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 name into English)	*(Jurisdiction of incorporation or organization)*

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

Seoul 100-102, Korea

(Address of principal executive offices)

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

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

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

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

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

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

None

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

None

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

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

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

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

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

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

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

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

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

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

In this annual report, unless otherwise indicated, all references to Won or (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 translations 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 us connection with any discussion of our future operating or financial performance identify forward-looking statements. In addition, all statements other than statements of historical facts included in this annual report are forward-looking statements.

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

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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.

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(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.

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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

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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.

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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

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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.

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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

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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.

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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

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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

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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

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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.

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Risks Relating to Our Other Businesses

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

We enter into and maintain large investment positions in fixed income products, primarily through our treasury and investment operations. We describe these activities in Item 4.B. Business Overview Our Principal Activities Treasury and Securities Investment. We also maintain smaller trading positions, including equity and equity-linked securities and derivative financial instruments as part of our operations. Taking these positions entails making assessments about financial market conditions and trends. The revenues and profits we derive from many of these positions and related transactions are dependent on market prices, which are beyond our control. When we own assets such as debt securities, a decline in market prices, for example as a result of fluctuating market interest rates, can expose us to trading and valuation losses. 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

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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

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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

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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

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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

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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.

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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.

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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.

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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

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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.

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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.

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Electronic Corporate Banking

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

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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

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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

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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.

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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	2009	2010
	Shinhan Card	Shinhan Card	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.

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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

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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.

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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.

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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 (In billions of Won)	Percentage of Total Corporate Loan Balance (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.

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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.

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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

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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

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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	2010 Nonperforming	Performing	Total
	(In billions of Won)		
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.

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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

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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			20					
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	P					
	(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 (In billions of Won)		Allowance for Loan Losses	
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.

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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 (In billions of Won)	Estimated Fair Value Liabilities
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		
	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	Weighted Average Interest Rate(2)	Year-end Interest Rate	Balance Outstanding	Average Balance Outstanding(1)	Highest Balances at Any Month-end
	(In billions of Won, except for percentages)												
ing													
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.

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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.

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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

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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

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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.

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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	As of December 31, 2008	2009	2010
		(In millions of US$)	
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

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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.

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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.

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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

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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

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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.

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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;

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(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

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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

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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.

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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;

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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;

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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.

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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;

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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

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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,

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(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);

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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.

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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

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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

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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.

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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.

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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

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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 1st and 2nd, 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

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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,

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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

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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.

	Volume	From 2008 to 2009 Interest Increase (Decrease) Due to Change in Rate (In billions of Won)	Change
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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	Volume	From 2009 to 2010 Interest Increase (Decrease) Due to Change in Rate (In billions of Won)	Change
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.

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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.

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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.

	2009	Year Ended December 31, 2010 (In billions of Won, except percentages)	% Change
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

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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.

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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.

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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.

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(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)

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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. Deferred loan fees and costs	(82,791)
4. Securities and derivatives for hedging purposes	
a. Impairment loss and reclassification of securities	611,864
b. Reversal of hedge accounting treatment for derivatives	(130,170)
c. Changes in foreign exchange rates on available-for-sale securities	
d. Credit risk adjustments on derivatives	63,959
5. Stock-based compensation	11,311
6. Difference related to the accounting treatment of goodwill and intangible assets	536,799
7. Noncontrolling interest	412,785
8. Reversal of asset revaluation	45,656
9. Adjustments for Redeemable Preferred Stock	(488,237)
10. Consolidation Scope	578,554
11. Measurement of common stock issued for acquisition of subsidiaries	137,738
12. Adoption of ASC 740-10	(141,007)
13. Fair valuation of long-term debt and bonds	(143,053)
14. Shinhan Life Insurance s deferred policy acquisition costs and policy reserve	(35,585)
15. Others	11,735
Total of adjustments	242,282
Tax effect of adjustments	160,384
Korean GAAP the Group stockholders equity	(Won) 23,198,036

The following is a summary of the significant adjustments made to consolidated net income attributable to the Group and stockholders equity to reconcile the U.S. GAAP results with those under Korean GAAP. The numbered paragraphs below refer to the corresponding item numbers set forth above.

1. Under U.S. GAAP, the allowance for loan losses for specifically identified impaired loans is based on (i) the present value of expected future cash flows discounted at the loan s effective interest rate or as a practical expedient, (ii) the loan s observable market price or (iii) the fair value of the collateral if the loan is collateral dependent.

For homogeneous pools of corporate and retail loans, allowances are based on historical losses using a risk rating migration model adjusted for qualitative factors, while a delinquency roll-rate model adjusted for qualitative factors is used for homogeneous pools of credit cards.

Under Korean GAAP, the allowance for loan losses is recorded at the higher of (i) the amount determined using the expected loss method, which estimates the potential exposure at default, or EAD, based on the probability of default, or PD, and loss given default, or LGD, and (ii) the amount determined using the guidelines promulgated by the Financial Services Commission, which estimates the allowance by multiplying a certain percentage as determined by the Financial Services Commission to loan balances in each classification.

The following percentages represent guidelines required by the Financial Services Commission as of December 31, 2010:

	Corporate Loans	Retail Loans	Credit Card Balances
Normal(1)(2)	0.85% or more	1.00% or more	1.50% or more
Precautionary(2)	7.00% or more	10.00% or more	15.00% or more
Substandard	20.00% or more	20.00% or more	20.00% or more
Doubtful	50.00% or more	55.00% or more	60.00% or more
Estimated loss	100.00%	100.00%	100.00%

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Notes:

(1) In the case of normal credits comprising loans to borrowers in the construction, wholesale and retail, accommodation and restaurant or real estate and housing industries (as classified under the Korean Industry Classification Standard), the applicable figure is 0.90% or more.

(2) In the case of credit card assets classified as normal and precautionary, the amount of provisions set aside is based on the revised provisioning rates under the Regulation on Specialized Credit Financial Business Act, which, effective as of February 11, 2008, increased the minimum provisioning requirements from 1.00% to 1.50% in respect of credit card assets classified as normal and from 12.00% to 15.00% in respect of credit card assets classified as precautionary.

This adjustment reflects the differences in the methodologies used to determine the allowance for loan losses under U.S. GAAP and Korean GAAP. It also includes the offsetting effects of (i) the consolidation of our trust accounts, which include loans and related reserves under Korean GAAP and (ii) the deconsolidation of certain securitized loans and related reserves, which it recorded as sales under Korean GAAP.

2. We sold a number of non-performing loans to the Korea Asset Management Corporation. For those loans sold to the Korea Asset Management Corporation prior to fiscal year 2001, based on the sales agreement, there was a recourse liability for the obligation to repurchase such loans. The Korea Asset Management Corporation can return certain loans to us when the performance requirements of such loans are not met. We recognize a recourse liability for the obligation to repurchase such loans. The adjustment reflects the differences in classification of loans and methodologies used to determine the loan losses as discussed above.

3. Under U.S. GAAP loan origination fees and the related costs are deferred and amortized over the life of the loan as an adjustment to the yield of the loan. Under Korean GAAP, origination costs related to wages and salaries were recognized as expense when paid and did not provide for the deferred costs.

4a. Under U.S. GAAP, other-than-temporary-impairment (OTTI) must be recognized if an investor has the intent to sell the debt security or if it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. In addition, the guidance changes the amount of impairment to be recognized in current-period earnings 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 security, as in these cases only the amount of the impairment associated with credit losses is recognized in income, while the rest of the fair value loss is recognized in other comprehensive income. But declines in the fair value of available-for-sale (AFS) equity securities below their cost that are deemed to be other-than-temporary are recorded in earnings. When we do not intend to sell AFS equity or debt securities in an unrealized loss position, potential OTTI is considered using a variety of factors, including the length of time and extent to which the market value has been less than cost; adverse conditions specifically related to the industry, geographic area or financial condition of the issuer or underlying collateral of a security; payment structure of the security; changes to the rating of the security by a rating agency; the volatility of the fair value changes; and changes in fair value of the security after the balance sheet date. For equity securities, we consider the above factors, as well as our intent and ability to retain our investment for a period of time sufficient to allow for any anticipated recovery in market value, and whether evidence exists to support a realizable value equal to or greater than the carrying value. Under Korean GAAP, declines in the fair value that are deemed to be permanent are recorded in earnings. The determination of whether a decline in the fair value of a security is permanent is generally based on whether investees are in bankruptcy or liquidation. This item reflects the recognition of additional losses, adjustment of the proper cost basis for the disposal gains or losses and reclassification of securities that are not within the scope of ASC 320-10 (formerly SFAS No. 115) into proper categories under U.S. GAAP.

4b. Under U.S. GAAP, for a derivative to qualify for hedge accounting, it must be highly effective at reducing the risk associated with the exposure being hedged. The hedging relationship must be designated and formally documented at inception along with the particular risk management objective and strategy for the hedge, identification of the derivative used as the hedging instrument, the hedged item and the risk exposure being hedged, and the method of assessing hedge effectiveness. As the criteria for documenting the designation of hedging relationships and hedge effectiveness are more rigorous under U.S. GAAP, the majority of the

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derivatives accounted for as hedges under Korean GAAP do not qualify for hedge accounting under U.S. GAAP. This item reflects the reversal of the hedge accounting treatment applied under Korean GAAP.

4c. Under U.S. GAAP, effects of changes in foreign exchange rates of foreign available-for-sale securities are reflected as a component of other comprehensive income. Under Korean GAAP, effects of such changes in foreign exchange rates are reflected in earnings. This item reflects the adjustment of such effects from earnings to other comprehensive income.

4d. Under U.S. GAAP, valuation of derivative assets takes into consideration counterparty credit risk and valuation of the derivative liabilities reflects the impact of the Group s credit quality as required by ASC 820-10 (formerly SFAS No. 157). Under Korean GAAP, there is no specific guidance as such. This item represents the valuation adjustment recognized for counterparty credit risk and the Group s own credit quality.

5. Under Korean GAAP, we recognize the compensation costs using intrinsic value remeasured each reporting period. Under U.S. GAAP, we recognize the compensation costs using fair value remeasured each reporting period by option pricing model according to ASC 718 (formerly SFAS No. 123R). The income statement adjustment represents the difference in valuation method of share options.

6. Under Korean GAAP, goodwill is amortized over its useful life during which future economic benefits are expected to flow to the enterprise, not exceeding twenty years. Under U.S. GAAP, goodwill is not amortized, but rather it is tested for impairment at least annually. The income statement adjustment reflects goodwill impairment charge recorded under U.S. GAAP, net of the goodwill amortization that was recorded under Korean GAAP. Under Korean GAAP, acquisition of the remaining interest in its consolidated subsidiary is accounted for under the book basis with no goodwill recognized, rather, any excess amount paid results in a reduction of capital surplus. Furthermore, consolidation is required when the investor owns more than 30% of the investee s voting shares and is also the largest shareholder. Under U.S. GAAP, acquisition of the remaining interest in its equity investee is accounted for under the purchase method with the excess cost over the fair value of the net assets acquired recognized as goodwill until FY2008. The stockholders equity adjustment reflects the additional amount of goodwill recognized under U.S. GAAP. Furthermore, under U.S. GAAP, finite-lived intangible assets which meet certain criteria are recognized in a business combination transaction and amortized over their useful lives. We did not recognize any intangible assets in connection with the acquisitions of LG Card, Chohung Bank and Shinhan Investment under Korean GAAP because they did not meet the requirement criteria. However, finite-lived and indefinite-lived intangible assets were recognized under U.S. GAAP in connection with the above transactions. The income statement adjustment includes the amortization of the finite-lived intangible assets under U.S. GAAP.

The following table presents such income statement adjustments on a gross basis for the year ended December 31, 2010:

Reconciliation of Net Income		**2010** **(In millions of Won)**
Reversal of impairment loss and and amortization effect recognized under U.S. GAAP	(Won)	285,161
Impairment loss and amortization effect recognized under Korean GAAP		(567,642)
Difference related to the accounting treatment of goodwill and intangible assets	(Won)	(282,481)

Reconciliation of Stockholders Equity		**2010** **(In millions of Won)**
Reversal of impairment loss and amortization effect recognized under U.S.GAAP	(Won)	2,637,855
Impairment loss and amortization effect recognized under Korean GAAP		(2,101,056)
Difference related to the accounting treatment of goodwill and intangible assets	(Won)	536,799

7. The operating results of each of our subsidiaries have been affected by the conversion to U.S. GAAP from Korean GAAP. Consequently, the noncontrolling interest holders share of the difference in the results of

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the respective subsidiaries operations under U.S. GAAP and Korean GAAP affect our consolidated stockholders equity while net income is not affected, as under both Korean GAAP and U.S. GAAP, net income shall be attributed to the parent and the noncontrolling interest.

8. Under Korean GAAP, certain fixed assets were revalued upward in 1998. As a result, the revaluation gain is included in stockholders equity, and depreciation expense related to revalued fixed assets is determined based on the new cost basis. Under U.S. GAAP, upward revaluation of fixed assets is not permitted, and depreciation expense is based on the historical cost basis adjusted for any impairment loss. This adjustment is to reverse the revaluation effects on the fixed assets under Korean GAAP, and to adjust the gain or loss relating to subsequent disposals of those fixed assets under the different cost basis.

9. Under Korean GAAP, the Redeemable Preferred Stocks were recorded in stockholders equity. Under U.S. GAAP, certain redeemable preferred stocks are classified as liabilities on the balance sheet pursuant to ASC 480 (formerly SFAS No. 150). Accordingly, some of redeemable preferred stocks are classified as equity and others are classified as liabilities. In case that redeemable preferred stocks are classified as liabilities, dividends paid to holders of Redeemable Preferred Stocks are recognized as interest expense rather than reduction from the retained earnings.

10. Under Korean GAAP, a special purpose company and a company undergoing liquidation are not within the scope of consolidation. Under U.S. GAAP, such companies could be within the scope of consolidation in accordance with either ASC 810 (formerly FAS 167) or SFAS No. 94.

11. Under Korean GAAP, the value of consideration paid for Chohung Bank, LG Card, Shinhan Investment and Shinhan Life Insurance was measured based on our stock price on the consummation date of the merger, whereas under U.S. GAAP, the value of consideration was measured based on our average closing stock price on the KRX KOSPI Market of the Korea Exchange two days before and after the date the merger was agreed to and announced.

12. Under Korean GAAP, additional tax assessments or tax refunds are recorded as expenses when tax assessment or tax refund actually occurs except when contingent liabilities are recorded for tax contingencies. The adoption of ASC 740-10 (formerly FIN No. 48) results in the change of retained earnings and income tax expenses since under FIN No. 48, tax positions are required to be evaluated and tax benefits can be recognized only when the technical merits of uncertain tax positions meet the more-likely-than-not recognition threshold and to be measured as the largest amount of tax benefit that is more than 50% likely of being recognized.

13. With respect to our acquisition of the remaining interest in a consolidated subsidiary, under U.S. GAAP, assets and liabilities of such subsidiary are to be assigned with the difference between acquisition cost and underlying equity in net assets based on their fair value and any unassigned difference will be designated as goodwill until FY2008, whereas under Korean GAAP, the difference is recognized as changes in the shareholders equity and no fair valuation of assets and liabilities are recorded. The item reflects the difference between the fair values and book values of long-term debt and bonds from additional acquisition of a consolidated subsidiary and the difference is recognized as interest expense in earnings for the remaining life of long-term debt and bonds.

14. Under Korean GAAP, acquisition costs are those costs that are related to insurance contracts and agent operation. Such costs are amortized on the straight-line basis over the estimated life of the insurance contracts, not to exceed seven years. Under U.S. GAAP, costs directly attributable to new and renewal insurance contracts are deferred and amortized over the estimated life of the underlying insurance contract in proportion to estimated gross margins. This adjustment is to reverse the GAAP difference relating to acquisition cost range and to adjust the amortized deferred acquisition cost charged in the period under the different cost and useful life basis. With respect to assessment of policy reserve, it is based on historical data under Korean GAAP, whereas under U.S. GAAP, the policy reserve is assessed considering future best estimate.

ITEM 5.C. ***Research and Development, Patents and Licenses***

Not applicable.

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ITEM 5.D. ***Trend Information***

These matters are discussed under Items 4.B., 5.A. and 5.B. above where relevant.

ITEM 5.E. ***Off-Balance Sheet Arrangements***

We have several types of off-balance sheet arrangements, including guarantees for loans, debentures, trade financing arrangements, guarantees for other financings, credit lines, letters of credit and credit commitments. In the normal course of our banking activities, we 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 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. See Item 4.B. Business Overview Description of Assets and Liabilities Credit-Related Commitments and Guarantees.

Details of our off-balance sheet arrangements are provided in Note 31 in the notes to our consolidated financial statements included in this annual report.

ITEM 5.F. ***Tabular Disclosure of Contractual Obligations***

See Item 5.B. Liquidity and Capital Resources Contractual Obligations, Commitments and Guarantees.

ITEM 6. ***DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES***

ITEM 6.A. ***Directors and Senior Management***

On September 14, 2010, the Board of Directors resolved to immediately suspend Mr. Sang Hoon Shin from his positions as our Representative Director, President and Chief Executive Director due to allegations of breach of trust and embezzlement. On October 30, 2010, the Board of Directors resolved to accept the resignation by Mr. Eung Chan Ra from his positions as Chairman and Representative Director with immediate effect due to potential violations of the Real Name Financial Transaction Regulations, and appointed Mr. Shee-Yul Ryoo, a Non-Executive Director as the acting Chairman. As a result of and in connection with the investigation by the Financial Supervisory Services into Mr. Eung Chan Ra s potential violations of the Real Name Financial Transaction Regulations, in November 2010, the Financial Supervisory Services issued an institutional disciplinary warning on Shinhan Bank after determining there was a violation of Mr. Eung Chan Ra and other employees.

In order to normalize our operations and management, we formed a special task force in September 2010, with the main focus on regaining our reputation and the trust from customers, employees and the shareholders, and implementing an intensified management normalization plan.

On December 6, 2010, Mr. Shin resigned as Representative Director, President and Chief Executive Officer and, upon Mr. Shin s resignation, Mr. Shee Yul Ryoo became the acting Representative Director, President and Chief Executive Officer. On February 14, 2011, Mr. Dong Woo Han was nominated by a special ad-hoc committee to replace Mr. Ryoo, and during the annual general shareholders meeting held on March 23, 2011, Mr. Han was elected as the Chairman and Chief Executive Officer.

Executive Directors

Our executive directors are as follows:

Name	Age	Position	Director Since	Date Term Ends(1)
Dong Woo Han	62	Chairman and Chief Executive Officer	March 23, 2011	March 2014

Note:

(1) The date on which each term will end will be the date of the general stockholders meeting in the relevant year.

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Dong Woo Han is our Chairman and Chief Executive Officer. Prior to being elected to his current position on March 23, 2011, he was the Vice-Chairman of Shinhan Life Insurance from 2007 to 2009 and also served as Chief Executive Officer of Shinhan Life Insurance in 2002, Vice President of Shinhan Bank in 1999, Managing Director of Shinhan Bank in 1995 and Director of Shinhan Bank in 1993. Mr. Han received a LL.B. degree from the College of Law, Seoul National University.

Non-Executive Directors

Non-executive directors are directors who are not our employees and do not hold executive officer positions with us. Outside directors are non-executive directors who also satisfy the requirements set forth under the Financial Investment Services and Capital Markets Act to be independent of our major shareholders, affiliates and the management. Our non-executive directors are selected based on the candidates talents and skills in diverse areas, such as law, finance, economy, management and accounting. Currently, 10 non-executive directors are in office, all of whom were nominated by our board of directors.

Our non-executive directors are as follows:

Name	Age	Position	Director Since	Date Term Ends(1)
Jin Won Suh	60	Non-Executive Director	March 23, 2011	March 2012
Taeeun Kwon	70	Outside Director	March 23, 2011	March 2013
Kee Young Kim	73	Outside Director	March 23, 2011	March 2013
Seok Won Kim	64	Outside Director	March 23, 2011	March 2013
Hoon Namkoong	64	Chairman of Board of Directors	March 23, 2011	March 2013
Ke Sop Yun	65	Outside Director	March 17, 2009	March 2012
Jaekun Yoo	69	Outside Director	March 23, 2011	March 2013
Jung Il Lee	58	Outside Director	March 23, 2011	March 2012
Haruki Hirakawa	46	Outside Director	March 23, 2011	March 2012
Philippe Aguignier	53	Outside Director	March 24, 2010	March 2012

Note:

(1) The date on which each term will end will be the date of the general stockholders meeting in the relevant year.

Jin Won Suh has been our non-executive director since March 23, 2011. Mr. Lee currently also serves as the President and Chief Executive Officer of Shinhan Bank. Prior to his current position, Mr. Lee served as the Chief Executive Officer of Shinhan Life Insurance in 2007, the Deputy President of Shinhan Financial Group in 2006 and the Deputy President of Shinhan Bank in 2004. Mr. Suh received a bachelor s degree in Historical Science from Korea University.

Taeeun Kwon has been our outside director since March 23, 2011. Mr. Kwon currently also serves as the Dean of the Department of Global Business at the School of Contemporary International Studies, Nagoya University of Foreign Studies. Prior to his current position, Mr. Kwon served as the Chief Executive Officer of Nam Bu Ham Co., Ltd. from 1983 to 2010, a committee member of the Korea Residents Union HQ in Japan from 1997 to 2009 and Counsel and Director of the Korea Education Foundation from 1991 to 2008. Mr. Kwon also was a professor of the Department of Global Business at the School of Contemporary International Studies, Nagoya University of Foreign Studies in 2004. Mr. Kwon received a Ph.D. in Business Administration from Nanzan University.

Kee Young Kim has been an outside director since March 23, 2011. Mr. Kim currently also serves as the President of Kwangwoon University. Prior to his current position, Mr. Kim served as an outside director of GS Holdings Corp. from 2004 to 2009 and an Outside Director of KTB Networks, currently KTB Investment & Securities Co., Ltd. in 2003. Mr. Kim also was the Dean of the Graduate School of Information, Yonsei University in 2000 and a professor at the School of Business, Yonsei University from 1979 to 2003. Mr. Kim received a Ph.D. in Business Administration from Washington University.

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Seok Won Kim has been our outside director since March 23, 2011. Mr. Kim currently also serves as the Chairman of Credit Information Companies Association. Prior to his current position, Mr. Kim served as the Chairman of the Korea Federation of Savings Banks from 2006 to 2009, an Outside Director at Woori Bank in 2005, the Vice President of Korea Deposit Insurance Corporation from 2002 to 2005 and the Head of the Korea-OECD Multilateral Tax Center from 1999 to 2001. Mr. Kim received a Ph.D. in Economics from Kyung Hee University.

Hoon Namkoong is the Chairman of the Board of Directors. Mr. Namkoong currently also serves as an Outside Director of Korea Real Asset Management Company (KORAMCO) and Samsung Electro-Magnetics Co., Ltd. from 2009 to 2011, the Chairman of Korea Life Insurance Association from 2005 to 2008, a member of the Monetary Policy Committee of the Bank of Korea from 2000 to 2004 and the Chairman and President of the Korea Deposit Insurance Corporation from 1999 to 2000. Mr. Namkoong received a master s degree Public Administration from the University of Wisconsin at Madison.

Ke Sop Yun has been our outside director since March 17, 2009. Mr. Yun is currently a professor emeritus of business administration at Seoul National University and also serves as the Chairman of the Seoul Economist Club. Mr. Yun received a Ph.D. from the graduate school of Seoul National University.

Jaekun Yoo has been our outside director since March 23, 2011. Mr. Yoo is currently the Chairman of Sankeihonsha Co., Ltd. Prior to his current position, Mr. Yoo served as a Non-executive director of Shinhan Financial Group in 2003, the Chairman of Korean-Japanese Chamber of Commerce in Tokyo from 1997 to 2003 and a Non-executive Director at Shinhan Bank in 1998.

Jung Il Lee has been our outside director since March 23, 2011. Mr. Lee currently serves as the Chief Executive Officer of Hirakawa Shoji Co., Ltd. Prior to his current position, Mr. Lee served as an Outside Director of Shinhan Financial Group in 2009. Mr. Lee received a bachelor s degree in political science and economics at Meiji University.

Haruki Hirakawa has been our outside director since March 23, 2011. Mr. Hirakawa currently serves as the Chief Executive Officer of Kokusai Kaihatus Co., Ltd. Prior to his current position, Mr. Hirakawa served as the Chief Executive Officer of Shinei Shoji Co., Ltd. and Hirakawa Shoji Co., Ltd. Mr. Hirakawa received a bachelor s degree in political science and economics at Kinki University.

Philippe Aguignier has been our outside director since March 24, 2010. Mr. Aguignier was nominated by BNP Paribas and elected to our board of directors pursuant to the alliance agreement dated December 2001 between us and BNP Paribas. See Item 7.B. Related Party Transactions. Mr. Aguignier is currently the Head of BNP Paribas Asia Retail Banking. Mr. Aguignier received a Ph.D. in Far Eastern Studies from Universite Paris III (Inalco).

Any director wishing to enter into a transaction with Shinhan Financial Group including the subsidiaries in his or her personal capacity is required to obtain the prior approval of our Board of Directors. The director having an interest in the transaction may not vote at the meeting of our Board of Directors at which the relevant transaction is subject to vote for approval.

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Executive Officers

In addition to the executive directors who are also our executive officers, we currently have the following executive officers.

Name	Age	Position	In charge of
Buhmsoo Choi	54	Deputy President and Chief Financial Officer	Strategic Planning Team Global Business Strategy Team Shinhan FSB Research Institute
Jae Gwang Soh	49	Executive Vice-President	Synergy Management Team Information and Technology Planning Team Audit Team
Jung Kee Min	52	Executive Vice-President	Business Management Team Finance Management Team Investor Relations Team
Dong Hwan Lee	51	Executive Vice-President	Public Relations Team Corporate Social Responsibility and Culture Management Team General Affairs Team

None of the executive officers have any significant activities outside Shinhan Financial Group.

Buhmsoo Choi has been our Deputy President and Chief Financial Officer since May 28, 2007. Mr. Choi previously served as vice president of Korea Credit Bureau. Mr. Choi also serves as an outside director of Shinhan BNPP Asset Management. Mr. Choi received a bachelor s degree in economics from Seoul National University and a Ph.D. in economics from Yale University.

Jae Gwang Soh has been appointed as our Executive Vice-President on April 18, 2011. Mr. Soh previously served as deputy president of Shinhan Card in charge of risk management and held various posts at Shinhan Card and LG Card. Mr. Soh also currently serves as a non-executive director of Shinhan Bank and Shinhan Capital. Mr. Soh received a bachelor s degree in business management from Korea University.

Jung Kee Min has been appointed as our Executive Vice-President on August 25, 2010. Mr. Min previously served as head of the large corporate financing center of Shinhan Bank and held various posts at Shinhan Financial Group and Chohung Bank. Mr. Min also currently serves as an outside director of Shinhan Card and Shinhan Life Insurance and as a non-executive director of Jeju Bank. Mr. Min received a bachelor s degree in German language from Seoul National University.

Dong Hwan Lee has been appointed as our Executive Vice-President on April 18, 2011**.** Mr. Lee previously served as deputy vice president of Shinhan Bank in charge of capital markets and held various posts at Shinhan Bank and Shinhan Financial Group. Mr. Lee also currently serves as an outside director of Shinhan Investment and a non-executive director of Shinhan Data System and Shinhan Private Equity. Mr. Lee received a bachelor s degree in business management from Yonsei University

There are no family relationships among our directors and/or executive officers.

ITEM 6.B. ***Compensation***

The aggregate remuneration paid and benefits-in-kind paid by us to our chairman, our president and chief executive officer, our other executive directors, our non-executive directors and our executive officers for the year ended December 31, 2010 was (Won)4.8 billion, consisting of (Won)2.7 billion in salaries and wages and (Won)2.1 billion in bonus payments.

We do not have service contracts with any of our directors or officers providing for benefits upon termination of their employment with us.

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Prior to April 1, 2010, we granted stock options to our chairman, our president and chief executive officer and other directors and executive officers as described below in Share Ownership Stock Options. For options granted prior to March 19, 2008, we are required to pay in cash the difference between the exercise and the market price at the date of exercise. These options are subject to a vesting period of two or three years from the grant date and require continued employment for two to three years. Upon vesting, options may be exercised during a period commencing on two or three years from the grant date and ending four years thereafter. In December 2008 and March 2009, in light of growing concerns relating to the global financial crisis, directors and officers of us and our subsidiaries voluntarily returned stock options exercisable into a total of 85,840 shares and 614,735 shares, respectively, which were subsequently rescinded. All stock options granted in 2009 have been returned. In 2010, we recognized (Won)13.5 billion as cumulative compensation expense for the stock options granted to our directors and management under our incentive stock option plan. Effective April 1, 2010, we ceased granting stock options.

Since March 20, 2007, we have granted performance units to certain high-ranking officers of select group companies. These performance units are performance-based cash compensation, the per-unit value of which is initially determined at the time of grant subject to adjustment after a fixed number of years based on the operating and financial performance of the relevant group company over the same or another fixed term, at the end of which a cash amount equal to the adjusted number of the performance units is paid out. For performance units granted prior to April 1, 2010, the performance review period was three years, and the payout was made at the end of the three-year term. For performance units granted on or after April 1, 2010, the performance review period has been extended principally to four years (and to a limited extent, five years), and the payment is made at the end of such four- or five-year term.

Since April 1, 2010, in addition to the performance units, we also grant performance shares to certain high-ranking officers of select group companies. The performance shares are conceptually similar to the performance units granted since April 1, 2010, except that the adjustment to the number of performance shares is made on the basis of the movements in the market price of our shares, rather than the operating and financial performance of the relevant group company. In addition, while the performance shares are paid out in cash at the end of the adjustment period, the grantee is contractually required to use the payout solely to purchase our shares in the market at the then-prevailing market price.

Currently, the aggregate amount of performance units and performance shares granted to a given grantee is generally equal to the expected incentive compensation payable to such grantee for three years of service starting from the date of the grant, which initial amount is computed based on the expected performance of the grantee s company and the expected price movements of our shares over the adjustment period. If the grantee is no longer employed by us or our subsidiaries during the adjustment period, a pro rata amount is paid out at the time of termination of employment. Neither the performance units nor the performance shares are granted to outside directors.

In 2010, we recognized (Won)1.1 billion and (Won)1.1 billion as cumulative compensation expenses for performance units and performance shares, respectively.

ITEM 6.C. ***Board Practices***

Board of Directors

Our board of directors, which currently consists of one executive director, one non-executive director and nine outside directors, has the ultimate responsibility for the management of our affairs.

Our Articles of Incorporation provide for no less than three but no more than 15 directors, the number of outside directors must be more than 50% of the total number of directors, and we must maintain at least three outside directors. All directors are elected for a term not exceeding three years as determined by the shareholders meeting, except that outside directors are elected for a term not exceeding two years, provided that the term of re-election shall not exceed 1 year and the term cannot be extended in excess of 5 years.

Terms are renewable and are subject to the Korean Commercial Code, the Financial Holding Companies Act and related regulations. See Item 6.A. Directors and Senior Management above for information concerning the terms of office of our directors and executive officers.

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Our board of directors meets on a regular basis to discuss and resolve material corporate matters. Additional extraordinary meetings may also be convened at the request of the president and chief executive officer or a director designated by the board.

Currently, there are no outstanding service contracts between any of our directors or executive officers and us or any of our subsidiaries providing for benefits upon termination of employment by such director or executive officer.

Committees of the Board of Directors

We currently have six management committees that serve under the board:

- the Board Steering Committee;
- the Risk Management Committee;
- the Audit Committee
- the Outside Director Recommendation Committee;
- the Compensation Committee; and
- the Audit Committee Member Recommendation Committee.

Each committee member is appointed by the board of directors, except for members of the Audit Committee, who are elected at the general meeting of shareholders.

Board Steering Committee

The Board Steering Committee currently consists of four directors, namely Ke Sop Yun, Jung Il Lee and Hoon Namkoong together with the Chairman of our group. The committee is responsible for ensuring the efficient operations of the board and the facilitation of the board s functions. The committee s responsibilities also include reviewing and assessing the board s structure and the effectiveness of that structure in fulfilling the board s fiduciary responsibilities. The committee holds regular meetings every quarter.

Risk Management Committee

The Risk Management Committee currently consists of three directors, namely Kee Young Kim, Hoon Namkoong and Philippe Aguignier. The committee oversees and makes determinations on all issues relating to our comprehensive risk management function. In order to ensure our stable financial condition and to maximize our profits, the committee monitors our overall risk exposure and reviews our compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions, reviews risk-based capital allocations, and reviews the plans and evaluation of internal control. The committee holds regular meetings every quarter.

Audit Committee

The Audit Committee currently consists of three outside directors, namely Ke Sop Yun, Taeeun Kwon and Seok Won Kim. The committee oversees our financial reporting and approves the appointment of and interaction with our independent auditors and our internal audit-related officers. The committee also reviews our financial information, audit examinations, key financial statement issues and the administration of our financial affairs by the board of directors. In connection with the general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors for each general meeting of stockholders. The committee holds

regular meetings every quarter.

Outside Director Recommendation Committee

Members of this committee will be appointed by our board of directors if and only to the extent necessary to recommend and nominate candidates for our outside director positions and related matters. The committee meetings are called by the chairman of this committee, who must be an outside director.

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Compensation Committee

The Compensation Committee currently consists of two directors, namely Kee Young Kim and Seok Won Kim. At least one-half of the members of this committee must be outside directors. This committee is responsible for reviewing and approving the management s evaluation and compensation programs. The committee meetings are called by the chairman of this committee, who must be an outside director.

Audit Committee Member Recommendation Committee

Members of this committee will be appointed by our board of directors if and only to the extent necessary to recommend and nominate candidates for our audit committee member positions and related matters. This committee recommends candidates for the members of the Audit Committee and is required to act on the basis of a two-thirds vote of the members present.

ITEM 6.D. ***Employees***

At the holding company level, we had 97, 129 and 136 regular employees as of December 31, 2008, 2009 and 2010, respectively, almost all of whom are employed within Korea. Our subsidiaries had 17,110, 16,628 and 17,394 regular employees as of December 31, 2008, 2009 and 2010, respectively, almost all of whom are employed within Korea. In addition, we had 1, 6 and 9 non-regular employee at the holding company level as of December 31, 2008, 2009 and 2010, respectively, and 3,501, 3,369 and 4,095 non-regular employees at the subsidiary level as of December 31, 2008, 2009 and 2010, respectively. Of the total number of regular and non-regular employees at both the holding company and subsidiaries, approximately 46.5% were managerial or executive employees.

7,758 employees of Shinhan Bank, 316 employees of Jeju Bank and 1,566 employees of Shinhan Investment were members of Korea Securities Trade Union as of December 31, 2010. 2,676 employees of Shinhan Card were members of the Korean Federation of Clerical and Financial Labor Union as of December 31, 2010.

Since our acquisition of Chohung Bank in 2003, we have not experienced any general employee work stoppages and consider our employee relations to be good.

Under the Korean National Pension Law, we annually contribute an amount equal to 4.5% of employee wages and contribute 4.5% of employees wages which are deducted from such wages to the National Pension Management Corporation. 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. We make provisions for accrued severance indemnities based upon the assumption that all employees terminate their employment with us at the same time. As of December 31, 2010, the provisions for accrued severance benefits were (Won)512 billion, which represents 101.3% of the amount required under the Korean Labor Standard Law. Under Korean law, we may not terminate full time employees except under certain circumstances.

ITEM 6.E. ***Share Ownership***

As of December 31, 2010, the persons who are currently our directors or executive officers, as a group, beneficially held an aggregate of 3,617,087 shares of our common stock representing approximately 0.76% of our outstanding common stock as of such date. None of these persons individually held more than 1% of our outstanding common stock as of such date.

Stock Options

We have granted stock options to certain of the directors and officers of the holding company and its subsidiaries. For options granted prior to March 30, 2005, we are required to pay in cash the difference between the exercise and the market price at the date of exercise. For options issued on or after March 30, 2005, we may either issue common stock or pay in cash the difference between the exercise and the market price at the date of exercise. The following table is the breakdown of outstanding stock options with respect to our common stock

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that we have granted to our directors and officers, describing the grant dates, positions held by such directors and officers, exercise period, price and the number of options as of June 3, 2011.

