.1)	(29.5)
Segment results(1)	(Won) (723)	(Won) 242	(Won) 301	N/M	24.4%

N/M = not meaningful

Note:

(1) Net income (or loss) per segment before income taxes.

For segment reporting purposes, each segment result reflects provision for loan losses that are allocated based on the ending balances of loans for each segment in order to show a meaningful comparison of performance within such segment and compared to other segments. In the other banking segment, provision (reversal) for loan losses amounted to (Won)245 billion, (Won)133 billion and (Won)121 billion in 2008, 2009 and 2010, respectively.

Shinhan Bank frequently issues subordinated debt securities, which carry interest rates that are higher than market interest rates. As subordinated debt securities have the overall effect of improving Shinhan Bank s capital adequacy and benefit Shinhan Bank in its entirety, the management believes it is inappropriate to allocate the higher costs associated with issuing subordinated debt to a particular business segment. Accordingly, Shinhan Bank allocates and reflects the difference between the higher costs associated with subordinated debt and market interest rates in this segment as interest expenses.

Comparison of 2010 to 2009

The overall segment results for other banking increased by 24.4% from (Won)242 billion in 2009 to (Won)301 billion in 2010.

Net interest income decreased by 49.4% from (Won)243 billion in 2009 to (Won)123 billion in 2010 primarily due to a net inter-segment transfer of interest expense to the other banking segment from other business segments.

Non-interest income decreased by 21.1% due primarily to a decrease in fees earned from the sale of foreign currency-related derivative transactions resulting from the reduced volatility of the foreign exchange rates in 2010 as compared to 2009.

Provision for loan losses decreased by 9.0% due primarily to a decrease in the pace of asset quality deterioration of loans in 2010 as compared to 2009, which was partially offset by an increase in the average volume of loans.

Non-interest expense including depreciation and amortization decreased by 29.5% due primarily to a decrease in expense associated with foreign currency-related derivative products resulting from a decrease in the volume of related transactions. Such transaction volumes decreased due to the relative stability of foreign exchange rates in 2010 as compared to 2009.

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Comparison of 2009 to 2008

The overall segment results for other banking changed from net loss before income taxes of (Won)723 billion in 2008 to net income before income taxes of (Won)242 billion in 2009.

Net interest income increased by 80.0% due primarily to a net inter-segment transfer of interest income to the other banking segment from other business segments.

Non-interest income decreased by 11.1% due primarily to a decrease in fees earned from the sale of foreign currency-related derivative products due to the relatively stability of the foreign exchange rates following the initial shock of the global financial crisis.

Provision for loan losses decreased by 45.7% due primarily to a decrease in discounted bills and bills bought.

Non-interest expense including depreciation and amortization decreased by 31.1% due primarily to a reduction in the volume of foreign currency-related derivative transactions due to reduced volatility of foreign exchange rates in 2009.

Credit Card Services

The credit card services segment consists of the credit card business of Shinhan Card, including its installment finance and automobile leasing businesses.

	Year Ended December 31,			% Change	
	2008	2009	2010	2008/2009	2009/2010
	(In billions of Won, except percentages)				
Income statement data					
Net interest income	(Won) 2,958	(Won) 2,854	(Won) 3,118	(3.5)%	9.3%
Non-interest income	632	280	295	(55.7)	5.4
Total revenues	3,590	3,134	3,413	(12.7)	8.9
Provision for loan losses	43	105	(26)	144.2	N/A
Non-interest expense including depreciation and amortization	2,223	1,928	2,258	(13.3)	17.1
Segment results(1)	(Won) 1,324	(Won) 1,101	(Won) 1,181	(16.8)%	7.3%

N/M = not meaningful

Notes:

(1) Net income per segment before income taxes.

Comparison of 2010 to 2009

The overall segment results for the credit card business increased by 7.3% from (Won)1,101 billion in 2009 to (Won)1,181 billion in 2010.

Net interest income increased by 9.3% due primarily to an increase in the average balance of credit cards largely resulting from an increase in consumer confidence and consumer spending amid signs of economic recovery and our active marketing campaigns, which was partially offset by a decrease in the average interest rate on credit cards largely due to a decrease in the market interest rates as well as pricing discounts offered by Shinhan Card and an increase in funding costs related to the increase in credit card assets.

Non-interest income increased by 5.4% due primarily to the sale of Shinhan Card s interest in Visa for a gain of (Won)12 billion.

Shinhan Card recorded reversal of provision for loan losses in 2010 compared to provision for loan losses in 2009 due primarily to an improvement in the asset quality of credit cards.

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Non-interest expense including depreciation and amortization increased by 17.1% due primarily to an increase in advertising and other marketing expenses in light of increased competition among credit card companies in Korea.

Comparison of 2009 to 2008

The overall segment results for the credit card business decreased by 16.8% from (Won)1,324 billion in 2008 to (Won)1,101 billion in 2009.

Net interest income decreased by 3.5% due primarily to a decrease in interest income from credit card services which resulted from a decrease in the transaction volume largely as a result of dampened consumer spending in the face of the recent global financial crisis and heightened concerns about an impending economic downturn, which was partially offset by a decrease in funding costs due to a decrease in the average balance of borrowings.

Non-interest income decreased significantly by 55.7% due primarily to a decrease in gains from interest rate swap-related derivative transactions as a result of the decrease in market interest rates in 2009.

Provision for loan losses increased by 144.2% due primarily to a significant increase in the average balance of loans as well as increased credit risks.

Non-interest expense including depreciation and amortization decreased by 13.3% due primarily to a decrease in severance benefits paid following the substantial completion of a voluntary early retirement program undertaken in 2008 and foreign currency translation gains in 2009 compared to foreign currency translation losses in 2008 as a result of the appreciation of the Korean Won against the U.S. dollar in the second half of 2009.

Securities Brokerage Services

Securities brokerage services segment primarily reflects securities brokerage and dealing services on behalf of customers, which is conducted by Shinhan Investment, our principal securities brokerage subsidiary.

	Year Ended December 31,			% Change	
	2008	2009	2010	2008/2009	2009/2010
	(In billions of Won, except percentages)				
Income statement data					
Net interest income	(Won) 184	(Won) 147	(Won) 158	(20.1)%	7.5%
Non-interest income	1,532	1,323	1,465	(13.6)	10.7
Total revenues	1,716	1,470	1,623	(14.3)	10.4
Provision for loan losses	29	135	22	365.5)	(83.7)
Non-interest expense including depreciation and amortization	1,478	1,278	1,417	(13.5)	10.9
Segment results(1)	(Won) 209	(Won) 57	(Won) 184	(72.7)%	222.8%

N/M = not meaningful

Note:

(1) Net income per segment before income taxes.

Comparison of 2010 to 2009

The overall segment results for securities brokerage services increased by 222.8% from (Won)57 billion in 2009 to (Won)184 billion in 2010.

Net interest income increased by 7.5% due primarily to decreases in the volume of borrowings and average interest rates payable on borrowings following the decrease in the market interest rates.

Non-interest income increased by 10.7% due primarily to valuation gains on available-for-sale securities and trading gains related to equity-linked securities, which resulted mainly from the sustained rally of the Korean stock market.

Provision for loan losses decreased by 83.7% due primarily to the high level of allowance for loan losses on December 31, 2009 related to real estate project financing projects, as a result of which no additional net provisioning was necessary in 2010.

Non-interest expense including depreciation and amortization increased by 10.9% due primarily to trading losses related to equity-linked securities.

Comparison of 2009 to 2008

The overall segment results for securities brokerage services decreased by 72.7% from (Won)209 billion in 2008 to (Won)57 billion in 2009.

Net interest income decreased by 20.1% due primarily to a decrease in interest income from loans and interest expense paid on deposits due to the general decrease in market interest rates in 2009, which was partially offset by a decrease in interest expenses on borrowings, including repurchase transactions and call moneys.

Non-interest income decreased by 13.6% due primarily to a decrease in income from derivative products which resulted from decreased volatility in stock markets.

Provision for loan losses increased by 365.5% due primarily to deterioration of asset quality of loans and receivables related to real estate project financing.

Non-interest expense including depreciation and amortization decreased by 13.5% due primarily to a decrease in income related to derivatives products which resulted from decreased volatility in stock markets.

Life Insurance Services

Life insurance services segment consists of life insurance services provided by Shinhan Life Insurance.

	Year Ended December 31,			% Change	
	2008	2009	2010	2008/2009	2009/2010
	(In billions of Won, except percentages)				
Income statement data					
Net interest income	(Won) 357	(Won) 419	(Won) 473	17.4%	12.9%
Non-interest income	2,505	2,998	3,456	19.7	15.3
Total revenues	2,862	3,417	3,929	19.4	15.0
Provision for loan losses	9	13	7	44.4	(46.2)
Non-interest expense including depreciation and amortization	2,667	3,180	3,644	19.2	14.6
Segment results(1)	(Won) 186	(Won) 224	(Won) 278	20.4%	24.1%

N/M = not meaningful

Note:

(1) Net income per segment before income taxes.

Comparison of 2010 to 2009

The overall segment results for life insurance services increased by 24.1% from (Won)224 billion in 2009 to (Won)278 billion in 2010.

Net interest income increased by 12.9% due primarily to an increase in investments in financial debentures and an increase in the average balance of insurance loans.

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Non-interest income increased by 15.3% due primarily to an improvement in the reserve ratio and an increase in premium earned from lump-sum payment insurance products.

Non-interest expense including depreciation and amortization increased by 14.6% due primarily to an increase in commissions and other marketing expenses, as well as an increase in insurance proceeds paid to customers.

Comparison of 2009 to 2008

The overall segment results for life insurance services increased by 20.4% from (Won)186 billion in 2008 to (Won)224 billion in 2009.

Net interest income increased by 17.4% due primarily to an increase in the volume of interest earned on debt securities purchased as part of the asset management policy of Shinhan Life Insurance in relation to the increased sales of insurance contracts, which more than offset a decrease in the average interest rate on loans.

Non-interest income increased by 19.7% due primarily to an increase in insurance premium and income from special accounts, which was largely due to an increased sale of new general insurance contracts.

Non-interest expense including depreciation and amortization increased by 19.2% due primarily to an increase in policy reserves and other expenses related to the increased sales of new insurance contracts.

Other

Other segment primarily reflects all other activities of Shinhan Financial Group, as the holding company, and our other subsidiaries, including the results of operations of Jeju Bank, Shinhan Capital, Cardif Life Insurance Company, Shinhan Credit Information, Shinhan BNP Paribas Asset Management, Shinhan Private Equity and back-office functions maintained at the holding company.

	Year Ended December 31,			% Change	
	2008	2009	2010	2007/2008	2009/2010
	(In billions of Won, except percentages)				
Income statement data					
Net interest income (loss)	(Won) (48)	(Won) (88)	(Won) (18)	83.3%	(79.5)%
Non-interest income	705	483	423	(31.5)	(12.4)
Total revenues	657	395	405	(39.9)	2.5
Provision for loan losses	26	55	43	111.5	(21.8)
Non-interest expense including depreciation and amortization	634	431	403	(32.0)	(6.5)
Segment results(1)	(Won) (3)	(Won) (91)	(Won) (41)	N/M	(54.9)

N/M = not meaningful

Note:

(1) Net income (or loss) per segment before income taxes.

Comparison of 2010 to 2009

The other segment results 54.9% decreased from net loss of (Won)91 billion in 2009 to net loss of (Won)41 billion in 2010.

Net interest loss decreased by 79.5 % due primarily to a decrease in funding costs related to the decrease in market interest rates.

Non-interest income decreased by 12.4% due primarily to a decrease in foreign currency translation gains related to Shinhan Capital s foreign-currency denominated assets, mainly as a result of appreciation of the Korean Won against the U.S. dollar.

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Provision for loan losses decreased by 21.8% due primarily to a slowdown of deterioration in asset quality of real estate development and ship purchase project financings involving Shinhan Capital.

Non-interest expense including depreciation and amortization decreased by 6.5% due primarily to a decrease in Shinhan Capital s foreign currency-denominated liabilities, which resulted from the appreciation of the Korean Won against the U.S. dollar.

Comparison of 2009 to 2008

The other segment results significantly increased from net loss of (Won)3 billion in 2008 to net loss of (Won)91 billion in 2009.

Net interest loss increased by 83.3 % due primarily to a decrease in Shinhan Capital s interest income, which resulted from a decrease in the lending rates in general.

Non-interest income decreased by 31.5% due primarily to a decrease in foreign currency translation gains related to Shinhan Capital s foreign-currency denominated assets, mainly as a result of appreciation of the Korean Won against the U.S. dollar.

Provision for loan losses increased by 111.5% due primarily to increased provisioning for leases made by Shinhan Capital to shipping companies, which suffered particular hardship from the recent economic downturn.