		Exercise Period				
	Grant Date	From	To	Exercise Price (In Won)	Number of Granted Options	Number of Options Outstanding
Shinhan Financial Group						
Dong Woo Han	3/21/2006	3/21/2009	3/20/2013	38,829	43,822	43,822
(Chairman & Chief Executive Officer)	3/20/2007	3/20/2010	3/19/2014	54,560	21,911	21,911
Buhmsoo Choi	3/19/2008	3/19/2011	3/18/2015	49,053	9,466	9,466
(Deputy President)	3/17/2009	3/17/2012	3/16/2016	23,405	9,000	
Jae Gwang Soh	3/19/2008	3/19/2011	3/18/2015	49,053	5,989	5,989
(Executive Vice-President)	3/17/2009	3/17/2012	3/16/2016	23,405	5,940	
Jung Kee Min	3/21/2006	3/21/2009	3/20/2013	38,829	1,800	1,800
(Executive Vice-President)						
Dong Hwan Lee	3/30/2005	3/30/2008	3/29/2012	28,006	2,000	2,000
(Executive Vice-President)	3/21/2006	3/21/2009	3/20/2013	38,829	2,100	2,100
	3/20/2007	3/20/2010	3/19/2014	54,560	3,000	3,000
Shinhan Bank						
Jin Won Suh	3/30/2005	3/30/2008	3/29/2012	28,006	20,000	20,000
(President & Chief Executive Officer)	3/21/2006	3/21/2009	3/20/2013	38,829	20,679	20,679
	3/20/2007	3/20/2010	3/19/2014	54,560	10,379	10,379
	3/19/2008	3/19/2011	3/18/2015	49,053	17,600	17,600
	3/17/2009	3/17/2012	3/16/2016	23,405	16,000	
Sung Ho Wi	3/30/2005	3/30/2008	3/29/2012	28,006	1,800	1,800
(Deputy President)	3/21/2006	3/21/2009	3/20/2013	38,829	2,500	2,500
	3/20/2007	3/20/2010	3/19/2014	54,560	3,000	3,000
	3/19/2008	3/19/2011	3/18/2015	9,053	7,100	7,100
	3/17/2009	3/17/2012	3/16/2016	23,405	9,000	
Dong Dae Lee	3/30/2005	3/30/2008	3/29/2012	28,006	2,500	2,500
(Deputy President)	3/21/2006	3/21/2009	3/20/2013	38,829	2,500	2,500
	3/20/2007	3/20/2010	3/19/2014	54,560	3,000	3,000
	3/19/2008	3/19/2011	3/18/2015	49,053	3,311	3,311
	3/17/2009	3/17/2012	3/16/2016	23,405	6,750	
Se Il Oh	3/30/2005	3/30/2008	3/29/2012	28,006	1,800	1,800
(Deputy President)	3/21/2006	3/21/2009	3/20/2013	38,829	2,100	2,100
	3/19/2008	3/19/2011	3/18/2015	49,053	3,311	3,311
	3/17/2009	3/17/2012	3/16/2016	23,405	6,750	
Yong Byoung Cho	3/30/2005	3/30/2008	3/29/2012	28,006	1,800	1,800
(Deputy President)	3/21/2006	3/21/2009	3/20/2013	38,829	2,500	2,500
	3/20/2007	3/20/2010	3/19/2014	54,560	3,000	3,000
	3/17/2009	3/17/2012	3/16/2016	23,405	6,750	
Jong Bok Moon	3/30/2005	3/30/2008	3/29/2012	28,006	1,500	1,500
(Deputy President)	3/21/2006	3/21/2009	3/20/2013	38,829	1,800	1,800
	3/20/2007	3/20/2010	3/19/2014	54,560	3,000	3,000
	3/17/2009	3/17/2012	3/16/2016	23,405	6,750	

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		Exercise Period				
	Grant Date	From	To	Exercise Price (In Won)	Number of Granted Options	Number of Options Outstanding
In Jong Joo	3/30/2005	3/30/2008	3/29/2012	28,006	1,800	1,800
(Executive Vice President)	3/21/2006	3/21/2009	3/20/2013	38,829	2,000	2,000
	3/17/2009	3/17/2012	3/16/2016	23,405	3,500	
Young Oh Seol	3/30/2005	3/30/2008	3/29/2012	28,006	1,600	
(Executive Vice President)	3/21/2006	3/21/2009	3/20/2013	38,829	2,000	2,000
Sang Ho Lee	3/21/2006	3/21/2009	3/20/2013	38,829	1,500	1,500
(Executive Vice President)						
Young Pyo Kim	3/30/2005	3/30/2008	3/29/2012	28,006	2,000	
(Executive Vice President)	3/21/2006	3/21/2009	3/20/2013	38,829	2,100	2,100
	3/17/2009	3/17/2012	3/16/2016	23,405	3,500	
Sin Gee Lee	3/30/2005	3/30/2008	3/29/2012	28,006	1,400	1,400
(Executive Vice President)	3/21/2006	3/21/2009	3/20/2013	38,829	1,800	1,800
	3/17/2009	3/17/2012	3/16/2016	23,405	3,500	
Young Soo Choi	3/30/2005	3/30/2008	3/29/2012	28,006	1,800	
(Executive Vice President)	3/21/2006	3/21/2009	3/20/2013	38,829	2,000	2,000
Young Jin Lim	3/30/2005	3/30/2008	3/29/2012	28,006	1,600	1,600
(Executive Vice President)	3/21/2006	3/21/2009	3/20/2013	38,829	1,800	1,800
Shinhan Card						
Jae Woo Lee	3/30/2005	3/30/2008	3/29/2012	28,006	19,889	19,889
(President & Chief Executive Officer)	3/21/2006	3/21/2009	3/20/2013	38,829	22,559	22,559
	3/20/2007	3/20/2010	3/19/2014	54,560	10,379	10,379
	3/19/2008	3/19/2011	3/18/2015	49,053	17,567	17,567
	3/17/2009	3/17/2012	3/16/2016	23,405	17,600	
Hee Geon Kim	3/21/2006	3/21/2009	3/20/2013	38,829	14,937	14,937
(Deputy CEO)	3/20/2007	3/20/2010	3/19/2014	54,560	8,164	8,164
	3/19/2008	3/19/2011	3/18/2015	49,053	7,411	7,411
	3/17/2009	3/17/2012	3/16/2016	23,405	7,425	
Chun Kuk Lee	3/30/2005	3/30/2008	3/29/2012	28,006	1,200	1,200
(Deputy CEO)	3/21/2006	3/21/2009	3/20/2013	38,829	1,400	1,400
	3/20/2007	3/20/2010	3/19/2014	54,560	7,422	7,422
	3/19/2008	3/19/2011	3/18/2015	49,053	6,588	6,588
	3/17/2009	3/17/2012	3/16/2016	23,405	6,750	
Jeong Cheol Kim	3/30/2005	3/30/2008	3/29/2012	28,006	2,500	2,500
(Deputy CEO)	3/21/2006	3/21/2009	3/20/2013	38,829	2,500	2,500
	3/20/2007	3/20/2010	3/19/2014	54,560	6,616	6,616
	3/19/2008	3/19/2011	3/18/2015	49,053	3,642	3,642
	3/17/2009	3/17/2012	3/16/2016	23,405	6,750	
Byung Gook Song	3/30/2005	3/30/2008	3/29/2012	28,006	2,500	2,500
(Deputy CEO)	3/21/2006	3/21/2009	3/20/2013	38,829	1,800	1,800
	3/19/2008	3/19/2011	3/18/2015	49,053	3,311	3,311
	3/17/2009	3/17/2012	3/16/2016	23,405	3,500	

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		Exercise Period				
	Grant Date	From	To	Exercise Price (In Won)	Number of Granted Options	Number of Options Outstanding
Shinhan Investment Corp.						
Hyu Won Lee	3/30/2005	3/30/2008	3/29/2012	28,006	20,000	20,000
(Chief Executive Officer)	3/21/2006	3/21/2009	3/20/2013	38,829	20,793	20,793
	3/20/2007	3/20/2010	3/19/2014	54,560	10,397	10,397
	3/19/2008	3/19/2011	3/18/2015	49,053	9,366	9,366
	3/17/2009	3/17/2012	3/16/2016	23,405	16,000	
Jin Kook Lee	3/30/2005	3/30/2008	3/29/2012	28,006	14,080	
(Vice President)	3/21/2006	3/21/2009	3/20/2013	38,829	13,190	7,000
	3/20/2007	3/20/2010	3/19/2014	54,560	5,834	5,834
	3/19/2008	3/19/2011	3/18/2015	49,053	5,754	5,754
	3/17/2009	3/17/2012	3/16/2016	23,405	6,750	
Kyoung Eun Yoon	3/30/2005	3/30/2008	3/29/2012	28,006	1,600	
(Vice President)	3/21/2006	3/21/2009	3/20/2013	38,829	4,397	
	3/20/2007	3/20/2010	3/19/2014	54,560	3,889	3,889
	3/19/2008	3/19/2011	3/18/2015	49,053	1,937	1,937
	3/17/2009	3/17/2012	3/16/2016	23,405	2,750	
Byung Kuk Rhee	3/30/2005	3/30/2008	3/29/2012	28,006	1,400	1,400
(Vice President)	3/21/2006	3/21/2009	3/20/2013	38,829	1,600	1,600
	3/20/2007	3/20/2010	3/19/2014	54,560	3,889	3,889
	3/19/2008	3/19/2011	3/18/2015	49,053	2,131	2,131
	3/17/2009	3/17/2012	3/16/2016	23,405	2,500	
Shinhan Life Insurance						
Jeum Joo Gweon	3/30/2005	3/30/2008	3/29/2012	28,006	2,500	
(President & Chief Executive Officer)	3/21/2006	3/21/2009	3/20/2013	38,829	6,616	6,616
	3/20/2007	3/20/2010	3/19/2014	54,560	7,089	7,089
	3/19/2008	3/19/2011	3/18/2015	49,053	9,366	9,366
	3/17/2009	3/17/2012	3/16/2016	23,405	9,000	
Byung Chan Lee	3/21/2006	3/21/2009	3/20/2013	38,829	14,939	14,939
(Vice President)	3/20/2007	3/20/2010	3/19/2014	54,560	8,217	8,217
	3/19/2008	3/19/2011	3/18/2015	49,053	7,425	7,425
	3/17/2009	3/17/2012	3/16/2016	23,405	6,750	
Jung Kun Lee	3/30/2005	3/30/2008	3/29/2012	28,006	2,500	2,500
(Vice President)	3/21/2006	3/21/2009	3/20/2013	38,829	6,616	6,616
	3/20/2007	3/20/2010	3/19/2014	54,560	6,616	6,616
	3/19/2008	3/19/2011	3/18/2015	49,053	6,750	6,750
	3/17/2009	3/17/2012	3/16/2016	23,405	6,750	
Jae Gun Bae	3/21/2006	3/21/2009	3/20/2013	38,829	1,200	1,200
(Vice President)	3/20/2007	3/20/2010	3/19/2014	54,560	1,800	1,800
	3/17/2009	3/17/2012	3/16/2016	23,405	5,400	
Ho Kyung Bae	3/21/2006	3/21/2009	3/20/2013	38,829	1,000	
(Vice President)	3/17/2009	3/17/2012	3/16/2016	23,405	5,400	

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		Exercise Period				
	Grant Date	From	To	Exercise Price (In Won)	Number of Granted Options	Number of Options Outstanding
Choun Sik Lee	3/21/2006	3/21/2009	3/20/2013	38,829	1,200	1,200
(Vice President)	3/20/2007	3/20/2010	3/19/2014	54,560	1,800	1,800
Hyung Kook Bae	3/21/2006	3/21/2009	3/20/2013	38,829	1,000	1,000
(Vice President)						
Total					**773,709**	**548,777**

In addition, members of the employee stock ownership association have certain pre-emptive rights in relation to our shares that are publicly offered under the Financial Investment Services and Capital Markets Act. As of December 31, 2010, the employee stock ownership association owned 17,005,029 shares of our common stock.

ITEM 7. *MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS*

ITEM 7.A. *Major Shareholders*

The following table sets forth certain information relating to the beneficial ownership of our common shares as of December 31, 2010.

Name of Shareholder	Number of Common Shares Beneficially Owned	Beneficial Ownership %
BNP Paribas Group	30,106,276	6.35%
National Pension Service	28,957,592	6.11%
Citibank, N.A. (ADR Department)	19,346,872	4.08%
Shinhan Financial Group Employee Stock Ownership Association	17,005,029	3.59%
Saudi Arabian Monetary Agency	13,300,931	2.80%
The Lazard Funds Inc.	12,002,550	2.53%
Mirae Asset Investments Co., Ltd	8,161,005	1.72%
The Government of Singapore	6,401,780	1.35%
Mizuho	5,955,000	1.26%
Samsung Life Insurance	5,386,699	1.14%
Daekyo Co., Ltd.	5,076,687	1.07%
Others	322,499,166	68.00%
Total	474,199,587	100.00%

Other than those listed above, no other person or entity known by us, jointly or severally, directly or indirectly own more than 1% of our issued and outstanding voting securities or otherwise exercise control or could exercise control over us. None of our shareholders have different voting rights.

As of December 31, 2010, a total of 14,721,000 Series 11 non-voting redeemable convertible preferred shares were outstanding, all of which were issued on January 25, 2007 in registered form and subscribed by institutional investors and government agencies in Korea. The holders of these shares may, at their option, convert all or part of any outstanding such shares into our common shares at any time from the date after the first anniversary of the issuance date until the fifth anniversary of the issuance date, at a conversion rate of one-to-one with the conversion strike price of (Won)57,806.

As of the date hereof, our total authorized share capital is 1,000,000,000 shares, par value (Won)5,000 per share. As of December 31, 2008, 396,199,587 common shares and 62,411,251 preferred shares were issued and outstanding, and as of June 10, 2009 and following the issuance of 11,100,000 Series 12 redeemable preferred

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shares on April 21, 2011, 474,199,587 common shares and 54,811,000 preferred shares were issued and outstanding. See Item 10.B. Memorandum and Articles of Incorporation Description of Preferred Stock.

As of December 31, 2010, the latest date on which we closed our shareholders registry, 384 shareholders of record were chartered as U.S. persons, holding in the aggregate 20.9% of our then total outstanding shares (including Citibank, N.A., as the depositary for our American depositary shares, each representing two shares of our common stock).

ITEM 7.B. ***Related Party Transactions***

Since the beginning of the preceding three financial years, none of our directors or officers has or had any transactions with us that are or were unusual in their nature or conditions or significant to our business, other than as set forth below and also described in note 33 to our consolidated financial statements included in this annual report.

In December 2001, BNP Paribas acquired 4.00% of our common stock in return for an investment of approximately (Won)155 billion in cash pursuant to an alliance agreement. Under the terms of the alliance agreement, for so long as BNP Paribas does not sell or otherwise transfer (except to any of its wholly-owned subsidiaries) any portion of its ownership interest in our common stock and maintains, after any issuances of new shares by us from time to time, its shareholding percentage of not less than 3.5% of our issued common stock, we are required to call a meeting of our shareholders to recommend that one nominee of BNP Paribas be elected to our board of directors. In addition, under the alliance agreement, BNP Paribas has the right to subscribe for new issuances of our common shares in the event that such new issuances would result in the dilution of the shareholding percentage of BNP Paribas below 3.5%. As of December 14, 2010, BNP Paribas Group held 30,106,276 shares, or 6.35%, of our total common stock.

As of December 31, 2010, the outstanding balance of beneficiary certificates invested into Shinhan BNP Paribas Asset Management was (Won)330 billion.

In 2002, we entered into a joint venture agreement with BNP Paribas Asset Management, the asset management affiliate of BNP Paribas, under which we sold to BNP Paribas Asset Management 50% interest minus one share of our wholly-owned subsidiary, Shinhan Investment Trust Management, after which Shinhan Investment Trust Management was renamed Shinhan BNP Paribas Investment Trust Management Co., Ltd. In January 2009, we and BNP Paribas agreed to merge Shinhan BNP Paribas Investment Trust Management and Asset Management, our wholly-owned subsidiary, to form Shinhan BNP Paribas Asset Management, of which we and BNP Paribas Investment Partners hold 65:35 equity interest, respectively.

On June 26, 2009, we sold 4,700,001 common shares, or approximately 35%, of Cardif Life Insurance Company, a 50:50 joint venture with BNP Paribas Assurance (formerly known as Cardif S.A.), to BNP Paribas Assurance for (Won)23 billion. Following this transaction, BNP Paribas Assurance owns approximately 85% of Cardif Life Insurance Company. Since we as a financial holding company are not allowed to maintain an equity interest of less than 50% in an entity, we transferred our remaining shares in Cardif Life Insurance Company to Shinhan Bank for (Won)7.26 billion.

As of December 31, 2008, 2009, 2010 and May 31, 2011, we had principal loans outstanding to our directors, executive officers and their affiliates in the principal amount of (Won)254 billion, (Won)7.7 billion, (Won)3.8 billion and (Won)2.7 billion, which were made in the ordinary course of business on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectability or present other unfavorable features.

ITEM 7.C. ***Interests of Experts and Counsel***

Not applicable.

ITEM 8. ***FINANCIAL INFORMATION***

ITEM 8.A ***Consolidated Statements and Other Financial Information***

See Item 18. Financial Statements and our consolidated financial statements included in this annual report.

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Legal Proceedings

As of December 31, 2010, we and our subsidiaries were defendants in pending lawsuits (including any government proceedings) in the aggregate claim amount of (Won)374 billion, for which we recorded a provision of (Won)146 billion. Our management believes that these lawsuits will not have a material adverse effect on our financial condition, equity or results of operation.

Dividend Policy

For a detailed description on the dividend policy, please see Item 10.B. Memorandum and Articles of Incorporation Description of Share Capital Dividends.

ITEM 8.B. Significant Changes

Not applicable.

ITEM 9. *THE OFFER AND LISTING*

ITEM 9.A. Offer and Listing Details

Market Prices of Common Stock and American Depositary Shares

The principal trading market for our common shares is the KRX KOSPI Market Division of the Korea Exchange, where our common shares were listed on September 10, 2001. Our American depositary shares have been listed on the New York Stock Exchange since September 16, 2003 and are identified by the symbol SHG.

The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Korea Exchange for our common stock since 2006, and their high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our American depositary shares since 2006.

	Korea Exchange			New York Stock Exchange		
	Closing Price per Common Stock			Closing Price per ADS		
	High	Low	Average Daily Trading Volume (Shares)	High	Low	Average Daily Trading Volume (ADSs)
2006	49,500	36,800	1,385,417	106.08	74.05	26,422
2007	66,200	45,450	1,696,165	148.29	96.75	36,042
2008	58,900	25,600	2,206,295	118.35	32.68	79,215
First Quarter	52,500	45,150	1,567,340	113.45	90.97	66,619
Second Quarter	58,900	44,550	1,867,102	118.35	86.79	52,614
Third Quarter	50,300	41,500	2,021,075	98.07	68.47	74,154
Fourth Quarter	42,000	25,600	3,369,664	71.00	32.68	122,474
2009	49,550	20,500	3,219,298	86.42	26.25	115,649
First Quarter	32,950	20,500	4,361,545	50.34	26.25	166,528
Second Quarter	34,000	25,750	3,983,458	56.66	38.24	130,567
Third Quarter	48,950	32,900	2,750,514	82.87	50.56	85,639
Fourth Quarter	49,550	43,200	1,840,262	86.42	74.28	82,481
2010	53,600	39,250	1,830,799	93.82	66.31	53,391
First Quarter	45,700	39,250	1,761,349	81.37	66.37	69,387
Second Quarter	49,100	41,050	1,649,918	88.35	66.31	54,948
Third Quarter	49,200	42,300	1,733,324	84.91	72.77	40,880

Fourth Quarter	53,600	41,950	2,162,985	93.82	73.38	49,150
2011 (through June 14)	53,800	46,250	1,868,497	97.40	82.76	51,903
January	53,800	49,500	1,693,712	95.65	89.03	50,768
February	51,600	47,100	1,647,269	94.52	83.56	45,004
March	50,900	46,350	1,737,786	91.09	82.76	37,308
April	52,500	46,250	2,545,003	97.02	85.29	74,376
May	52,400	47,200	1,774,629	97.40	87.07	57,482
June (through June 14)	51,000	48,850	1,643,798	94.66	90.18	46,193

Source: Korea Exchange; New York Stock Exchange

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ITEM 9.B. Plan of Distribution
Not applicable.

ITEM 9.C. Markets
The Korea Exchange

Pursuant to the Korea Stock and Futures Exchange Act, as of January 27, 2005, the Korea Stock Exchange, which began its operations in 1956, the KRX KOSDAQ, which began its operation in July 1, 1996, and the Korea Futures Exchange (as an exchange operating futures market and options market), which began its operation in February 1, 1999, were unified to form the Korea Exchange.

The Korea Exchange was established in a form of a limited liability stock company in accordance with the Korean Commercial Code with the minimum paid-in capital of (Won)100 billion in accordance with the Financial Investment Services and Capital Markets Act. The Korea Exchange is presently the only exchange in Korea that serves as a spot market and a futures market. It operates and supervises three market divisions, the KRX KOSPI Market Division, the KRX KOSDAQ Market Division, and the KRX Futures Market Division. It has its principal office in Pusan.

As of December 31, 2010, the aggregate market value of equity securities listed on the Korea Exchange was approximately (Won)1,141.0 trillion. The average daily trading volume of equity securities for 2010 was approximately 379.2 million shares with an average transaction value of (Won)5.6 trillion.

Even though the Financial Investment Services and Capital Markets Act prescribed that the Korea Exchange be established in a form of a limited liability stock company, the Korea Exchange is expected to play a public role as a public organization. In order to safeguard against a possible conflict, the Financial Investment Services and Capital Markets Act has placed restrictions on the ownership and operation of the Korea Exchange as follows:

- Any person s ownership of shares in the Korea Exchange is limited to 5% or less except for an investment trust company or investment company established under the Financial Investment Services and Capital Markets Act, or the Korean government. However, upon prior approval from the Financial Services Commission, more than 5% ownership in Korea Exchange is permitted if necessary for forming strategic alliance with a foreign stock or futures exchange;

- The number of outside directors on the board of directors of the Korea Exchange shall be more than half of the total number of directors;

- Any amendment to the Articles of Incorporation, transfer or consolidation of business, spin off, stock swap in its entirety or transfer of shares in its entirety of the Korea Exchange will receive prior approval from the Financial Services Commission; and

- In the event the Financial Services Commission determines that the chief executive officer of the Korea Exchange is not appropriate for the position, the Financial Services Commission can request the Korea Exchange upon reasonable cause, within one month from the chief executive officer s election, to dismiss the chief executive officer. Subsequently, the chief executive officer will be suspended from performing his duties and the Korea Exchange will elect a new chief executive officer within two months from the request.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semiannually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector of the Korean economy and its actions may depress or boost the stock market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

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The Korea Exchange publishes the Korea Composite Stock Price Index (KOSPI) every ten seconds, which is an index of all equity securities listed on the Korea Exchange. Historical movements in KOSPI are set out in the following.

	Opening(1)	High	Low	Closing
2001	503.31	715.93	463.54	693.70
2002	698.00	943.54	576.49	627.55
2003	633.03	824.26	512.30	810.71
2004	821.26	939.52	713.99	895.92
2005	893.71	1383.14	866.17	1,379.37
2006	1,389.27	1,464.70	1,192.09	1,434.46
2007	1,435.26	2,085.45	1,345.08	1,897.13
2008	1,853.45	1,901.13	892.16	1,124.47
2009	1,157.40	1,723.17	992.69	1,682.77
2010	1,696.14	2,051.00	1,552.79	2,051.00
2011 (through June 14)	2,070.08	2,228.96	1,923.92	2,076.83

Source: Korea Exchange

Note:

(1) The figures represent the daily closing price of the first trading day of the respective year.

Shares are quoted ex-dividend on the first trading day of the relevant company s accounting period. Ex-dividend refers to a share no longer carrying the right to receive the following dividend payment because the settlement date occurs after the record date for determining which shareholders are entitled to receive dividends. Ex-rights refers to shares no longer carrying the right to participate in the following rights offering or bonus issuance because the settlement date occurs after the record date for determining which shareholders are entitled to new shares. The calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 15% of the previous day s closing price of the shares, rounded down as set out below:

Previous Day s Closing Price	Rounded Down to Won
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the financial investment companies with brokerage licenses. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares on the Korea Exchange. A special agricultural and fishery tax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10.E. Taxation Korean Taxation.

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The number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table.

		Total Market Capitalization		Average Daily Trading Volume, Value		
Year	Number of Listed Companies	(Millions of Won)	(Thousands of Dollars)(1)	Thousands of Shares	(Millions of Won)	(Thousands of Dollars)(1)
2000	704	188,041,490	148,393,204	306,163	2,602,211	2,053,796
2001	689	255,850,070	192,934,221	473,241	1,997,420	1,506,236
2002	683	258,680,756	215,445,465	857,245	3,041,598	2,533,820
2003	684	355,362,626	298,121,331	542,010	2,216,636	1,859,594
2004	683	412,588,139	398,597,371	372,895	2,232,109	2,156,419
2005	702	655,074,595	648,588,628	467,629	3,157,662	3,126,398
2006	731	704,587,508	757,620,976	279,096	3,435,180	3,693,742
2007	745	951,900,447	1,016,010,724	363,732	5,539,588	5,912,677
2008	763	576,887,540	457,121,664	355,205	5,189,644	4,112,238
2009	770	887,935,183	763,060,356	486,232	5,802,506	4,986,470
2010	889	1,140,966,794	1,009,169,285	379,171	5,607,749	4,959,976
2011 (through June 14)	891	1,166,304,673	1,077,517,252	328,587	7,412,034	6,847,777

Source: Korea Exchange

Note:

(1) Converted at the Noon Buying Rate at the end of the periods indicated.

The Korean securities markets are principally regulated by the Financial Services Commission and the Financial Investment Services and Capital Markets Act. The law imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.

Protection of Customer s Interest in Case of Insolvency of Financial Investment Companies

Under Korean law, the relationship between a customer and a financial investment company in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the securities company) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent s creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a financial investment company, the customer of the financial investment company is entitled to the proceeds of the securities sold by the financial investment company. In addition, the Financial Investment Services and Capital Markets Act recognizes the ownership of a customer in securities held by a financial investment company in such customer s account.

When a customer places a sell order with a financial investment company which is not a member of the Korea Exchange and this financial investment company places a sell order with another financial investment company which is a member of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company. Likewise, when a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company s creditors are concerned.

In addition, under the Financial Investment Services and Capital Markets Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a

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financial investment company which is a member of the Korea Exchange breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

As the cash deposited with a financial investment company is regarded as belonging to the financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the financial investment company if a bankruptcy or reorganization procedure is instituted against the financial investment company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay each investor up to (Won)50 million per financial institution in case of the financial investment company s bankruptcy, liquidation, cancellation of securities business license or other insolvency events. The premiums related to this insurance are paid by financial investment companies. Pursuant to the Financial Investment Services and Capital Markets Act, a financial investment company with a dealing or brokerage license is required to deposit the cash received from its customers with the Korea Securities Finance Corporation, a special entity established pursuant to the Financial Investment Services and Capital Markets Act. Set-off or attachment of cash deposits by securities companies with the Korea Securities Finance Corporation is prohibited. In addition, in the event of bankruptcy or dissolution of the financial investment company, the cash so deposited shall be withdrawn and paid to the customer prior to payment to other creditors of the financial investment company.

Restrictions Applicable to ADSs

No Korean governmental approval is necessary for the sale and purchase of our ADSs in the secondary market outside Korea or for the withdrawal of shares of our common stock underlying the ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service as described below. The acquisition of the shares by a foreigner must be immediately reported to the governor of the Financial Services Commission, either by the foreigner or by his standing proxy in Korea.

Persons who have acquired shares of our common stock as a result of the withdrawal of shares underlying our ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further Korean governmental approval.

Under current Korean laws and regulations, the depositary is required to obtain our prior consent for the number of shares of our common stock to be deposited in any given proposed deposit that exceeds the difference between:

(1) the aggregate number of shares of our common stock deposited by us for the issuance of our ADSs (including deposits in connection with the initial issuance and all subsequent offerings of our ADSs and stock dividends or other distributions related to these ADSs); and

(2) the number of shares of our common stock on deposit with the depositary at the time of such proposed deposit. We have agreed to grant such consent to the extent that the total number of shares on deposit with the depositary would not exceed 20,216,314 at any time.

Reporting Requirements for Holders of Substantial Interests

Under the Financial Investment Services and Capital Markets Act, any person whose direct or beneficial ownership of our common stock with voting rights, whether in the form of shares of common stock or ADSs, certificates representing the rights to subscribe for shares and equity-related debt securities including convertible bonds and bonds with warrants (which we refer to collectively as Equity Securities), together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of the total outstanding shares (including Equity Securities of us held by such persons) is required to report the status of the holdings and the purpose of the holdings (for example, whether intending to seek management control) to the Financial Services Commission and the Korea Exchange within five business days after reaching the 5% ownership level. In addition, any change in the ownership interest subsequent to the report that equals or exceeds 1% of the total outstanding Equity Securities or change in the purpose of the holdings is required to be reported to the Financial Services Commission and the Korea Exchange within five business days from the date of the change (within ten days of the end of the month in which the change occurred, in the case of a person

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with no intent to seek management control and within ten days of the end of the quarter in which the change occurred, in the case of an institutional investor prescribed by the Financial Services Commission).

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and/or a loss of voting rights with respect to the portion of ownership of Equity Securities exceeding 5% of the total outstanding shares. In addition, the Financial Services Commission may order the disposal of the unreported Equity Securities. Any persons who reports management control as the purpose for its holdings is prohibited from acquiring additional shares or from exercising voting rights during the following five days following the reporting date.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our stock accounts for 10% or more of the total issued and outstanding shares (which we refer to as a major stockholder) must report the status of his/her shareholding to the Korea Securities Futures Commission and the Korea Exchange within five days after he/she becomes a major stockholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Korea Securities Futures Commission and the Korea Exchange within five days after the change occurred. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment. Any single stockholder or persons who have a special relationship with such stockholder that jointly acquire more than 10% (4% in case of non-financial business group companies) of the voting stock of a Korean financial holding company who controls national banks will be subject to reporting or approval requirements pursuant to the Financial Holding Company Act. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restrictions on Financial Holding Company Ownership.

Restrictions Applicable to Shares

As a result of amendments to the Foreign Exchange Transaction Laws and Financial Services Commission regulations (which we refer to collectively as the Investment Rules) adopted in connection with the stock market opening from January 1992 and after that date, foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the Stock Market Division of the Korea Exchange or on the KOSDAQ Market Division of the Korea Exchange, unless prohibited by specific laws. Foreign investors may trade shares listed on the Stock Market Division of the Korea Exchange or on the KOSDAQ Market Division of the Korea Exchange only through the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange, except in limited circumstances, including:

- odd-lot trading of shares;
- acquisition of shares (which we refer to as Converted Shares) by exercise of warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depositary receipts issued outside of Korea by a Korean company;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of stockholders rights, including preemptive rights or rights to participate in free distributions and receive dividends;
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded subject to certain exceptions; and
- sale and purchase of shares at fair value between foreigners who are part of an investor group comprised of foreign companies investing under the control of a common investment manager pursuant to applicable laws or contract.

For over-the-counter transactions of shares between foreigners outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a securities company licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange must involve a licensed securities company in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions with respect to shares that are subject to a foreign ownership limit.

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The Investment Rules require a foreign investor who wishes to invest in shares on the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange (including Converted Shares and shares being issued for initial listing on the Stock Market Division of the Korea Exchange or on KOSDAQ Market Division of the Korea Exchange) to register its identity with the Financial Supervisory Service prior to making any such investment. The registration requirement does not, however, apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition. Upon registration, the Financial Supervisory Service will issue to the foreign investor an investment registration card, which must be presented each time the foreign investor opens a brokerage account with a securities company. Foreigners eligible to obtain an investment registration card include foreign nationals who have not been residing in Korea for a consecutive period of six months or more, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree of the Ministry of Strategy and Finance under the Korean Securities and Exchange Act. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea for the purpose of investment registration. However, a foreign corporation or depositary issuing depositary receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor s purchase of shares through the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor s acquisition or sale of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the governor of the Financial Supervisory Service at the time of each such acquisition or sale. A foreign investor must ensure that any acquisition or sale by it of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange in the case of trades in connection with a tender offer, odd-lot trading of shares, trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the governor of the Financial Supervisory Service by himself or his standing proxy, or, in the case of sale and purchase of shares at fair value between foreigners, who are part of an investor group comprised of foreign companies investing under the control of a common investment manager pursuant to applicable laws or contract. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), asset management companies, futures trading companies and internationally recognized custodians which will act as a standing proxy to exercise stockholders rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to his shares or perform any tasks related thereto on his behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed inevitable by reason of conflict between laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), the Korea Securities Depository, asset management companies, futures trading companies and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits his shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated

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public corporations may set a ceiling on the acquisition of shares by a single person in their articles of incorporation. Currently, Korea Electric Power Corporation is the only designated public corporation that has set such a ceiling. Furthermore, an investment by a foreign investor in 10% or more of the issued and outstanding shares with voting rights of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the Ministry of Commerce, Industry and Energy of Korea. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign or other shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company. For a description of such restrictions applicable to Korean banks, see Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Bank Ownership.

ITEM 9.D. Selling Shareholders
Not applicable.

ITEM 9.E. Dilution
Not applicable.

ITEM 9.F. Expenses of the Issue
Not applicable.

ITEM 10. ***ADDITIONAL INFORMATION***

ITEM 10.A. Share Capital
Not applicable.

ITEM 10.B. Memorandum and Articles of Incorporation
We are a financial holding company established under the Financial Holding Company Act. As set forth in our Articles of Incorporation, our objects and purposes as a financial holding company are, among others, to operate and manage financial companies or companies engaged in similar lines of business, to provide financial support to, or investments in, our subsidiaries and to develop and jointly sell products with our subsidiaries. We are registered with the commercial registry office of Seoul Central District Court.

Our articles of incorporation, which was last amended on March 23, 2011 to reflect a slight amendment to Article 11 of the Enforcement Decree of the Financial Holding Act relating to business objectives, is annexed to this annual report as Exhibit 1.1.

Description of Share Capital

This section provides information relating to our capital stock, including brief summaries of material provisions of our Articles of Incorporation, the Korean Commercial Code, the Financial Investment Services and Capital Markets Act, the Financial Holding Companies Act and certain related laws of Korea, all as currently in effect. The following summaries are intended to provide only summaries and are subject to the full text of the Articles of Incorporation and the applicable provisions of the Financial Investment Services and Capital Markets Act, the Korean Commercial Code, and certain other related laws of Korea.

General

As of December 31, 2010 and as of the date hereof, our authorized share capital is 1,000,000,000 shares. Our Articles of Incorporation provide that we are authorized to issue shares of preferred stock up to one-half of all of the issued and outstanding shares. Furthermore, through an amendment of the Articles of Incorporation, we have created new classes of shares in addition to the common shares and the preferred shares. See Description of Preferred Stock Redeemable Preferred Stock (Series 10) and Description of Preferred Stock Redeemable Convertible Preferred Stock (Series 11). As of December 31, 2010 and June 28, 2011, the number of our issued and outstanding common shares was 474,199,587 and 474,199,587 respectively.

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In August 2003, 9,383,459 redeemable preferred shares were issued as part of our funding for the acquisition of Chohung Bank. On August 19, 2010, we redeemed all 9,383,459 redeemable preferred shares for a total redemption amount (including accrued dividends) of (Won)182,794 million. As of December 31, 2010, there are no outstanding redeemable preferred shares issued in connection to our acquisition of Chohung Bank.

On January 25, 2007, we issued 28,990,000 redeemable preferred shares and 14,721,000 redeemable convertible preferred shares as part of our funding for the acquisition of LG Card, all of which were outstanding as of December 31, 2010 following scheduled redemptions. The terms of the preferred shares issued in connection with the acquisition of Chohung Bank are different from those of the preferred shares issued in connection with the acquisition of LG Card. See Description of Preferred Stock Redeemable Preferred Stock (Series 10) and Description of Preferred Stock Redeemable Convertible Preferred Stock (Series 11).

On April 20, 2011, as part of funding for partial redemption of the Series 10 redeemable preferred stock and the Series 11 redeemable convertible preferred stock, we issued 11,100,000 shares of the Series 12 non-voting redeemable preferred stock. See Description of Preferred Stock Redeemable Preferred Stock (Series 12) . Other than as described above, there are no other preferred shares authorized, issued or outstanding as of the date hereof.

All of the issued and outstanding shares are fully-paid and non-assessable, and are in registered form. As of the date hereof, our authorized but unissued share capital consists of 373,684,849 shares. We may issue the unissued shares without further shareholder approval but subject to a board resolution as provided in the Articles of Incorporation. See Distribution of Free Shares. Share certificates are issued in denominations of one, five, ten, 50, 100, 500, 1,000 and 10,000 shares. The par value of our common shares per share is Won 5,000.

Dividends

Dividends are distributed to shareholders in proportion to the number of shares of the relevant class of capital stock owned by each shareholder following approval by the shareholders at an annual general meeting of shareholders. We pay full annual dividends on newly issued shares (such as the common shares representing the American depositary shares (ADSs)) for the year in which the new shares are issued. We declare our dividend annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. The annual dividend must be paid to the shareholders of record as of the end of the preceding fiscal year within one month after the annual general meeting. Annual dividends may be distributed either in cash or in shares provided that shares must be distributed at par value and, if the market price of the shares is less than their par value, dividends in shares may not exceed one-half of the annual dividends. Under the Korean Commercial Code we do not have an obligation to pay any annual dividend unclaimed for five years from the scheduled payment date.

In addition, under the Korean Commercial Code and our Articles of Incorporation, we may pay interim dividends once during each fiscal year (in addition to the annual dividends). Unlike annual dividends, interim dividends may be paid upon the resolution of the board of directors and are not subject to shareholder approval. The interim dividends, if any, will be paid to the shareholders of record at 12:00 a.m. midnight, July 1 of the relevant fiscal year in cash. Under the Korean Commercial Code, an interim dividend may not be more than the net assets on the balance sheet of the immediately preceding fiscal period, after deducting (i) the capital of the immediately preceding fiscal period, (ii) the sum of the capital reserve and legal reserve accumulated up to the immediately preceding fiscal period, (iii) the amount of earnings for dividend payment approved at the general shareholders meeting of the immediately preceding fiscal period, (iv) other special reserves accumulated up to the immediately preceding fiscal period, either pursuant to the provisions of our Articles of Incorporation or to the resolution of the general meeting of shareholders, and (v) amount of legal reserve that should be set aside for the current fiscal period following the interim dividend payment.

Under the Financial Holding Companies Act and the regulations thereunder, a financial holding company may not pay an annual dividend unless it has set aside as its legal reserve an amount equal to at least one-tenth of its net income after tax and shall set aside such amount as its legal reserve until its legal reserve reaches at least the aggregate amount of its stated capital.

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Other than as set forth above and the dividend rights granted to preferred shareholders as further described in Description of Preferred Shares, our articles of incorporation do not provide special rights to our common or preferred shareholders to share in our profits. For information regarding Korean taxes on dividends, see Taxation Korean Taxation.

Distribution of Free Shares

In addition to permitting dividends in the form of shares to be paid out of retained or current earnings, the Korean Commercial Code permits a company to distribute to its shareholders, in the form of free shares, an amount transferred from the capital surplus or legal reserve to stated capital. These free shares must be distributed to all of the shareholders pro rata. Our Articles of Incorporation require the same types of preferred shares to be distributed to the holders of preferred shares in case of distribution of free shares. For information regarding the treatment under Korean tax laws of free share distributions, see Item 10.F. Taxation Korean Taxation Taxation of Dividends on Shares of Common Stock or American Depositary Shares.

Preemptive Rights and Issuance of Additional Shares

Unless otherwise provided in the Korean Commercial Code, a company may issue authorized but unissued shares at such times and upon such terms as the board of directors of the company may determine. The company must offer the new shares on uniform terms to all shareholders who have preemptive rights and who are listed on the shareholders register as of the record date. Our shareholders are entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. However, as provided in the Articles of Incorporation, we may issue new shares by resolution of board of directors to persons other than existing shareholders if those shares are (1) publicly offered (where the number of such shares so offered may not exceed 50% of our total number of issued and outstanding shares); (2) preferentially allocated to the members of the ESOA pursuant to relevant provisions of the Financial Investment Services and Capital Markets Act; (3) issued for the purpose of issuing depositary receipts pursuant to relevant provisions of the Financial Investment Services and Capital Markets Act (where the number of such shares so issued may not exceed 50% of our total number of issued and outstanding shares); (4) issued to directors or employees as a result of exercise of stock options we granted to them pursuant to the Korean Commercial Code; (5) issued to a financial investment company, a private equity fund or a special purpose company under the Financial Investment Services and Capital Markets Act; or (6) issued to any specified foreign investors, foreign or domestic financial institutions or alliance companies for operational needs such as introduction of advanced financial technology, improvement of its or subsidiaries financial structure and funding or strategic alliance (where such number of shares so issued may not exceed 50% of our total number of issued and outstanding shares). Under the Korean Commercial Code, a company may vary, without stockholders approval, the terms of such preemptive rights for different classes of shares. Public notice of the preemptive rights to new shares and the transferability thereof must be given not less than two weeks (excluding the period during which the shareholders register is closed) prior to the record date. We will notify the shareholders who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If a shareholder fails to subscribe on or before such deadline, the shareholder s preemptive rights will lapse. Our board of directors may determine how to distribute shares in respect of which preemptive rights have not been exercised or where fractions of shares occur.

Under the Financial Investment Services and Capital Markets Act, members of a company s employee stock ownership association, whether or not they are shareholders, have a preemptive right, subject to certain exceptions, to subscribe for up to 20% of the shares publicly offered pursuant to the Financial Investment Services and Capital Markets Act. However, this right is exercisable only to the extent that the total number of shares so acquired and held by such members does not exceed 20% of the total number of shares to be newly issued and shares then outstanding. As of December 31, 2010, the ESOA owned 17,005,029 shares of our common stock.

General Meeting of Shareholders

There are two types of general meetings of shareholders: annual general meetings and extraordinary general meetings. We are required to convene our annual general meeting within three months after the end of each fiscal

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year. Subject to a board resolution or court approval, an extraordinary general meeting of shareholders may be held when necessary or at the request of our audit committee. In addition, under the Korean Commercial Code, an extraordinary general meeting of shareholders may be held at the request of the shareholders holding shares for at least 6 months of an aggregate of 1.5% or more of the outstanding shares with voting rights of the listed company, subject to a board resolution or court approval. Furthermore, under the Financial Holding Companies Act of Korea, an extraordinary general meeting of shareholders may be held at the request of the shareholders holding shares for at least 6 months of an aggregate of 1.5% (0.75% in the case of a financial holding company (i) whose total assets at the end of the latest fiscal year is (Won)5 trillion or more and (ii) who is in control of two or more subsidiaries, each with total assets of (Won)2 trillion or more) or more of the outstanding shares of the company, subject to a board resolution or court approval. Holders of non-voting shares may be entitled to request a general meeting of shareholders only to the extent the non-voting shares have become enfranchised as described under Voting Rights below (hereinafter referred to as enfranchised non-voting shares). Meeting agendas are determined by the board of directors or proposed by holders of an aggregate of 3% or more of the outstanding shares with voting rights by way of a written proposal to the board of directors at least six weeks prior to the meeting. In addition, under the Korean Commercial Code, the meeting agenda may be proposed by the shareholders holding shares for at least 6 months of an aggregate of 1% (0.5% in the case of a listed company whose capital at the end of the latest operating year is (Won)100 billion or more) or more of the outstanding shares of the listed company. Furthermore, under the Financial Holding Companies Act, the meeting agenda may be proposed by the shareholders holding shares for at least 6 months of an aggregate of 0.5% (0.25% in the case of a financial holding company (i) whose total assets at the end of the latest fiscal year is (Won)5 trillion or more and (ii) who is in control of two or more subsidiaries, each with total assets of (Won)2 trillion or more) or more of the outstanding shares of the company. Written notices stating the date, place and agenda of the meeting must be given to the shareholders at least two weeks prior to the date of the general meeting of shareholders; provided, that, notice may be given to holders of 1% or less of the total number of issued and outstanding shares which are entitled to vote, by placing at least two public notices at least two weeks in advance of the meeting in at least two daily newspapers or by using an electronic method defined under the Korean Commercial Code and related regulations at least two weeks in advance of the meeting. Currently, we use *The Korea Economic Daily* and *Maeil Business Newspaper* for the publication of such notices. Shareholders who are not on the shareholders register as of the record date are not entitled to receive notice of the general meeting of shareholders, and they are not entitled to attend or vote at such meeting. Holders of enfranchised non-voting shares who are on the shareholders register as of the record date are entitled to receive notice of the general meeting of shareholders and they are entitled to attend and vote at such meeting. Otherwise, holders of non-voting shares are not entitled to receive notice of or vote at general meetings of shareholders.

The general meeting of shareholders is held at our executive office (which is our registered executive office) or, if necessary, may be held anywhere in the vicinity of our executive office.

Voting Rights

Holders of common shares are entitled to one vote for each share. However, voting rights with respect to common shares that we hold and common shares that are held by a corporate shareholder, more than one-tenth of the outstanding capital stock of which is directly or indirectly owned by us, may not be exercised. Unless stated otherwise in a company s Articles of Incorporation, the Korean Commercial Code permits holders of an aggregate of 3% (1%, in case of a company whose total assets as at the end of the latest fiscal year is W2 trillion or more) or more of the outstanding shares with voting rights to request cumulative voting when electing two or more directors. Our Articles of Incorporation currently do not prohibit cumulative voting. In addition, under the Korean Commercial Code, in case of appointment of an audit committee member who is an outside director, any shareholder holding more than 3% of the outstanding shares with voting rights shall not exercise its voting rights with respect to any portion of its shares exceeding the 3% limit; and in case of appointment of an audit committee member who is a non-outside director, the largest shareholder (together with certain related persons) holding more than 3% of the outstanding shares with voting rights shall not exercise its voting rights with respect to any portion of its shares exceeding the 3% limit.

The Korean Commercial Code and our Articles of Incorporation provide that an ordinary resolution may be adopted if approval is obtained from the holders of at least a majority of those common shares present or

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represented at such meeting and such majority also represents at least one-fourth of the total of our issued and outstanding common shares. Holders of non-voting shares (other than enfranchised non-voting shares) are not entitled to vote on any resolution or to receive notice of any general meeting of shareholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. If our general shareholders meeting resolves not to pay to holders of preferred shares the annual dividend as determined by the board of directors at the time of issuance of such shares, the holders of preferred shares will be entitled to exercise voting rights from the general shareholders meeting immediately following the meeting adopting such resolution until the end of the meeting to declare to pay such dividend with respect to the preferred shares. Holders of such enfranchised preferred shares have the same rights as holders of common shares to request, receive notice of, attend and vote at a general meeting of shareholders.

The Korean Commercial Code provides that to amend the Articles of Incorporation (which is also required for any change to the authorized share capital of the company) and in certain other instances, including removal of a director of a company, dissolution, merger or consolidation of a company, transfer of the whole or a significant part of the business of a company, acquisition of all of the business of any other company or issuance of new shares at a price lower than their par value, a special resolution must be adopted by the approval of the holders of at least two-thirds of those shares present or represented at such meeting and such special majority must also represent at least one-third of the total issued and outstanding shares with voting rights of the company.

In addition, in the case of amendments to the Articles of Incorporation or any merger or consolidation of a company or in certain other cases which affect the rights or interest of the shareholders of the preferred shares, a resolution must be adopted by a separate meeting of shareholders of the preferred shares. Such a resolution may be adopted if the approval is obtained from shareholders of at least two-thirds of the preferred shares present or represented at such meeting and such preferred shares also represent at least one-third of the total issued and outstanding preferred shares of the company.

A shareholder may exercise his voting rights by proxy given to another shareholder. If a particular shareholder intends to obtain proxy from another shareholder, a reference document specified by the Financial Supervisory Service must be sent to the shareholder giving proxy, with a copy furnished to the company s executive office or the branch office, transfer agent and the Financial Services Commission. The proxy must present the power of attorney prior to the start of the general meeting of shareholders.

Rights of Dissenting Shareholders

Pursuant to the Financial Investment Services and Capital Markets Act, in certain limited circumstances (including, without limitation, if we transfer all or any significant part of our business or if we merge or consolidate with another company), dissenting holders of shares have the right to require us to purchase their shares. Pursuant to the Financial Holding Companies Act, the Financial Investment Services and Capital Markets Act and the Korean Commercial Code, if a financial holding company acquires a new direct or indirect subsidiary through the exchange or transfer of shares except in limited circumstances, the dissenting holders of such shares have the right to require us to purchase their shares. To exercise such a right, shareholders must submit to us a written notice of their intention to dissent prior to the general meeting of shareholders. Within 20 days (or 10 days under certain circumstances according to the Financial Holding Companies Act) after the date on which the relevant resolution is passed at such meeting, such dissenting shareholders must request in writing that we purchase their shares. We are obligated to purchase the shares of dissenting shareholders within one month after the end of such request period at a price to be determined by negotiation between the shareholder and us. If we cannot agree on a price with the shareholder through such negotiations, the purchase price will be the arithmetic mean of (1) the weighted average of the daily closing share prices on the KRX KOSPI Market of the Korea Exchange for two months prior to the date of the adoption of the relevant board of directors resolution, (2) the weighted average of the daily closing share prices on the KRX KOSPI Market of the Korea Exchange for one month prior to the date of the adoption of the relevant board of directors resolution and (3) the weighted average of the daily closing share prices on the KRX KOSPI Market of the Korea Exchange for one week prior to the date of the adoption of the relevant board of directors resolution. If we or the dissenting shareholder who requested purchase of their shares do not accept such purchase price, we or the shareholder may request to the court to adjust such purchase price.

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Register of Shareholders and Record Dates

We maintain the register of our shareholders at our transfer agent s office in Seoul, Korea. The Korea Securities Depository as our transfer agent, registers transfers of shares on the register of shareholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, the register of shareholders may be closed for the period from January 1 of each year up to January 15 of such year. Further, the Korean Commercial Code and the Articles of Incorporation permit us upon at least two weeks public notice to set a record date and/or close the register of shareholders for not more than three months for the purpose of determining the shareholders entitled to certain rights pertaining to the shares. The trading of shares and the delivery of certificates in respect thereof may continue while the register of shareholders is closed.

Other Shareholder Rights

Our articles of incorporation do not have sinking fund provisions or provisions creating liability to further capital calls. Other than to amend our articles of incorporation in accordance with the Korean Commercial Code, no particular action is necessary to change the rights of holders of our capital stock. In addition, our articles of incorporation do not have specific provisions for governing changes in capital or which would have an effect of delaying, deferring or preventing a change in control of us and that would operate only with respect to a merger, acquisition or corporate restructuring involving us or any of our subsidiaries.

Directors

Under the Korean Commercial Code and our articles of incorporation, any director wishing to enter into a transaction with us or our subsidiaries in his or her personal capacity is required to obtain the prior approval of the Board of Directors, and any director having an interest in the transaction may not vote at the meeting of the Board of Directors to approve the transaction.

Neither our articles of incorporation nor applicable Korean laws have provisions relating to (i) the directors power, in the absence of an independent quorum, to vote compensation to themselves or any members of their body (ii) borrowing powers exercisable by the directors and how such borrowing powers can be varied; (iii) retirement or non-retirement of directors under an age limit requirement; or (iv) the number of shares required for a director s qualification.

Description of Preferred Stock

Redeemable Preferred Stock (Series 1 through 8)

In 2003, as part of funding our acquisition of Chohung Bank, we issued non-voting redeemable preferred stock, designated Series 1 through 8, in an aggregate of 52,583,961 shares. All of these shares have been redeemed in accordance with the redemption schedule (including 9,316,792 shares redeemed in 2009 and 9,383,459 shares redeemed on August 19, 2010 at an aggregate redemption price of (Won)182,794 million).

Redeemable Convertible Preferred Stock (Series 9)

In 2003, as part of funding our acquisition of Chohung Bank, we also issued Series 9 redeemable convertible preferred shares all of which were converted into our common shares in 2005 and 2006 in accordance with the terms of such shares.

Redeemable Preferred Stock (Series 10)

On January 25, 2007, as part of funding our acquisition of LG Card, we issued 28,990,000 Series 10 non-voting redeemable preferred shares. These shares are currently entitled to dividends at the following rate: (i) for each year until and including 2011, 7.00% of the subscription price per share; (ii) for 2012, 7.00% of the subscription price per share multiplied by the number of days elapsed from January 1, 2012 to January 25, 2012

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and divided by 365, plus R % of the subscription price, multiplied by the number of days from January 26, 2012 through December 31, 2012 and divided by 365, where R% means the sum of (A) the five-year treasury rate effective on January 25, 2011, (B) 100 basis points and (C) a spread equal to 7.00% less the five-year treasury rate effective on January 25, 2007; and (iv) for 2013 and each year thereafter, R% of the subscription price. The dividend right held by holders of these shares rank senior to the dividend right held by holders of our common shares. If in any fiscal year we do not pay any dividend as provided above, the holders of these shares are entitled to receive such accumulated unpaid dividend prior to the holders of our common shares from the dividends payable in respect of the next fiscal year. If dividends are not paid to the holders of these shares, voting rights attach to such shares. See Voting Rights. We may redeem these shares at any time during the period commencing on the fifth anniversary of the issuance date until the 20th anniversary of the issuance date to the extent that distributable profits are available for such redemption. None of these shares may be redeemed except during the redemption period. There is no maturity date for these shares.

Redeemable Convertible Preferred Stock (Series 11)

On January 25, 2007, as part of funding our acquisition of LG Card, we issued 14,721,000 Series 11 non-voting redeemable convertible preferred shares. These shares are currently entitled to dividends at the following rate: (i) for each year until and including 2011, 3.25% of the subscription price per share; (iii) for 2012, 3.25% of the subscription price per share multiplied by the number of days elapsed from January 1, 2012 to January 25, 2012 and divided by 365, plus R % of the subscription price, multiplied by the number of days from January 26, 2012 through December 31, 2012 and divided by 365, where R% means the sum of (A) the five-year treasury rate effective on January 25, 2011, (B) 100 basis points and (C) a spread equal to 7.00% less the five-year treasury rate effective on January 25, 2007; and (iv) for 2013 and each year thereafter, R% of the subscription price per share. If in any fiscal year we do not pay any dividend as provided above, the holders of these shares are entitled to receive such accumulated unpaid dividend prior to the holders of our common shares from the dividends payable in respect of the next fiscal year. If dividends are not paid to the holders of these shares, voting rights attach to such shares. See Voting Rights. We may redeem these shares at any time during the period commencing on the fifth anniversary of the issuance date until the 20th anniversary of the issuance date to the extent that distributable profits are available for such redemption. None of these shares may be redeemed except during the redemption period. There is no maturity date for these shares.

The holders of these shares may, at their option, convert all or part of any outstanding such shares into our common shares at any time from the day after the first anniversary of the issuance date until the fifth anniversary of the issuance date, at a conversion rate of one-to-one. None of these shares may be converted except during the conversion period.

Redeemable Convertible Preferred Stock (Series 12)

On April 20, 2011, as part of funding for preferred stocks to be redeemed during the January 2012 redemption period, we issued 11,100,000 Series 12 non-voting redeemable preferred shares for the subscription price of W100,000 per share, or W1,110 billion in the aggregate. These shares are currently entitled to dividends at the following rate: (i) for the period from the issue date until December 31, 2011, 5.58% of the subscription price per share multiplied by a fraction of the number of days from the issue date to and including December 31, 2001 over 365; (ii) for 2012 to and including 2015, 5.58% of the subscription price per share; (iii) for 2016, (x) 5.58% of the subscription price per share, multiplied by a fraction of the number of days from January 1, 2016 to April 19, 2016 over 365, plus (y) R % of the subscription price, multiplied by a fraction of the number of days from April 20, 2016 to December 31, 2016 over 365, where R% means the sum of (A) the five trading-day average of a designated five-year treasury rate quotes immediately preceding April 20, 2016 and (B) 250 basis points; and (iv) for 2017 and each year thereafter, R% of the subscription price per share.

If in any fiscal year we do not pay any dividend as provided above, the holders of these shares are entitled to receive such accumulated unpaid dividend prior to the holders of our common shares from the dividends payable in respect of the next fiscal year. If dividends are not paid to the holders of these shares, voting rights attach to such shares. See Voting Rights. We may redeem these shares at any time during the period commencing on

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the fifth anniversary of the issuance date until the 20th anniversary of the issuance date to the extent that distributable profits are available for such redemption. None of these shares may be redeemed except during the redemption period. There is no maturity date for these shares.

Annual Report

At least one week before the annual general meeting of shareholders, we must make our annual report written in the Korean language and audited nonconsolidated financial statements prepared under the generally accepted accounting principles available for inspection at our principal office and at all of our branch offices. Copies of annual reports, the audited financial statements and any resolutions adopted at the general meeting of shareholders will be made available to our shareholders.

Under the Financial Investment Services and Capital Markets Act, we must file with the Financial Services Commission and the Korea Exchange an annual report within 90 days after the end of our fiscal year, a semiannual report within 45 days (or 60 days if the report is prepared based on consolidated financial statements for filing) after the end of the first six months of our fiscal year and quarterly reports within 45 days (or 60 days if the report is prepared based on consolidated financial statements for filing) after the end of the first three months and nine months of our fiscal year, respectively. Copies of such reports are available for public inspection at the Financial Services Commission and the Korea Exchange.

Transfer of Shares

Under the Korean Commercial Code, the transfer of shares is effected by the delivery of share certificates. In order to exercise shareholders rights, the transferee must have his name and address registered on the register of shareholders. For this purpose, shareholders are required to file with us their name, address and seal. Nonresident shareholders must notify us of the name of their proxy in Korea to which our notice can be sent. Under the Financial Services Commission regulations, nonresident shareholders may appoint a standing proxy and may not allow any person other than the standing proxy to exercise rights regarding the acquired share or perform any task related thereto on his behalf, subject to certain exceptions. Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians are authorized to act as standing proxy and provide related services. Certain foreign exchange controls and securities regulations apply to the transfer of shares by nonresidents or non-Koreans. See Korean Foreign Exchange and Securities Regulations. As to the ceiling on the aggregate shareholdings of a single shareholder and persons who have a special relationship with such shareholder, please see Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restrictions on Financial Holding Company Ownership.

Acquisition of Treasury Shares

We generally may not acquire our own shares except in limited circumstances, including, without limitation, a reduction in capital. Notwithstanding the foregoing restrictions, 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, through a tender offer, or through a trust agreement with a trust company, 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 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 trust agreements, 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 capital ratio under the Financial Holding Companies Act and the guidelines issued by the Financial Services Commission. In general, under the Financial Holding Companies Act, our subsidiaries are not permitted to acquire our shares.

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Liquidation Rights

In the event we are liquidated, the assets remaining after the payment of all debts, liquidation expenses and taxes will be distributed to shareholders in proportion to the number of shares held by such shareholders. Holders of preferred shares may have preferences over holders of common shares in liquidation.

ITEM 10.C. Material Contracts

None.

ITEM 10.D. Exchange Controls

General

The Foreign Exchange Transaction Act of Korea the related Presidential Decree and the regulations under such Act and Decree (collectively the Foreign Exchange Transaction Laws) herein, regulate investment in Korean securities by nonresidents and issuance of securities by Korean companies outside Korea. Under the Foreign Exchange Transaction Laws, nonresidents may invest in Korean securities only to the extent specifically allowed by these laws or otherwise permitted by the Ministry of Strategy and Finance of Korea. The Financial Services Commission has also adopted, pursuant to its authority under the Financial Investment Services and Capital Markets Act, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities by Korean companies outside Korea.

Under the Foreign Exchange Transaction Laws, (1) if the Korean government determines that it is inevitable due to the outbreak of natural calamities, wars, conflict of arms or grave and sudden changes in domestic or foreign economic circumstances or other situations equivalent thereto, the Ministry of Strategy and Finance may temporarily suspend payment, receipt or the whole or part of transactions to which the Foreign Exchange Transaction Laws apply, or impose an obligation to safe keep, deposit or sell means of payment in or to certain Korean governmental agencies or financial institutions; and (2) if the Korean government determines that international balance of payments and international finance face or are likely to face serious difficulty or the movement of capital between Korea and abroad will cause or is likely to cause serious obstacles in carrying out its currency policies, exchange rate policies and other macroeconomic policies, the Ministry of Strategy and Finance may take measures to require any person who intends to perform capital transactions to obtain permission or to require any person who performs capital transactions to deposit part of the payments received in such transactions at certain Korean governmental agencies or financial institutions, in each case subject to certain limitations.

Restrictions Applicable to Shares

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to make a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a financial investment company with a securities dealing or brokerage license. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. No Korean governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a nonresident of Korea must be deposited either in a Won account with the investor s financial investment company with a securities dealing or brokerage license or in his Won account. Funds in the investor s Won account may be transferred to his foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses by any one person exceeding US$10,000 per day needs to be reported to the governor of the Financial Supervisory Service by the foreign exchange bank at which the Won account is maintained. Funds in the Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

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Financial investment companies with a securities dealing, brokerage or collective investment license are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors stock investments in Korea. Through these accounts, financial companies with a securities dealing, brokerage or collective investment license may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

ITEM 10.E. Taxation

The following summary is based upon tax laws, regulations, rulings, decrees, income tax conventions (treaties), administrative practice and judicial decisions of Korea and the United States as of the date of this annual report, and is subject to any change in Korean or United States law that may come into effect after such date. Investors in shares of common stock or American depositary shares are advised to consult their own tax advisers as to the Korean, United States or other tax consequences of the purchase, ownership and disposition of such securities, including the effect of any national, state or local tax laws.

Korean Taxation

The following summary of Korean tax considerations applies to you so long as you are not:

- a resident of Korea;
- a corporation having its head office, principal place of business, or place of effective management in Korea (a Korean corporation); or
- engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

Taxation of Dividends on Shares of Common Stock or American Depositary Shares

We will deduct Korean withholding tax from dividends (whether in cash or in shares) paid to you at a rate of 22% (including local income surtax). If you are a qualified resident in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See Tax Treaties below for a discussion of treaty benefits. If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in capital, such distribution may be subject to a Korean withholding tax.

In order to obtain a reduced rate of withholding tax pursuant to an applicable tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as the Korean tax authorities may require in order to establish your entitlement to the benefits of the applicable tax treaty. A holder of American depositary shares (ADSs) may submit evidence of tax residence to us through the depositary.

Taxation of Capital Gains from Transfer of Common Shares or American Depositary Shares

As a general rule, capital gains earned by non-residents upon transfer of our common shares or ADSs are subject to a Korean withholding tax at the lower of (1) 11% (including local income surtax) of the gross proceeds realized or (2) 22% (including local income surtax) of the net realized gain, subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs associated with common shares or ADSs, unless exempt from Korean income taxation under an applicable tax treaty between Korea and the country of your tax residence. See Tax Treaties below for a discussion on treaty benefits. Even if you do not qualify for the exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you meet certain requirements for the exemption under Korean domestic tax laws discussed in the following paragraphs.

You will not be subject to the Korean income taxation on capital gains realized upon a transfer of our common shares through the Korea Exchange if you (1) have no permanent establishment in Korea and (2) do not own and have never owned (together with any shares owned by any entity with which you have a special relationship and possibly including the shares represented by the ADSs) 25% or more of our total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five consecutive calendar years prior to the calendar year in which the sale occurs.

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Under the tax law amendments effective for capital gains recognized or to be recognized from disposition of ADSs on or after January 1, 2008, ADSs are viewed as shares of stock for capital gains tax purposes. Accordingly, capital gains from sale or disposition of ADSs are taxed (if taxable) as if such gains are from sale or disposition of shares of our common stock. It should be noted that (i) capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside Korea will generally be exempt from Korean income taxation by virtue of the Special Tax Treatment Control Law of Korea, or the STTCL, provided that the issuance of ADSs is deemed to be an overseas issuance under the STTCL, but (ii) in the case where an owner of the underlying shares of stock transfers ADSs after conversion of the underlying shares into ADSs, the exemption under the STTCL described in (i) will not apply. In the case where an owner of the underlying shares of stock transfers the ADSs after conversion of the underlying shares of stock into ADSs, such person is obligated to file corporate income tax returns and pay tax unless a purchaser or a financial investment company with a brokerage license, as applicable, withholds and pays the tax on capital gains derived from transfer of ADSs, as discussed below.

If you are subject to tax on capital gains with respect to a sale of common shares or ADSs, the purchaser or, in the case of a sale of common shares on the Korea Exchange or through a financial investment company with a brokerage license in Korea, the financial investment company is required to withhold Korean tax from the sales proceeds in an amount equal to 11% (including local income surtax) of the gross realization proceeds and to remit the withheld tax to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law or produce satisfactory evidence of your acquisition costs and certain direct transaction costs associated with common shares or ADSs. To obtain the benefit of a tax exemption pursuant to a tax treaty, you must submit to the purchaser, the financial investment company or the ADR depositary, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty benefits. See the discussion under Tax Treaties below for an additional explanation of claiming treaty benefits.

Tax Treaties

Korea has entered into a number of income tax treaties with other countries, including the United States, which reduce or exempt Korean withholding tax on the income derived by residents of such treaty countries. For example, under the Korea-U.S. income tax treaty, reduced rates of Korean withholding tax on dividends of 16.5% or 11.0%, respectively (including local income surtax), depending on your shareholding ratio, and an exemption from Korean withholding tax on capital gains are generally available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains. However, under Article 17 (Investment or Holding Companies) of the Korea-U.S. income tax treaty, such reduced rates and exemption do not apply if (1) you are a United States corporation, (2) by reason of any special measures the tax imposed on you by the United States with respect to such dividends or capital gains is substantially less than the tax generally imposed by the United States on corporate profits, and (3) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-U.S. income tax treaty, the exemption on capital gains does not apply if (a) you have a permanent establishment in Korea and any shares of common stock in which you hold an interest and which gives rise to capital gains are effectively connected with such permanent establishment, (b) you are an individual and you maintain a fixed base in Korea for a period or periods aggregating 183 days or more during the taxable year and your common shares, or ADSs giving rise to capital gains are effectively connected with such fixed base or (c) you are an individual and you are present in Korea for a period or periods of 183 days or more during the taxable year.

You should inquire for yourself whether you are entitled to the benefit of an income tax treaty with Korea. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser, the financial investment company, or other withholding agent, as the case may be, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser, the financial investment company, or other withholding agent, as the case may be, must withhold tax at the normal rates. Furthermore, in order for you to obtain the benefit of a tax exemption on certain Korean source income

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(e.g., dividends or capital gains) under an applicable tax treaty, Korean tax law requires you (or your agent) to submit an application for tax exemption along with a certificate of your tax residency issued by the competent authority of your country of tax residence, subject to certain exceptions. For example, a U.S. resident would be required provide Form 6166 as a certificate of tax residency with the application for tax exemption. Such application should be submitted to an appropriate district tax office by the ninth day of the month following the date of the first payment of such income.

Inheritance Tax and Gift Tax

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you would be treated as the owner of the shares of common stock underlying the ADSs. If the tax authority interprets depositary receipts as the underlying share certificates, you may be treated as the owner of the shares of common stock and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax, which ranges from 10% to 50% recently, assessable based on the value of the ADSs or shares of common stock and the identity of the individual against whom the tax is assessed.

If you die while holding a common share or donate a subscription right or a common share, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

Securities Transaction Tax

If you transfer common shares through the Korea Exchange, you will be subject to a securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sales price of common shares. If your transfer of common shares is not made through the Korea Exchange, subject to certain exceptions, you will be subject to a securities transaction tax at the rate of 0.5% but will not be subject to an agriculture and fishery special surtax.

Depositary receipts, which the ADSs constitute, are included in the scope of securities transfer subject to securities transaction tax effective starting with transfers occurring on or after January 1, 2011. Nonetheless, transfer of depositary receipts listed on a foreign securities exchange similar to the Korea (e.g. the New York Stock Exchange, the NASDAQ National Market) will not be subject to the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by a transferor of common shares. When a transfer is affected through a securities settlement company, such settlement company is generally required to withhold and remit the tax to the tax authorities. When such transfer is made through a financial investment company only, such financial investment company is required to withhold and remit the tax. Where a transfer is affected by a non-resident who has no permanent establishment in Korea by a method other than through a securities settlement company or a financial investment company, the transferee is required to withhold the securities transaction tax.

Non-reporting or underreporting of securities transaction tax will generally result in the imposition of penalties equal to 20% to 40% of the non-reported or 10% to 40% of underreported tax amount and a failure to timely pay securities transaction tax due will result in penalties of 10.95% per annum of the due but unpaid tax. The penalty is imposed on the party responsible for paying the securities transaction tax or, if the securities transaction tax is to be withheld, on the party that has the withholding obligation.

Certain United States Federal Income Tax Consequences

The following summary describes certain U.S. federal income tax considerations for beneficial owners of our common shares or ADSs that hold the common shares or ADSs as capital assets and are U.S. holders. You are a U.S. holder if you are for U.S. federal income tax purposes:

(i) a citizen or individual resident of the United States;

(ii) a corporation, or other entity treated as a corporation, created or organized in or under the laws of the United States, any state thereof or District of Columbia;

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(iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source;

(iv) a trust that is subject to the primary supervision of a court within the United States and has one or more U.S. persons with authority to control all substantial decisions of the trust; or

(v) a trust that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

In addition, this summary only applies to you if you are a U.S. holder that is a resident of the United States for purposes of the current income tax treaty between the United States and Korea (the Treaty), your common shares or ADSs are not, for purposes of the Treaty, effectively connected with a permanent establishment in Korea and you otherwise qualify for the full benefits of the Treaty.

This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code) and regulations (including proposed regulations), rulings and judicial decisions thereunder as of the date hereof, as well as the Treaty, all of which are subject to change, perhaps retroactively. It is for general purposes only and you should not consider it to be tax advice. In addition, it is based in part on representations by the ADS depositary and assumes that each obligation under the deposit agreement will be performed in accordance with its terms. This summary does not represent a detailed description of all the U.S. federal income tax consequences to you in light of your particular circumstances, and does not address the effects of any state, local or non-U.S. tax laws. In addition, it does not represent a detailed description of the U.S. federal income tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws, including if you are:

a bank;

a dealer in securities or currencies;

an insurance company or one of certain financial institutions;

a regulated investment company;

a real estate investment trust;

a tax-exempt entity;

a trader in securities that has elected to use a mark-to-market method of accounting for your securities holdings;

a person holding common shares or ADSs as part of a hedging, conversion, constructive sale or integrated transaction or a straddle;

a person liable for the alternative minimum tax;

a partnership or other pass-through entity for U.S. federal income tax purposes;

a person who owns or is deemed to own 10% or more of our voting stock; or

a person whose functional currency is not the U.S. dollar.

If a partnership holds our common shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our common shares or ADSs, you are urged to consult your tax advisor.

You should consult your own tax advisor concerning the particular U.S. federal tax consequences to you of the ownership and disposition of common shares or ADSs as well as any consequences arising under the laws of any other taxing jurisdiction.

American Depositary Shares

If you hold ADSs, for U.S. federal income tax purposes, you generally will be treated as the owner of the underlying common shares that are represented by such ADSs. Accordingly, deposits or withdrawals of common shares for ADSs will not be subject to U.S. federal income tax.

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The U.S. Treasury Department has expressed concerns that intermediaries in the chain of ownership between holders of ADSs and the issuer of the securities underlying the ADSs may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate U.S. holders. Accordingly, the analysis of the creditability of Korean taxes and the availability of the reduced rate of tax for dividends received by certain non-corporate U.S. holders, each as described below, could be affected by actions taken by intermediaries in the chain of ownership between the holder of an ADS and our company.

Distributions on Common Shares or American Depositary Shares

Subject to the discussion below under Passive Foreign Investment Company Rules, the gross amount of distributions on our common shares or ADSs (including amounts withheld to reflect Korean withholding tax) will be taxable as dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Such income (including withheld taxes) will be includable in your gross income as ordinary income on the day you actually or constructively receive it, in the case of our common shares, or the day actually or constructively received by the ADS depositary, in the case of ADSs. Such dividends will not be eligible for the dividends-received deduction allowed to corporations under the Code.

With respect to non-corporate U.S. holders, certain dividends received in taxable years beginning before January 1, 2013 from a qualified foreign corporation may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States which the U.S. Treasury Department determines to be satisfactory for these purposes and which includes an exchange of information provision. The U.S. Treasury Department has determined that the Treaty meets these requirements, and we believe we are eligible for the benefits of the Treaty. A foreign corporation is also treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. Our common shares will generally not be considered readily tradable for these purposes. U.S. Treasury Department guidance indicates that securities such as our ADSs, which are listed on the New York Stock Exchange, are treated as readily tradable on an established securities market in the United States for these purposes. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. Non-corporate U.S. holders that do not meet a minimum holding period requirement during which they are not protected from a risk of loss or that elect to treat the dividend income as investment income pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Furthermore, non-corporate U.S. holders will not be eligible for the rate reduction if we are a passive foreign investment company (as discussed below under Passive Foreign Investment Company Rules) in the taxable year in which such dividends are paid or were a passive foreign investment company in the preceding taxable year. If you are a non-corporate U.S. holder, you should consult your own tax advisor regarding the application of these rules given your particular circumstances.

The amount of any dividend paid in Korean Won will equal the U.S. dollar value of the Korean Won received calculated by reference to the exchange rate in effect on the date you receive the dividend, in the case of our common shares, or the date received by the ADS depositary, in the case of ADSs, regardless of whether the Korean Won are converted into U.S. dollars. If the Korean Won received are not converted into U.S. dollars on the day of receipt, you will have a basis in the Korean Won equal to their U.S. dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the Korean Won will be treated as United States source ordinary income or loss.

Subject to certain significant conditions and limitations, Korean taxes withheld from dividends (at a rate not exceeding the rate provided in the Treaty) will be treated as foreign income taxes eligible for credit against your U.S. federal income tax liability. See Korean Taxation Taxation of Dividends on Shares of Common Stock or American Depositary Shares for a discussion of the Treaty rate. Korean taxes withheld in excess of the

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rate provided in the Treaty will not be eligible for credit against your U.S. federal income tax until you exhaust all effective and practical remedies to recover such excess withholding, including the seeking of competent authority assistance from the Internal Revenue Service. For purposes of the foreign tax credit, dividends paid on our common shares or ADSs will be treated as income from sources outside the United States and will generally constitute passive category income. If you do not elect to claim a credit for any foreign taxes paid during a taxable year, you may instead elect, subject to certain limitations, to claim a deduction in respect of such foreign taxes, provided that you apply this election to all foreign taxes paid or accrued in the taxable year.

Further, in certain circumstances, if you have held our common shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on our common shares or ADSs. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under U.S. federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction of your adjusted basis in our common shares or ADSs (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of our common shares or ADSs), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. Consequently, such distributions in excess of our current and accumulated earnings and profits would generally not give rise to foreign source income and you would generally not be able to use the foreign tax credit arising from any Korean withholding tax imposed on such distributions unless such credit can be applied (subject to applicable limitations) against U.S. federal income tax due on other foreign source income in the appropriate category for foreign tax credit purposes. However, we do not expect to determine earnings and profits in accordance with U.S. federal income tax principles. Therefore, you should expect that a distribution will be reported and generally be treated as a dividend (as discussed above).

Distributions of our common shares (including ADSs) or rights to subscribe for our common shares that are received as part of a pro rata distribution to all of our shareholders (including holders of ADSs) generally will not be subject to U.S. federal income tax to recipient common shareholders (including holders of ADSs). Consequently, such distributions will not give rise to foreign source income and you will not be able to use the foreign tax credit arising from any Korean withholding tax unless such credit can be applied (subject to applicable limitations) against U.S. tax due on other income derived from foreign sources.