Non-interest expense including depreciation and amortization decreased by 32.0% due primarily to a decrease in Shinhan Capital s foreign currency-denominated liabilities and a decrease in its foreign currency translation losses, which resulted from the appreciation of the Korean Won against the U.S. dollar.

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Financial Condition

Assets

The following table sets forth, as of the dates indicated, the principal components of our assets.

	As of December 31,			% Change	
	2008	2009	2010	2008/2009	2009/2010
	(In billions of Won, except percentages)				
Cash and cash equivalents	(Won) 1,365	(Won) 4,363	(Won) 5,689	219.6%	30.4%
Restricted cash	7,049	7,974	5,559	13.1	(30.3)
Interest-bearing deposits	1,627	2,164	2,379	33.0	9.9
Call loans and securities purchased under resale agreements	3,066	1,346	2,243	(56.1)	66.6
Trading assets:					
Trading securities	6,724	6,681	11,464	(0.6)	71.6
Derivative assets	11,977	4,617	3,814	(61.5)	(17.4)
Securities:					
Available-for-sale securities	29,016	27,612	27,398	(4.8)	(0.8)
Held-to-maturity securities	8,696	12,794	12,587	47.1	(1.6)
Loans:					
Corporate	94,695	90,809	95,789	(4.1)	5.5
Consumer	75,846	78,446	84,168	3.4	7.3
Total loans, gross	170,541	169,255	179,957	(0.8)	6.3
Deferred origination costs (fees)	(32)	(23)	28	(28.1)	(221.7)
Less: allowance for loan losses	3,201	3,638	3,396	13.7	(6.7)
Total loans, net	167,308	165,594	176,589	(1.0)	6.6
Customers liability on acceptances	2,433	2,780	3,961	14.3	42.5
Premises and equipment, net	2,412	2,437	2,367	1.0	(2.9)
Goodwill and intangible assets	5,571	5,072	4,787	(9.0)	(5.6)
Security deposits	1,334	1,323	1,395	(0.8)	5.4
Other assets	12,395	10,153	9,800	(18.1)	(3.5)
Total assets	(Won) 260,973	(Won) 254,910	(Won) 270,032	(2.3)%	5.9%

2010 Compared to 2009

Our assets increased by 5.9% from (Won)254,910 billion as of December 31, 2009 to (Won)270,032 billion as of December 31, 2010, principally due to increases in corporate loans, consumer loans trading securities, which were partially offset by a decrease in our deposits with the Bank of Korea. We manage our deposits with the Bank of Korea at a fixed percentage of our total deposits based on the reserve requirement set by the Bank of Korea. While our deposits with the Bank of Korea decreased as of December 31, 2010, such decrease was attributable to a temporary adjustment made in order to meet our reserve requirement with the Bank of Korea, which is assessed based on the monthly balance basis. In 2010, the average balance of our deposits with the Bank of Korea was higher than that recorded as of December 31, 2010.

Our trading securities increased by 71.6% from (Won)6,681 billion as of December 31, 2009 to (Won)11,464 billion as of December 31, 2010, principally as a result of our purchase of commercial papers from the secondary market, in which case they are classified as trading securities, rather than from the primary market, in which case they are classified as loans.

Our corporate loans increased by 5.5% from (Won)90,809 billion as of December 31, 2009 to (Won)95,789 billion as of December 31, 2010, as result of our risk management policy which emphasized securing high-quality assets such as loans to large corporate customers.

Our consumer loans increased by 7.3% from (Won)78,446 billion as of December 31, 2009 to (Won)84,168 billion as of December 31, 2010, primarily due to an increase in home and mortgage loans made under existing obligations for prior home purchases.

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2009 Compared to 2008

Our assets decreased by 2.3% from (Won)260,973 billion as of December 31, 2008 to (Won)254,910 billion as of December 31, 2009, principally due to decreases in derivative assets, corporate loans and available-for-sale securities, which were partially offset by increases in held-to-maturity securities and consumer loans.

Our derivative assets decreased by 61.5%, from (Won)11,977 billion as of December 31, 2008 to (Won)4,617 billion as of December 31, 2009, largely due to a decrease in the transaction volume of foreign currency-related derivatives.

Our corporate loans decreased by 4.1% from (Won)94,695 billion as of December 31, 2008 to (Won)90,809 billion as of December 31, 2009, primarily due to increased repayment of loans by large corporate borrowers as a result of increased liquidity in the market.

Our available-for-sale securities decreased by 4.8% from (Won)29,016 billion as of December 31, 2008 to (Won)27,612 billion as of December 31, 2009, primarily due to increased sale of financial debentures due to limits on the holdings of debt securities issued by other banks as a part of our enhanced risk management efforts, which was partially offset by an increase in the market value of stocks held by us due to improved stock market conditions in the second half of 2009.

Our held-to-maturity securities increased by 47.1% from (Won)8,696 billion as of December 31, 2008 to (Won)12,794 billion as of December 31, 2009, primarily due to an increase in investments by us in relatively stable assets such as government bonds as a result of enhanced risk management policy in the face of the recent global financial crisis.

Our consumer loans increased by 3.4% from (Won)75,846 billion as of December 31, 2008 to (Won)78,446 billion as of December 31, 2009, primarily due to an increase in the average balance of mortgage and home equity loans, which more than offset a decrease in unsecured consumer loans.

Liabilities and Equity

The following table sets forth, as of the dates indicated, the principal components of our liabilities.

	As of December 31,			% Change	
	2008	2009	2010	2008/ 2009	2009/ 2010
	(In billions of Won, except percentages)				
Interest bearing deposits	(Won) 119,762	(Won) 140,809	(Won) 149,814	17.6%	6.4%
Noninterest bearing deposits	2,942	2,890	3,078	(1.8)	6.5
Trading liabilities	11,831	4,565	3,616	(61.4)	(20.8)
Acceptances outstanding	2,433	2,780	3,961	14.3	42.5
Short-term borrowings	23,225	9,715	8,071	(58.2)	(16.9)
Secured borrowings	10,226	7,944	8,296	(22.3)	4.4
Long-term debt	49,652	44,795	46,496	(9.8)	3.8
Future policy benefit	7,260	8,310	10,347	(14.5)	24.5
Accrued expenses and other liabilities	15,678	12,553	13,145	(19.9)	4.7
Total liabilities	243,009	234,361	246,824	(3.6)	5.3
The Group stockholders equity	17,652	20,218	22,795	14.5	12.7
Noncontrolling interest	312	331	413	(6.1)	24.8
Total equity	17,964	20,549	23,208	14.4	12.9
Total liabilities and equity	(Won) 260,973	(Won) 254,910	(Won) 270,032	(2.3)%	5.9%

N/M = not meaningful

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2010 Compared to 2009

Our total liabilities increased by 5.3% from (Won)234,361 billion as of December 31, 2009 to (Won)246,824 billion as of December 31, 2010, primarily due to an increase in interest-bearing deposits (which principally consist of customer deposits) and, to a lesser extent, an increase in future policy benefits, which were partially offset by a decrease in short-term borrowings and trading liabilities.