Disposition of Common Shares or American Depositary Shares

Subject to the discussion under Passive Foreign Investment Company Rules, upon the sale, exchange or other disposition of our common shares or ADSs, you generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and your adjusted tax basis in our common shares or ADSs, as the case may be. The capital gain or loss will be long-term capital gain or loss if at the time of sale, exchange or other disposition, our common shares or ADSs have been held for more than one year. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss you recognize on the sale, exchange or other disposition of our common shares or ADSs will generally be treated as United States source gain or loss. Consequently, you may not be able to use the foreign tax credit arising from any Korean tax imposed on the disposition of our common shares or ADSs unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

You should note that any Korean securities transaction tax generally will not be treated as a creditable foreign tax for U.S. federal income tax purposes, although you may be entitled to deduct such taxes, subject to applicable limitations under the Code.

Passive Foreign Investment Company Rules

Based upon the past and projected composition of our income and valuation of our assets, we do not believe that we were a passive foreign investment company (a PFIC) for 2010, and we do not expect to be a PFIC in

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2011 or to become one in the foreseeable future, although there can be no assurance in this regard. However, PFIC status is a factual determination that is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in valuation or composition of our income or assets.

In general, we will be considered a PFIC for any taxable year if either:

- at least 75% of our gross income is passive income; or
- at least 50% of the value of our assets is attributable to assets that produce or are held for the production of passive income.

The 50% of value test is based on the average of the value of our assets for each quarter during the taxable year. For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). Certain proposed U.S. Treasury regulations and other administrative pronouncements from the Internal Revenue Service provide special rules for determining the character of income and assets derived in the active conduct of a banking business for purposes of the PFIC rules. Specifically, these rules treat certain income earned by a non-U.S. corporation engaged in the active conduct of a banking business as non-passive income. Although we believe we have adopted a reasonable interpretation of the proposed U.S. Treasury regulations and administrative pronouncements, there can be no assurance that the Internal Revenue Service will follow the same interpretation. You should consult your own tax advisor regarding the application of these rules.

If we own at least 25% by value of another company s stock, we will be treated, for purposes of the PFIC rules, as owning our proportionate share of the assets and receiving our proportionate share of the income of that company.

If we are a PFIC for any taxable year during which you hold our common shares or ADSs, you will be subject to special tax rules with respect to any excess distribution that you receive and any gain you realize from the sale or other disposition (including a pledge) of our common shares or ADSs. These special tax rules generally will apply even if we cease to be a PFIC in future years. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for our common shares or ADSs will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for our common shares or ADSs;
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we are a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year, and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In certain circumstances, you could make a mark-to-market election, under which in lieu of being subject to the special rules discussed above, you will include gain on our common shares or ADSs on a mark-to-market basis as ordinary income, provided that our common shares or ADSs are regularly traded on a qualified exchange or other market. Our common shares are listed on the Korea Exchange, which must meet certain trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable U.S. Treasury regulations for purposes of the mark-to-market election, and no assurance can be given that the common shares are or will continue to be regularly traded for purposes of the mark-to-market election. Our ADSs are currently listed on the New York Stock Exchange, which constitutes a qualified exchange, although there can be no assurance that the ADSs are or will be regularly traded. If you make a valid mark-to-market election, you will include in each year as ordinary income the excess of the fair market value of your common shares or ADSs at the end of the year over your adjusted tax basis in the common shares or ADSs. You will be entitled to deduct as an ordinary loss each year the excess of your adjusted tax basis in the common shares or ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, any gain you recognize

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upon the sale or other disposition of your common shares or ADSs will be treated as ordinary income, and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

A U.S. holder s adjusted tax basis in common shares or ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. holder makes a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the common shares or ADSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You should consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable with respect to your particular circumstances.

In addition, a holder of common shares or ADSs in a PFIC can sometimes avoid the rules described above by electing to treat the company as a qualified electing fund under Section 1295 of the Code. This option is not available to you because we do not intend to comply with the requirements necessary to permit holders to make this election.

If you hold our common shares or ADSs in any year in which we are classified as a PFIC, you would be required to file Internal Revenue Service Form 8621.

Non-corporate U.S. holders will not be eligible for reduced rates of taxation on any dividends received from us in taxable years beginning prior to January 1, 2013, if we are a PFIC in the taxable year in which such dividends are paid or were a PFIC in the preceding taxable year. You should consult your tax advisor concerning the determination of our PFIC status and the U.S. federal income tax consequences of holding our common shares or ADSs if we are considered a PFIC in any taxable year.

Information Reporting and Backup Withholding

In general, information reporting will apply to dividends in respect of our common shares or ADSs and the proceeds from the sale, exchange or redemption of our common shares or ADSs that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

ITEM 10.F. Dividends and Paying Agents

Not applicable.

ITEM 10.G. Statements by Experts

Not applicable.

ITEM 10.H. Documents on Display

We are subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended, and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. You may inspect and copy these materials, including this annual report and the exhibits thereto, at SEC s Public Reference Room 100 Fifth Street, N.E., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are also required to make filings with the Commission by electronic means. Any filings we make electronically will be available to the public over the Internet at the Commission s web site at *http://www.sec.gov*.

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ITEM 10.I. Subsidiary Information
Not applicable.

ITEM 11. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***
See Item 4.B. Business Overview Risk Management for quantitative and qualitative disclosures about market risk.

ITEM 12. ***DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES***

ITEM 12.A. Debt Securities
Not applicable.

ITEM 12.B. Warrants and Rights
Not applicable.

ITEM 12.C. Other Securities
Not applicable.

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ITEM 12.D. Depositary Fees and Charges

Depositary Fees and Charges

Under the terms of the Deposit Agreement in respect of our American depositary shares (ADSs), the holder of ADSs may be required to pay the following fees and charges to Citibank, N.A., acting as depositary for our ADSs:

Item	Services	Fees	Paid by
1	Issuance of ADSs upon deposit of common shares (excluding issuances contemplated by items 3(b) and 5 below	Up to US$5.00 per 100 ADSs (or fraction thereof) issued	Person depositing common shares or person receiving ADSs
2	Delivery of deposited securities against surrender of ADSs	Up to US$5.00 per 100 ADSs (or fraction thereof) surrendered	Person surrendering ADSs for purpose of withdrawal of deposited securities or person to whom deposited securities are delivered
3	Distribution of (a) cash dividends or (b) ADSs pursuant to stock dividends	No fee, to the extent prohibited by the exchange on which the ADSs are listed. If the charging of such fee is not prohibited, the fees specified in item 4 below shall be payable	Person to whom distribution is made
4	Distribution of (a) cash proceeds (i.e., upon sale of rights and other entitlements) or (b) free shares in the form of ADSs (not constituting a stock dividend)	Up to US$2.00 per 100 ADSs (or fraction thereof) held	Person to whom distribution is made
5	Distribution of securities other than ADSs or rights to purchase additional ADSs (i.e., spinoff shares)	Up to US$5.00 per 100 ADSs (or fraction thereof) distributed	Person to whom distribution is made
6	Depositary Services	Unless prohibited by the exchange on which the ADSs are listed, up to US$2.00 per 100 ADSs (or fraction thereof) held as of the last day of each calendar year, except to the extent of any cash dividend fee(s) charged under paragraph (3)(a) above during the applicable calendar year	Person holding ADSs on last day of calendar year
7	Distribution of ADSs pursuant to exercise of rights to purchase additional ADSs	Up to US$2.00 per 100 ADSs (or fraction thereof) held	Person who exercises such rights

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Holders and beneficial owners of ADSs, persons depositing common shares for deposit and persons surrendering ADSs for cancellation and for the purpose of withdrawing deposited securities shall be responsible for the following charges:

(i) taxes (including applicable interest and penalties) and other governmental charges;

(ii) such registration fees as may from time to time be in effect for the registration of common shares or other deposited securities on the share register and applicable to transfers of common shares or other deposited securities to or from the name of the custodian, the depositary or any nominees upon the making of deposits and withdrawals, respectively;

(iii) such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreement to be at the expense of the person depositing or withdrawing common shares or holders and beneficial owners of ADSs;

(iv) the expenses and charges incurred by the depositary in the conversion of foreign currency;

(v) such fees and expenses as are incurred by the depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to common shares, deposited securities, ADSs and ADRs; and

(vi) the fees and expenses incurred by the depositary, the custodian or any nominee in connection with the servicing or delivery of deposited securities.

Depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly-issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these transaction fees to their clients.

Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date. The depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (*i.e.*, stock dividends, rights offerings), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or un-certificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts via the central clearing and settlement system, The Depository Trust Company (DTC), the depositary generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients ADSs in DTC accounts in turn charge their clients accounts the amount of the fees paid to the depositary banks.

In the event of refusal to pay the depositary fees, the depositary may, under the terms of the Deposit Agreement, refuse the requested service until payment is received or may set- off the amount of the depositary fees from any distribution to be made to the ADS holder.

The fees and charges the ADS holders may be required to pay may vary over time and may be changed by us and by the depositary. The ADS holders will receive prior notice of such changes.

Depositary Payments for the Fiscal Year 2010

In 2010, we received the following payments from Citibank, N.A., acting as depositary for our ADSs:

Reimbursement of settlement infrastructure fees (including DTC fees)	US$ 13,252.94
Reimbursement of proxy process expenses (printing, postage and distribution)	US$ 25,387.88
Reimbursement of legal fees	US$ 233,905.13
Contributions towards our investor relations efforts (i.e. non-deal roadshows, investor conferences and IR agency fees)	US$ 439,043.32
Total:	US$ 711,589.27

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ITEM 13. ***DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES***
Not applicable.

ITEM 14. ***MATERIAL MODIFICATION TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS***
Not applicable.

ITEM 15. ***CONTROLS AND PROCEDURES***
Disclosure Control

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of December 31, 2010. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that the design and operation of our disclosure controls and procedures as of December 31, 2010 were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decision regarding required disclosure.

Management s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, for our company. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our internal control over financial reporting as of December 31, 2010 based on the framework established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company s assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company s receipts and expenditures are being made only in accordance with authorizations of a company s management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company s assets that could have a material effect on the consolidated financial statements. Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2010. The effectiveness of our internal control over financial reporting has been audited by KPMG Samjong, an independent registered public accounting firm, who has also audited our consolidated financial statements for the year ended December 31, 2010. KPMG Samjong has issued an attestation report on the effectiveness of our internal control over financial reporting under Auditing Standard No. 5 of the Public Company Accounting Oversight Board, which is included herein.

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Attestation Report of the Independent Registered Public Accounting Firm

KPMG Samjong s attestation report on the effectiveness of internal control over financial reporting can be found on page F-3 of this annual report.

Changes in Internal Controls

There were no changes in our internal control over financial reporting during 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. ***AUDIT COMMITTEE FINANCIAL EXPERT***

Our board of directors has determined that Mr. Taeeun Kwon, Mr. Seok Won Kim and Mr. Ke Sop Yun, our outside director and the chairman of our Audit Committee, are audit committee financial experts, as such term is defined by the regulations of the Securities and Exchange Commission issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Mr. Kwon, Mr. Kim and Mr. Yun are independent as such term is defined in Section 303A.02 of the NYSE Listed Company Manual, Rule 10A-3 under the Exchange Act and the Korea Stock Exchange listing standards.

ITEM 16B. ***CODE OF ETHICS***

We have adopted a code of ethics for our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions as required under Section 406 of the Sarbanes-Oxley Act of 2002, together with an insider reporting system in compliance with Section 301 of the Sarbanes-Oxley Act. The code of ethics is available on our website www.shinhangroup.com. We have not granted any waiver, including an implicit waiver, from a provision of the code of ethics to any of the above-mentioned officers during our most recently completed fiscal year.

ITEM 16C. ***PRINCIPAL ACCOUNTANT FEES AND SERVICES***

The following table sets forth the aggregate fees billed for professional services rendered by KPMG Samjong Accounting Corp. for the years ended December 31, 2008, 2009 and 2010, our principal accountants for the respective period, depending on the various types of services and a brief description of the nature of such services.

Type of services	Aggregate Fees Billed During the Year Ended December 31, 2009	2010	Nature of Services
	(In millions of Won)		
Audit fees	(Won) 7,214	(Won) 8,151	Audit service for Shinhan Financial Group and its subsidiaries.
Tax fees	287	375	Tax return and consulting advisory service.
All other fees	15	4	All other services which do not meet the three categories above.
Total	(Won) 7,516	(Won) 8,530	

Our audit committee generally pre-approves all engagements of our principal accountants pursuant to policies and procedures adopted by it. Our audit committee has adopted the following policies and procedures for consideration and approval of requests to engage our principal accountants to perform audit and non-audit services. Engagement requests must in the first instance be submitted as follows: (i) in the case of audit and non-audit services for our holding company, to our Planning & Financial Management subject to reporting to our Chief Financial

Officer; and (ii) in the case of audit and non-audit services for our subsidiaries, to our Audit and

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Compliance Team subject to reporting to the Senior Executive Vice President of Audit & Compliance Team. If the request relates to services that would impair the independence of our principal accountants, the request must be rejected. If the engagement request relates to audit and permitted non-audit services, it must be forwarded to the Audit Committee for consideration. To facilitate the consideration of engagement requests between its meetings, the Audit Committee has delegated approval authority of the following: (i) permitted non-audit services to our holding company, (ii) audit services to our subsidiaries and (iii) permitted non-audit services to our subsidiaries, to one of its members who is independent as defined by the Securities and Exchange Commission and the New York Stock Exchange. Such member in our case is Mr. Ke Sop Yun, the chairman of our Audit Committee, and he is required to report any approvals made by them to the Audit Committee at its next meeting. Our Audit Committee meets regularly once every quarter.

Any other audit or permitted non-audit service must be pre-approved by the audit committee on a case-by-case basis. Our audit committee did not pre-approve any non-audit services under the de minimis exception of Rule 2.01(c)(7)(i)(C) of Regulation S-X as promulgated by the Securities and Exchange Commission.

ITEM 16D. ***EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES***

Not applicable.

ITEM 16E. ***PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS***

Neither we nor any affiliated purchaser, as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

ITEM 16F. ***CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT***

Not applicable.

ITEM 16G. ***CORPORATE GOVERNANCE***

We are committed to high standards of corporate governance. We are in compliance with the corporate governance provisions of the Korean Commercial Code, the Financial Holding Companies Act of Korea, the Financial Investment Services and Capital Markets Act and the Listing Rules of the Korea Exchange. We, like all other companies in Korea, must comply with the corporate governance provisions of the Korean Commercial Code. In addition, as a financial holding company, we are also subject to the Financial Holding Companies Act. Also, our subsidiaries that are financial institutions must comply with the respective corporate governance provisions under the relevant laws under which they were established.

We are a foreign private issuer (as such term is defined in Rule 3b-4 under the Exchange Act), and our ADSs are listed on the New York Stock Exchange, or NYSE. Under Section 303A of the NYSE Listed Company Manual, NYSE-listed companies that are foreign private issuers are permitted to follow home country practice in lieu of the corporate governance provisions specified by the NYSE with limited exceptions. Under the NYSE Listed Company Manual, we as foreign private issuers are required to disclose significant differences between NYSE s corporate governance standards and those we follow under Korean law. The following summarizes some significant ways in which our corporate governance practices differ from those followed by U.S. companies listed on the NYSE under the listing rules of the NYSE:

Majority of Independent Directors on the Board

Under the NYSE listing rules, U.S. companies listed on the NYSE must have a board the majority of which is comprised of independent director satisfying the requirements of independence as set forth in Rule 10A-3 under the Exchange Act. While as a foreign private issuer, we are exempt from this requirement, but our board of directors is in compliance with this requirement as it currently consists of 11 directors, of which nine directors satisfy the requirements of independence as set forth in Rule 10A-3 under the Exchange Act. Nine of our directors are also outside directors as defined in the Financial Holding Companies Act of Korea. An outside

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director for purposes of the Financial Holding Companies Act and the Korean Commercial Code means a director who does not engage in the regular affairs of the financial holding company, and who is elected at a shareholders meeting, after having been nominated by the outside director nominating committee, and none of the largest shareholder, those persons specially related to the largest shareholder of such company, persons who during the past two years have served as an officer or employee of such company, the spouses and immediate family members of an officer of such company, and certain other persons specified by law may qualify as an outside director of such company. Under the Korea Exchange listing rules and the Korean Commercial Code, at least one-fourth of a listed company s directors must be outside directors provided that there must be at least three outside directors. In the case of large listed companies as defined under the Korean Commercial Code, like us, a majority of the directors must be outside directors.

Executive Session

Under the NYSE listing rules, non-management directors of U.S. companies listed on the NYSE are required to meet on a regular basis without management present and independent directors must meet separately at least once per year. There is no such requirement under Korean law or listing standards or our internal regulations.

Audit Committee

Under the NYSE listing rules, listed companies must have an audit committee that has a minimum of three members, and all audit committee members must satisfy the requirements of independence set forth in Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act. We are in compliance with this requirement as our audit committee comprises of three outside directors meeting the requirements of independence set forth in Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act. Under the Korea Exchange listing rules and the Korean Commercial Code, a large listed company must also establish an audit committee of which at least two-thirds of its members must be outside directors and whose chairman must be an outside director. In addition, at least one member of the audit committee who is an outside director must also be an accounting or financial expert. We are also in compliance with the foregoing requirements.

Nomination/Corporate Governance Committee

Under the NYSE listing rules, U.S. companies listed on the NYSE must have a nomination/corporate governance committee composed entirely independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. Under the Korean Commercial Code and other applicable laws, large listed companies, financial holding companies, commercial banks, and certain other financial institutions are required to have an outside director nominating committee of which at least one-half of its members are required to be outside directors. However, there is no requirement to establish a corporate governance committee under applicable Korean law. We currently have a board steering committee which manages corporate governance practices applicable to us. Our outside director nominating committee is formed on an ad hoc basis prior to a general shareholders meeting if the agenda for such meeting includes appointment of an outside director. The composition of the committee is in compliance with the relevant provisions under the Korean Commercial Code and the chairman of the committee must be an outside director pursuant to our outside director recommendation committee regulations. The board steering committee consists of four directors, including three outside directors.

Compensation Committee

Under the NYSE listing rules, U.S. companies listed on the NYSE are required to have a compensation committee which is composed entirely of independent directors. While no such requirement currently exists under applicable Korean law or listing standards, we currently have a compensation committee composed of two outside directors. Two member of the compensation committee satisfies the independent director requirements as set forth in Rule 10A-3 under the Exchange Act.

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Corporate Governance Guidelines and Code of Business Conduct and Ethics

Under the NYSE listing rules, U.S. companies listed on the NYSE are required to establish corporate governance guidelines and to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. As a foreign private issuer, we are exempt from this requirement. While we have not adopted official corporate governance guidelines, our board of directors, outside director recommendation committee and the board steering committee review and determine corporate policies as needed to ensure efficient and transparent corporate governance practices. Pursuant to the requirements of the Sarbanes-Oxley Act, we have adopted a code of ethics applicable to our Chairman & Chief Executive Officer and all other directors and executive officers including the Chief Financial Officer and the Chief Accounting Officer, as well as all financial, accounting and other officers of Shinhan Financial Group and its subsidiaries that are involved in the preparation and disclosure of Shinhan Financial Group s consolidated financial statements and internal control of financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. We have also adopted an insider reporting system in compliance with Section 301 of the Sarbanes-Oxley Act. The code of ethics applicable to our executive officers as well as the financial officers of the holding company and its subsidiaries are available on our website www.shinhangroup.com. Several of our subsidiaries, including Shinhan Bank, Shinhan Investment and Shinhan Life Insurance, currently also have their own codes of business conduct and ethics.

Shareholder Approval of Equity Compensation Plans

Under the NYSE listing rules, shareholders of U.S. companies listed on the NYSE are required to approve all equity compensation plans. We currently have two equity compensation plans, consisting of a performance share plan for directors and key employees and an employee stock ownership plan for all employees. Performance shares are granted pursuant to a board of director resolution, subject to the limit amount set by a resolution at the shareholders meeting. There are no requirements relating to the granting of performance shares under applicable Korean laws and our articles of incorporation. Under the Framework Act on Workers Welfare and the Enforcement Decree thereunder, a Korean company may issue stock options up to 20% of its issued and outstanding shares by a resolution at the shareholders meeting with an individual limit of (Won)6 million for any given year per each member of the employee stock ownership association, if permitted by the articles of incorporation. In addition, if a company is issuing stock options by a 10% of its issued and outstanding shares, only a board of director resolution is required for such issuance if permitted by the Articles of Incorporation. However, we have not adopted such provision in our articles of incorporation.

On April 1, 2010, our performance share plan replaced our stock option plan for directors. Accordingly, no stock options have been granted since April 1, 2010, and our outstanding stock option balance is wholly in connection with stock options granted prior to such date.

Annual Certification of Compliance

Under the NYSE listing rules, a chief executive officer of a U.S. company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards. As a foreign private issuer, we are not subject to this requirement. However, in accordance with rules applicable to both U.S. companies and foreign private issuers, we are required to promptly notify the NYSE in writing if any executive officer becomes aware of any material noncompliance with the NYSE corporate governance standards applicable to us. In addition, foreign private issuers, including us, are required to submit to the NYSE an annual written affirmation relating to compliance with Sections 303A.06 and 303A.11 of the NYSE listed company manual, which are the NYSE corporate governance standards applicable to foreign private issuers. All written affirmations must be executed in the form provided by the NYSE, without modification. An annual written affirmation is required to be submitted to the NYSE within 30 days of filing with the SEC our annual report on Form 20-F. We have been in compliance with this requirement in all material respects and plan to submit such affirmation within the prescribed time line.

ITEM 17. ***FINANCIAL STATEMENTS***

We have responded to Item 18 in lieu of responding to this item.

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ITEM 18. ***FINANCIAL STATEMENTS***

Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

ITEM 19. ***EXHIBITS***

(a) Financial Statements filed as part of this Annual Report:

See Index to Financial Statements on page F-1 of this annual report.

(b) Exhibits filed as part of this Annual Report:

See Exhibit Index beginning on page E-1 of this annual report.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

SHINHAN FINANCIAL GROUP CO, LTD.

By: /s/ Dong Woo Han
Name: Dong Woo Han
Title: Chairman and Chief Executive Officer

Date: June 28, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors and Stockholders

Shinhan Financial Group Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Shinhan Financial Group Co., Ltd. and its subsidiaries (the Group) as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Group s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shinhan Financial Group Co., Ltd. and its subsidiaries as of December 31, 2010 and 2009, the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 and 2 to the consolidated financial statements, in 2010, the Group changed its method of accounting for other-than temporary impairments on debt securities, business combinations and noncontrolling interests in subsidiaries. The Group also changed its method of accounting for fair value measurements in 2008. The accompanying consolidated financial statements as of and for the year ended December 31, 2010 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Korean Won have been translated into dollars on the basis set forth in Note 1 to the consolidated financial statements.

We also have audited, in accordance with the standards of Public Company Accounting Oversight Board (United States), the Group s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated, June 28, 2011 expressed an unqualified opinion on the effectiveness of the Group s internal control over financial reporting.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea
June 28, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders

Shinhan Financial Group Co., Ltd.:

We have audited Shinhan Financial Group Co., Ltd. and its subsidiaries (the Group) internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Group s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying management s annual report on internal control over financial reporting. Our responsibility is to express an opinion on the Group s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Shinhan Financial Group, Co., Ltd. and its subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated June 28, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea
June 28, 2011

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2009 and 2010

	2009	2010	2010 (See Note 1)
	(in millions of Korean Won, except share data)		(in thousands of US$, except share data)
ASSETS			
Cash and cash equivalents	(Won) 4,363,125	(Won) 5,689,011	$ 5,031,852
Restricted cash (Note 4)	7,973,917	5,558,687	4,916,582
Interest-bearing deposits	2,164,004	2,378,905	2,104,108
Call loans and securities purchased under resale agreements (Note 5)	1,346,244	2,242,824	1,983,746
Trading assets (Note 6)	11,297,076	15,278,402	13,513,534
Securities:			
Available-for-sale securities (Note 7)	27,611,895	27,397,981	24,233,133
Held-to-maturity securities (Note 7)	12,793,618	12,587,018	11,133,043
Loans (net of allowance for loan losses of (Won)3,637,994 in 2009 and (Won)3,395,864 in 2010) (Note 8)	165,593,546	176,589,401	156,190,873
Customers liability on acceptances	2,780,290	3,960,725	3,503,207
Premises and equipment, net (Note 9)	2,437,014	2,367,364	2,093,900
Intangible assets (Note 10)	1,266,604	981,440	868,069
Goodwill (Note 10)	3,805,422	3,805,422	3,365,843
Security deposits	1,323,666	1,395,153	1,233,994
Other assets (Notes 11 and 24)	10,153,495	9,800,256	8,668,190
Total Assets	(Won) 254,909,916	(Won) 270,032,589	$ 238,840,074
LIABILITIES AND EQUITY			
Liabilities			
Deposits:			
Interest-bearing (Note 12)	(Won) 140,808,902	(Won) 149,814,297	$ 132,508,666
Non-interest-bearing (Note 12)	2,889,587	3,077,886	2,722,347
Trading liabilities (Note 6)	4,565,034	3,615,758	3,198,088
Acceptances outstanding	2,780,290	3,960,725	3,503,207
Short-term borrowings (Note 13)	9,714,857	8,071,259	7,138,917
Secured borrowings (Note 14)	7,944,390	8,295,896	7,337,605
Long-term debt (Notes 15 and 21)	44,794,981	46,495,799	41,124,887
Future policy benefits (Note 16)	8,310,238	10,347,347	9,152,085
Accrued expenses and other liabilities (Notes 17 and 24)	12,552,247	13,145,427	11,626,947
Total Liabilities	(Won) 234,360,526	(Won) 246,824,394	$ 218,312,749
Commitments and contingencies (Note 31)			
Equity			
Common stock, (Won)5,000 par value; 1 billion shares authorized; 474,199,587 shares issued and outstanding in 2009 and 2010 (Note 20)	(Won) 2,370,998	(Won) 2,370,998	$ 2,097,115
Redeemable convertible preferred stock, (Won)5,000 par value; 14,721,000 shares issued and outstanding in 2009 and 2010 (Note 21)	73,605	73,605	65,103
Redeemable preferred stock, (Won)5,000 par value; 28,990,000 shares issued and outstanding in 2009 and 2010 (Note 21)	144,950	144,950	128,206
Additional paid-in capital	8,037,718	8,037,668	7,109,206
Retained earnings (Note 22)	8,621,915	11,032,261	9,757,882
Accumulated other comprehensive income, net of taxes (Note 37)	969,013	1,135,888	1,004,675
Total Group stockholders equity	(Won) 20,218,199	(Won) 22,795,370	$ 20,162,187

Noncontrolling interest	331,191	412,825	365,138
Total Equity	(Won) 20,549,390	(Won) 23,208,195	$ 20,527,325
Total liabilities and equity	(Won) 254,909,916	(Won) 270,032,589	$ 238,840,074

See accompanying notes to consolidated financial statements.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Balance Sheets (Continued)

The following table presents certain assets and liabilities of consolidated VIEs, which are included in the consolidated balance sheet above. The assets and liabilities in the table below exclude intercompany balances that eliminate in consolidation.

	2010 (in millions of Korean Won)	2010 (in thousands of US$)
Assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs		
Investments	(Won) 2,558,725	$ 2,263,157
Loans	8,385,612	7,416,957
Other assets	3,358,094	2,970,188
Total assets of consolidated VIEs	(Won) 14,302,431	$ 12,650,302
Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of the Group		
Debt	(Won) 129,205	$ 114,280
Secured borrowings	4,684,570	4,143,437
Other liabilities	3,756,074	3,322,195
Total liabilities of consolidated VIEs	(Won) 8,569,849	$ 7,579,912

See accompanying notes to consolidated financial statements.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Statements of Income

Years Ended December 31, 2008, 2009 and 2010

	2008	2009 (in millions of Korean Won, except per share data)	2010	2010 (See Note 1) (in thousands of US$, except per share data)
Interest and dividend income				
Interest and fees on loans	(Won) 12,109,332	(Won) 10,224,880	(Won) 10,445,763	$ 9,239,133
Interest and dividends on securities (Note 7)	1,775,081	1,852,178	1,847,460	1,634,052
Interest and dividends on trading assets	468,656	226,732	387,290	342,553
Other interest income	380,871	293,567	343,945	304,214
Total interest income	14,733,940	12,597,357	13,024,458	11,519,952
Interest expense				
Interest on deposits	4,714,252	4,188,204	4,096,954	3,623,699
Interest on short-term borrowings (Note 13)	865,695	555,026	376,971	333,426
Interest on secured borrowings	562,735	330,624	225,100	199,098
Interest on long-term debt	2,761,858	2,277,419	2,141,771	1,894,368
Other interest expense	50,028	24,755	9,633	8,520
Total interest expense	8,954,568	7,376,028	6,850,429	6,059,111
Net interest income	5,779,372	5,221,329	6,174,029	5,460,841
Provision for credit losses (Note 8)	1,436,598	2,201,164	672,992	595,252
Net interest income after provision for credit losses	4,342,774	3,020,165	5,501,037	4,865,589
Non-interest income				
Commissions and fees (Note 18)	2,595,215	2,700,414	2,641,204	2,336,108
Net trust management fees	69,163	69,420	41,060	36,317
Net trading profits (losses) (Note 6)	584,330	(516,962)	936,572	828,385
Net gains on securities (Note 7)	13,092	321,405	741,190	655,572
Impairment loss on debt securities:				
Gross impairment losses on debt securities	(148,894)	(14,262)	(9,190)	(8,127)
Less: Impairment recognized in OCI		957		
Net impairment losses on debt securities	(148,894)	(13,305)	(9,190)	(8,127)
Income from other investment	317,211	267,546	332,388	293,993
Net gains (losses) on foreign exchange	(566,751)	956,238	(409,831)	(362,490)
Insurance income	1,329,274	1,229,057	1,040,283	920,116
Other (Note 19)	378,777	670,928	485,859	429,735
Total non-interest income	4,571,417	5,684,741	5,799,535	5,129,609
Non-interest expense				
Employee compensation and other benefits (Note 27)	1,817,473	2,000,396	1,934,476	1,711,017
Depreciation and amortization (Notes 9 and 10)	871,416	713,521	604,759	534,901
General and administrative expenses	882,135	868,317	1,037,347	917,519
Credit card fees	700,403	741,744	874,733	773,689
Provision (reversal) for other losses	(18,467)	166,238	57,735	51,065
Insurance fees on deposits	132,705	161,586	191,480	169,361
Other fees and commission expense	422,146	454,077	475,384	420,471
Taxes (except income taxes)	179,009	143,354	179,177	158,480
Insurance operating expense	1,037,797	1,456,306	1,749,176	1,547,123
Other (Note 19)	702,243	431,816	797,591	705,458

Total non-interest expense		6,726,860		7,137,355		7,901,858		6,989,084
Income before income tax expense		2,187,331		1,567,551		3,398,714		3,006,114
Income tax expense (Note 24)		694,931		424,026		576,826		510,194
Net income		1,492,400		1,143,525		2,821,888		2,495,920
Net income attributable to noncontrolling interests		11,701		9,673		(22,634)		(20,020)
Net income attributable to the Group	(Won)	1,480,699	(Won)	1,133,852	(Won)	2,844,522	$	2,515,940

See accompanying notes to consolidated financial statements.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Statements of Income (Continued)

	2008	2009	2010	2010 (See Note 1)
		(in millions of Korean Won, except per share data)		(in thousands of US$, except per share data)
Net income per share of common stock (Note 25)				
Basic				
Net income per share	(Won) 2,993	(Won) 1,957	(Won) 5,512	$ 4.84
Diluted				
Net income per share	(Won) 2,955	(Won) 1,955	(Won) 5,403	$ 4.73
Average common shares issued and outstanding	417,673,260	461,500,172	474,199,587	474,199,587
Average diluted common shares issued and outstanding	432,394,260	476,221,172	488,920,587	488,920,587

See accompanying notes to consolidated financial statements.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Equity

Years Ended December 31, 2008, 2009 and 2010

Common Stock		Preferred Stock							
Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Treasury Stock	Total Group Stockholders Equity	Non controlling Interest
(In millions of Korean Won and in thousands of US $, except share and per share data)									
396,199,587	(Won) 1,980,998	43,711,000	(Won) 218,555	(Won) 7,147,165	(Won) 6,801,202	(Won) 762,200	(Won) (28)	(Won) 16,910,092	(Won) 211,450
					1,480,699			1,480,699	11,701
						142,257		142,257	
						(308,976)		(308,976)	2,855
					1,480,699	(166,719)		1,313,980	14,556
					(572,004)			(572,004)	
									86,069
396,199,587	(Won) 1,980,998	43,711,000	(Won) 218,555	(Won) 7,147,165	(Won) 7,709,897	(Won) 595,481	(Won) (28)	(Won) 17,652,068	(Won) 312,075
396,199,587	(Won) 1,980,998	43,711,000	(Won) 218,555	(Won) 7,147,165	(Won) 7,709,897	(Won) 595,481	(Won) (28)	(Won) 17,652,068	(Won) 312,075
					8,752	(8,752)			
396,199,587	(Won) 1,980,998	43,711,000	(Won) 218,555	(Won) 7,147,165	(Won) 7,718,649	(Won) 586,729	(Won) (28)	(Won) 17,652,068	(Won) 312,075
					1,133,852			1,133,852	9,673
						(67,906)		(67,906)	(311)
						449,990		449,990	(1,458)

					1,133,852	382,084		1,515,936	7,904		
78,000,000	390,000			885,260				1,275,260			
					(230,586)			(230,586)			
				(3)			28	25			
ip											
				5,296		200		5,496	(5,496)		
									16,708		
474,199,587	(Won) 2,370,998	43,711,000	(Won) 218,555	(Won) 8,037,718	(Won) 8,621,915	(Won) 969,013	(Won)	(Won) 20,218,199	(Won) 331,191	(W	

See accompanying notes to consolidated financial statements.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Equity (Continued)

Common Stock		Preferred Stock							
Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Treasury Stock	Total Group Stockholders Equity	Non controlling Interest
(In millions of Korean Won and in thousands of US $, except share and per share data)									
474,199,587	(Won) 2,370,998	43,711,000	(Won) 218,555	(Won) 8,037,718	(Won) 8,621,915	(Won) 969,013	(Won)	(Won) 20,218,199	(Won) 331,191
					(13,910)			(13,910)	1,986
474,199,587	(Won) 2,370,998	43,711,000	(Won) 218,555	(Won) 8,037,718	(Won) 8,608,005	(Won) 969,013	(Won)	(Won) 20,204,289	(Won) 333,177
					2,844,522			2,844,522	(22,634)
						7,949		7,949	(95)
						165,960		165,960	1,138
						(7,034)		(7,034)	
					2,844,522	166,875		3,011,397	(21,591)
					(420,266)			(420,266)	
				(50)				(50)	(2,442)
									103,681
474,199,587	(Won) 2,370,998	43,711,000	(Won) 218,555	(Won) 8,037,668	(Won) 11,032,261	(Won) 1,135,888	(Won)	(Won) 22,795,370	(Won) 412,825

See accompanying notes to consolidated financial statements.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Equity (Continued)

	Common Stock		Preferred Stock								
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Treasury Stock	Total Group Stockholders Equity	Non controlling Interest	Total Equity
	(In millions of Korean Won and in thousands of US $, except share and per share data)										
Balance at January 1, 2010	474,199,587	$ 2,097,115	43,711,000	$ 193,309	$ 7,109,251	$ 7,625,964	$ 857,080	$	$ 17,882,719	$ 292,933	$ 18,175,652
Cumulative effect of change adoption of FAS 167						(12,303)			(12,303)	1,757	(10,546)
Adjusted balance at January 1, 2010	474,199,587	$ 2,097,115	43,711,000	$ 193,309	$ 7,109,251	$ 7,613,661	$ 857,080	$	$ 17,870,416	$ 294,690	$ 18,165,106
Comprehensive income:											
Net income						2,515,940			2,515,940	(20,020)	2,495,920
Foreign currency translation adjustments							7,029		7,029	(84)	6,945
Net unrealized gains (losses) on available-for-sale securities							146,788		146,788	1,007	147,795
Net gains (losses) on cash flow hedges							(6,222)		(6,222)		(6,222)
Total comprehensive income						2,515,940	147,595		2,663,535	(19,097)	2,644,438
Issuance of common stock											
Cash dividends ((Won)900 per share)						(371,719)			(371,719)		(371,719)
Changes in the Group s ownership interest in subsidiary					(45)				(45)	(2,159)	(2,204)
Other changes in noncontrolling interest										91,704	91,704
Balance at December 31, 2010	474,199,587	$ 2,097,115	43,711,000	$ 193,309	$ 7,109,206	$ 9,757,882	$ 1,004,675	$	$ 20,162,187	$ 365,138	$ 20,527,325

See accompanying notes to consolidated financial statements.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2008, 2009 and 2010