Our interest-bearing deposits increased by 6.4% from (Won)140,809 billion as of December 31, 2009 to (Won)149,814 billion as of December 31, 2010, while our short-term borrowings decreased by 11.2% from (Won)9,715 billion as of December 31, 2009 to (Won)8,629 billion as of December 31, 2010, in each case, primarily due to a greater groupwide emphasis on long-term borrowings as opposed to short-term borrowings as part of an enhanced risk management policy to increase the proportion of customer deposits relative to short-term borrowings as our preferred source of funding, as customer deposits tend to be more stable source of funding as customers typically rollover their deposits upon maturity.

Our future policy benefits increased by 24.5% from (Won)8,310 billion as of December 31, 2009 to (Won)10,347 as of December 31, 2010, primarily due to an increase in insurance contracts.

Our trading liabilities decreased by 20.8% from (Won)4,565 billion as of December 31, 2009 to (Won)3,616 billion as of December 31, 2010, primarily due to a decrease in the transaction volume of currency-related derivatives due to a decreased volatility in the US dollar-Korean Won exchange rates in 2010 compared to 2009.

Our stockholders equity increased by 12.7% from (Won)20,218 billion as of December 31, 2009 to (Won)22,795 billion as of December 31, 2010, largely due to an increase in retained earnings from net income in 2010.

2009 Compared to 2008

Our total liabilities decreased by 3.6% from (Won)243,009 billion as of December 31, 2008 to (Won)234,361 billion as of December 31, 2009, primarily due to a decrease in short-term borrowings and trading liabilities, which was partially offset by an increase in interest-bearing deposits.

The decrease in short-term borrowings was primarily due to a greater groupwide emphasis on long term borrowings as opposed to short-term borrowings as part of an enhanced risk management policy to increase the proportion of customer deposits relative to short-term borrowings as our preferred source of funding, as customer deposits tend to be more stable source of funding as customers typically rollover their deposits upon maturity.

The decrease in trading liabilities was largely due to a decrease in the transaction volume of foreign currency related derivatives.

The increase in interest-bearing deposits was primarily due to an increase in customer deposits which reflected an increase in preference for relatively safe investment products among customers in light of the increase volatility in the stock markets as a result of the recent global financial crisis and our active policy to increase the proportion of customer deposits as our preferred source of funding.

Our stockholders equity increased by 14.5% from (Won)17,652 billion as of December 31, 2008 to (Won)20,218 billion as of December 31, 2009, largely due to an increase in our equity and capital surplus as a result of the rights offering as well as retained earnings from net income in 2009.

ITEM 5.B. ***Liquidity and Capital Resources***

We are exposed to liquidity risk arising from the funding of our lending, trading and investment activities and in the management of trading positions. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all of our liability repayments on time and fund all investment opportunities. For an explanation of how we manage our liquidity risk, see Item 4.B. Business Overview Risk Management Market Risk Management Market Risk Management for Non-trading Activities Liquidity Risk Management. In our opinion, the working capital is sufficient for our present requirements.

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The following table sets forth our capital resources as of December 31, 2010.

	As of December 31, 2010 (In billions of Won)	
Deposits	(Won)	152,892
Long-term debt		46,496
Call money		1,334
Borrowings from the Bank of Korea		996
Other short-term borrowings		5,741
Asset securitizations		8,296
Stockholders equity(1)		2,590
Total	(Won)	218,345

Note:

(1) Includes redeemable preferred stock and redeemable convertible preferred stock. See Note 21 in the notes to our consolidated financial statements included in this annual report.

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

Our primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail customer deposits. Customer deposits accounted for 59.6% of our total funding as of December 31, 2008, 68.8% of our total funding as of December 31, 2009 and 70.0% of our total funding as of December 31, 2010. In the past, largely due to the lack of alternative investment opportunities for individuals and households in Korea, especially in light of a low interest rate environment and volatile stock market conditions, a substantial portion of such customer deposits were rolled over upon maturity and accordingly provided a stable source of funding for our banking subsidiaries. However, in times of a bullish stock market as in the first half of 2008, customers transferred a significant amount of bank deposits to alternative investment products, such as money market funds and other brokerage accounts maintained at securities companies, in search of higher returns, which resulted in temporary difficulty in finding sufficient funding for Korean banks, in general, including Shinhan Bank, in the first half of 2008. Since the onset of the global financial crisis, customers have largely reverted to bank deposits as safety of the principal and stable returns increased as investment priorities, and deposits have increased due to an overall increase in liquidity from Government programs in response to the global financial crisis. Accordingly, customers have not demonstrated a large-scale exodus in search of alternative investment opportunities notwithstanding intermittent bullishness in stock markets, and such customer preference has enabled us to continue to rely on low-cost and stable customer deposits as the primary source of our funding.

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. See Item 3.D. Risk Factors Risks Related to Our Overall Business Changes in interest rates, foreign exchange rates, bond and equity prices, and other market factors have affected and will continue to affect our business.

As of December 31, 2008, 2009 and 2010, (Won)5,100 billion, (Won)5,706 billion and (Won)5,888 billion, or 4.54%, 4.38% and 4.22%, respectively, of Shinhan Bank s total deposits in Korean Won were deposits made by litigants in connection with legal proceedings in Korean courts. Court deposits carry interest rates, which are generally lower than market rates.

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In addition, we obtain funding through borrowings and the issuances of debt and equity securities, primarily through Shinhan Bank. Our borrowings consist mainly of borrowings from financial institutions, the Korean government and Korean government-affiliated funds. Call money, which is available in both Won and foreign currencies, is obtained from the domestic call loan market, a short-term loan market for loans with maturities of less than one month. As for our long-term debt, it is principally in the form of corporate debt securities issued by Shinhan Bank. Since 1999, Shinhan Bank has actively issued and continues to issue long-term debt securities with maturities of over one year in the Korean fixed-income market. Shinhan Bank and we have maintained one of the highest credit ratings in the domestic fixed-income market since their inception in 1999 and 2001, respectively. As Shinhan Bank maintains one of the highest debt ratings in the fixed-income market in Korea, we believe that Shinhan Bank will be able to obtain replacement funding through the issuance of long-term debt securities. Shinhan Bank s interest rates on long-term debt securities are in general 20 to 30 basis points higher than the interest rates offered on their deposits. However, since long-term debt is not subject to premiums paid for deposit insurance and the Bank of Korea reserves, we estimate that our funding costs on long-term debt securities are generally on par with our funding costs on deposits. In addition, we and Shinhan Bank may also issue long-term debt securities denominated in foreign currency in the overseas market. As of December 31, 2008, 2009 and 2010, our long-term debt amounted to (Won)49,652 billion, (Won)44,795 billion and (Won)46,496 billion, respectively.