	2008	2009 (in millions of Korean Won)	2010	2010 (See Note 1) (in thousands of US$)
Cash flows from operating activities				
Net income	(Won) 1,492,400	(Won) 1,143,525	(Won) 2,821,888	$ 2,495,920
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for credit losses	1,436,598	2,201,164	672,992	595,252
Provision (reversal) for future policy benefit	(71,059)	526,463	835,539	739,023
Depreciation and amortization	871,416	713,521	604,759	534,901
Accretion of discounts on long-term debt	140,635	50,148	73,738	65,220
Amortization on deferred loan origination fees and costs	151,073	94,411	114,000	100,832
Amortization on investment debt securities	(32,279)	(18,746)	(14,657)	(12,964)
Net gain on equity investments	(53,067)	(61,362)	(68,465)	(60,556)
Net trading (profits) losses	(584,330)	516,962	(936,572)	(828,385)
Net gain on sale of available-for-sale securities	(110,463)	(416,196)	(742,095)	(656,372)
Impairment loss on securities	246,265	108,096	10,095	8,927
Net (gain) loss on sale of premises and equipment	(1,604)	(14,140)	5,685	5,028
Provision (reversal) for other losses	(18,467)	166,238	57,735	51,065
Net (gain) losses on sales of other assets	(99,821)	(87,340)	(72,211)	(63,869)
Gain on deconsolidation		(31,933)		
Net unrealized foreign exchange (gains) losses	805,429	(1,093,482)	211,319	186,909
Expense (reversal) on stock option	(114,058)	52,077	31,230	27,622
Impairment loss on goodwill	128,394	59,517		
Impairment loss on other investments	33,206	14,802	105,546	93,354
Net (gain) loss on sale of loans	(1,196)	(26,189)	38,235	33,818
Net changes in:				
Restricted cash	(2,304,511)	(939,905)	2,415,229	2,136,238
Trading assets	(7,934,088)	6,881,682	(1,129,967)	(999,440)
Other assets	(1,714,095)	1,756,950	629,788	557,039
Trading liabilities	9,322,022	(7,265,631)	(1,012,209)	(895,285)
Accrued expenses and other liabilities	2,315,268	(2,616,515)	1,742,086	1,540,851
Net cash provided by operating activities	3,903,668	1,714,117	6,393,688	5,655,128

See accompanying notes to consolidated financial statements.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

	2008	2009	2010	2010 (See Note 1)
		(in millions of Korean Won)		(in thousands of US$)
Cash flows from investing activities				
Net change in interest-bearing deposit assets	(Won) (533,050)	(Won) (562,124)	(Won) 81,723	$ 72,282
Net change in call loans and securities purchased under resale agreements	(2,158,154)	1,483,791	(920,249)	(813,947)
Proceeds from sales of available-for-sale securities	2,473,684	1,561,005	4,383,889	3,877,489
Proceeds from maturities of available-for-sale securities	7,274,598	12,351,877	13,257,354	11,725,946
Purchases of available-for-sale securities	(16,325,479)	(11,668,839)	(16,437,650)	(14,538,874)
Proceeds from maturities of held-to-maturity securities	6,237,970	2,224,973	2,366,064	2,092,751
Purchases of held-to-maturity securities	(6,680,646)	(6,345,609)	(2,127,413)	(1,881,667)
Loan originations and principal collections, net	(16,141,642)	(5,477,713)	(11,179,343)	(9,887,973)
Proceeds from sales of premises and equipment	92,158	69,583	27,497	24,321
Purchases of premises and equipment	(411,017)	(382,246)	(283,128)	(250,423)
Net change in security deposits	(38,904)	6,185	(71,487)	(63,229)
Increase in goodwill		(3,303)		
Acquisition of subsidiaries, net of cash acquired	(46,278)		13,172	11,651
Deconsolidation of subsidiaries		(1,409)		
Proceeds from sales of equity method investments	8,613	121,902	92,241	81,586
Acquisition of equity method investments	(264,136)	(114,535)	(142,081)	(125,668)
Net change in other investments	(395,972)	(749,297)	(127,466)	(112,744)
Net cash used in investing activities	(26,908,255)	(7,485,759)	(11,066,877)	(9,788,499)
Cash flows from financing activities				
Net increase in interest-bearing deposit liabilities	14,955,203	25,310,495	5,789,219	5,120,484
Net increase (decrease) in non-interest-bearing deposits	(220,276)	(52,447)	188,298	166,547
Net increase (decrease) in short-term borrowings	7,079,775	(13,220,611)	(1,166,700)	(1,031,930)
Proceeds from issuance of secured borrowings	4,503,126	2,434,546	2,508,416	2,218,659
Repayment of secured borrowings	(5,826,397)	(4,685,501)	(2,845,920)	(2,517,176)
Proceeds from issuance of long-term debt	13,097,327	16,136,245	15,758,917	13,938,544
Repayment of long-term debt	(12,673,038)	(17,171,152)	(13,815,772)	(12,219,861)
Proceed from the issuance of common stock		1,275,260		
Sale of treasury stock		25		
Cash dividends paid	(572,004)	(230,586)	(420,266)	(371,719)
Increase of noncontrolling interest	2,328	16,690	101,188	89,500

Net cash provided by financing activities		20,346,044		9,812,964		6,097,380		5,393,048
Effect of exchange rate changes on cash		443,514		(1,042,974)		(98,305)		(86,949)
Net increase (decrease) in cash and cash equivalents		(2,215,029)		2,998,348		1,325,886		1,172,728
Cash and cash equivalents								
Beginning of year		3,579,806		1,364,777		4,363,125		3,859,124
End of year	(Won)	1,364,777	(Won)	4,363,125	(Won)	5,689,011	$	5,031,852

See accompanying notes to consolidated financial statements.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

	2008	2009 (in millions of Korean Won)	2010	2010 (See Note 1) (in thousands of US$)
Supplemental disclosure of cash flow information				
Cash paid for interest	(Won) 8,297,836	(Won) 8,085,712	(Won) 6,823,481	$ 6,035,274
Cash paid for income taxes	985,904	700,844	695,320	615,001
Supplemental disclosure of non-cash investing and financing activities				
Securities and other investments received in connection with loan restructuring		6,519	26,198	23,171
Securities and other investments received in connection with suspense receivable as credit restructuring		33,553	21,283	18,825
Increase in cumulative translation adjustments, net of taxes	142,257	(67,906)	7,949	7,031
Increase (decrease) in unrealized gains (losses) on available-for-sale securities, net of taxes	(308,976)	441,438	158,926	140,568
Increase in premises and equipment transferred from other receivables				
Increase in equity method investment due to deconsolidation		126,795		

See accompanying notes to consolidated financial statements.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2008, 2009 and 2010

1. General Information and Summary of Significant Accounting Policies

Business

Shinhan Financial Group Co., Ltd. is a financial holding company incorporated in the Republic of Korea (Korea) under the Financial Holding Company Act of Korea. Shinhan Financial Group Co., Ltd. and its subsidiaries (collectively, the Group) engage in banking and a variety of related businesses to provide a wide range of financial services to corporations, governments, institutions and individuals.

The principal subsidiaries of the Group at December 31 are as follows:

	Country of Incorporation	Percentage of ownership(1)		
		2008	2009	2010
Shinhan Bank	Korea	100%	100%	100%
Shinhan Investment Corp. (Formerly Good Morning Shinhan Securities Co., Ltd.)(2)	Korea	100%	100%	100%
Shinhan Card Co., Ltd.	Korea	100%	100%	100%
Shinhan Capital Co., Ltd.	Korea	100%	100%	100%
Jeju Bank	Korea	62.42%	68.88%	68.88%
Shinhan Credit Information Co., Ltd.	Korea	100%	100%	100%
Shinhan Private Equity Inc.	Korea	100%	100%	100%
Shinhan Life Insurance Co., Ltd.	Korea	100%	100%	100%
SHC Management Co., Ltd.	Korea	100%	100%	100%
Shinhan Data System Co., Ltd	Korea	100%	100%	100%

Note:

(1) Direct and indirect ownership are combined. All holdings are in common stock of the respective subsidiaries.

(2) On August 24, 2009, the former Good Morning Shinhan Securities Co., Ltd. changed its name to Shinhan Investment Corp. .

The Group is subject to the provisions of the Financial Holding Company Act of Korea. Shinhan Bank and Jeju Bank conduct operations in accordance with the provisions of the Bank Act of Korea, including their activities in the commercial banking business. Shinhan Bank and Jeju Bank also engage in the trust business subject to the Financial Investment Services and Capital Market Act (FSCMA) and other relevant laws.

Principles of Consolidation

The consolidated financial statements, presented in accordance with U.S. generally accepted accounting principles (US GAAP), include the accounts of Shinhan Financial Group Co., Ltd. and its majority-owned subsidiaries. The Group consolidates subsidiaries in which it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. All significant intercompany transactions and balances have been eliminated in consolidation. Operating results of companies purchased are included from the dates of the acquisition. Assets held in an agency or trust management capacities are not included in the consolidated financial statements. The Group accounts for investments in companies in which it owns voting or economic interest of 20 % to 50 % and for which it has significant influence over operating and financing

decisions using the equity method of accounting and the pro rata share of their income (loss) is included in other noninterest income (expense). Investments in joint ventures, where the Group does not have unilateral control, are also accounted for using the equity method of accounting. Investments in companies where the Group owns less than 20% and does not have the ability to exercise significant influence over operating and financing decisions are

Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

accounted for using the cost method of accounting. Income from these investments is recognized when dividends are received. As discussed below, the Group consolidates entities deemed to be variable interest entities (VIEs) when the Group is determined to be the primary beneficiary of the VIEs. Gains and losses on the disposition of branches, subsidiaries, affiliates, buildings, and other investments and charges for management s estimate of impairment in their value that is other than temporary, such that recovery of the carrying amount is deemed unlikely, are included in other non-interest income or expense.

Variable Interest Entities

An entity is referred to as a variable interest entity (VIE) if it meets the criteria outlined in ASC 810 (formerly FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities (revised December 2003)* (FIN 46(R) and SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167)), which are: (1) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) as a group, the holders of equity investment at risk lack any one of the following two characteristics:

a. The power, through voting rights or similar rights, to direct the activities that most significantly impact the entity s economic performance

b. The obligation to absorb expected losses or the right to receive the expected residual returns of the entity

In addition, a VIE must be consolidated by the Group if it is deemed to be the primary beneficiary of the VIE, which is the party involved with the VIE that 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. The Group provides asset management services, line of credit, and purchase commitment for the underlying assets securitized by the consolidated VIEs. In return for these services, the Group receives a commission, such as commitment fee and management fee. For more information about the amount of this financial support to consolidated VIEs, see Note 36.

Along with the VIEs that are consolidated in accordance with these guidelines, the Group has significant variable interests in other VIEs that are not consolidated because the Group is not the primary beneficiary. These include Special Purpose Entities (SPEs) where the Group provides credit enhancement or liquidity guarantees, and various investment trust funds. All other entities not deemed to be VIEs, with which the Group has involvement, are evaluated for consolidation under other subtopics of ASC 810 (formerly Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, SFAS No. 94, *Consolidation of All Majority-Owned Subsidiaries* and EITF Issue No. 04-5, *Determining whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity when the Limited Partners Have Certain Rights*).

However, these VIEs as well as all other unconsolidated VIEs are continually monitored by the Group to determine if any events have occurred that could cause its primary beneficiary status to change. These events include:

additional purchases or sales of variable interests by the Group or an unrelated third party, which cause the Group s overall variable interest ownership to change;

changes in contractual arrangements in a manner that reallocates losses or residual returns among the variable interest holders;

changes in the party that has power to direct activities of a VIE that most significantly impact the entity s economic performance; and

providing support to an entity that results in an implicit variable interest.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Foreign Currency Translation

Assets, liabilities and operations of foreign branches and subsidiaries are recorded based on the functional currency of each entity. For certain foreign operations, the functional currency is the local currency or the US dollar, in which case assets and liabilities are translated, for consolidation purposes, at the current exchange rates from the functional currency to the reporting currency, the Korean Won. Income and expenses are translated at the weighted-average exchange rate for the reporting period. The resulting translation adjustments are reported as a component of accumulated other comprehensive income within equity on an after-tax basis.

Foreign currency transactions executed by domestic Korean entities are accounted for at the exchange rates prevailing on the related transaction dates. Assets and liabilities denominated in foreign currencies are translated to the Korean Won using period-end exchange rates. Gains and losses resulting from the settlement of foreign currency transactions and from the translation of assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of income except for gains and losses arising from the translation of available-for-sale securities which are recorded as a component of accumulated other comprehensive income within equity on an after-tax basis.

Use of Estimates

The preparation of the consolidated financial statements requires management of the Group to make certain estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include allowances for loan losses and off-balance sheet credit instruments, impairment of goodwill and intangible assets, fair value measurements, consolidation decision for special purpose entities, contingent liabilities, future policy benefits, deferred policy acquisition costs, valuation allowance for deferred tax assets, valuation of businesses acquired, useful lives of property and equipment and definite lived intangible assets, share-based compensation, valuation of derivative instruments and other than temporary impairment for securities. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, cash items in the process of collection, amounts due from banks and other financial institutions, all of which have original maturities within 90 days.

Securities Purchased under Resale Agreements and Securities Sold under Repurchase Agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are treated as collateralized financing transactions and are carried on the consolidated balance sheets at the amount at which the securities will be subsequently resold or repurchased, including accrued interest, as specified in the respective agreements. Interest earned on resale agreements and interest incurred on repurchase agreements are reported as interest income and interest expense, respectively. The Group s policy is to take possession of securities purchased under agreements to resell. The market value of securities to be repurchased and resold is monitored, and additional collateral is obtained where appropriate to protect the Group against credit exposure.

Trading Assets and Liabilities, including Derivatives

Trading assets include securities that are bought and held principally for the purpose of selling them in the near term. Trading positions are carried at fair value and recorded on a trade date basis. The Group recognizes changes in the fair value of trading positions in net trading profits (losses). Interest and dividends are recognized when earned and included in interest and dividends on trading assets.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Fair value of trading positions is generally based on quoted market prices or quoted market prices for similar assets and liabilities. If these market prices are not available, fair values are estimated based on dealer quotes, pricing models, discounted cash flow methodologies, or similar techniques for which the determination of fair value may require significant management judgment or estimation.

Trading assets and liabilities also include derivatives used for trading purposes and for non-trading purposes that do not qualify for hedge accounting which are recognized on the consolidated financial statements at fair value. Trading and non-trading derivatives include interest rate and foreign currency swaps, equity conversion options, credit indexed contracts, puts and calls, caps and floors, warrants, futures and forwards. The Group recognizes changes in the fair value of trading and non-trading derivatives that do not qualify for hedge accounting in net trading profits (losses).

For exchange-traded contracts, fair value is based on quoted market prices. For non-exchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies, or similar techniques for which the determination of fair value may require significant management judgment or estimation. Valuations of derivative assets and liabilities reflect the value of the instruments including adjustments associated with counterparty credit risk and the Group s nonperformance risk, respectively.

Derivatives and Hedging Activities

As part of its asset and liability management process, the Group uses various derivative instruments including interest rate and foreign currency swaps to manage various interest rate and foreign exchange exposures or modify interest rate characteristics of various balance sheet accounts. Certain derivative contracts such as interest rate swaps and cross currency swaps are entered into for non-trading purposes and intended to serve as economic hedges of risk but do not qualify for hedge accounting.

The Group accounts for derivative and hedging activities in accordance with ASC 815-10 (formerly SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS 133)), which requires that all derivative instruments be recorded on the balance sheet at their respective fair values. On the date a non-trading derivative contract is entered into, the Group designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), a foreign-currency fair-value or cash-flow hedge (foreign currency hedge), or a hedge of a net investment in a foreign operation. For all hedging relationships the Group formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument s effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as fair-value, cash-flow, or foreign-currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Group also formally assesses, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. Changes in the fair value of derivatives that are highly effective as hedges and that are designated and qualify as foreign-currency hedges are recorded in either earnings or other comprehensive income, depending on whether the hedge transaction is a fair-value hedge or a cash-flow hedge. However, if a derivative is used as a hedge of a net investment in a foreign operation, its changes in fair

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Notes to Consolidated Financial Statements (Continued)

value, to the extent effective as a hedge, are recorded in the cumulative translation adjustments account within other comprehensive income. The ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash-flow hedge is reported in earnings. Changes in the fair value of derivative trading instruments are reported in current period earnings.

The Group discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is no longer designated as a hedging instrument because it is unlikely that a forecasted transaction will occur, a hedged firm commitment no longer meets the definition of a firm commitment, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

In all situations in which hedge accounting is discontinued and the derivative is retained, the Group continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in earnings. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, the Group no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Group removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the balance sheet, and recognizes any gain or loss in earnings. When it is probable that a forecasted transaction will not occur, the Group discontinues hedge accounting if not already done and recognizes immediately in earnings gains and losses that were accumulated in other comprehensive income.

The short-cut method of hedge accounting assumes no ineffectiveness in a hedging relationship involving an interest rate swap and an interest-bearing asset or liability. The changes in the fair value or cash flows that are attributable to the risk being hedged will be completely offset at the hedge s inception and on an on-going basis. Under the short-cut method, among other requirements, the critical terms of the derivative instrument and the hedged item should be initially the same and subsequently stay the same throughout the hedge s life to support the ongoing application of hedge accounting.

Certain Hybrid Financial Instruments

In accordance with ASC 851-15 (formerly SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* (SFAS 155)), hybrid financial instruments such as structured notes containing embedded derivatives that otherwise would require bifurcation, as well as certain interest-only instruments may be accounted for at fair value if the Group makes an irrevocable election to do so on an instrument-by-instrument basis. The changes in fair value are recorded in current earnings.

Securities

Securities primarily consist of asset-backed securities and debt securities issued by Korean Treasury, financial institutions and corporations as well as marketable equity securities. The Group classifies its debt securities in one of three categories: trading, available-for-sale, or held-to-maturity and its equity securities into trading or available-for-sale. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity debt securities are those securities in which the Group has the positive intent and ability to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Available-for-sale securities are recorded at fair value. Held-to-maturity debt securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are

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Notes to Consolidated Financial Statements (Continued)

reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined using the moving average method for equity securities or specific identification method for debt securities.

As of January 1, 2009, the Group adopted FSP FAS 115-2 and FAS 124-2 (now ASC 320-10, *Investments-Debt and Equity Securities: Recognition of an Other-than-temporary impairment*, OTTI) (formerly FSP FAS 115-2 and FAS 124-2). OTTI must be recognized if an investor has the intent to sell the debt security or if it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. In addition, the guidance changes the amount of impairment to be recognized in current-period earnings 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 security, as in these cases only the amount of the impairment associated with credit losses is recognized in income, while the rest of the fair value loss is recognized in other comprehensive income. But declines in the fair value of available-for-sale equity securities below their cost that are deemed to be other-than-temporary are recorded in earnings. When the Group does not intend to sell available-for-sale equity or debt securities in an unrealized loss position, potential OTTI is considered using a variety of factors, including the length of time and extent to which the market value has been less than cost; adverse conditions specifically related to the industry, geographic area or financial condition of the issuer or underlying collateral of a security; payment structure of the security; changes to the rating of the security s issuer; the volatility of the fair value changes; and changes in fair value of the security after the balance sheet date. For equity securities, the Group considers the above factors, as well as the Group s intent and ability to retain its investment for a period of time sufficient to allow for any anticipated recovery in market value, and whether evidence exists to support a realizable value equal to or greater than the carrying value.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

Certain equity securities that do not have readily determinable fair values or have sales restrictions exceeding one year are classified as other investments under other assets. For investments in which the Group has significant influence over the investees, the equity method is applied. Certain alternative investments 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 which is recorded in non-interest income. All the other equity securities included in the category of other investments are recorded using the cost method under which there is no change to the cost basis unless there is other-than-temporary decline in value. If the decline is determined to be other-than-temporary, the Group writes down the cost basis of the investment to its fair value. The amount of write-down is included in earnings under non-interest expense and dividend income earned on these securities is recorded in non-interest income.

Shinhan National Pension Service PEF 1st and Shinhan PEF 2nd, the Group s subsidiaries, engage exclusively in venture capital activities. Venture capital investments are not within the scope of ASC 320-10 (formerly SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115)), and are subject to specialized industry accounting for investment companies. Venture capital investments are recorded as trading assets and are carried at fair value with net changes in fair value recognized in net trading profits (losses). The fair values of publicly-traded securities held by these subsidiaries are generally based on quoted market prices. Securities that are held by these subsidiaries that are not publicly traded are initially recorded at cost, which is deemed to approximate the fair value as of the acquisition date. Subsequent to acquisition, management estimates the fair value based on investee transactions with unaffiliated parties, management s review of the investee s financial results and condition or the latest obtainable net asset value of the investees.

Loans

Loans are reported at their outstanding principal balances net of any unearned income, charge-offs, unamortized deferred fees and costs on originated loans, and premiums or discounts on purchased loans. Loan

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

origination fees and certain direct origination costs are deferred and recognized as adjustments to income over the lives of the related loans. Unearned income, discounts and premiums are amortized using methods that approximate the effective interest method.

The Group generally ceases the accrual of interest when principal or interest payments become past due. Any unpaid interest previously accrued on such loans is reversed from income, and thereafter interest is recognized only to the extent payments are received. In applying payments on delinquent loans, payments are applied first to delinquent interest and normal interest, and then to principal until it is paid in full. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current. Interest accruals are continued for past-due loans collateralized by customer deposits.

Securities received by the Group involving loans that are restructured or settled are recorded at fair value of the security at the date of restructuring or settlement. Any difference between the security s fair value and the net carrying amount of the loan is recorded as a charge-off or recovery, as appropriate.

Transfers of loans to third parties are accounted for as sales when control is surrendered to the transferee. The Group derecognizes such loans from the balance sheet including any related allowance and deferred loan origination costs, and recognizes all assets obtained, and liabilities incurred, including any recourse obligations to the transferee, at fair value. Any resulting gain or loss on the sales is recognized in earnings. Conversely, the Group recognizes loans transferred from third parties on the balance sheet when the Group obtains control of the loans or participates in a loan originated by another financial institution.

The Group provides equipment financing to its customers through a variety of lease arrangements. Direct financing leases are carried at the sum of the aggregate of minimum lease payments receivable, estimated unguaranteed residual value of the lease property and unamortized initial direct costs, less unearned income. Unearned income and initial direct costs are amortized to income using the effective interest method.

The Group purchases loans with and without evidence of credit quality deterioration since origination. Those loans with evidence of credit quality deterioration for which it is probable, at the time of acquisition, that all amounts due according to the contractual terms of the loan agreement will not be collected are accounted for under ASC 310-30 (formerly AICPA Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3)). The Group analyzes for differences between contractual cash flows and cash flows expected to be collected from an investor s initial investment in loans acquired in a transfer and if those differences are attributable, at least in part, to credit quality, such loans are recorded at fair value and carrying over or the creation of valuation allowances in the initial accounting of loans acquired in a transfer is prohibited. The prohibition of the valuation allowance carryover applies to the purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a purchase business combination. The excess of cash flows expected at purchase over the purchase price is recorded as interest income over the life of the loan. For those loans not within the scope of ASC 310-30, any difference between the purchase price and the par value of the loan is reflected in interest income over the life of the loan.

Allowance for Loan Losses

The Group s allowance for loan losses is based upon management s continuing review and evaluation of the loan portfolio and is management s best estimate of probable losses that have been incurred as of the balance sheet date. The determination of the allowance for loan losses hinges upon various judgments and assumptions, including but not limited to, management s assessment of probable losses on individual loans, domestic and international economic conditions, loan portfolio composition, transfer risks and prior loan loss experience. The allowance for loan losses is increased by the provision for loan losses, which is charged against current period operating results and decreased by the amount of charge-offs, net of recoveries.

The Group s allowance for loan losses consists of (a) specific allowances for specifically identified impaired borrowers, and (b) general allowances for homogeneous pools of commercial and consumer loans, and other loans which are not specifically identified as impaired.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

A commercial loan is considered impaired when, after consideration of current information and events, it is probable that the Group will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. The Group considers the following types of loans to be impaired:

- Loans classified as substandard or below according to asset classification guidelines of the Financial Services Commission (FSC) of the Republic of Korea.
- Loans that are more than 90 days past due; and
- Loans which are troubled debt restructurings under US GAAP

Once a loan has been identified as individually impaired, impairment is measured in accordance with ASC 310-10 (formerly SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended by SFAS 118 (SFAS 114)). The Group s measurement of the impairment of a loan, with the exception of large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, is based on the present value of expected future cash flows discounted at the loan s effective interest rate or, as a practical expedient, on the loan s observable market price or on the fair value of the collateral if the loan is collateral dependent. If the resulting value is less than the book value of the loan, a specific allowance is established for an amount equal to the difference. Any amounts deemed uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses. Impairment criteria are applied to the entire loan portfolio, exclusive of leases and smaller-balance homogeneous loans such as residential mortgage, consumer loans and credit cards, which are evaluated collectively for impairment. Smaller-balance commercial loans, managed on a portfolio basis, are also evaluated collectively for impairment.

The allowance for non-impaired corporate loans, consumer loans and credit card loans is determined using several modeling tools, including a delinquency roll-rate model for credit cards, as well as a risk rating migration model for homogeneous pools of consumer and commercial loans. The loss factors developed through the use of such models are based on the Group s historical loss experiences and may be adjusted for significant factors that, in management s judgment, affect the collectibility of the portfolio as of the evaluation date.

The Group charges off unsecured consumer and credit card loan amounts past due greater than 180 days and the amount deemed uncollectible on financing leases is charged off when past due greater than one year.

Allowance for Off-Balance Sheet Credit Instruments

The Group maintains an allowance for credit losses on off-balance sheet credit instruments, such as commitments to extend credit, guarantees, acceptances, standby and commercial letters of credit and other financial instruments to absorb estimated probable losses related to these unfunded credit facilities. The allowance is estimated based on the assessment of the probability of commitment usage and credit risk factors for loans outstanding to these same customers. The allowance for credit losses for off-balance sheet credit instruments is included in other liabilities.

The Group began to use, with respect to the guarantees and acceptances, past three years average actual conversion ratio of impaired guarantee as credit conversion factor (CCF) in calculating exposure at default (EAD) of impaired guarantee, considering the relieved global economic crisis in 2010. Previously, the Group used 100% as CCF applied to impaired guarantee in calculating EAD.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosures are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, the assets are carried at the lower of their carrying amounts or fair values, less cost to sell, based on periodic valuation reviews performed by management. Revenues and expenses from operations and changes in the valuation

allowance are included in other non-interest expense.

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Securitizations

The Group primarily securitizes corporate loans, credit card receivables, mortgages and student loans.

There are two key accounting determinations that must be made relating to securitizations. First, in the case where the Group originated or owned the financial assets transferred to the securitization entity, a decision must be made as to whether that transfer is considered a sale under generally accepted accounting principles. If it is a sale, the transferred assets are removed from the Group s consolidated balance sheets with a gain or loss recognized. Alternatively, when the transfer is not considered as a sale but rather a financing, the assets will remain on the Group s consolidated balance sheets with an offsetting liability recognized in the amount of proceeds received.

Second, determination must be made as to whether the securitization entity is sufficiently independent. If so, the entity would not be included in the Group s consolidated financial statements. For each securitization entity with which it is involved, the Group makes a determination of whether the entity should be considered a subsidiary of the Group and be included in its consolidated financial statements or whether the entity is sufficiently independent that it does not require consolidation. If the securitization entity is determined to be a VIE, the Group consolidates the VIE, if it is the primary beneficiary.

Interest in the securitized and sold loans may be retained in the form of subordinated debts. Retained interests are primarily recorded as available-for-sale investments. Gains or losses on securitization and sale depend in part on the previous carrying amount of the loans involved in the transfer and proceeds are allocated between the loans sold and the retained interests based on their relative fair values at the date of sale. Gains are recognized at the time of securitization and are reported in non-interest income or expense.

The Group values its securitized retained interest at fair value using either financial models, quoted market prices, or sales of similar assets. Where quoted market prices are not available, the Group estimates the fair value of these retained interests by determining the present value of expected future cash flows using modeling techniques that incorporate management s best estimates of key assumptions, including prepayment speeds, credit losses, and discount rates.

Transfers of Financial Assets

For a transfer of financial assets to be considered a sale, the assets must have been isolated from the Group, even in bankruptcy or other receivership; the purchaser must have the right to sell or pledge the assets transferred and the Group does not maintain effective control. If these sale requirements are met, the assets are removed from the Group s consolidated balance sheet. If the conditions for sale are not met, the transfer is considered to be a secured borrowing, and the assets remain on the consolidated balance sheet. The sale proceeds are recognized as the Group s liability. A legal opinion on a sale is generally obtained for complex transactions or where the Group has continuing involvement with assets transferred or with the securitization entity. Those opinions must state that the asset transfer is considered a sale and that the assets transferred would not be consolidated with other assets in the event of the Group s insolvency.

Premises and Equipment

Buildings, equipment and furniture, leasehold improvements and operating lease assets are stated at cost less accumulated depreciation and amortization. Equipment under capital leases are stated at the present value of minimum lease payments less unguaranteed residual value. Depreciation of buildings and operating lease assets is calculated on the straight-line method over the estimated useful lives of the assets. Depreciation of equipment and furniture is calculated on a declining balance method over the estimated useful lives of the assets. Equipment under capital leases and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful lives of the assets. Gains or losses on sale of premises and equipment are determined by reference to their carrying amounts. Maintenance and repairs are charged to expense as incurred.

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The Group capitalizes certain direct costs related to developing software for internal use, and amortizes such costs on a straight-line basis once the software is available for use in accordance with the ASC 350-40 (formerly SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use).*

The estimated useful lives of premises and equipment are as follows:

Buildings	40 years
Equipment and furniture	4 ~ 5 years
Leasehold improvements	5 years
Operating lease assets	3 ~ 5 years
Capitalized software costs	4 ~ 5 years

Goodwill and Intangible Assets

Goodwill represents the cost of an acquired business in excess of the fair value of the net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights, or because the asset is capable of being sold or exchanged either on its own or in connection with a related contract, asset, or liability. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of ASC 350-10 (formerly SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142)). Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with ASC 360-10 (formerly SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* (SFAS 144)).

The Group s finite-lived intangible assets are comprised of core deposit, credit card relationship, brokerage customer relationship, Korea Securities Finance Corporation (KSFC) deposit and valuation of business acquired (VOBA) intangibles. Core deposit intangibles represent the value of the funding provided by a base of acquired demand and savings accounts, which the Group can expect to maintain for an extended period of time because of generally stable customer relationships. Credit card relationship and brokerage customer relationship intangibles reflect the value of revenues to be derived from a base of acquired customer credit card and brokerage accounts activities, which the Group can expect to maintain for an extended period of time. KSFC deposit intangibles represent the positive spread realized on the differences between the interest rate paid to the customers and the interest rate paid on the deposit with KSFC, which the Group can expect to maintain for an extended period of time. VOBA intangible represents the present value of future profits embedded in the acquired business, which is determined by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. The Group has established VOBA primarily for its acquired traditional, interest-sensitive and variable businesses. Each of the traditional and interest-sensitive businesses is composed of life insurance and annuity contacts.

The finite-lived intangibles except VOBA are amortized using sum-of-the-years -digit method over their estimated useful lives, which range from 1 to 18 years. The estimated weighted-average life of brokerage customer relationship intangibles, KSFC deposit intangibles and Shinhan Bank s core deposit intangibles and credit card relationship intangibles are approximately 3, 3, 9 and 6 years, respectively, reflecting the run-off of economic value. VOBA is amortized over the effective lives of the acquired contracts. For acquired traditional business, VOBA is amortized in proportion to gross premiums of insurance in force, as applicable. For acquired interest-sensitive and variable businesses, VOBA is amortized in proportion to gross profits arising from the contracts and anticipated future experience, which is evaluated regularly.

The Group s indefinite-lived intangible assets are composed of court deposits of Shinhan Bank and KSFC borrowings. Court deposit intangible asset represents the value of the funding provided by a base of court deposit accounts acquired in a business combination which the Group can expect to maintain for an indefinite period

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Notes to Consolidated Financial Statements (Continued)

because that court deposit will be maintained indefinitely once appointed by courts. KSFC borrowing represents the value of the low cost funding from KSFC compared to the next available funding source in the market, and the Group expects to benefit from the borrowing agreement indefinitely because that borrowing agreement lasts indefinitely in accordance with the Securities and Exchange Act of Korea.

Deferred Policy Acquisition Costs (DAC)

Deferred Policy Acquisition Costs (DAC), included in other assets, represent the costs of acquiring new business, principally commissions, certain underwriting and agency expenses directly attributable to the policies written, and the cost of issuing policies.

For traditional business, DAC is amortized over the premium-paying periods of the related policies, in proportion to the ratio of the annual premium revenue to the total anticipated premium revenue in accordance with ASC 944-20 (formerly SFAS No. 60, *Accounting and Reporting by Insurance Enterprises* (SFAS 60)). Assumptions as to the anticipated premiums are made at the date of policy issuance or acquisition and are consistently applied over the life of the policy.

For interest-sensitive and variable businesses, DAC is amortized at a constant rate based upon the present value of estimated gross profits expected to be realized in accordance with ASC 944-20 (formerly SFAS No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from Sale of Investments* (SFAS 97)). The effect of changes in estimated gross profits on unamortized deferred acquisition costs is reflected in the period such estimated gross profits are revised.

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.

Future Policy Benefits

The Group s 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. Expected mortality is generally based on the Group s historical experience and the standard industry table including a provision for the risk of adverse deviation. Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality and interest rate assumptions are locked-in upon the issuance of new insurance or annuity business with fixed and guaranteed terms, significant changes in experience or assumptions may require the Group 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.

The Group s liability for future policy benefits also includes a liability for unpaid claims and claim adjustment expenses. The Group does not establish loss reserves until a loss has occurred. However, unpaid claims and claim adjustment expenses include estimates of claims that the Group believes have been incurred but have not yet been reported as of the balance sheet date. The Group s liability for future policy benefits also includes liabilities for guarantee benefits related to certain nontraditional long-duration life and annuity contracts and unearned revenue.

Separate Account Assets and Liabilities

Separate account assets and liabilities are reported at fair value and represent segregated funds that are invested for certain policyholders. The assets consist of equity securities, policy loans and cash equivalents. The assets of each account are legally segregated and are generally not subject to claims that arise out of any other

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business of the Group. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Group with respect to certain accounts. The investment income and gains or losses for separate accounts generally accrue to the policyholders and are not included in the consolidated statements of income. Separate account assets and liabilities are included in other assets and accrued expenses and other liabilities, respectively, and amounted to (Won)1,090,887 million and (Won)1,351,595 million as of December 31, 2009 and 2010, respectively.

Insurance Premium

Insurance Premiums from long-duration contracts, other than interest-sensitive life contracts, are earned when due as determined by the respective contract and estimates for premiums due but not yet collected are accrued. Premium collected for interest-sensitive contracts are not reported as revenue in the consolidated statements of income. Premiums from short-duration insurance contracts, principally accident and health policies, are earned over the related contract period.

Impairment

In accordance with ASC 360-10 (formerly SFAS 144), long-lived assets, such as premises, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows or quoted market prices in active markets if available, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

Goodwill and intangible assets that have indefinite useful lives are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. For goodwill, the impairment determination is made at the reporting unit level and consists of two steps. First, the Group determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to purchase price allocation, in accordance with ASC 805-10 (formerly SFAS No. 141, *Business Combinations* (SFAS 141)). The residual fair value after this allocation is the implied fair value of the reporting unit s goodwill.

Share-Based Compensation

The Group uses a fair value method of accounting for share-based compensation provided to its employees and key executives. The Group values stock options issued based upon an option-pricing model and recognizes this value as an expense, adjusted for forfeitures, over the period in which the options are vested.

Commissions and Fees

Commissions and fees primarily consist of brokerage fees and commissions, credit card fees, fees on guarantees and import/export letters of credit, and commissions received on remittance, cash dispenser service, cash management services and others. These fees are recognized over the period during which the related services are rendered.

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Net Trust Management Fees

The Group manages funds on behalf of its customers through operations of various trust accounts. The Group recognized such management fees when earned. The Group is also entitled to receive performance-based fees for certain trust accounts. These fees, if earned, are recognized at the end of the performance period. In addition, the Group is liable to compensate trust account holders for losses incurred in certain trust accounts, subject to minimum return and principal guarantees. Such losses arising from the trusts underperforming the guaranteed level are accrued at the end of each applicable year when they are considered probable and reasonably estimable, and are included in net trust management fees.

Co-Branding Credit Card Arrangements

The Group has co-brand arrangements with certain vendors that entitle a cardholder to receive benefits, such as airline frequent-flyer points, based on purchases made with the credit card. These arrangements have remaining terms not exceeding five years. The Group makes monthly payments to certain co-brand partners based on the volume of cardholders purchases and on the number of points awarded to cardholders, and to the other co-brand partners, based on the numbers of points redeemed by the cardholders. The payments to the co-brand partners are estimated based on historical payment experience and are recorded in accrued expenses and other liabilities.

Dormant Accounts

Customers deposits with a positive balance but no earnings for an extended period of time are considered dormant accounts. The Group elected to transfer the dormant accounts of consumer deposits to a dormant account foundation in accordance with regulations on dormant accounts and has accounted for such amounts as other liabilities. The Group recognized gain on dormant accounts of corporate deposits excluding expected redemption amounts as other non-interest income.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred tax assets, including the tax effect on the tax loss carryforwards, are recognized to the extent it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. To the extent the deferred tax assets are not more likely than not realizable, a valuation allowance is recognized.

The Group accounts for income tax uncertainties under ASC 740-10, which requires a two-step process in evaluating income tax positions. In the first step, an enterprise determines whether it is more likely than not that an income tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Income tax positions meeting the more-likely-than-not recognition threshold are then measured to determine the amount of benefit eligible for recognition in the financial statements. Each income tax position is measured at the largest amount of benefit that is more likely than not to be realized upon settlement. The Group classifies interest and penalties related to unrecognized tax benefits as a component of income tax expense.

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Earnings Per Share

Earnings per share is computed after recognition of preferred stock dividend requirements. Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised. It is computed after giving consideration to the weighted average dilutive effect of the Group s stock option, bonds with stock purchase warrants and redeemable convertible preferred stock. Dilutive potential common shares are calculated using the treasury stock method and if-converted method.

Comprehensive Income

The Group records unrealized gains and losses on available-for-sale securities and foreign currency translation adjustments in accumulated other comprehensive income (AOCI), net of taxes. Unrealized gains and losses on available-for-sale securities are reclassified to net income as the gains or losses are realized upon sale of the securities. Other-than-temporary impairment charges are reclassified to net income at the time of the recognition. Translation gains or losses on foreign currency translation adjustments are reclassified to net income upon sale or liquidation of investments in foreign operations.