Furthermore, we have also issued preferred shares, such as redeemable preferred shares and redeemable convertible preferred shares, as part of funding for major acquisitions, such as those for Chohung Bank and LG Card. See Item 10.B. Memorandum and Articles of Incorporation Description of Preferred Stock Redeemable Preferred Stock (Series 10) and Description of Capital Stock Redeemable Convertible Preferred Stock (Series 11).

We also have funding requirements for our credit card activities. We obtain funding for our credit card activities from a variety of sources, primarily in Korea. The principal sources of funding for Shinhan Card are debentures, asset-backed securitization, commercial papers (including call money), borrowings from the holding company and third-parties, which amounted, on a managed basis under Korean GAAP, to (Won)10,174 billion, (Won)1,076 billion, (Won)841 billion, (Won)900 billion, (Won)575 billion, or 75.0%, 7.9%, 6.2%, 6.7% and 4.2%, respectively, of the funding for our credit card activities, as of December 31, 2010. Unlike other credit card companies, Shinhan Card has the benefit of obtaining funding at favorable rates through loans from Shinhan Financial Group, which currently maintains a credit rating of AAA, the highest credit rating assigned by local rating agencies. Shinhan Card aims to further diversify its funding sources and more actively tap the domestic and international capital markets to ensure access to liquidity as needed.

Credit ratings affect the cost and other terms upon which we and our subsidiaries are able to obtain funding. Domestic and international rating agencies regularly evaluate us and our subsidiaries and their ratings of our and our subsidiaries long-term debt are based on a number of factors, including our financial strength as well as conditions affecting the financial services industry generally.

Our holding company does not receive credit ratings from international rating agencies since it has not engaged in debt financing from overseas sources to date.

There can be no assurance that that we or our subsidiaries will maintain our current credit ratings if, among other reasons, the global or Korean economy were to face another downturn, there any changes in our corporate governance or our businesses significantly deteriorates. Our failure to maintain current credit ratings and outlooks could increase the cost of our funding, limit our access to capital markets and other borrowings, and require us to post additional collateral in financial transactions, any of which could adversely affect our liquidity, net interest margins and profitability.

Secondary funding sources also include call money, borrowings from The Bank of Korea and other short-term borrowings which amounted to (Won)23,225 billion, (Won)9,715 billion and (Won)8,071 billion, as of December 31, 2008, 2009 and 2010, each representing 11.2%, 4.7% and 3.7%, respectively, of our total funding as of such dates.

We may also from time to time obtain funding through issuance of equity securities.

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

In limited situations, we may also issue redeemable preferred shares and redeemable convertible preferred shares which are convertible into our common shares. For example, in August 2003, in order to partly fund our acquisition of Chohung Bank, we raised a total of (Won)2,552 billion through domestic private placements of redeemable preferred shares and redeemable convertible preferred shares to domestic financial institutions and governmental entities in Korea, all of which shares have since been redeemed or converted. In addition, in January 2007, partly to fund the acquisition of LG Card, we raised a total of (Won)3,750 billion through domestic private placements of redeemable preferred shares and redeemable convertible preferred shares and in April 2011, we issued redeemable convertible preferred shares to fund partial redemption of these securities. For further details on the terms of these preferred shares, including scheduled redemption dates, dividend rates and conversion ratios, see Item 10.B. Memorandum and Articles of Incorporation Description of Preferred Stock.

Pursuant to laws and regulations in Korea, we may redeem our preferred stock to the extent of our retained earnings of the previous fiscal year, net of certain reserves as determined under Korean GAAP. At this time, we expect that cash from our future operations should be adequate to provide us with sufficient capital resources to enable us to redeem our preferred stock on or prior to their scheduled maturities. In the event there is a short-term shortage of liquidity to make the required cash payments for redemption as a result of, among other things, failure to receive dividend payments from our operating subsidiaries on time or as a result of significant expenditures resulting from future acquisitions, we plan to raise cash liquidity through the issuance of long-term debt in the Korean fixed-income market in advance of the scheduled maturity on our preferred stock. To the extent we need to obtain additional liquidity, we plan to do so through the issuance of long-term corporate debentures or further preferred stock and/or the use of our other secondary funding sources.

Our policy is to encourage our subsidiaries to secure their own funding and liquidity sources. With respect to Shinhan Capital and Shinhan Card, we have, in certain cases, provided funding through our holding company to take advantage of our lower cost of funding within regulatory limitations. For example, in 2009 and 2010, we provided funding in the amount of (Won)800 billion and (Won)900 billion, respectively, to Shinhan Card and (Won)600 billion and (Won)450 billion, respectively, to Shinhan Capital, in each case, in the form of capital contribution through our holding company. However, under the Monopoly Regulation and Fair Trade Act of Korea, a financial holding company is prohibited from borrowing funds in excess of 200% of its total stockholders equity. In addition, pursuant to our liquidity risk management policies designed to ensure compliance with required capital adequacy and liquidity ratios, we have set limits to the amount of liquidity support by our holding company to our subsidiaries to 70% of our total stockholders equity and the amount of liquidity support to a single subsidiary to 35% of our total stockholders equity.

We generally may not acquire our own shares except in certain limited circumstances including, without limitation, a reduction in capital. However, pursuant to the Financial Investment Services and Capital Markets Act and regulations under the Financial Holding Companies Act, we may purchase our own shares on the KRX KOSPI Market of the Korea Exchange or through a tender offer, or retrieve our own shares from a trust company upon termination of a trust agreement subject to the restrictions that (1) the aggregate purchase price of such shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal

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year less the amounts of dividends and reserves for such fiscal year, subtracted by the sum of (a) the purchase price of treasury stock acquired if any treasury stock has been purchased after the end of the preceding fiscal year pursuant to the Commercial Act or the Financial Investment Services and Capital Markets Act, (b) the amount subject to a trust contract, and (c) the amount of dividends approved at the ordinary general shareholders meeting after the end of the preceding fiscal year and the amount of retained earnings reserve required under the Commercial Act; plus if any treasury stock has been disposed of after the end of the preceding fiscal year, the acquisition cost of such treasury stock, and (2) the purchase of such shares shall meet the requisite ratio under the Financial Holding Companies Act and regulations thereunder. We may purchase our own shares for the purpose of cancellation with profits through the KRX KOSPI Market of the Korea Exchange, or through a tender offer acquire interests in our own shares through agreements with trust companies, subject to the same restrictions on the purchase price as described in this paragraph. In addition, pursuant to the Financial Investment Services and Capital Markets Act, in certain limited circumstances, dissenting holders of shares have the right to require us to purchase their shares.

Contractual Obligations, Commitments and Guarantees

In the ordinary course of our business, we have certain contractual cash obligations and commitments which extend for several years. As we are able to obtain liquidity and funding through various sources as described in Liquidity and Capital Resources above, we do not believe that these contractual cash obligations and commitments will have a material effect on our liquidity or capital resources.

Contractual Cash Obligations

The following table sets forth our contractual cash obligations as of December 31, 2010.

	As of December 31, 2010 Payments Due by Period				
	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
			(In billions of Won)		
Long-term debt(1)(2)	(Won) 14,494	(Won) 20,937	(Won) 9,996	(Won) 7,450	(Won) 52,877
Secured borrowings(1)(3)	1,978	1,237	891	7,966	12,072
Provisions for accrued severance indemnities(4)(6)		8	18	144	170
Deposits(1)(5)	94,114	6,252	1,307	1,123	102,796
Total	(Won) 110,586	(Won) 28,434	(Won) 12,212	(Won) 16,683	(Won) 167,915

Notes:

(1) Includes estimated future interest payments. The future interest payment have been estimated using the weighted average interest rates paid for 2010 for each category and their scheduled contractual maturities.

(2) Long-term debt includes senior debt, subordinated debt and Redeemable Preferred Stock, as contained in Note 15 to our consolidated financial statements.

(3) See Note 14 to our consolidated financial statements included in this annual report.

(4)

This amount represents the amount of severance payment we are obligated to pay to the employees who are scheduled to retire during the indicated periods, as determined based on the employees current salary rates and the number of service years that will be accumulated upon their retirement date. In accordance with our policy and the Korean Labor Standard Law, employees with one year or more of service are entitled, upon termination of employment, to receive a lump sum severance payment based upon the length of their service and the average of the last three months wages.

(5) Deposits include certificate of deposits, other time deposits and mutual installment deposits, as contained in Note 12 to our consolidated financial statements.

(6) This amount represents provisions for accrued severance indemnities for a period of 10 years or less.

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The above table does not include uncertain tax benefits of (Won)11 billion associated with ASC 740-10 (formerly FIN 48) and tax-related interest and penalties of (Won)0.4 billion.

Commitments and Guarantees

In the normal course of business, our subsidiaries make various commitments and guarantees to meet the financing needs of our customers. Commitments and guarantees are usually in the form of, among others, commitments to extend credit, commercial letters of credit, standby letter of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss amount if the counter party draws down the commitment or we should fulfill our obligation under the guarantee and the counter party fails to perform under the contract. See Item 4.B. Business Overview Description of Assets and Liabilities Credit-Related Commitments and Guarantees.

The following table sets forth our commitments and guarantees as of December 31, 2010. These commitments, apart from certain guarantees and acceptances, are not included within our consolidated balance sheet.

	As of December 31, 2010 Commitment Expiration by Period			
	Less than 1 Year	1-5 years	More than 5 years	Total
	(In billions of Won)			
Commitments to extend credit(1):				
Corporate	(Won) 48,327	(Won) 3,553	(Won) 648	(Won) 52,528
Credit card lines(2)	3,411	63,706		67,117
Consumer(3)	9,068	321	1	9,390
Commercial letters of credit(4)	4,164	146		4,310
Financial standby letters of credit(5)	393	138	8	539
Other financial guarantees(6)	924	25	37	986
Performance letters of credit and guarantees(7)	7,310	1,849	3	9,162
Liquidity facilities to SPEs(8)	353	735	159	1,247
Acceptances(9)	3,846	114		3,960
Guarantee on trust accounts(10)	473	2,906		3,379
Total	(Won) 78,269	(Won) 73,493	(Won) 856	(Won) 152,618

Notes:

(1) Commitments to extend credit represent unfunded portions of authorizations to extend credit in the form of loans. The commitments expire on fixed dates and a customer is required to comply with predetermined conditions to draw funds under the commitments.

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

(3) Excludes credit cards.

(4) Commercial letters of credit are undertakings on behalf of customers authorizing third parties to draw drafts on us up to a stipulated amount under specific terms and conditions. These are generally short-term and collateralized by the underlying shipments of goods to which they relate. Commitments to extend credit, including credit lines, are in general subject to provisions that allow us to withdraw such commitments in the event there are material adverse changes affecting an obligor.

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

(6) Other financial guarantees are used in various transactions to enhance the credit standing of our customers. They provide irrevocable assurance, subject to satisfaction of certain conditions, that we will make payment in the event that our customers fail to fulfill their obligations to third parties. These financial obligations include a return of security deposits and the payment of service fees.

(7) Performance letters of credit and guarantees are issued to guarantee customers tender bids on construction or similar projects or to guarantee completion of such projects in accordance with contractual terms. They are also issued to support a customer s obligation to supply products, commodities, maintenance or other services to third parties

(8) Liquidity facilities to SPEs represent irrevocable commitments to provide contingent credit lines including commercial paper purchase agreements to special purpose entities for which we serve as the administrator.

(9) Acceptances represent guarantees by us to pay a bill of exchange drawn on a customer. We expect most acceptances to be presented, but reimbursement by the customer is normally immediate.

(10) Guarantees on trust accounts represent guarantee of principal issued to trust fund investors.

Our holding company entered into certain guarantee contracts that meet the characteristics of a derivative under SFAS No. 133. Such derivatives effectively guarantee the return on the counterparty s referenced portfolio of assets.

Details of our credit commitments and obligations under guarantees are provided in Note 31 in the notes to our consolidated financial statements included in this annual report.

Selected Financial Information under Korean GAAP

The selected consolidated financial and other data shown below have been derived from our consolidated financial statements, prepared in accordance with Korean GAAP not presented herein.