Convenience Translation

The Group operates primarily in Korea and its official accounting records are maintained in Korean Won. The US dollar amounts are provided herein as supplementary information solely for the convenience of the reader. Korean Won amounts are expressed in US dollars at the rate of (Won)1,130.60: US$1, the United States Federal Reserve Bank of New York noon buying exchange rate in effect on December 31, 2010. Such convenience translation into US dollar should not be construed as representations that the Korean Won amounts have been, could have been, or could in the future be converted into US dollars at this or any other rate of exchange.

Reclassification

Certain reclassifications have been made in the prior years consolidated financial statements to conform to the current year presentation for comparative purposes.

2. Accounting Changes and Future Application of Accounting Standards

ASU No. 2009-05, FV Measurements and Disclosures Measuring Liabilities at FV (ASC 820)

In August 2009, the FASB issued accounting standard updates to clarify how the fair value measurement principles should be applied to measuring liabilities carried at fair value. The update explains how to prioritize market inputs appropriate for debt obligations that are restricted from being transferred to another obligor. The update is effective for the first reporting period (including interim period) beginning after issuance, and adoption of ASU 2009-05 did not have material impact to the Group s consolidated financial statements.

Effect of a Loan Modification When the Loan is Part of a Pool Accounted for as a Single Asset

In April 2010, the FASB issued Accounting Standard Update (ASU) 2010-18, *Effect of a Loan Modification When the Loan is Part of a Pool Accounted for as a Single Asset.* As a result of the amendments in this update, modifications of loans that are accounted for within a pool under Subtopic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity is required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool

change. This update became effective for loan modifications occurring in reporting periods ending on or after July 15, 2010 and had no impact on the Group s consolidated financial statements.

Disclosures about the Credit Quality of Financing Receivables

In July 2010, the FASB issued ASU 2010-20*, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit losses* (ASC 310), The ASU 2010-20(ASC 310) enhances disclosures about the credit quality of financing receivables and the allowance for credit losses. This update defines a portfolio segment as the level at which an entity develops and documents a systematic methodology to determine the allowance for credit losses, and a class of financing receivables as the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics and methods for assessing risk. The Group s portfolio segments are commercial, consumer and credit cards loans. The classes in the commercial portfolio segments are commercial & industrial, other commercial and foreign. The classes in the consumer portfolio segments are mortgage, home equity and other consumer. The class of credit cards comes into its portfolio segment. Under this new accounting guidance, the allowance is presented by portfolio segment. The disclosures are effective for reporting periods ending on or after December 15, 2010. Additionally, the disclosures about activity that occurs during a reporting period are effective for reporting periods beginning on or after December 15, 2010. The Group adopted the portions of this update which were effective at December 31, 2010. The required disclosures are included in Note 8.

Elimination of Qualifying Special Purpose Entities(QSPEs) and Changes in the Consolidation Model for Variable Interest Entities (VIEs)

In June 2009, the FASB issued SFAS No.166, *Accounting for Transfers of Financial Assets, an amendment to FASB Statement No.140*. This statement removed (1) the concept of a QSPE from ASC 860 Transfers and Servicing and (2) the exceptions from applying ASC 810 Consolidation to QSPEs. This statement amends ASC 860 to revise and clarify the derecognition requirements for transfers of financial assets and the initial measurement of beneficial interests that are received as proceeds by a transferor in connection with transfers of financial assets. This statement also requires additional disclosure about transfers of financial assets and a transferor s continuing involvement with such transferred financial assets. The Group adopted this statement on January 1, 2010 and the impact of the adoption was not material to its financial condition, results of operations or cash flows.

In June 2009, the FASB issued SFAS No.167, *Amendments to FASB Interpretation No. 46 (R).* This statement amends ASC 810 to require ongoing assessments to determine whether an entity is VIE and whether an enterprise is the primary beneficiary of a VIE. This statement also amends the guidance for determining which enterprise, if any, is the primary beneficiary of a VIE by requiring the enterprise to initially perform a qualitative analysis to determine if the enterprise s variable interest or interests give it a controlling financial interest. Consolidation is based on a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. If a company has control and the right to receive benefits or the obligation to absorb losses which could potentially be significant to the VIE, then consolidation is required. This statement also requires additional disclosure about transfers of financial assets and a transferor s continuing involvement with such transferred financial assets. The Group adopted this statement on January 1, 2010 and the impact of adoption resulted in a decrease in shareholder s equity of (Won)11,924 million, increases in total assets and total liabilities of (Won)4,019,736 million and (Won)4,031,660 million, respectively, as of January 1, 2010.

In February 2010, the FASB issued ASU 2010-10, *Consolidation (Topic 810)*, *Amendments for Certain Investment Funds*. ASU 2010-10 provides a deferral of the requirement of ASC 810 for certain investment entities that have the attributes of entities subject to ASC 946 and registered money market funds as well as all other unregistered funds that operate in a similar manner as registered money market funds. The Group has determined that a majority of the investment vehicles invested by the Group are provided a deferral from the

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requirements of SFAS 167 because they meet the criteria for a deferral provided in ASU 2010-10. These vehicles continue to be evaluated under the requirements ASC 810 before amendment by SFAS 167.

Improving Disclosures about Fair Value Measurements

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements*. This ASU requires disclosing the amounts of significant transfers in and out of Level 1 and 2 fair value measurements and to describe the reasons for the transfers. The disclosures are effective for reporting periods beginning after December 15, 2009. Additionally, disclosures of the gross purchases, sales, issuances and settlements activity in Level 3 fair value measurements will be required for fiscal years beginning after December 15, 2010.

Change in Accounting for Embedded Credit Derivatives

In March 2010, the FASB issued ASU 2010-11, *Scope Exception Related to Embedded Credit Derivatives*. This ASU clarifies that certain embedded derivatives, such as those contained in certain securitizations, CDOs and structured notes, should be considered embedded credit derivatives subject to potential bifurcation and separate fair value accounting. The ASU allows any beneficial interest issued by a securitization vehicle to be accounted for under the fair value option at transition on July 1, 2010. Adoption of ASU 2010-11 did not have material impact to the Group s financial statements.

3. Business Changes and Developments

Incorporation of Shinhan Bank Kazakhstan

In March 2008, the Group incorporated Shinhan Bank Kazakhstan as a wholly-owned subsidiary of Shinhan Bank, a wholly-owned subsidiary of the Group.

Incorporation of Shinhan Bank China Ltd.

In April 2008, the Group incorporated Shinhan Bank (China) Ltd. as a wholly-owned subsidiary of Shinhan Bank, a wholly-owned subsidiary of the Group.

Acquisition of AITAS

In May 2008, the Group acquired 56.63% stake in AITAS. As a result of a series of further acquisitions, the Group owns 89.58% as of December 31, 2008. Subsequently, in September 2008, Shinhan Bank sold its fund management business to AITAS for (Won)3,070 million. The Group recognized goodwill of (Won)42,693 million in connection with acquisition of AITAS.

Joint Venture with KT Freetel

On June 2, 2008, the Group jointly established Shinhan KTF Mobile Card with KT Freetel. As a result, the Group owns 50% +1 share of the entity and KT Freetel owns the remainder of the interest in the entity.

Incorporation of Shinhan Private Equity Fund II

In August 2008, the Group incorporated Shinhan Private Equity Fund II.

Incorporation of Shinhan Bank Canada

In September 2008, the Group incorporated Shinhan Bank Canada.

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Notes to Consolidated Financial Statements (Continued)

Acquisition and Merger in 2009 of Shinhan BNP Paribas Investment Trust Management Co., Ltd and SH Asset Management Co., Ltd.

In 2008, the Group reached an agreement with BNP Paribas S.A. (BNP Paribas) to merge Shinhan BNP Paribas Investment Trust Management Co., Ltd. (Shinhan BNP Paribas Investment Trust Management) and SH Asset Management Co., Ltd. (SH Asset Management) Shinhan BNP Paribas Investment Trust Management is a joint venture between the Group and BNP Paribas, and SH Asset Management Co., Ltd. is a wholly-owned subsidiary of the Group. The merger was completed on January 1, 2009 with Shinhan BNP Paribas Investment Trust Management being the surviving entity and renamed Shinhan BNP Paribas Asset Management Co., Ltd. (Shinhan BNP Paribas Asset Management), while SH Asset Management was discharged as of the date of the merger. All of the shares of SH Asset Management have been exchanged for shares of the merged company at the agreed ratio of 0.7860830 common stock of the merged company for every one share of SH Asset Management Co., Ltd. in accordance with the terms of the Merger Agreement and the Applicable Law. As a result of deconsolidation of SH Asset Management the Group recognized (Won)31,933 million of gain on deconsolidation, which is recorded within other non-interest income for the year ended December 31, 2009. Furthermore, on January 2, 2009, the Group sold 1,276,162 shares of Shinhan BNP Paribas Asset Management (8.5% of total outstanding shares) at (Won)18,023 per share to BNP Paribas to maintain a 65% stake of Shinhan BNP Paribas Asset Management after the merger.

Incorporation of Shinhan Bank Japan

In September 2009, the Group incorporated Shinhan Bank Japan.

Incorporation of Shinhan Bank Vietnam

In November 2009, the Group incorporated Shinhan Bank Vietnam.

4. Restricted Cash

The following table summarizes the details of restricted cash at December 31:

	2009	2010
	(in millions of Won)	
Reserve deposits with the Bank of Korea (BOK)	(Won) 6,729,167	(Won) 4,202,466
Cash restricted for investment activities	845,155	1,096,820
Other	399,595	259,401
	(Won) 7,973,917	(Won) 5,558,687

Reserve deposits with the Bank of Korea (BOK) represent amounts required under the Republic of Korea s General Banking Act for payment of deposits. Cash restricted for investment activities represent amounts required the Financial Investment Services and Capital Market Act (FSCMA), for repayment of customers deposits.

5. Call Loans and Securities Purchased under Resale Agreements

The following table summarizes call loans and securities purchased under resale agreements, at their respective carrying values, at December 31:

	2009	2010
	(in millions of Won)	
Call loans	(Won) 902,667	(Won) 766,177
Securities purchased under resale agreements	443,577	1,476,647
	(Won) 1,346,244	(Won) 2,242,824

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Notes to Consolidated Financial Statements (Continued)

Call loans are short-term lending facilities among banks and financial institutions, with maturities of 90 days or less. Typically, call loans have maturities of one day.

Interest income from call loans and securities purchased under resale agreements, as included in other interest income, amounted to (Won)98,784 million, (Won)101,691 million and (Won)115,718 million during the years ended December 31, 2008, 2009 and 2010, respectively.

6. Trading Activities

The following table summarizes the details of trading assets, at fair value, at December 31:

	2009	2010
	(in millions of Won)	
Debt securities:		
Korean treasury and governmental agencies	(Won) 1,523,695	(Won) 3,225,335
Corporations	1,176,562	1,897,386
Mortgage-backed and asset-backed securities	872,987	470,501
Financial institutions	2,104,094	4,886,533
Equity securities	746,962	830,691
Derivative instruments:		
Foreign exchange derivatives	3,426,615	1,630,922
Interest rate derivatives	898,554	924,517
Equity derivatives	286,919	1,253,186
Credit derivatives	2,546	349
Commodity derivatives	1,896	5,525
Other trading assets commodity indexed deposits	256,246	153,457
	(Won) 11,297,076	(Won) 15,278,402

The following table summarizes the details of trading liabilities, at fair value, at December 31:

	2009	2010
	(in millions of Won)	
Derivative instruments:		
Foreign exchange derivatives	(Won) 2,800,680	(Won) 1,322,598
Interest rate derivatives	1,134,514	874,208
Equity derivatives	285,302	1,214,792
Credit derivatives	23,076	422
Commodity derivatives	2,493	5,119
Other trading liabilities commodity indexed deposits	318,969	198,619
	(Won) 4,565,034	(Won) 3,615,758

The following table presents trading profits (losses) for the years ended December 31:

	2008	2009	2010
		(in millions of Won)	
Debt securities	(Won) 128,385	(Won) (88,422)	(Won) 43,561
Equity securities	(108,652)	81,052	14,729
Derivative instruments	590,779	(513,413)	879,066
Other trading activities commodity indexed deposits	(26,182)	3,821	(784)
Net trading profits (losses)	(Won) 584,330	(Won) (516,962)	(Won) 936,572

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For the years ended December 31, 2008, 2009 and 2010, net unrealized gains (losses) of trading securities of (Won)163,362 million, (Won)(8,710) million and (Won)(30,418) million, respectively, were included in net trading profits (losses).

7. Securities

The following table summarizes the details of the Group s available-for-sale and held-to-maturity securities at December 31:

	2009				2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions of Won)							
Available-for-sale securities								
Debt securities:								
Korean treasury and governmental agencies	(Won) 8,696,449	(Won) 74,727	(Won) 49,177	(Won) 8,721,999	(Won) 10,296,330	(Won) 219,161	(Won) 13,986	(Won) 10,501,505
Corporations	2,222,460	92,521	7,189	2,307,792	2,328,476	75,952	4,288	2,400,140
Financial institutions	11,005,207	185,646	26,589	11,164,264	9,376,315	160,857	4,749	9,532,423
Foreign governments	169,087	2,875	1,794	170,168	153,660	3,605	7,674	149,591
Mortgage-backed and asset-backed securities	2,280,105	15,867	11,788	2,284,184	1,945,427	3,213	1,579	1,947,061
Marketable equity securities	2,084,668	924,779	45,959	2,963,488	1,955,455	943,099	31,293	2,867,261
	(Won) 26,457,976	(Won) 1,296,415	(Won) 142,496	(Won) 27,611,895	(Won) 26,055,663	(Won) 1,405,887	(Won) 63,569	(Won) 27,397,981
Held-to-maturity securities								
Debt securities:								
Korean treasury and governmental agencies	(Won) 8,138,424	(Won) 65,026	(Won) 55,677	(Won) 8,147,773	(Won) 9,661,043	(Won) 328,734	(Won) 4,423	(Won) 9,985,354
Corporations	363,259	10,566	1,513	372,312	469,388	12,890	33	482,245
Financial institutions	4,092,996	47,463	23,061	4,117,398	2,266,826	72,326	5,002	2,334,150
Foreign governments	35,885		203	35,682	59,276	410		59,686
Mortgage-backed and asset-backed securities	163,054	4,690	314	167,430	130,485	2,308		132,793
	(Won) 12,793,618	(Won) 127,745	(Won) 80,768	(Won) 12,840,595	(Won) 12,587,018	(Won) 416,668	(Won) 9,458	(Won) 12,994,228

Note:

(1) On January 1, 2007, the Group adopted fair value election under ASC 851-15 (formerly SFAS No. 155) on certain hybrid financial instruments. The fair values of those instruments were (Won)18,254 and (Won) 0 million at December 31, 2009 and 2010, respectively, and related valuation losses (net) amounting to (Won)152 million and (Won) 0 million were recorded in net trading losses during 2009 and 2010, respectively.

The Group previously included within securities certain of its beneficiary interests in funds not meeting the scope criteria of SFAS 115 and correctly reclassified those investments to other investments under other assets during the prior year, which amounted to (Won)730,093 million as of December 31, 2008. The resulting cumulative effect in related other comprehensive income, which amounted to (Won)24,964 million (pre-tax) as of December 31,

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2008, was reflected in 2009. Although this adjustment relates to 2008, the amount of change attributable to 2008 would not have been material to the Group s financial condition, equity or results of operations as reported for that year.

The Bank of Korea (BOK) is the central bank that establishes monetary policies in Korea. Korea Development Bank (KDB) is owned and controlled by the Korean government. Of the total amounts listed above in the financial institutions category at December 31, 2009 and 2010, the fair value of available-for-sale debt securities included (Won)5,107,873 million and (Won)3,959,163 million, respectively, that were issued by BOK and KDB. Of the total amounts listed above in the financial institutions category at December 31, 2009 and 2010, the amortized cost of held-to-maturity debt securities included (Won)2,144,968 million and (Won)1,034,505 million, respectively, that were related to BOK and KDB.

The Group has recognized total impairment losses on available-for-sale and held-to-maturity debt securities other than unrealized portion of impairment losses on debt securities as net impairment losses on debt securities in earnings and impairment losses on available-for-sale equity securities included in net gains on securities in earnings, where decreases in value were deemed to be other-than-temporary during the years ended December 31, as follows:

	2008	2009	2010
		(in millions of Won)	
Available-for-sale securities			
Debt securities			
Total other-than-temporary impairment losses	(Won) 147,695	(Won) 11,486	(Won) 8,748
Unrealized other-than-temporary impairment losses recognized in OCI		957	
Net impairment losses on debt securities	147,695	10,529	8,748
Equity securities	97,371	94,791	905
	(Won) 245,066	(Won) 105,320	(Won) 9,653
Held-to-maturity securities			
Debt securities	(Won) 1,199	(Won) 2,776	(Won) 442
Total other-than-temporary impairment losses	(Won) 246,265	(Won) 108,096	(Won) 10,095

During 2008, there was a decline in the fair value of the Group s asset-backed securities portfolio, specifically asset-backed collateralized debt obligations (CDOs), as a result of deteriorating conditions in the U.S. subprime credit market. The Group s total exposure to asset backed CDOs at December 31, 2008, 2009 and 2010 was (Won)100,364 million, (Won)97,202 million and (Won)30,984 million, respectively. Accordingly, the Group recorded (Won)61,182 million, (Won)2,955 million and (Won)0 million, respectively, related to asset-backed CDOs losses to net losses on securities in 2008, 2009 and 2010 as the Group considered the losses to be other-than-temporary.

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The following table presents a roll-forward of the credit losses component recognized in earnings in 2010.

	2010 (in millions of Won)
Balance, beginning of year	(Won) 87,916
Additions:	
Credit impairments on securities that have been previously impaired	442
Credit impairments on securities not previously impaired	8,748
Reductions:	
For securities sold (or matured)	4,675
For increases in expected cash flows	1
Balance, end of year	(Won) 92,430

The following table sets forth the current fair value and the associated unrealized losses on investments in available-for-sale debt securities, marketable equity securities and held-to-maturity debt securities with unrealized losses at December 31, 2009 and 2010, by length of time that individual securities in each category had been in a continuous loss position:

	2009					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions of Won)					
Available-for-sale securities						
Debt securities:						
Korean treasury and governmental agencies	(Won) 4,020,926	(Won) (48,676)	(Won) 73,013	(Won) (501)	(Won) 4,093,939	(Won) (49,177)
Corporations	557,862	(5,794)	252,708	(1,395)	810,570	(7,189)
Financial institutions	4,921,593	(15,369)	315,941	(11,220)	5,237,534	(26,589)
Foreign governments	55,949	(1,794)			55,949	(1,794)
Mortgage-backed and asset-backed securities	67,085	(5,633)	230,250	(6,155)	297,335	(11,788)
Marketable equity securities	394,303	(39,624)	108,223	(6,335)	502,526	(45,959)
	(Won) 10,017,718	(Won) (116,890)	(Won) 980,135	(Won) (25,606)	(Won) 10,997,853	(Won) (142,496)
Held-to-maturity securities						
Debt securities:						
Korean treasury and governmental agencies	(Won) 3,542,310	(Won) (54,868)	(Won) 54,216	(Won) (809)	(Won) 3,596,526	(Won) (55,677)

Corporations		89,265		(1,132)		5,462		(381)		94,727		(1,513)
Financial institutions		536,707		(21,058)		123,511		(2,003)		660,218		(23,061)
Foreign governments		9,206		(203)						9,206		(203)
Mortgage-backed and asset-backed securities		49,703		(314)						49,703		(314)
	(Won)	4,227,191	(Won)	(77,575)	(Won)	183,189	(Won)	(3,193)	(Won)	4,410,380	(Won)	(80,768)
Total temporarily impaired securities	(Won)	14,244,909	(Won)	(194,465)	(Won)	1,163,324	(Won)	(28,799)	(Won)	15,408,233	(Won)	(223,264)

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	2010					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions of Won)					
Available-for-sale securities						
Debt securities:						
Korean treasury and governmental agencies	(Won) 1,853,839	(Won) (13,855)	(Won) 5,127	(Won) (131)	(Won) 1,858,966	(Won) (13,986)
Corporations	453,715	(3,886)	22,933	(402)	476,648	(4,288)
Financial institutions	2,494,730	(4,728)	4,122	(21)	2,498,852	(4,749)
Foreign governments	3,593	(13)			3,593	(13)
Mortgage-backed and asset-backed securities	88,200	(5,450)	263,450	(3,790)	351,650	(9,240)
Marketable equity securities	37,902	(4,922)	423,530	(26,371)	461,432	(31,293)
	(Won) 4,931,979	(Won) (32,854)	(Won) 719,162	(Won) (30,715)	(Won) 5,651,141	(Won) (63,569)
Held-to-maturity securities						
Debt securities:						
Korean treasury and governmental agencies	(Won) 477,768	(Won) (4,423)	(Won)	(Won)	(Won) 477,768	(Won) (4,423)
Corporations	10,445	(33)			10,445	(33)
Financial institutions			54,998	(5,002)	54,998	(5,002)
	(Won) 488,213	(Won) (4,456)	(Won) 54,998	(Won) (5,002)	(Won) 543,211	(Won) (9,458)
Total temporarily impaired securities	(Won) 5,420,192	(Won) (37,310)	(Won) 774,160	(Won) (35,717)	(Won) 6,194,352	(Won) (73,027)

The Group conducts and documents periodic reviews of all securities with unrealized losses to evaluate whether the impairment is other than temporary. Prior to January 1, 2009, these reviews were conducted pursuant to FASB Staff Position No. FAS 115-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments* (now ASC 320-10, *Investments Debt and Equity Securities Subsequent Measurement*). Any unrealized loss identified as other than temporary was recorded directly in the consolidated statement of income. As of January 1, 2009, the Group adopted FSP FAS 115-2 and FAS 124-2 (now ASC 320-10, *Investments Debt and Equity Securities: Recognition of an Other-Than-Temporary Impairment*). This guidance amends the impairment model for debt securities, and the impairment model for equity securities was not affected. Under the new guidance for debt securities, other-than-temporary impairment is recognized in earnings for debt securities which the Group has an intent to sell or it is more-likely-than-not that the Group will be required to sell prior to recovery of the amortized cost basis. For those debt securities which the Group does not intend to sell or expect to be required to sell, credit-related impairment is recognized in earnings, with the non-credit-related impairment recorded in OCI.

An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in OCI for AFS securities, while such losses related to HTM securities are not recorded, as these investments are carried at their amortized cost. Regardless of the classification of the securities as AFS or HTM, the Group has assessed each position for impairment.

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Factors considered in determining whether a loss is temporary include:

- the length of time and the extent to which fair value has been below cost;
- the severity of the impairment;
- the cause of the impairment and the financial condition and near-term prospects of the issuer;
- the activity in the market of the issuer which may indicate adverse credit conditions; and
- the Group s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The Group s review for impairment generally entails:

- identification and evaluation of investments that have indications of possible impairment;
- analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;
- discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairment; and
- documentation of the results of these analyses, as required under business policies.

For equity securities, management considers the various factors described above, including its intent and ability to hold the equity security for a period of time sufficient for recovery to amortized cost. Where management lacks that intent or ability, the security s decline in fair value is deemed to be other than temporary and is recorded in earnings. AFS equity securities deemed other-than-temporarily impaired are written down to fair value, with the full difference between fair value and amortized cost recognized in earnings.

For debt securities that are not deemed to be credit impaired, management assesses whether it intends to sell or whether it is more-likely than-not that it would be required to sell the investment before the expected recovery of the amortized cost basis. In most cases, management has asserted that it has no intent to sell and that it believes it is not likely to be required to sell the investment before recovery of its amortized cost basis. Where such an assertion has not been made, the security s decline in fair value is deemed to be other than temporary and is recorded in earnings. In addition, non-credit-related impairment related to debt securities the Group does not plan to sell and is not likely to be required to sell is recognized in OCI.

For debt securities, a critical component of the evaluation for other-than-temporary impairments is the identification of credit impaired securities, where management does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. For

securities purchased and classified as AFS with the expectation of receiving full principal and interest cash flows, this analysis considers the likelihood of receiving all contractual principal and interest. The extent of the Group s analysis regarding credit quality and the stress on assumptions used in the analysis have been refined for securities where the current fair value or other characteristics of the security warrant.

Any deterioration in Korean economic conditions or specific situations of the issuers of the securities could adversely affect the fair value of securities held by the Group.

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The following table sets forth interest and dividends on securities for the years ended December 31:

	2008	2009	2010
		(in millions of Won)	
Interest income	(Won) 1,711,604	(Won) 1,793,399	(Won) 1,779,899
Dividends	63,477	58,779	67,561
	(Won) 1,775,081	(Won) 1,852,178	(Won) 1,847,460

For the years ended December 31, 2008, 2009 and 2010, proceeds from sales of available-for-sale securities amounted to (Won)2,473,684 million, (Won)1,561,005 million and (Won)4,380,405 million, respectively, and proceeds from maturities of available-for-sale securities amounted to (Won)7,274,598 million, (Won)12,351,877 million and (Won)13,257,354 million, respectively. Gross realized gains amounted to (Won)197,800 million, (Won)449,957 million and (Won)770,173 million for the years ended December 31, 2008, 2009 and 2010, respectively. Gross realized losses amounted to (Won)87,337 million, (Won)33,761 million and (Won)28,078 million for the years ended December 31, 2008, 2009 and 2010, respectively.

The following table sets forth the amortized cost and estimated fair value of the Group s available-for-sale and held-to-maturity debt securities at December 31, 2010 by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Available-for-sale Debt Securities		Held-to-maturity Debt Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions of Won)			
Within 1 year	(Won) 8,557,167	(Won) 8,606,375	(Won) 1,628,261	(Won) 1,651,380
Over 1 year through 5 years	12,554,699	12,818,707	7,910,965	8,167,992
Over 5 years through 10 years	2,647,169	2,756,435	2,214,749	2,302,569
Over 10 years	341,173	349,203	833,043	872,287
	(Won) 24,100,208	(Won) 24,530,720	(Won) 12,587,018	(Won) 12,994,228

8. Loans

The following table summarizes the details of the loan portfolio at December 31:

	2009	2010
	(in millions of Won)	
Commercial:		
Commercial and industrial	(Won) 54,479,473	(Won) 59,610,344
Other commercial	34,770,389	34,601,192

Lease financing	1,559,652	1,578,151
Consumer:		
Mortgage and home equity	40,022,157	44,646,443
Credit cards	15,116,757	17,479,346
Other consumer	23,306,609	22,041,860
Total loans, gross	169,255,037	179,957,336
Deferred loan origination costs (fees)	(23,497)	27,929
	169,231,540	179,985,265
Less: Allowance for loan losses	(3,637,994)	(3,395,864)
Total loans, net	(Won) 165,593,546	(Won) 176,589,401

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The Group acquired certain loans, resulting from the acquisition of LG Card. in 2007, for which there was, at the time of the acquisition, evidence of deterioration of credit quality since origination and for which it was probable that all contractually required payments would not be collected. These loans were accounted for in accordance with ASC 310-30 (formerly SOP 03-3) which requires that purchased impaired loans be recorded at fair value as of the acquisition date. The fair value of such loans was approximately (Won)220,538 million at the acquisition date. The carrying amount of such loans was (Won)44,859 million and (Won)18,410 million at December 31, 2009 and 2010, respectively, and included in the above table.

The loans acquired during 2007 in connection with LG Card acquisition for which it was probable at acquisition that all contractually required payments would not be collected are as follows:

	2007 (in millions of Won)
Contractually required payments receivable at acquisition	(Won) 619,928
Cash flows expected to be collected at acquisition	323,069
Fair value of acquired receivables at acquisition	220,538

The changes in the accretable yield for 2009 and 2010 are as follows:

	2009	2010
	(in millions of Won)	
Balance at beginning of year	(Won) 71,210	(Won) 46,122
Purchases		
Accretion of accretable yield	(52,424)	(21,146)
Increase to expected cash flows	27,336	(1,999)
Balance at end of year	(Won) 46,122	(Won) 22,977

Impaired loans are those on which the Group believes it is probable that it will not be able to collect all amounts due according to the contractual terms of the loans. The following table sets forth information about the Group s impaired loans by portfolio at December 31:

	2010				
	Impaired loans				
	Impaired loans with an allowance	Impaired loans without an allowance	Allowance for impaired loans	Average balance for impaired loans	Interest income from impaired loans
			(in millions of Won)		
Commercial:					
Commercial and industrial	(Won) 1,399,375	(Won) 38,269	(Won) 741,304	(Won) 1,323,512	(Won) 52,611
Other commercial	997,634	11,233	494,183	864,487	15,830
Lease financing	11,161	1,234	9,771	12,395	
	(Won) 2,408,170	(Won) 50,736	(Won) 1,245,258	(Won) 2,200,394	(Won) 68,441

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	2008	2009
	(in millions of Won)	
Impaired loans with an allowance	(Won) 1,953,024	(Won) 2,111,904
Impaired loans without an allowance	224,570	213,763
Total impaired loans	(Won) 2,177,594	(Won) 2,325,667
Allowance for impaired loans	(Won) 1,181,446	(Won) 1,350,209
Average balance of impaired loans during the year	1,910,041	2,117,768
Interest income recognized on impaired loans	79,251	48,223

Included in the above table were smaller balance commercial loans managed on a portfolio basis which were collectively identified as impaired amounting to (Won)365,378 million at December 31, 2010.

The following table shows the aging schedule (excluding accrued interest) for all loans by portfolio at December 31:

	2010				
	Current	Past due up to 3 Months	Past due 3-6 Months	Past due more than 6 Months	Total Amount
	(in millions of Won)				
Commercial:					
Commercial and industrial	(Won) 58,870,975	(Won) 365,186	(Won) 154,889	(Won) 219,294	(Won) 59,610,344
Other commercial	34,062,816	99,789	184,567	254,020	34,601,192
Lease financing	1,532,604	38,234	4,730	2,583	1,578,151
	(Won) 94,466,395	(Won) 503,209	(Won) 344,186	(Won) 475,897	(Won) 95,789,687
Consumer:					
Mortgages and home equity	(Won) 44,536,723	(Won) 82,250	(Won) 17,252	(Won) 10,218	(Won) 44,646,443
Other consumer	21,868,538	134,503	29,083	9,736	22,041,860
Credit cards	16,853,336	511,724	114,209	77	17,479,346
	(Won) 83,258,597	(Won) 728,477	(Won) 160,544	(Won) 20,031	(Won) 84,167,649
	(Won) 177,724,992	(Won) 1,231,686	(Won) 504,730	(Won) 495,928	(Won) 179,957,336

The primary credit quality indicator for commercial loans is internal credit ratings provided to individual debtors. A credit rating of a debtor is updated at least yearly and is used to identify the credit quality of loans and differentiate risk within the portfolio. The Group considers various factors to assess an appropriate internal credit rating, such as financial status, expected earnings, and environment of respective industry in which the debtor belongs. The Group s internal credit ratings consist of 22 grades and the Strong & Good category represents the amount of loans with an assigned debtor s credit rating which is superior, or equal to the 1st grade which is the same as BB+ in the Korean external rating system. The commercial loan debtor s credit ratings from the 12th through the 16th grades, which is the same as B- in the Korean external rating system, are shown in the Satisfactory category of the table below.

Within the consumer portfolio segment, the primary credit quality indicator is the internal credit grade which is established based on an internal rating system considering external credit information. In the loan classification table below, the term Strong & Good refers to consumer loans satisfying predefined standards which are lower or equal to the probability of default of the internal credit rating of the 11th grade for commercial

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loans, as long as the loan balance is neither overdue nor impaired. The Satisfactory category refers to loans that are not classified into the aforementioned Strong & Good criterion, but which have balances which are neither overdue nor impaired.

The overdue category refers to loans with arrears, but which are not yet impaired, and the impaired category means it is not likely the creditor will collect the outstanding amount of the loans in their entirety because of bankruptcy or default of the respective debtors.

Consumer loan is classified into mortgage, home equity and other consumer. The Group assesses credit quality of these such groups using different credit factors by each group, as appropriate, e.g., LTV for mortgage and home equity loans group and behavioral score for other consumer loans.

The following table shows the amount of loans which are classified based on the Group s credit quality indicators at December 31, 2010:

	2010				
	Strong & Good	Satisfactory	Overdue	Impaired	Total Amount
			(in millions of Won)		
Commercial					
Commercial and industrial	(Won) 33,837,447	(Won) 23,936,164	(Won) 399,090	(Won) 1,437,643	(Won) 59,610,344
Other commercial	21,707,680	11,805,611	79,033	1,008,868	34,601,192
Lease financing	933,416	604,045	28,295	12,395	1,578,151
	(Won) 56,478,543	(Won) 36,345,820	(Won) 506,418	(Won) 2,458,906	(Won) 95,789,687
Consumer					
Mortgages and home equity	(Won) 43,429,773	(Won) 952,695	(Won) 219,789	(Won) 44,186	(Won) 44,646,443
Other consumer	20,078,897	1,679,390	173,308	110,265	22,041,860
Credit cards	15,009,060	1,576,657	436,408	457,221	17,479,346
	(Won) 78,517,730	(Won) 4,208,742	(Won) 829,505	(Won) 611,672	(Won) 84,167,649
	(Won) 134,996,273	(Won) 40,554,562	(Won) 1,335,923	(Won) 3,070,578	(Won) 179,957,336

Generally, the Group discontinues accruing interest on loans when payment of interest or principal becomes contractually past due by one day except where the loans are fully secured by customer deposits or guaranteed by sovereign or certain selected financial institutions. Interest of loans on nonaccrual status is recognized by cash basis. Accrual of interest is resumed when nonaccrual loans are reclassified as accruing since interest and principal payments are brought current.

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The following table summarizes the amount of loans on nonaccrual status and accruing loans which are past due one day or more by loan portfolio as of December 31, 2010:

	2010	
	Nonaccrual loans	1 or more day past due and still accruing(1)
	(in millions of Won)	
Commercial:		
Commercial and industrial	(Won) 729,582	(Won) 9,787
Other commercial	532,388	5,988
Lease financing	45,547	
	(Won) 1,307,517	(Won) 15,775
Consumer:		
Mortgage and home equity	(Won) 90,285	(Won) 19,435
Credit cards	626,004	6
Other consumer	164,622	8,700
	(Won) 880,911	(Won) 28,141
	(Won) 2,188,428	(Won) 43,916

Note:

(1) Commercial, consumer loans past due 90 days or more and still accruing amounted to (Won)1,559 million and (Won) 960 million, respectively.

Commercial loans that are 14 days or less past due and consumer loans that are 30 days or less past due are regarded as nonaccrual loans in a grace period and the Group does not generally request borrowers with such past due loans to make immediate repayment of the outstanding principal balances and related accrued interest. At December 31, 2008, 2009 and 2010, nonaccrual loans, excluding the past due loans within the grace period, totaled (Won)2,021,452 million, (Won)1,641,654 million and (Won)1,531,980 million, respectively. Nonaccrual loans including the past due loans within the grace period at December 31, 2008, 2009, and 2010, totaled (Won)3,308,792 million, (Won)2,464,908 million and (Won)2,188,428 million, respectively.

The following table presents loans and debt securities whose terms have been modified in troubled debt restructuring at December 31:

	2008	2009	2010
		(in millions of Won)	
Loans	(Won) 747,183	(Won) 1,097,275	(Won) 1,275,284

Debt securities	34,710	28,552	
	(Won) 781,893	(Won) 1,125,827	(Won) 1,275,284

During 2008, 2009 and 2010, the Group received equity securities with fair market value of nil, (Won)6,519 million and (Won)26,198 million, respectly, through the restructuring of one loan in 2008, three loans in 2009 and eight loans in 2010 with aggregate book value of (Won)278 million, (Won)8,581 million and (Won)46,225 million, respectively. The Group recognized total charge-offs of (Won)278 million, (Won)2,062 million and (Won)20,027 million related to these transactions during the years ended December 31, 2008, 2009, and 2010, respectively.

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The following table sets forth the movements in the allowance for credit losses for the years ended December 31:

	Allowance for Loan Losses			Allowance for Off-balance Sheet Credit(1)		
	2008	2009	2010	2008	2009	2010
			(in millions of Won)			
Balance at beginning of year	(Won) 2,099,122	(Won) 3,200,633	(Won) 3,637,994	(Won) 221,558	(Won) 339,384	(Won) 789,810
Provision for loan losses	1,318,772	1,750,738	943,044			
Provision for off-balance sheet credit				117,826	450,426	(270,052)
Charge-offs	(916,644)	(1,891,127)	(1,627,488)			
Recoveries	699,383	577,750	442,314			
Balance at end of year	(Won) 3,200,633	(Won) 3,637,994	(Won) 3,395,864	(Won) 339,384	(Won) 789,810	(Won) 519,758

Note:

(1) The allowance for off-balance sheet credit is included in other liabilities.

Allowance for loan losses were evaluated on a disaggregated basis. Loans and related allowance for loan losses evaluated individually amounted to (Won)2,413,066 and (Won)1,062,440 million, respectively, as of December 31, 2010. Collectively evaluated loans and allowance for loan losses as of December 31, 2010 were (Won)177,544,270 and (Won)2,333,424 million, respectively.

The Group originates direct financing leases on certain machinery, computers and various other equipments, automobiles and ships for customers in a variety of industries. Income attributable to these leases is initially recorded as unearned income and subsequently recognized as interest income, using the effective interest method, over the terms of the leases. The terms of the leases are generally from 3 to 10 years. The following table sets forth the details of the investment in direct financing leases at December 31, as included in the respective loan balances:

	2009	2010
	(in millions of Won)	
Gross lease payments receivable	(Won) 1,734,996	(Won) 1,713,416
Estimated unguaranteed residual values	8,522	20,325
Unearned income	(183,866)	(155,590)
	1,559,652	1,578,151
Less: Deferred loan origination fee	(523)	(77)
Allowance for loan losses	(12,866)	(25,989)
	(Won) 1,546,263	(Won) 1,552,085

The following table sets forth the scheduled maturities of gross lease payments receivable at December 31, 2010:

Years ending	**(in millions of Won)**	
2011	(Won)	715,423
2012		537,894
2013		333,661
2014		52,106
2015		20,476
Thereafter		53,856
	(Won)	1,713,416

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9. Premises and Equipment

The following table summarizes the details of premises and equipment at December 31:

	2009	2010
	(in millions of Won)	
Land	(Won) 1,087,321	(Won) 1,146,906
Buildings	1,019,383	1,052,922
Equipment and furniture	1,120,108	1,001,200
Capitalized software costs	618,835	642,274
Leasehold improvements	246,265	310,569
Construction in progress	2,380	23
Operating lease assets	75,197	52,855
Total premises and equipment, gross	4,169,489	4,206,749
Less: Accumulated depreciation and amortization	(1,732,475)	(1,839,385)
Total premises and equipment, net	(Won) 2,437,014	(Won) 2,367,364

Depreciation expense on buildings, equipment and furniture, leasehold improvements and operating lease assets amounted to (Won)245,184 million, (Won)211,465 million and (Won)178,567 million, and amortization expense on capitalized software costs amounted to (Won)122,922 million, (Won)90,382 million and (Won)141,028 million for the years ended December 31, 2008, 2009 and 2010, respectively. Accumulated depreciation on operating lease assets at December 31, 2009 and 2010 were (Won)32,717 million and (Won)26,921 million, respectively.

10. Goodwill and Intangible Assets

The following table sets forth the movements in goodwill:

	Shinhan Bank	Shinhan Capital	Shinhan Card	Shinhan Life Insurance	Total
			(in millions of Won)		
Balance at January 1, 2009	(Won) 563,169	(Won) 1,616	(Won) 3,037,808	(Won) 289,800	(Won) 3,892,393
Acquisition	2,824		479		3,303
Disposition	(30,757)				(30,757)
Impairment loss	(59,517)				(59,517)
Balance at December 31, 2009	(Won) 475,719	(Won) 1,616	(Won) 3,038,287	(Won) 289,800	(Won) 3,805,422
Acquisition					
Disposition					
Impairment loss					
Balance at December 31, 2010	(Won) 475,719	(Won) 1,616	(Won) 3,038,287	(Won) 289,800	(Won) 3,805,422

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

The following table sets forth the movements in goodwill by reporting unit:

	Retail Banking	Institutional Banking	Private Banking	Corporate Banking	Treasury & International Business	Other Banking Services	Credit Card	Shinhan Life Insurance	Other(1)	Total
					(in millions of won)					
Balance at January 1, 2009	(Won) 334,978	(Won) 81,716	(Won) 14,010	(Won)	(Won)	(Won) 10,495	(Won) 3,037,808	(Won) 289,800	(Won) 123,586	(Won) 3,892,393
Acquisition	1,614	393	67	235	191	51	479		273	3,303
Disposition									(30,757)	(30,757)
Impairment loss				(235)	(191)				(59,091)	(59,517)
Balance at December 31, 2009	(Won) 336,592	(Won) 82,109	(Won) 14,077	(Won)	(Won)	(Won) 10,546	(Won) 3,038,287	(Won) 289,800	(Won) 34,011	(Won) 3,805,422
Acquisition										
Disposition										
Impairment loss										
Balance at December 31, 2010	(Won) 336,592	(Won) 82,109	(Won) 14,077	(Won)	(Won)	(Won) 10,546	(Won) 3,038,287	(Won) 289,800	(Won) 34,011	(Won) 3,805,422

Note:

(1) Relates to reporting units of merchant banking, foreign subsidiaries of Shinhan Bank, Shinhan AITAS, SH Asset Management and Shinhan Capital.

Goodwill impairment loss arises when the net book value of a reporting unit exceeds its estimated fair value. Goodwill impairment testing is performed at the Group s reporting unit level, which is generally consistent with the Group s business segments or one level below, on an annual basis or more frequently if it is deemed that triggering events might have occurred.

The Group measured the fair value of reporting units by both the income approach, using the present value of free cash flow to equity (FCFE) discounted at a market driven discount rate for the computation of the equity value, and the market approach, using the Price-to-Book ratios (PBR)/Price-to-Earnings (PER) as market multiple for the measure of the Group s fair value.

As of December 31, 2010, there was no indication of impairment in any of the reporting units, accordingly, the second step of testing was not performed.

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The following table summarizes the details of intangible assets at December 31:

		2009			2010		
	Weighted Average Years	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
				(in millions of Won)			
Brokerage customer relationship	3.4	(Won) 68,266	(Won) (68,266)	(Won)	(Won) 68,266	(Won) (68,266)	(Won)
KSFC deposit	3.4	10,941	(10,941)		10,941	(10,941)	
Core deposit of Shinhan Bank	8.7	825,476	(656,427)	169,049	825,476	(715,587)	109,889
Credit card relationship of Shinhan Card	5.7	1,262,366	(901,879)	360,487	1,262,366	(1,066,116)	196,250
VOBA		978,532	(468,217)	510,315	978,532	(529,984)	448,548
Total intangible assets subject to amortization	4.7	(Won) 3,145,581	(Won) (2,105,730)	(Won) 1,039,851	(Won) 3,145,581	(Won) (2,390,894)	(Won) 754,687
KSFC borrowing		400		400	400		400
Court deposit of Shinhan Bank		226,353		226,353	226,353		226,353
Total intangible assets not subject to amortization		226,753		226,753	226,753		226,753
Total intangible assets		(Won) 3,372,334	(Won) (2,105,730)	(Won) 1,266,604	(Won) 3,372,334	(Won) (2,390,894)	(Won) 981,440

Amortization expense on intangible assets was (Won)503,310 million, (Won)411,674 million and (Won)285,164 million for the years ended December 31, 2008, 2009 and 2010, respectively.

The following table sets forth the estimated aggregate amortization expense on intangible assets subject to amortization at December 31, 2010:

Years ending	(in millions of Won)
2011	(Won) 232,247
2012	158,353
2013	88,205
2014	54,129
2015	42,697

Thereafter		179,056
	(Won)	754,687

In 2008, 2009 and 2010, no impairment loss was recorded relating to intangible assets.

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11. Other Assets

The following table summarizes the details of other assets at December 31:

	2009	2010
	(in millions of Won)	
Accrued interest and dividends receivable	(Won) 1,205,682	(Won) 1,282,957
Receivables for foreign exchange spot contracts	1,491,898	1,036,446
Account receivables	1,648,887	1,167,784
Accrued income	6,499	60,949
Deferred tax assets	689,660	477,548
Other investments(1)	2,568,663	2,763,436
Prepaid expenses	167,562	190,297
Separate account assets	1,090,887	1,351,595
Advances to suppliers	199,602	182,259
Deferred acquisition costs	829,056	1,074,026
Gold assets	56,767	27,614
Other	198,332	185,345
	(Won) 10,153,495	(Won) 9,800,256

Note:

(1) Other investments include unlisted equity securities, securities with sales restriction, fund investments and investments accounted for the equity method.

In October 2007, Visa U.S.A. Inc., Visa Europe, Visa International Association (Visa International) and Visa Canada Inc. were merged into Visa Inc. (Visa). As a result of the reorganization, Visa allocated its shares to its member companies and the Group, as one of the member companies, received 6,767,836 Class AP shares. The number of allocated shares was subsequently adjusted to 8,020,348 shares and they were converted to Class C shares through a true-up process prior to Visa s initial public offering of Class A shares in March 2008.

The Visa shares received by the Group were fair valued at (Won)279,881 million (pre-tax) as of December 31, 2007. As the shares are unlisted and certain portion of shares (43.82% or 3,514,074 shares) were restricted for sales for three years from the acquisition date, the Group classified (Won)279,881 million (pre-tax) as other investments.

In March 2008, the unrestricted 4,506,274 shares (56.18% of allocated shares) were redeemed at $42.77 per share by Visa in connection with its IPO and the remaining restricted shares, which would be restricted until March 25, 2011, in the amounts of (Won)103,787 million (pre-tax) are classified as other investments and carried at initial fair value at December 31, 2010.

The following table summarizes the Group s alternative investments in funds which are classified as other investments. The Group uses the funds NAVs per share as a practical expedient to measure fair value on recurring and nonrecurring basis. The fair values presented in the table are based upon the funds NAVs or an equivalent measure.

	2009	2010
	(in millions of Won)	
Private equity funds(1)	(Won) 523,116	(Won) 569,587

Note:

(1) Include private equity funds that invest in equity and debt securities issued by private and publicly held companies. Substantially all of these investments do not allow early redemptions. Alternatively, the Group receives distributions in accordance with the fund agreement. There are no unfunded commitments.

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12. Deposits

The following table summarizes the details of deposits at December 31:

	2009		2010	
	Balance	Weighted-Average Interest Rate	Balance	Weighted-Average Interest Rate
	(in millions of Won, except percentages)			
Interest-bearing deposits				
Demand deposits	(Won) 7,529,357	0.45%	(Won) 8,643,365	0.49%
Savings deposits	37,502,198	1.22%	42,719,222	1.04%
Certificate of deposits	7,800,821	5.48%	3,461,483	4.49%
Other time deposits	87,822,670	3.91%	94,883,767	3.54%
Mutual installment deposits	153,856	3.70%	106,460	3.53%
	140,808,902	3.12%	149,814,297	2.65%
Non-interest-bearing deposits				
Demand deposits	2,889,587		3,077,886	
	(Won) 143,698,489	3.06%	(Won) 152,892,183	2.61%

Other time deposits include premium accounts for loyal customers, tax savings accounts for high net worth customers, savings accounts for household financing and foreign currency deposits. Mutual installment deposits enable customers to become eligible for mortgage and other consumer loans as well as corporate loans while maintaining an account with the Group.

The aggregate balance of time deposit accounts (including certificate of deposits, other time deposits, mutual installment deposits) in denominations of (Won)100 million or more at December 31, 2009 and 2010 were (Won)74,387,872 million and (Won) 75,169,760 million, respectively.

The following table sets forth the contractual maturities of certificate of deposits, other time deposits and mutual installment deposits at December 31, 2010:

Years ending	(in millions of Won)
2011	(Won) 90,640,324
2012	3,179,300
2013	2,627,874
2014	976,400
2015	220,559
Thereafter	807,253
	(Won) 98,451,710

The Korea Deposit Insurance Corporation (KDIC) provides deposit insurance up to a total of (Won)50 million per depositor in each bank pursuant to the Depositor Protection Act, regardless of the placement date of the deposit.

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13. Short-Term Borrowings

The following table summarizes the details of short-term borrowings at December 31:

	2009		2010	
	Balance	Weighted-Average Interest Rate	Balance	Weighted-Average Interest Rate
	(in millions of Won, except percentages)			
Borrowings from BOK	(Won) 1,433,730	1.11%	(Won) 995,998	1.07%
Borrowings in foreign currencies	1,771,522	3.18%	2,026,208	1.90%
Borrowings from trust accounts	1,475,802	1.90%	1,281,898	2.47%
Call money	2,398,062	2.42%	1,333,618	2.72%
Debentures in won	708,748	6.03%	19,722	5.82%
Other borrowings(1)	1,926,993	6.01%	2,413,815	6.62%
	(Won) 9,714,857		(Won) 8,071,259	

Note:

(1) Mostly relate to borrowings from other financial institutions.

Short-term borrowings consist of borrowed funds with original maturities of less than one year. Total interest expense on short-term borrowings amounted to (Won)865,695 million, (Won)555,026 million and (Won)376,971 million of which (Won)155,556 million, (Won)74,816 million and (Won)61,809 million were related to call money during the years ended December 31, 2008, 2009 and 2010, respectively.

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14. Secured Borrowings

		2009			2010		
			Collateral			Collateral	
	Maturity	Secured Borrowings	Loans(1)	Securities	Secured Borrowings	Loans(1)	Securities
				(in millions of Won)			
Work & Joy 2007-1 Securitization Specialty Co. 2.76%~6.43% ABCP and collateralized bond obligation	2012	(Won) 260,300	(Won)	(Won) 400,300	(Won) 70,300	(Won)	(Won) 190,300
Shinhan Card 2010-1 Asset Securitisation Specialty Co., Ltd. 3.09% collateralized bond obligation	2015				334,350	562,458	
Midas the 1st Co., Ltd. 3.18% Asset-Backed Commercial Papers	2011				270,000	500,000	
Midas the 2nd Co., Ltd. 3.18% Asset-Backed Commercial Papers	2011				250,000	500,000	
Frontier 9th Securitization Specialty Co., Ltd. 4.31%~7.00% ABCP and collateralized bond obligation	2010	8,500		16,500			
NEODWC the 2nd Co., Ltd. 3.18%~ 6.30% ABCP and collateralized bond obligation	2011	400,050		400,000	200,050		200,000
JR First Co., Ltd 3.16% Asset-Backed Commercial Papers	2011				10,000	60,000	
Costone Delta Co., Ltd. 10.00% collateralized bond obligation	2011	1,751		1,751	1,708		
I-Clover Co., Ltd 3.01%~3.65% Asset-Backed Commercial Papers	2012	560,000	494,776	932,978	90,215	910,490	269,155
Shinhan 8th Securitization Specialty Co., Ltd. 8.50%~8.90% collateralized bond obligation	2010	4,982	11,655				
Shinhan Mortgage 1st Securitization Specialty Co., Ltd. 6.00% collateralized bond obligation	2039	566,037	588,695		391,545	335,911	
NEODWC the 3rd Co., Ltd. 3.01%~8.00% ABCP and collateralized bond obligation	2013	60,049		200,000	50,050		200,000
Credipia 2005 Plus Two Asset Securitization Specialty Company 5.45% collateralized bond obligation	2010	206,288	714,604				
Incheon Dogaegong ther 1st Co., Ltd. 2.90%~3.11% Asset-Backed Commercial Papers	2011				400,000	400,000	
Credipia 2006 Plus One A,B Asset Securitization Specialty Company 4.58%~6.29% collateralized bond obligation	2010	467,247	751,214				
Shinhan Card 2007-1 Asset Securitisation Specialty Co., Ltd.	2011	277,500	441,139		92,500	510,410	

7.00% collateralized bond obligation					
Shinhan Card 2007-2 Asset Securitisation Specialty Co., Ltd. 7.00% collateralized bond obligation	2011	277,200	532,188	138,600	546,122
Shinhan Card 2008-1 Asset Securitisation Specialty Co., Ltd. 4.76% collateralized bond obligation	2012	320,658	540,361	160,008	550,005

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		2009			2010		
			Collateral			Collateral	
	Maturity	Secured Borrowings	Loans(1)	Securities	Secured Borrowings	Loans(1)	Securities
				(in millions of Won)			
SHC 2008 Asset Securitization Specialty Co. 8.97% collateralized bond obligation	2012	350,000	754,543		350,000	778,271	
Good Invest 2nd Co., Ltd. 3.62%~9.00% ABCP and collateralized bond obligation	2010	61,049		59,876			
Shinhan Mortgage 2nd Securitization Specialty Co., Ltd. 6.00% collateralized bond obligation	2040	467,040	561,185		332,352	467,712	
KAMCO Value Recreation 6th Securitization Specialty Co., Ltd. 5.14% collateralized bond obligation	2012	2,181	5,768		2,181	4,524	
KAMCO Value Recreation 11th Securitization Specialty Co., Ltd. 5.22% collateralized bond obligation	2013				17,432	71,435	
Shift First Co., Ltd 3.03% Asset-Backed Commercial Papers	2011	300,000	300,000		250,000	300,000	
LH MY Home Securitization Specialty L.L.C. 3.45%~5.04% collateralized bond obligation	2020				955,775		1,000,000
Edulove-BTL Co., Ltd 3.01%~9.80% ABCP and collateralized bond obligation	2014				7,112	156,645	
IB-PF Tree Co., Ltd 7.50% collateralized bond obligation	2013				102	92,993	
SH Infra-Value Co., Ltd 12.00% collateralized bond obligation	2014				141,241	291,867	
Hanshin 1st Securitization Specialty L.L.C. 4.90%~6.17% collateralized bond obligation	2013				50,000		50,000
Euljiro Kim s Frist Co., Ltd 4.39% Asset-Backed Commercial Papers	2011				70,049	70,000	
Securities sold under repurchase agreements 0.06%~11.5%	2029	3,353,558		4,340,666	3,660,326		4,493,611
		(Won) 7,944,390	(Won) 5,696,128	(Won) 6,352,071	(Won) 8,295,896	(Won) 7,108,843	(Won) 6,403,066

Note:

(1) Represents the carrying amounts, exclusive of the related allowance for loan losses of (Won)19,207 million and (Won)100,670 million as of December 31, 2009 and 2010, respectively.

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15. Long-Term Debt

The following table summarizes the details of long-term debt at December 31:

	Interest Rates (%)	Maturity	2009	2010
			(in millions of Won)	
Senior				
Won-denominated				
Notes payable to the Small Business Corporation	2.00 ~ 3.76	2011 ~ 2019	(Won) 765,594	(Won) 847,781
Notes payable to the Industrial Bank of Korea	0.57 ~ 3.65	2011 ~ 2015	12,631	94,441
Notes payable to the Korea Energy Management Corporation	0.75 ~ 4.25	2011 ~ 2025	490,151	402,517
Notes payable to other Korean Government Funds	0.50 ~ 3.49	2011 ~ 2025	384,001	412,049
Fixed and floating rate debentures(1)(2)	3.71 ~ 8.11	2011 ~ 2038	31,190,093	30,740,548
Other notes payable(3)	0.20 ~ 10.00	2011 ~ 2023	2,123,433	1,528,410
Subtotal			34,965,903	34,025,746
Foreign currency-denominated				
Floating rate debentures(1)	0.47 ~ 8.13	2011 ~ 2012	3,124,662	3,833,106
Other fixed and floating rate notes payable	0.67 ~ 6.45	2011 ~ 2015	1,777,590	2,418,716
Subtotal			4,902,252	6,251,822
Total senior debt			39,868,155	40,277,568
Subordinated				
Won-denominated				
Hybrid bonds(4)	5.70 ~ 7.30	2034 ~ 2038	1,512,572	1,700,300
Fixed and floating rate debentures(1)(5)	5.10 ~ 14.45	2011 ~ 2016	1,771,792	3,484,072
Other fixed rate notes payable	10.00 ~ 12.00	2012 ~ 2014	2,000	2,104
Subtotal			3,286,364	5,186,476
Foreign currency-denominated				
Hybrid bonds(6)	5.66 ~ 6.82	2035 ~ 2036	758,940	740,285
Fixed and floating rate debentures(1)	5.13 ~ 5.75	2015 ~ 2016	758,940	341,670
Subtotal			1,517,880	1,081,955
Total subordinated debt			4,804,244	6,268,431
Redeemable preferred stock(7)				
Series 5 Redeemable preferred stock			168,504	
Series 8 Redeemable preferred stock			10,000	
Total redeemable preferred stock			178,504	
Long-term debt, gross			44,850,903	46,545,999
Less: Unamortized discounts			(55,922)	(50,200)

Long-term debt, net	(Won) 44,794,981	(Won) 46,495,799

Note:

(1) Interest rates on floating rate debt were those rates in effect at December 31, 2009 and 2010, respectively.

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(2) Majority of these debentures relate to miscellaneous bank borrowings from individual lenders.

(3) The Group adopted fair value election under ASC 851-15 (formerly SFAS No. 155) on certain hybrid financial instrument. The fair value of those instruments were (Won)1,067,457 million and (Won)1,949,390 million as of December 31, 2009 and 2010, respectively, and related valuation gains (losses) (net) amounting to (Won)(18,960) million and (Won)(80,749) million were recorded in net trading profits (losses).

(4) Shinhan Bank has a call option that can be exercised five years after the issuance date, or earlier with the approval of the Financial Supervisory Service. The call options mature in 30 years from the issuance date, but may be extended by Shinhan Bank at any time.

(5) Majority of these debentures relate to miscellaneous bank borrowings from corporate lenders and Korean governmental entities.

(6) Shinhan Bank has a call option that can be exercised ten years after the issuance date. The call options mature in 30 years from the issuance date.

(7) See Note 21 for the terms of the redeemable preferred stock.

Long-term debt is denominated predominately in Korean Won, US dollars, or Japanese Yen with both fixed and floating interest rates. Floating rates are generally determined periodically by formulas based on certain money market rates tied to the six-month London Interbank Offered Rate (LIBOR) or the monthly Public Fund Prime Rate published by the Korean government, and are reset on a monthly, quarterly or semi-annual basis. The weighted-average interest rate for long-term debt was 4.88% and 4.60% at December 31, 2009 and 2010, respectively. Certain long-term debt agreements contain cross-default provisions and accelerating clauses for early termination in the event of default.

The following table sets forth the aggregate amount of long-term debt by contractual maturities at December 31, 2010:

Years ending	(in millions of Won)
2011	(Won) 12,370,822
2012	10,412,343
2013	7,885,074
2014	4,280,227
2015	4,466,179
Thereafter	7,131,354
Long-term debt, gross	46,545,999
Less: Unamortized discount	(50,200)
Long-term debt, net	(Won) 46,495,799

16. Future Policy Benefits

The following table summarizes future policy benefits at December 31:

	2009	2010
	(in millions of Won)	
Life insurance	(Won) 4,523,282	(Won) 5,486,303
Annuity contracts	1,605,018	1,875,039
Other contracts	1,770,803	2,498,456
Unpaid claims and claim adjustment expenses	411,135	487,549
	(Won) 8,310,238	(Won) 10,347,347

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Life insurance liabilities include reserves for death and endowment policy benefits, and certain health benefits. Annuity contract liabilities include reserves for individual life contingent immediate annuities. Other contract liabilities include unearned revenue and certain other reserves for group and individual life and health products.

Future policy benefits are calculated using net level premium method based upon mortality, morbidity, persistency, and interest rate assumptions including provision for adverse deviation. Assumptions as to mortality, morbidity and persistency are based on the Group s experience, or in certain instances, industry experience, when the basis of the reserve is established. For post-purchase, the best-estimated net investment rate used as the interest rate assumptions has been set equal to 4.9%, which is based on Shinhan Life Insurance s 2011 planned asset allocation and investment return. For pre-purchase, the best-estimated net investment rate is 5.5% in lock-in method.

17. Accrued Expenses and Other Liabilities

The following table summarizes accrued expenses and other liabilities at December 31:

	2009	2010
	(in millions of Won)	
Accrued interest and dividend payables	(Won) 2,472,424	(Won) 2,500,962
Payables for foreign exchange spot contracts	1,492,407	1,053,438
Accrued severance benefits	174,525	164,885
Accrued expenses	630,050	939,110
Account payables	1,814,719	2,001,121
Advances from customers	144,492	179,840
Unearned income	159,802	140,998
Other withholdings (except withholding taxes)	89,565	165,415
Income tax payable	503,698	244,942
Withholding value-added tax and other taxes	91,055	118,920
Deferred tax liabilities	108,748	89,979
Security deposits received	600,894	738,193
Due to agencies	1,264,559	1,572,503
Allowance for losses on off-balance credit instruments	789,810	519,758
Utility bill payments received on behalf of government	398,445	434,044
Separate account liabilities	1,090,887	1,351,595
Other allowances(1)	364,412	503,810
Other	361,755	425,914
	(Won) 12,552,247	(Won) 13,145,427

Note:

(1) Other allowances include assets retirement obligation, legal provision and allowance for reward on credit card use.

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Notes to Consolidated Financial Statements (Continued)

18. Commissions and Fees

The following table sets forth the details of commissions and fees from non-trust management activities for the years ended December 31:

	2008	2009	2010
		(in millions of Won)	
Brokerage fees and commissions	(Won) 626,033	(Won) 568,897	(Won) 536,843
Other fees and commissions:			
Credit card fees	1,315,117	1,414,843	1,343,577
Commissions received on remittance	69,204	66,735	68,591
Commissions received on import and export letters of credit	70,043	66,582	75,849
Financial guarantee fees	40,356	49,691	51,272
Commissions received in foreign exchange activities	69,132	68,404	75,276
Commission received as agency	44,866	68,264	62,868
Commission received as electronic charge receipt	73,182	76,236	85,493
Other fees	287,282	320,762	341,435
Total other fees and commissions	1,969,182	2,131,517	2,104,361
	(Won) 2,595,215	(Won) 2,700,414	(Won) 2,641,204

19. Other Non-Interest Income and Other Non-Interest Expense

The following table sets forth the details of other non-interest income for the years ended December 31:

	2008	2009	2010
		(in millions of Won)	
Gain on sale of premises and equipment	(Won) 6,524	(Won) 31,404	(Won) 1,708
Gain on sales of loans	12,333	63,729	18,152
Income from operating leases	48,750	22,329	16,757
Rental income	19,049	3,232	16,261
Extinguished escheatment of deposits	20,224	8,817	74
Reversal of expense of suspense payments related to credit and accident		53,856	10,875
Gain on redemption of debentures		15,967	
Gain on hedge activity	11,726	2,734	64,077
Other lease income	29,934	10,646	6,543
Income from partnering with foreign credit card companies	30,879	29,588	67,732
Income from brokering insurance	49,640	44,418	47,523
Income from collection of legal fees	17,017	15,809	16,433
Gain on deconsolidation		31,933	
Other	132,701	336,466	219,724
	(Won) 378,777	(Won) 670,928	(Won) 485,859

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Notes to Consolidated Financial Statements (Continued)

The following table sets forth the details of other non-interest expense for the years ended December 31:

	2008	2009	2010
		(in millions of Won)	
Loss on sale of premises and equipment	(Won) 4,920	(Won) 17,264	(Won) 7,393
Loss on loans	11,530	38,318	57,118
Impairment loss on goodwill	128,394	59,517	
Impairment loss on other investment	33,206	14,802	105,546
Loss on hedge activity	10,845	2,734	76,695
Expense of suspense payments related to credit and accident	15,593		
Donations	178,258	130,331	126,005
Loss on disposal of other investment	5,810	3,620	2,683
Loss on equity method	10,462	13,403	10,732
Other	303,225	151,827	411,419
	(Won) 702,243	(Won) 431,816	(Won) 797,591

20. Common Stock

On September 16, 2003, the Group listed its shares on the New York Stock Exchange (NYSE) and transferred its global depository shares listed on the Luxembourg Stock Exchange to NYSE as American depository shares. As of December 31, 2010, the Group had 474,199,587 shares of common stock.

21. Redeemable Preferred Stock and Redeemable Convertible Preferred Stock

In August 2003, in connection with the acquisition of Chohung Bank, the Group issued 46,583,961 shares of redeemable preferred stock (RPS), par value of (Won)5,000 per share, with an aggregate estimated fair value of (Won)710,258 million and 44,720,603 shares of redeemable convertible preferred stock (RCPS), par value of (Won)5,000 per share, with an aggregate estimated fair value of (Won)714,780 million to KDIC, as well as 6,000,000 shares of RPS, par value of (Won)5,000 per share, with an aggregate estimated fair value of (Won)900,000 million to Strider ABS Specialty Co., Ltd. (Strider), a SPE established by the Group.

The RPS was issued in five series (Series 1 to 5) to KDIC and in three series (Series 6 to 8) to Strider on August 19, 2003, redeemable over seven years after the issue date. If there is any RPS outstanding on the last day of the redemption period (RPS Final Redemption Date), the Group will be obligated to redeem all outstanding RPS to the extent that distributable profits are available for such purchase. In the event that the Group does not have sufficient distributable profits to redeem all outstanding RPS on the RPS Final Redemption Date, the RPS will remain outstanding until sufficient distributable profits are available. The Group may, at its option, elect to redeem all or part of the outstanding RPS at any time during the redemption period. The holder of RPS will not have any voting rights, unless dividends on the RPS are not distributed in any given year, in which case each share of RPS will be given one voting right. The Group may redeem the RPS from KDIC and Strider at (Won)18,086 and (Won)150,000 per share, respectively.

The dividends on the RPS issued to KDIC and Strider are cumulative and non-participating on dividends on the common stock of the Group, and the stated dividend rates are as follows:

RPS issued to KDIC (Series 1 to 5)	4.04%
RPS issued to Strider:	
Series 6	7.00%
Series 7	7.46%
Series 8	7.86%

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The RPS was initially measured at fair value and discounts are amortized over the period from the date of issuance to the redemption date using the effective interest method. In 2010, 9,383,459 shares amounting to (Won)182,794 million were redeemed.

The Series 9 RCPS was issued to KDIC on August 19, 2003, redeemable at any time after the 3rd anniversary date of the issue date and from time to time until the 5th anniversary date of the issue date. In 2010, all the Series 9 RCPS were converted to common stock.

In connection with the acquisition of Shinhan Card(formerly LG card), the Group issued to the public 28,990,000 shares of RPS (Series 10), par value of (Won)5,000 per share, with an aggregate estimated fair value of (Won)2,899,000 million and 14,721,000 shares of RCPS (Series 11), par value of (Won)5,000 per share, with an aggregate estimated fair value of (Won)850,962 million.

The Series 10 RPS was issued to the public on January 25, 2007, redeemable from the 5th anniversary of the issue date to the 20th anniversary (Redemption Period). Redemption price is the aggregate of (1) the issue price, (2) the issue price × [number of days that have elapsed from the first day of the fiscal year during which redemption is made to the redemption date / 365] × applicable interest rate as stated below (a and b), and (3) any accrued but unpaid dividends. The Group can elect to redeem, at its discretion, and is not obligated to redeem, the RPS in whole or in part. If the Group does not exercise its redemption rights during the Redemption Period, such redemption right will subsequently terminate and the RPS will remain as preferred shares without redemption rights. The holder of RPS will not have any voting rights, unless dividends on the RPS are not distributed in any given year, in which case each share of RPS will be given one voting right. The Group may redeem the RPS at (Won)100,000 per share.

The dividends on the RPS issued to the public are cumulative and non-participating on dividends on the common stock of the Group, and the stated dividend rates are as follows:

(a) From the issue date until the 5th anniversary of the issue date: 7.00% per annum.

(b) From the 5th anniversary of the issue date: interest rate payable on five-year treasury bonds issued by the Korean government on the day immediately preceding the 5th anniversary of the issue date + Spreadø + 100 bp

ø Spread: 7% the interest rate payable on five-year Treasury bonds issued by the Korean government on the day immediately preceding the issue date

Considering the RPS is redeemable at the option of the issuer, the Group, and is not mandatorily redeemable, the Series 10 RPS to the public is classified as equity on the Group s consolidated balance sheet as of December 31, 2010.

The Series 11 RCPS was issued to the public on January 25, 2007, convertible from the 1st anniversary of the issue date to the 5th anniversary and redeemable from the 5th anniversary of the issue date to the 20th anniversary. The holder can elect to convert, at its discretion, the RCPS in whole or in part into newly issued common stock of the Group at a conversion ratio of 1:1 at any time during the conversion period. If the holder does not exercise its conversion rights during the conversion period, such conversion right will subsequently terminate and the RCPS will remain as redeemable preferred shares without conversion rights. Redemption price is decided by the aggregate of (1) the issue price, (2) the issue price × [number of days that have elapsed from the first day of the fiscal year during which redemption is made to the redemption date / 365] × applicable interest rate as stated below (a and b), and (3) any accrued but unpaid dividends. The Group can elect to redeem, at its discretion, and is not obligated to redeem, the RCPS in whole or in part. If the Group does not exercise its redemption rights during the redemption period, such redemption right will subsequently terminate and the RCPS will remain as preferred shares without redemption rights. The Group may redeem the RCPS from holder at (Won)57,806 per share.

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The dividends on the RCPS issued to public are cumulative and non-participating on dividends on the common stock of the Group, and the stated dividend rates are as follows:

(a) From the issue date until the 5th anniversary of the issue date: 3.25% per annum.

(b) From the 5th anniversary of the issue date: interest rate payable on five-year treasury bonds issued by the Korean government on the day immediately preceding the 5th anniversary of the issue date + Spreadø + 100 bp

ø Spread: 7% the interest rate payable on five-year Treasury bonds issued by the Korean government on the day immediately preceding the issue date

By the same reason as the Series 10 RPS, the Series 11 RCPS issued to the public is classified as equity on the Group s consolidated balance sheet as of December 31, 2010.

22. Retained Earnings

The following table summarizes the details of retained earnings at December 31:

	2009	2010
	(in millions of Won)	
Appropriated retained earnings for legal reserves under Korean GAAP	(Won) 1,021,878	(Won) 1,152,507
Unappropriated retained earnings under US GAAP	7,600,037	9,879,754
	(Won) 8,621,915	(Won) 11,032,261

The Financial Holding Company Act requires the Group to appropriate as a legal reserve under accounting principles generally accepted in Korea (Korean GAAP), an amount equal to a minimum of 10% of annual net income of Shinhan Financial Group until such reserve equals 100% of its paid-in capital. This reserve is not available for payment of cash dividends, but may be transferred to capital stock or used to reduce an accumulated deficit, if any, by an appropriate resolution of the Group s board of directors.

23. Regulatory Requirements

The Group and its subsidiaries, including Shinhan Bank and Jeju Bank, are subject to various regulatory capital requirements administered by the Financial Services Commission (FSC), which are based on the Basel Committee on Banking Regulations and Supervisory Practices. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Group s consolidated financial statements.

From January 1, 2007, a bank holding company, which is a financial holding company controlling banks or other financial institutions conducting banking business as prescribed in the Financial Holding Company Act, is required to maintain a minimum consolidated equity capital ratio of 8%. 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 FSC requirements that have been formulated based on 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.

The FSC regulations also require that the computation be based on the Group s consolidated financial statements under Korean GAAP and regulatory guidelines, which vary in certain significant respects from US GAAP.

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The following table sets forth consolidated equity capital ratio of the Group mandated by the FSC at December 31:

	2009	2010
	(in millions of Won, except equity capital ratio)	
Equity capital	(Won) 22,572,130	(Won) 23,711,578
Risk-weighted assets	179,083,070	185,694,642
Consolidated equity capital ratio	12.60%	12.77%

In conformity with the FSC regulations, Shinhan Bank and Jeju Bank apply the FSC s risk-adjusted capital ratios to evaluate their capital adequacy. Korean banking organizations engaged in international banking are required to maintain a minimum 8% total risk-based capital ratio calculated by dividing total risk-adjusted capital by total risk-weighted assets, including a Tier 1 capital ratio of at least 4%. All Korean banking organizations subject to the FSC regulations on minimum total risk-based capital ratio are also subject to periodic inspection by the Financial Supervisory Service (FSS). In the event that Shinhan Bank or Jeju Bank does not maintain a consolidated capital ratio of 8%, it is subject to corrective actions to be imposed by the FSS, as recommended by the FSC, based on the actual financial position and capital ratio of the respective banking subsidiaries.

In conformity with the FSC regulations, Shinhan Card also applies the FSC s risk-adjusted capital ratios to evaluate their capital adequacy. Credit card organizations are required to maintain a minimum 8% total risk-based capital ratio calculated by dividing total risk-adjusted capital by total risk-weighted assets.

As required by the FSC regulations, the following table sets forth the details of capital adequacy ratios of Shinhan Bank and Shinhan Card, subsidiaries considered material to the consolidated financial statements of the Group, under Korean GAAP and regulatory guidelines which vary in certain significant respects from US GAAP at December 31:

Shinhan Bank

	2009	2010
	(in millions of Won, except capital ratio)	
Tier 1 capital	(Won) 14,058,510	(Won) 15,488,027
Tier 2 capital	4,264,192	3,189,267
Total risk-adjusted capital	(Won) 18,322,702	(Won) 18,677,294
Total risk-weighted assets	(Won) 121,132,041	(Won) 117,262,749
Total risk-based capital ratio (%)	15.13%	15.93%
Tier 1 capital ratio (%)	11.61%	13.21%
Tier 2 capital ratio (%)	3.52%	2.72%

Shinhan Card

	2009	2010
	(in millions of Won, except capital ratio)	
Total risk-adjusted capital	(Won) 5,043,293	(Won) 5,603,575
Total risk-weighted assets	18,867,283	22,427,155
Total risk-based capital ratio (%)	26.73%	24.99%

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The Group s other subsidiaries, including Jeju Bank, Shinhan Life Insurance, Shinhan Capital and Shinhan Investment Corp. are also subject to the capital ratio pursuant to other regulatory capital requirements of the FSC. At December 31, 2009 and 2010, the Group s other subsidiaries met the regulatory capital requirements of the FSC.

24. Income Taxes

The following table sets forth allocation of national and local income taxes between current and deferred portions for the years ended December 31:

	2008	2009	2010
		(in millions of Won)	
Current tax expense			
National	(Won) 888,389	(Won) 544,529	(Won) 396,876
Local	88,839	54,453	39,688
Total current tax expense	977,228	598,982	436,564
Deferred tax expense			
National	(256,634)	(159,051)	127,511
Local	(25,663)	(15,905)	12,751
Total deferred tax expense (benefit)	(282,297)	(174,956)	140,262
Total tax expense	(Won) 694,931	(Won) 424,026	(Won) 576,826

The preceding table does not reflect the tax effects of other comprehensive income within equity.