Under Korean GAAP, consolidated financial statements include the accounts of fully or majority owned subsidiaries and substantially controlled affiliates that have assets in the amount equal to or more than (Won)10 billion as of the end of the previous fiscal year. Substantial control is deemed to exist when the investor is the largest shareholder and owns more than 30% of the investee s voting shares. Korean GAAP does not require the consolidation of subsidiaries, or substantially controlled affiliates, where activities are dissimilar from ours.

Under Korean GAAP effective since 1994, financial statements of our trust accounts, on which we guarantee a fixed rate of return and/or the repayment of principal, are consolidated, whereby assets and liabilities of third parties held by such trusts are reflected as assets and liabilities, and revenues and expenses generated from such third party assets are reflected in the statement of operations. Activities between trust accounts and us are eliminated.

Beginning January 1, 1999, the Korean GAAP financial statements are prepared in accordance with financial accounting standards generally accepted for banking institutions issued by the Korean Securities and Futures Commission.

Capital adequacy ratios have been calculated from the financial statements prepared in accordance with Korean GAAP and using the guidelines issued by the Financial Services Commission.

We have included narrative disclosure in the footnotes to the Korean GAAP financial statements more clearly identify where significant accounting policy changes have taken place, which line items would be affected and how the balances would be affected. The areas where such significant changes have occurred are as follows:

Allowance for loan losses;

Allowance for unused loan commitments;

Allowance for guarantees and acceptances; and

Deferred taxation.

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Consolidated Income Statement Data

	Year Ended December 31,					
	2006	**2007**	**2008**	**2009**	**2010**	**2010(1)**
	(In billions of Won and millions of US$, except per share data)					
Interest income and dividends	(Won) 9,473	(Won) 13,958	(Won) 16,681	(Won) 13,980	(Won) 14,512	$ 12,836
Interest expense	4,782	6,868	8,865	7,286	6,478	5,730
Net interest income	4,691	7,090	7,816	6,694	8,034	7,106
Provision for loan losses	575	739	1,044	1,579	1,028	909
Non-interest income(2)	11,316	12,886	43,277	37,302	19,196	16,979
Non-interest expense(3)	12,924	15,324	47,055	40,422	23,113	20,443
Income tax expenses	670	549	968	667	718	635
Pre-acquisition income in subsidiaries		(874)				
Net income attributable to noncontrolling interest	16	94	7	23	13	11
Net income attributable to the Group	(Won) 1,822	(Won) 2,396	(Won) 2,019	(Won) 1,305	(Won) 2,384	$ 2,109
Earnings per share, basic(5)	(Won) 4,530	(Won) 5,276	(Won) 4,236	(Won) 2,303	(Won) 4,531	$ 4.01
Earnings per share, diluted(5)	4,530	5,155	4,152	2,290	4,451	3.94
Cash dividends per common share	900(4)	900(4)	(4)	400(4)	750(4)	0.66

Notes:

(1) Won amounts are expressed in U.S. dollars at the rate of (Won)1,130.60 per US$1.00, the Noon Buying Rate in effect on December 31, 2010.

(2) Noninterest income includes fees and commissions income, gains on security valuations and disposals, gains on foreign currency transaction and gains from derivative transactions.

(3) Noninterest expense is composed of fees & commissions paid or payable, general and administrative expenses, losses on securities valuations and disposals, losses on foreign currency transactions and losses from derivative transactions.

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

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

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Consolidated Balance Sheet Data

	As of December 31,					
	2006	2007	2008	2009	2010	2010(1)
	(In billions of Won and millions of US$)					
Cash and due from banks	(Won) 11,347	(Won) 9,677	(Won) 13,079	(Won) 15,855	(Won) 14,687	$ 12,990
Trading securities	5,513	11,740	8,838	9,229	13,305	11,768
Investment securities	25,658	31,638	38,647	42,062	41,517	36,721
Loans	124,264	150,926	173,662	170,561	180,576	159,717
Less allowance for doubtful accounts	(1,881)	(2,953)	(3,317)	(3,597)	(3,649)	(3,227)
Property and equipment, net	2,214	2,407	2,411	2,324	2,362	2,090
Goodwill, net	1,437	4,986	4,528	4,075	3,497	3,093
Other assets	10,168	13,816	26,167	14,509	13,736	12,150
Total assets	178,720	222,237	264,015	255,018	266,031	235,302
Deposits	99,744	110,582	126,764	147,737	153,083	135,400
Borrowings	18,173	24,205	27,731	18,098	19,901	17,602
Debentures, net	29,485	42,586	49,181	39,905	39,716	35,128
Retirement and severance benefits, net	243	335	381	177	160	142
Other liabilities	19,520	26,303	42,006	27,978	29,973	26,511
Total liabilities	167,165	204,011	246,063	233,895	242,833	214,783
Equity	11,555	18,226	17,952	21,123	23,198	20,519
Total liabilities and equity	(Won) 178,720	(Won) 222,237	(Won) 264,015	(Won) 255,018	(Won) 266,031	$ 235,302

Note:

(1) Won amounts are expressed in U.S. dollars at the rate of (Won)1,130.60 per US$1.00, the Noon Buying Rate in effect on December 31, 2010. While the Noon Buying Rate has stabilized recently, it is subject to volatility 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.

Profitability Ratios

	Year Ended December 31,				
	2006	2007	2008	2009	2010
	(Percentages)				
Net income attributable to the Group as a percentage of:					
Average total assets(1)	1.09%	1.14%	0.81%	0.59%	1.04%
Average total equity(1)(2)	15.53	11.61	9.40	6.62	10.80
Dividend payout ratio(3)	18.96	16.75		14.56	14.93
Net interest spread(4)	2.94	3.60	3.29	2.71	3.24
Net interest margin(5)	3.20	3.93	3.69	3.01	3.51
Efficiency ratio(6)	80.74	76.71	92.10	91.88	84.88

Cost-to-average assets ratio(7)	7.74	7.27	18.89	15.64	8.82
Equity to average asset ratio(8):	6.99	9.79	8.62	7.63	8.43

Notes:

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

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(2) Includes redeemable preferred shares and redeemable convertible preferred shares issued by us (i) in August 2003 as part of funding for the acquisition of Chohung Bank and (ii) in January 2007 as part of funding for the acquisition of LG Card. These preferred shares are treated as equity. For a more detailed description of the preferred shares issued by us, see Item 10.B. Memorandum and Articles of Incorporation Description of Preferred Stock Redeemable Convertible Preferred Stock (Series 11).

(3) The dividend payout ratio represents the ratio of total dividends paid on common stock as a percentage of net income attributable to common stock.

(4) Net interest spread represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.

(5) Net interest margin represents the ratio of net interest income to average interest earning assets.

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

	Year Ended December 31,				
	2006	2007	2008	2009	2010
	(In billions of Won, except percentages)				
Non-interest expense (A)	(Won) 12,924	(Won) 15,324	(Won) 47,055	(Won) 40,422	(Won) 23,113
Divided by					
The sum of net interest income and non-interest income (B)	16,007	19,976	51,093	43,996	27,230
Net interest income	4,691	7,090	7,816	6,694	8,034
Non-interest income	11,316	12,886	43,277	37,302	19,196
Efficiency ratio ((A) as a percentage of (B))	80.74%	76.71%	92.10%	91.88%	84.88%

(7) Cost-to-average-assets ratio, a measure of cost of funding used by banks and financial institutions, represents the ratio of non-interest expense to average total assets.

(8) Equity to average asset ratio represents the ratio of average stockholders equity to average total assets.

Capital Ratios

	As of December 31,				
	2006	2007	2008	2009	2010
	(Percentages)				
Requisite capital ratio(1)	139.28%	N/A	N/A	N/A	N/A
BIS ratio(1)	N/A	9.85%	10.19%	12.6%	12.77%
Total capital adequacy ratio of Shinhan Bank	12.01	12.09	13.44	15.13	15.93
Tier I capital adequacy ratio	7.81	7.64	9.30	11.61	13.21

Tier II capital adequacy ratio	4.20	4.45	4.13	3.52	2.72
Adjusted equity capital ratio of Shinhan Card(2)	17.47	25.31	20.32	26.73	24.99
Solvency ratio for Shinhan Life Insurance(3)	232.60	226.05	209.47	212.40	397.93

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 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 BIS ratio of 8%. Requisite

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

(2) Adjusted equity capital ratio is the ratio of total adjusted stockholders 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 non-consolidated financial statements of the credit card company prepared in accordance with Korean GAAP. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

The information as of December 31, 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 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, 2007). The information as of December 31, 2008, represents the information for Shinhan Card.

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

(3) Solvency ratio is the ratio of the solvency margin to the standard amount of solvency margin as defined and computed in accordance with the 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%. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

Asset Quality Ratios

	As of December 31,				
	2006	**2007**	**2008**	**2009**	**2010**
	(In billions of Won, except percentages)				
Substandard and below loans(1)	(Won) 1,064	(Won) 1,513	(Won) 1,979	(Won) 2,359	(Won) 2,000
Substandard and below loans as a percentage of total loans	0.87%	1.03%	1.18%	1.40%	1.11%
Substandard and below loans as a percentage of total assets	0.60	0.68	0.75	0.93	0.73
Precautionary loans as a percentage of total loans(2)	1.16	1.16	1.29	1.78	1.27
Precautionary and below loans as a percentage of total loans(2)	2.03	2.19	2.47	3.18	2.38
Precautionary and below loans as a percentage of total assets(2)	1.40	1.46	1.57	2.10	1.57
Allowance for loan losses as a percentage of substandard and below loans	172.98	184.63	165.22	149.81	130.03
Allowance for loan losses as a percentage of precautionary and below loans(2)	73.88	86.50	79.08	66.07	60.78
Allowance for loan losses as a percentage of total loans	1.50	1.89	1.95	2.10	1.68
Substandard and below credits as a percentage of total credits(3)	0.84	0.98	1.15	1.35	0.70
Loans in Korean Won as a percentage of deposits in Korean	115.05	126.58	125.43	102.90	103.10

Won(4)

Notes:

(1) Substandard and below loans (other than loans provided from our trust accounts and confirmed guarantees and acceptances) are defined in accordance with the regulatory guidance in Korea. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks.

(2) As defined by the Financial Services Commission.

(3) Credits include loans provided from our trust accounts (including bills purchased and privately placed debentures) and confirmed guarantees and acceptances, as well as the total loan portfolio of the banking accounts.

(4) Loans in Korean Won do not include bills bought in Won, advances for customers, credit card accounts, bonds purchased under resale agreements, call loans, private placement corporate bonds and loans in restructurings that have been swapped for equity in the restructured borrower.

Recently Adopted Accounting Pronouncements and New Accounting Pronouncements (U.S. GAAP)

Please refer to Note 2 in the footnotes to our financial statements.

Reconciliation with Korean Generally Accepted Accounting Principles

Our consolidated financial statements and related footnotes appearing in Item 18. Financial Statements, and other financial data appearing in Items 3, 4 and 5 are prepared in accordance with U.S. GAAP, unless otherwise specifically mentioned. Our consolidated financial statements prepared in accordance with U.S. GAAP, differ in significant respects from Korean GAAP, the basis of the consolidated financial data appearing in Selected Financial Information under Korean GAAP are presented. The following are reconciliations of net income attributable to the Group and stockholders equity from our consolidated financial statements under U.S. GAAP to Korean GAAP.

	2010 (In millions of Won)
U.S. GAAP net income attributable to the Group	(Won) 2,844,522
1. Provision for credit losses	(487,781)
2. Sale of loans to the Korea Asset Management Corporation	(52)
3. Deferred loan fees and costs	(79,538)
4. Securities and derivatives for hedging purposes	
a. Impairment loss and reclassification of securities	(212,004)
b. Reversal of hedge accounting treatment for derivatives	(87,684)
c. Changes in foreign exchange rates on available-for-sale securities	(16,847)
d. Credit risk adjustments on derivatives	(21,664)
5. Stock-based compensation	(1,199)
6. Difference related to the accounting treatment of goodwill and intangible assets	(282,481)
7. Recognition of noncontrolling interest	62,446
8. Reversal of asset revaluation	(1,843)
9. Adjustments for redeemable preferred shares	10,092
10. Consolidation Scope	213,600
11. Measurement of common stock issued for acquisition of subsidiaries	
12. Adoption of ASC 740-10 (formerly FIN No. 48)	(24,487)
13. Fair valuation of long-term debt and bonds	5,396

14. Shinhan Life Insurance deferred policy acquisition costs and policy reserve		434,577
15. Others		129,807
Total adjustments		(359,663)
Tax effect of adjustments		(100,924)
Korean GAAP net income attributable to the Group	(Won)	2,383,936

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		2010
		(In millions of Won)
U.S. GAAP the Group stockholders equity	(Won)	22,795,370
1. Provision for credit losses		(1,108,488)
2. Sale of loans to the Korea Asset Management Corporation		(38,788)
3. Defe		