The following table sets forth a reconciliation of income tax expense at the Korean statutory income tax rate to actual income tax expense for the years ended December 31:

	2008	2009	2010
		(in millions of Won, except tax rates)	
Statutory tax rate	*27.5%*	*24.2%*	*24.2%*
Income before income tax expense	(Won) 2,187,331	(Won) 1,567,551	(Won) 3,398,714
Income tax calculated at the statutory tax rate	601,516	379,347	822,489
Income not assessable for tax purposes	(104,862)	(62,090)	(309,826)
Expenses not deductible for tax purposes	96,434	69,835	90,658
Foreign tax rate differentials	(5,573)	(1,544)	5,644
Adjustment of deferred tax liability on investment in subsidiaries and associates	12,195	540	(45,414)
Change in statutory tax rate(1)	100,756	582	22,815
Change in valuation allowance	(5,683)	37,035	(22,837)
Other	148	321	13,297

Income tax expense	(Won)	694,931	(Won)	424,026	(Won)	576,826

Note:

(1) Pursuant to amendments to the Corporation Income Tax Law that was enacted in December 2008, the statutory tax rates changed from 27.5% to 24.2% in 2009 and 22% in 2010 and thereafter; however, pursuant to the amendment to the Corporation Income Tax Law enacted in December 2009, the statutory tax rates changed from 22% to 24.2% in 2010 and 2011, and 22.0% will be applied from 2012 and thereafter. The amounts of change in statutory tax rate in 2010 represent the difference between the statutory tax rate in 2010 and the statutory tax rate applicable to temporary difference to be realized in the future.

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The components of net deferred income tax assets and liabilities included in other assets and accrued expenses and other liabilities, respectively, at December 31, are as follows:

	2009	2010
	(in millions of Won)	
Deferred income tax assets		
Allowance for loan losses	(Won) 241,942	(Won) 151,010
Other allowances	286,127	222,730
Valuation of trading assets	22,983	40,029
Premises and equipment	216,201	241,228
Available-for-sale securities	757,625	636,846
Other assets	274,047	220,894
Future policy benefits	150,495	269,280
Long-term debt	4,534	10,780
Other temporary differences	18,870	25,045
Net operating loss carryforwards	100,005	78,382
	2,072,829	1,896,224
Less: Valuation allowance	(104,914)	(82,077)
Deferred income tax assets	1,967,915	1,814,147
Deferred income tax liabilities		
Valuation of trading assets		(5,565)
Foreign exchange contracts and derivative instruments	(11,647)	(77,914)
Allowance for loan losses	(388,523)	(371,872)
Accrued interest and dividend receivable	(13,046)	(74,509)
Other assets	(868,990)	(839,648)
Long-term debt	(28,463)	(38,706)
Other temporary differences	(76,334)	(18,364)
Deferred income tax liabilities	(1,387,003)	(1,426,578)
Net deferred income tax assets	(Won) 580,912	(Won) 387,569

Deferred income taxes at December 31, 2009 and 2010 are reflected in the consolidated balance sheets under the following captions:

	2009	2010
	(in millions of Won)	
Other assets	(Won) 689,660	(Won) 477,548
Accrued expenses and other liabilities	(108,748)	(89,979)
Net deferred income tax assets	(Won) 580,912	(Won) 387,569

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are

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deductible, management believes it is more likely than not that the Group will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2010. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The valuation allowance was (Won)73,626 million and (Won)67,879 million as of January 1, 2008 and 2009, respectively. During the years ended December 31, 2008, 2009 and 2010, the valuation allowance increased (decreased) by (Won)(5,747) million, (Won)37,035 million and (Won)(22,837) million, respectively.

As of December 31, 2010, the Group had net operating loss carryforwards totaling (Won)336,631 million.

The following table sets forth these net operating losses expiring in periods ranging from December 31, 2011 to 2013 and thereafter:

Years ending	(in millions of Won)	
2011	(Won)	55,913
2012		164,913
2013 thereafter		115,805
	(Won)	336,631

As the Group decided to adopt Consolidated Tax Return System starting 2010, the tax expense or benefit was calculated including its wholly-owned subsidiaries. Net operating loss carryforward calculated before applying the consolidated tax return system can be deducted only from the relevant taxable income of individual entity.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2008	2009	2010
	(in millions of Won)		
Beginning balance	(Won) 217,636	(Won) 153,754	(Won) 52,911
Increases for tax positions of current year	12,740	681	749
Increases for tax positions of prior years		719	
Decreases for tax positions of prior years	(38,353)	(17,659)	(11,206)
Amounts of decreases in the unrecognized tax benefits relating to settlements	(38,269)	(3,817)	
Amounts of decreases in the unrecognized tax benefits relating to a lapse of the statute of limitations		(80,767)	(30,479)
Ending balance	(Won)153,754	(Won)52,911	(Won)11,975

As of December 31, 2008, 2009 and 2010, the unrecognized tax benefits included above which would, if recognized, affect the effective tax rate are (Won)53,071 million, (Won)26,447 million and (Won)11,342 million, respectively.

Interest expense and penalties, net of interest income, related to unrecognized tax positions recorded in income tax expense was (Won)16,778 million, (Won)(43,559) million and (Won)(18,837) million for the years ended December 31, 2008, 2009 and 2010, respectively. Accrued income tax-related interest and penalties, net of interest income, were (Won)6,564 million and (Won)4,413 million at December 31, 2009 and

(Won)(5,688) million and (Won)(2,172) million at December 31, 2010, respectively.

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25. Earnings Per Share

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computation for the years ended December 31:

The following table sets forth the details of the calculation of earnings per share (EPS) for the years ended December 31:

	2008	2009	2010
	(in millions of Won, except per share data)		
Basic EPS			
Net income	(Won) 1,480,699	(Won) 1,133,852	(Won) 2,844,522
Accretion and dividends on redeemable preferred stock and redeemable convertible preferred stock	(230,586)	(230,586)	(230,586)
Net income attributable to common stock shareholders	(Won) 1,250,113	(Won) 903,266	(Won) 2,613,936
Weighted-average number of common stocks outstanding (in thousands)	417,673	461,500	474,200
Net income per share			
Basic net earnings per share	(Won) 2,993	(Won) 1,957	(Won) 5,512
Diluted EPS			
Net income	(Won) 1,480,699	(Won) 1,133,852	(Won) 2,844,522
Dividends on redeemable preferred stock	(202,930)	(202,930)	(202,930)
Net income attributable to common stock shareholders	(Won) 1,277,769	(Won) 930,922	(Won) 2,641,592
Weighted-average number of common stocks outstanding (in thousands)	417,673	461,500	474,200
Diluted effect of redeemable convertible preferred stock (in thousands)	14,721	14,721	14,721
Weighted-average number of common stock outstanding, assuming dilution (in thousands)	432,394	476,221	488,921
Net income per share			
Diluted net earnings per share	(Won) 2,955	(Won) 1,955	(Won) 5,403

26. Employee Severance Plans

Employees with one or more years of service are entitled to receive a lump-sum payment upon termination of their employment with the Group or receive benefits after legal retirement age in installments, based on their length of service and rates of pay at the time of termination. Under the Korean National Pension Fund Law, the Group was required to pay a certain percentage of employee severance benefits to the National Pension Fund prior to April 1999. Additionally, The Group contributes a certain percentage of employee severance benefits to a severance insurance deposit account (Severance Plan Assets) maintained for the benefit of employees at insurance companies, banks and securities. Severance Plan Assets consist of time deposits and other guaranteed principal and guaranteed interest investments. The Group deducts contributions made to the National Pension Fund and the Severance Plan Assets from its accrued employee severance plan obligations. The compensation

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cost of employees severance benefit is recognized based on the vested benefits to which the employees are entitled if they immediately leave the Group.

Under limited circumstances, employees can withdraw their accumulated unpaid severance amounts before their termination of employment (interim severance payment). Such withdrawals were included in the amount of plan payments for the years ended December 31, 2009 and 2010. Total interim severance payments made by the Group in 2009 and 2010 were (Won)148,228 million and (Won)1,061 million, respectively. The Group paid severance benefits, excluding interim severance payments, of (Won)135,270 million and (Won)252,284 million and (Won)44,703 million for the years ended December 31, 2008, 2009 and 2010, respectively.

The following table sets forth the movements of accrued employee severance plan obligations included in accrued expenses and other liabilities at December 31:

	2009	2010
	(in millions of Won)	
Balance at beginning of year	(Won) 528,590	(Won) 404,422
Accruals	276,438	153,297
Decrease from sale of subsidiaries	(94)	
Payments	(400,512)	(45,724)
	404,422	511,995
Less: Contributions to National Pension Fund and severance plan assets	(229,897)	(347,110)
Balance at end of year	(Won) 174,525	(Won) 164,885

The Group expects to pay the following future benefits to its employees upon their normal retirement age:

Years ending	(in millions of Won)
2011	(Won) 435
2012	3,529
2013	3,864
2014	7,976
2015	10,434
2016 ~ 2020	144,037
	(Won) 170,275

The above amounts were determined based on the employees current salary rates and the number of service years that will be accumulated upon their retirement date.

27. Employee Share-based Compensation and Other Benefits

Employee stock-based compensation plan

The Group has various share-based compensation plans to reward its employees and key executives of the Group. All the Group s compensation plans are classified as liabilities using the fair-value-based method under ASC 718 (formerly SFAS 123R).

Share-based compensation expense was (Won)(114,058) million, (Won)52,077 million and (Won)31,230 million in 2008, 2009 and 2010, respectively. The per share weighted fair value of the stock options granted to key employees, executives and directors of the Group was (Won)12,275 for 2008 and nil for 2009 and 2010. These fair value amounts were calculated using the Partial Differential Equation (PDE) Solution model.

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The following table illustrates the significant assumptions used to estimate the fair value of share options at the grant date (the group did not grant any stock options during 2009 and 2010):

	Shinhan Financial Group 2008
Risk-free interest rate	5.16%
Expected lives(1)	5.00 years
Expected volatility(2)	30.60%
Expected dividend rate	2.62%

Note:

(1) Expected lives are calculated based on a simplified method since the Group does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term.

(2) Expected volatility is based on implied volatility derived from historical volatility of the Group s stock price.

Shinhan Financial Group Plan

Shinhan Financial Group has authorized 77,686,588 shares of options to be granted to purchase its common stock. Shinhan Financial Group granted to its key employees, managements and directors of the Group 1,004,200 options, 1,156,300 options, 1,301,600 options, 2,695,200 options, 3,296,200 options, 1,301,050 options and 808,700 options at an exercise price of (Won)18,910, (Won)11,800, (Won)21,595, (Won)28,006, (Won)38,829, (Won)54,560 and (Won)49,053 per share with vesting period of two years from the grant date in 2002, 2003, 2004, 2005, 2006, 2007 and 2008, respectively. Upon vesting, the 1st, 2nd and 3rd options may be exercised within three to four years while the 4th, 5th, 6th and 7th options may be exercised within four years after one year from vesting. Options granted to management and directors are performance-based and market-based linked to average market price of the Group s three main domestic competitors shares. With regard to options granted on May 22, 2002, May 15, 2003, March 25, 2004, March 30, 2005, March 21, 2006 and March 20, 2007, Shinhan Financial Group decided to pay the difference between the exercise price and average market price in cash at the date of exercise. With regard to options granted on March 19, 2008, the Group may issue shares (new shares of common stock or treasury shares) upon settlement or pay in cash the difference between the exercise and average market price at the date of exercise.

In 2010, the Group introduced the performance share plan as part of the stock-based compensation plan. The Group granted 935,900 shares which are performance-based and market-based linked to average market price of the Group s three main domestic competitors shares. The performance shares granted (a) are subject to service or performance based requirements, (b) have an exercise price of (Won)0 and (c) the quantity is indexed to the banking industry index. The performance shares were vested over one to four years from the date of grant and will be exercised immediately on vesting date. The fair value of cash payment is estimated using the closing share price at the end of reporting period.

Shinhan Bank and Shinhan Investment Corp. (formerly Good Morning Shinhan Securities) Plan

Shinhan Bank and Shinhan Investment Corp. (formerly Good Morning Shinhan Securities) granted share options to certain executives with a vesting period of two years from the grant date in 1999, 2000, 2001, 2002, 2003, and 2004. During 2004 and 2005, both companies decided to settle all outstanding stock options for cash based on price calculated in reference to the market price of the common stock of Shinhan Financial Group, multiplied by an exchange ratio.

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A summary of the status of the Group s unvested options as of December 31, 2008, 2009 and 2010 and changes during the years ended December 31, 2008, 2009 and 2010 is presented below:

	Shinhan Financial Group	
	Number of Options	Weighted-Average Grant Date Fair Value per Option (in Won)
Unvested at January 1, 2008	3,955,998	(Won) 8,884
Granted	808,700	12,275
Vested	(2,765,738)	5,797
Forfeited	(138,202)	11,469
Unvested at December 31, 2008	1,860,758	(Won) 14,754
Unvested at January 1, 2009	1,860,758	(Won) 14,754
Granted		
Vested	(1,110,427)	16,259
Forfeited	(76,093)	14,760
Unvested at December 31, 2009	674,238	(Won) 12,275
Unvested at January 1, 2010	674,238	(Won) 12,275
Granted		
Vested	(661,804)	12,275
Forfeited	(12,434)	12,275
Unvested at December 31, 2010		(Won)

Total fair value of shares vested during 2008, 2009 and 2010 were (Won)12,168 million, (Won)9,204 million and (Won)9,549 million, respectively.

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The following table presents the share option activities during the period indicated:

	Shinhan Financial Group			Shinhan Bank		
	Number of Options	Weighted-Average Exercise Price per Option (in Won)	Aggregate Intrinsic Value (in millions of Won)	Number of Options	Weighted-Average Exercise Price per Option (in Won)	Aggregate Intrinsic Value (in millions of Won)
Outstanding at January 1, 2008	7,760,174	(Won) 34,065		157,523	(Won) 5,150	
Granted	808,700	49,053				
Exercised	(1,379,042)	20,964		(135,173)	5,175	
Forfeited	(138,202)	47,729				
Outstanding at December 31, 2008	7,051,630	(Won) 38,078	(Won) 12,457	22,350	(Won) 5,000	(Won)
Granted						
Exercised	(777,175)	23,942				
Forfeited	(76,093)	52,489		(22,350)	(5,000)	
Outstanding at December 31, 2009	6,198,362	(Won) 39,673	(Won) 47,594		(Won)	(Won)
Granted						
Exercised	(304,310)	32,252				
Forfeited	(40,392)	52,865				
Outstanding at December 31, 2010	5,853,660	(Won) 39,968	(Won) 62,435		(Won)	(Won)
Exercisable at December 31, 2010	5,191,856	(Won) 38,810	(Won) 62,435		(Won)	(Won)

	Shinhan Investment Corp. (formerly Good Morning Shinhan Securities)		
	Number of Options	Weighted-Average Exercise Price per Option (in Won)	Aggregate Intrinsic Value (in million Won)
Outstanding at January 1, 2008	5,695,769	(Won) 6,956	
Granted			
Exercised	(342,857)	5,273	
Forfeited			
Outstanding at December 31, 2008	5,352,912	(Won) 7,064	(Won)
Granted			
Exercised	(90,000)	6,040	
Forfeited	(4,812,912)	7,148	

Outstanding at December 31, 2009	450,000	(Won)	6,370	(Won)	327
Granted					
Exercised					
Forfeited					
Outstanding at December 31, 2010	450,000	(Won)	6,370	(Won)	403
Exercisable at December 31, 2010	450,000	(Won)	6,370	(Won)	403

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The total intrinsic value of options exercised during the years ended December 31, 2008, 2009, and 2010 was (Won)36,747 million, (Won)9,132 million, and (Won)4,137 million, respectively, and the amounts have been paid in cash during the year.

Share options outstanding at December 31, 2010 are as follows:

	Shinhan Financial Group					
	Options outstanding			Options exercisable		
Exercise price	Number Outstanding	Weighted-Average Remaining Contractual Life(1)	Weighted-Average Exercise Price (in Won)	Number Exercisable	Weighted-Average Exercise Price (in Won)	Weighted-Remaining Contractual Life(1)
(Won)28,006	1,582,484	1.24	(Won) 28,006	1,582,484	(Won) 28,006	1.24
38,829	2,526,903	2.22	38,829	2,526,903	38,829	2.22
54,560	1,082,469	3.22	54,560	1,082,469	54,560	3.22
49,053	661,804	4.21	49,053			
	5,853,660	2.37	(Won) 39,968	5,191,856	(Won) 38,810	2.13

	Shinhan Investment Corp. (formerly Good Morning Shinhan Securities)					
	Options outstanding			Options exercisable		
Exercise price	Number Outstanding	Weighted-Average Remaining Contractual Life(1)	Weighted-Average Exercise Price (in Won)	Number Exercisable	Weighted-Average Exercise Price (in Won)	Weighted-Remaining Contractual Life(1)
(Won)6,370	450,000	1.40	(Won) 6,370	450,000	(Won) 6,370	1.40
	450,000	1.40	(Won) 6,370	450,000	(Won) 6,370	1.40

Note:

(1) Contractual life indicates the sum of service (vesting) period and exercisable period.

The following table presents the Group s performance shares during the period indicated:

	Shinhan Financial Group Number of PSs
Outstanding at December 31, 2009	

Granted	935,900
Unvested	(732,856)
Outstanding at December 31, 2010	203,044

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Performance shares granted at December 31, 2010 are as follows:

Grant Date	Shinhan Financial Group Number of PSs	Shinhan Financial Group Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price (in Won)
2010-04-01	812,400	3.25	
2010-06-01	18,800	3.42	
2010-06-28	6,200	3.49	
2010-07-21	3,800	3.55	
2010-08-25	9,100	3.65	
2010-08-30	12,400	3.66	
2010-11-04	3,800	3.84	
2010-12-30	48,900	4.00	
2010-12-31	20,500	4.00	
	935,900	3.32	

Employee Stock Ownership Association

In 2002, Shinhan Financial Group established an employee stock ownership association (the ESOA) covering most of their employees. The Group makes cash contributions to the ESOA on a periodic basis based on the Group s actual performance relative to pre-specified net income. The Group s cash contributions are used to purchase shares of the common stock of the Group on the Korea Exchange. All shares acquired by the ESOA are unallocated, and are restricted for a period of four years pursuant to the plan agreements and regulations governing the ESOA. In addition, under the Securities and Exchange Act of Korea, employees participating in the ESOA have a right of first refusal, subject to certain exceptions, to subscribe for up to 20% of the shares publicly offered by the Group pursuant to the Securities and Exchange Act of Korea. Furthermore, this right is exercisable only to the extent that the total number of shares so acquired and held by such employees does not exceed 20% of the Group s total number of shares then outstanding. For the years ended December 31, 2008, 2009 and 2010, the Group recorded in aggregate (Won)34,112 million, (Won)35,060 million and (Won)62,249 million in expenses related to the ESOA contributions, respectively.

28. Fair Value Measurements

Effective January 1, 2008, the Group adopted ASC 820-10 (formerly SFAS 157). This guidance 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. The Group determines the fair value of its financial instruments that are recognized or disclosed at fair value in the financial statements in accordance with ASC 820-10.

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 in 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.

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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 judgements or estimates that are significant to valuation.

The Group establishes and documents its policy and process for determining fair values. Fair value is based upon quoted market prices, where available. If quoted 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.

The price transparency of financial instruments is a key determinant of the degree of judgment involved in measuring fair value of the Group s financial instruments. Financial instruments for which actively quoted prices or pricing parameters are available will generally have a higher degree of price transparency than those that are thinly traded or not quoted. In accordance with ASC 820-10, the criteria used to determine whether the market for a financial instrument is active or inactive is based on the particular asset or liability.

As a result of the adoption of ASC 820-10, the Group has made some amendments to the 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 the Group s own credit risk on derivatives and other liabilities measured at fair value.

Credit valuation adjustments (CVA) are necessary when the market price (or parameter) is not indicative of the changes in credit quality of the counterparty. As few classes of derivative contracts are listed on an exchange, the majority of derivative positions are valued using internally developed models and the Group makes an adjustment necessary to reflect the credit quality of each derivative counterparty to arrive at fair value. The adjustment also takes into account contractual factors designed to reduce the Group s credit exposure to each counterparty, such as collateral and legal rights of offset.

Debit valuation adjustments (DVA) are necessary to reflect the credit quality of the Group in the valuation of liabilities measured at fair value. This adjustment is incorporated into the Group s valuations in accordance with ASC 820-10. The methodology to determine the adjustment is consistent with CVA and incorporates the Group s credit spread as observed through the credit default swap market.

The followings are descriptions of valuation methodologies used by the Group to measure various financial instruments at fair value.

Trading and available-for-sale securities and securities sold short, not yet purchased: The fair values of the securities included in trading assets and available-for-sale securities included in securities and securities in short position included in short-term borrowings are recognized in the consolidated balance sheets based on quoted market prices, where available. For the securities traded in the over-the-counter market, the Group generally determines fair value utilizing internal valuation techniques or based on prices obtained from independent pricing services or brokers. Trading securities and derivatives recorded by using valuation methods and prices obtained from pricing services or brokers are generally classified as Level 2 except in the cases where such quoted prices include unobservable inputs to the models, then such financial instruments are classified as Level 3. The Group validates prices received from pricing services or brokers using a variety of methods, including, but not limited to, comparison to secondary pricing services, corroboration of pricing by reference to other independent market data such as secondary broker quotes and relevant benchmark indices, and review of

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pricing by the Group s personnel familiar with market liquidity and other market-related conditions. The Group has internal price verification procedures and reviews fair value methodology documentation provided by independent pricing services.

Derivatives assets and liabilities: The majority of derivatives entered into by the Group are traded in over-the-counter markets and no quoted market prices are available approximating their fair values. The valuation of those derivatives are determined using internal models that require the use of multiple market inputs such as interest rate, prices and indices to generate continuous yield or pricing curves and volatility factors. The over-the-counter derivatives are placed in either Level 2 or Level 3 depending on the observability of the significant inputs to the model.

Collateral dependent loans: 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 impaired 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.

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Assets and liabilities measured at fair value on a recurring basis

As of December 31, 2009 and 2010, instruments measured at fair value on a recurring basis comprised 15.47% and 15.93% of the Group s total assets and 2.42% and 2.53% of the Group s total liabilities, respectively. The following table presents assets and liabilities measured at fair value on a recurring basis by fair-value hierarchy levels as of December 31, 2009 and 2010.

	2009			
	Level 1	Level 2	Level 3	Total
	(in millions of Won)			
Assets measured at fair value				
Trading assets				
Trading securities				
Debt securities				
Korean treasury and governmental agencies	(Won) 901,481	(Won) 622,214	(Won)	(Won) 1,523,695
Corporations		920,794	255,768	1,176,562
Financial institutions	662,121	1,441,973		2,104,094
Mortgage-backed securities and asset-backed securities		872,987		872,987
Equity securities	534,190	212,772		746,962
Derivative instruments	5,492	4,359,732	251,306	4,616,530
Other trading assets commodity indexed deposits		256,246		256,246
	(Won) 2,103,284	(Won) 8,686,718	(Won) 507,074	(Won) 11,297,076
Available-for-sale securities				
Korean treasury and governmental agencies	(Won) 4,081,086	(Won) 4,640,913	(Won)	(Won) 8,721,999
Corporations		2,307,792		2,307,792
Financial institutions	3,531,061	7,633,203		11,164,264
Mortgage-backed securities and asset-backed securities		2,186,982	97,202	2,284,184
Other		170,168		170,168
	(Won) 7,612,147	(Won) 16,939,058	(Won) 97,202	(Won) 24,648,407
Equity securities	(Won) 2,961,285	(Won) 2,203	(Won)	(Won) 2,963,488
Other assets				
Hedging derivative instruments		1,817		1,817
Fund investments		523,116		523,116
	(Won)	(Won) 524,933	(Won)	(Won) 524,933
Total assets	(Won) 12,676,716	(Won) 26,152,912	(Won) 604,276	(Won) 39,433,904
Liabilities measured at fair value				
Trading liabilities				
Derivative instruments	(Won) 609	(Won) 4,145,634	(Won) 99,822	(Won) 4,246,065

Other trading liabilities commodity indexed deposits			318,969		318,969
Short-term borrowings					
Securities sold short, not yet purchased		27,966			27,966
Long-term debt					
Equity linked securities sold				1,067,457	1,067,457
Other liabilities					
Hedging derivatives instruments			167		167
Total liabilities	(Won) 28,575	(Won)	4,464,770	(Won) 1,167,279	(Won) 5,660,624

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	2010			
	Level 1	Level 2	Level 3	Total
	(in millions of Won)			
Assets measured at fair value				
Trading assets				
Trading securities				
Debt securities				
Korean treasury and governmental agencies	(Won) 644,978	(Won) 2,580,357	(Won)	(Won) 3,225,335
Corporations		1,550,044	347,342	1,897,386
Financial institutions	1,709,816	3,176,717		4,886,533
Mortgage-backed securities and asset-backed securities		470,501		470,501
Equity securities	600,389	230,302		830,691
Derivative instruments				
Foreign exchange		1,503,264	127,658	1,630,922
Interest rate		819,512	105,005	924,517
Equity	15,443	1,152,005	85,738	1,253,186
Credit		349		349
Other		3,297	2,228	5,525
Other trading assets commodity indexed deposits		153,457		153,457
	(Won) 2,970,626	(Won) 11,639,805	(Won) 667,971	(Won) 15,278,402
Available-for-sale securities				
Korean treasury and governmental agencies	(Won) 4,426,974	(Won) 6,074,531	(Won)	(Won) 10,501,505
Corporations		2,400,140		2,400,140
Financial institutions	3,085,426	6,446,997		9,532,423
Mortgage-backed securities and asset-backed securities		1,916,077	30,984	1,947,061
Other		149,591		149,591
	(Won) 7,512,400	(Won) 16,987,336	(Won) 30,984	(Won) 24,530,720
Equity securities	(Won) 2,865,590	(Won) 1,671	(Won)	(Won) 2,867,261
Other assets				
Hedging derivative instruments				
Foreign exchange		350		350
Interest rate		27,040		27,040
Fund investments		569,587		569,587
	(Won)	(Won) 596,977	(Won)	(Won) 596,977
Total assets	(Won) 13,348,616	(Won) 29,225,789	(Won) 698,955	(Won) 43,273,360
Liabilities measured at fair value				
Trading liabilities				
Derivative instruments				
Foreign exchange	(Won)	(Won) 1,300,485	(Won) 22,113	(Won) 1,322,598
Interest rate		823,251	50,957	874,208

Equity			315		1,182,025		32,452	1,214,792
Credit							422	422
Other					3,216		1,903	5,119
Other trading liabilities commodity indexed deposits					198,619			198,619
Short-term borrowings								
Securities sold short, not yet purchased			624,358					624,358
Long-term debt								
Equity linked securities sold							1,949,390	1,949,390
Other liabilities								
Hedging derivatives instruments								
Foreign exchange					19,281			19,281
Interest rate					4,747		29,539	34,286
Total liabilities	(Won)		624,673	(Won)	3,531,624	(Won)	2,086,776	(Won) 6,243,073

In 2010, the transfers between levels 1 and 2 were not significant.

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Changes in Level 3 items measured at fair value on a recurring basis

In circumstances where observable market data are not available, significant unobservable inputs are utilized to determine fair value. In such cases, the assets and liabilities are classified as Level 3. As of December 31, 2009, assets and liabilities categorized as Level 3 represented 1.53% and 20.62% of the Group s total assets and liabilities measured at fair value on a recurring basis, respectively. As of December 31, 2010, assets and liabilities categorized as Level 3 represented 1.62% and 33.43% of the Group s total assets and liabilities measured at fair value on a recurring basis, respectively. Both observable and unobservable inputs may be used to determine the fair value of positions that the Group has classified within the Level 3 category. As a result, the realized and unrealized gains and losses for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both observable and unobservable inputs.

The following table presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended December 31, 2009 and 2010:

	January 1, 2009	Total realized/ unrealized gains (losses) recorded in Trading revenues	Others(1)	Transfers in and/or out of Level 3(2)	Purchases, issuances and settlements	December 31, 2009	Unrealized losses still held(3)
				(in millions of Won)			
Trading assets							
Trading securities	(Won) 227,277	(Won) 54,842	(Won)	(Won)	(Won) (26,351)	(Won) 255,768	(Won) (5,117)
Derivatives instruments	420,660	(157,835)		252,720	(264,239)	251,306	(176,980)
Investments							
Available-for-sale securities	100,364		(7,879)		4,717	97,202	(3,424)
Trading liabilities							
Derivatives instruments	430,605	(554)		(132,169)	(199,168)	99,822	(34,031)
Long-term debt							
Equity linked securities sold	610,971	217,301			673,787	1,067,457	(18,960)

	January 1, 2010	Total realized/ unrealized gains (losses) recorded in Trading revenues	Others(1)	Transfers in and/or out of Level 3(2)	Purchases, issuances and settlements	December 31, 2010	Unrealized gains (losses) still held(3)
				(in millions of Won)			
Trading assets							
Trading securities	(Won) 255,768	(Won) 36,411	(Won)	(Won)	(Won) 55,163	(Won) 347,342	(Won) 15,625
Derivatives instruments							
Foreign exchange	146,237	93,099		7,942	(119,620)	127,658	(76,725)
Interest rate	31,884	669		73,999	(1,547)	105,005	72,426
Equity	73,185	79,362			(66,809)	85,738	69,251
Credit							
Other		2,228				2,228	2,228
Investments							
Available-for-sale securities	97,202	3,851	(2,346)		(67,723)	30,984	1,664
Trading liabilities							
Derivatives instruments							
Foreign exchange	2,673	(10,948)		5,819	2,673	22,113	(18,176)
Interest rate	8,679	(5,830)		36,214	234	50,957	(621)

Equity	65,747	100,235	1,323	65,617	32,452	(34,709)
Credit	22,723	45,024		22,723	422	(422)
Other			1,903		1,903	1,562
Long-term debt						
Equity linked securities sold	1,067,457	(281,108)		1,163,041	2,511,606	(80,749)
Hedging derivatives instruments Interest rate		(28,919)		620	29,539	(28,919)

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Notes to Consolidated Financial Statements (Continued)

Note:

(1) Includes the change in fair value of available-for-sale securities and other investments, change in accumulated other comprehensive income (loss), gains (losses) from sales and impairment losses.

(2) Transfers into or out of Level 3 are made if the inputs used in the financial models measuring the fair values of the assets and liabilities became unobservable or observable, respectively. These transfers are effective as of the beginning of the year, and any gains or losses occurring on these assets and liabilities during the year are presented as Level 3.

(3) Represents the amount of total gains or losses for the years ended December 31, 2009 and 2010, included in earnings (and accumulated other comprehensive income (loss) for changes in fair value of available-for-sale investments and other investment) attributable to the change in fair value relating to assets and liabilities classified as Level 3 that are still held at December 31, 2009 and 2010.

The significant changes in Level 3 assets and liabilities for the year ended December 31, 2009 are as follows:

A net decrease in available-for-sale securities of (Won)7,897 million was mainly driven by recognition of other-than-temporary impairment of CDOs which are included in earnings.

The changes in the Level 3 derivative assets and liabilities of (Won)(169,354) million and (Won)(330,783) million were mainly due to:

(i) The Group transferred (Won)357,219 million of derivatives assets from the Level 2 into the Level 3 category in the fair-value hierarchy during the year ended December 31, 2010. The valuation of these derivatives is affected by the credit valuation and debt valuation adjustments, which is based on an internal valuation technique, and the extent of such adjustment was significant enough to render the fair-value hierarchy of the respective instruments into the lower level. And the Group transferred (Won)104,499 million of derivatives assets and (Won)132,167 million of derivatives liabilities to the Level 2 from the Level 3 category in the fair-value hierarchy during the year ended December 31, 2010 as the availability of observable pricing inputs relevant to the asset or liability that is significant to the fair value measurement in its entirety has been increased as of December 31, 2010.

(ii) The changes in the Level 3 realized/unrealized gains (losses) from trading derivatives were due to loss of (Won)157,835 million and (Won)554 million relating to derivative assets and liabilities, respectively, and these losses include both realized and unrealized losses during the year ended December 31, 2009.

The significant changes in Level 3 assets and liabilities for the year ended December 31, 2010 are as follows:

A net decrease in available-for-sale securities of (Won)67,723 million was mainly caused by settlement of CDO.

The changes in the Level 3 derivative assets and liabilities of (Won)69,323 million and (Won)37,564 million were mainly due to:

(i) The Group transferred (Won)115,574 million and (Won)46,363 million of derivatives assets and liabilities from the Level 2 into the Level 3 category in the fair-value hierarchy during the year ended December 31, 2010. The valuation of these derivatives is affected by the credit valuation and debt valuation adjustments, which is based on an internal valuation technique, and the extent of such adjustment was significant enough to render the fair-value hierarchy of the respective instruments into the lower level. And the Group transferred (Won)33,633 million of derivatives assets and (Won)(1,104) million of derivatives liabilities to the Level 2 from the Level 3 category in the fair-value hierarchy during

the year ended December 31, 2010 as the availability of observable pricing inputs relevant to the asset or liability that is significant to the fair value measurement in its entirety has been increased as of December 31, 2010.

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(ii) The changes in the Level 3 realized/unrealized gains (losses) from trading derivatives were due to loss of (Won)175,358 million and (Won)99,562 million relating to derivative assets and liabilities, respectively, and these losses include both realized and unrealized losses during the year ended December 31, 2010.

Assets and liabilities measured at fair value on a non-recurring basis

Certain assets and liabilities are measured at fair value on a non-recurring basis and are not included in the tables above. These assets and liabilities primarily include assets measured at cost that have been written down to fair value during the period as a result of an impairment.

The following table presents collateral dependent loans and lease receivables, goodwill and other assets of which balances at December 31, 2009 and 2010 are measured at fair value on a non-recurring basis based on the ASC 820-10 valuation hierarchy.

	2009		
	Level 1	Level 2	Level 3
		(in millions of Won)	
Loans and lease receivables(1)	(Won)	(Won)	(Won) 432,765
Goodwill(2)			
Other assets - other investments(3)			9,591

	2010		
	Level 1	Level 2	Level 3
		(in millions of Won)	
Loans and lease receivables(1)	(Won)	(Won)	(Won) 619,322
Goodwill(2)			
Other assets - other investments(3)			38,294

Note:

(1) Represents carrying values net of allowances and cumulative impairment charges of related impaired loans and lease receivables which are collateral dependent and are evaluated based on the fair value of the underlying collateral. The fair value of the collateral for such impaired loans and lease receivables is based on the appraisal value of external valuation experts, as adjusted for significant inputs related to the foreclosure proceeding for such collateral, which inputs are deemed to be unobservable. We accordingly classify collateral dependent loans and lease receivables as Level 3.

(2) The Group recorded goodwill impairment charges of (Won)59,517 million and (Won)0 million at December 31, 2009 and 2010, respectively, as determined based on Level 3 inputs. See Note 10 for additional information on goodwill impairment

(3) The Group recorded impairment charges of (Won)12,038 million and (Won)17,276 million at December 21, 2009 and 2010, respectively.

29. Fair Value of Financial Instruments

Fair value measurements and Disclosure (formerly SFAS No. 107, *Disclosures About Fair Value of Financial Instruments* (SFAS 107) (ASC 820-10)) requires the disclosure of the estimated fair value of financial instruments including those financial instruments for which the Group did not elect the fair value option. The fair values of such instruments have been derived, in part, by management s assumptions, the estimated amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable values could be materially different from the estimates presented below. In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the Group.

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Notes to Consolidated Financial Statements (Continued)

The following methods and assumptions are used by the Group in estimating fair value disclosures for its financial instruments:

Assets and liabilities for which fair value approximates carrying value: The carrying values of certain financial assets and liabilities are reported at cost, including cash and cash equivalents, restricted cash, call loans, accrued interest and dividends receivable, customers liability on acceptances, accrued interest and dividend payable, security deposits, and acceptances outstanding. The carrying values of these financial assets and liabilities are considered to approximate their fair values due to their short-term nature and negligible losses due to credit risks.

Interest-bearing deposits in banks: The carrying amounts of short-term interest-bearing deposits approximate their fair value because they are short-term in nature or carry variable interest rates.

Held-to-maturity securities: The fair values for held-to-maturity securities are based on quoted market prices, or quoted market prices of comparable instruments if the quoted market prices are not available.

Nonmarketable equity investments: Nonmarketable equity investments, which are recorded in other assets, consist primarily of private equity investments. The fair values of these investments are based on the latest obtainable net asset value of the investees and adjusted for other-than-temporary impairment losses.

Loans: Loans and advances are net of allowance for loan losses. The fair values of loans are generally determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. The Group estimates the cash flows expected to be collected using interest rate and prepayment risk models that incorporate management s best estimate of current key assumptions, such as default rates, loss severity and prepayment speeds for the life of the loan.

Deposits: The carrying amounts of variable-rate interest and non-interest-bearing deposits approximate their fair values at the balance sheet date. Fair values for fixed rate interest-bearing deposits are estimated using discounted cash flow analysis using market interest rates currently offered for deposits with similar maturities.

Short-term borrowings: The carrying amounts of call money, securities sold under repurchase agreements and short-term borrowings approximate their fair values due to their short-term nature and negligible losses due to credit risks.

Long-term debt: The fair values of long-term borrowings are estimated based on quoted market prices, where available. For those notes where quoted market prices are not obtainable, a discounted cash flow analysis is used based on the Group s current incremental borrowing rates for similar types of borrowing arrangements.

Secured borrowings: The fair values for securities sold under agreements to repurchase are estimated using discounted cash flow analysis that applies current market interests offered for arrangements with similar maturities as no quoted market price is available. The fair values for beneficial interests issued by the VIEs are based on market quotes where available, or discounted cash flow analysis using market interest rates.

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The following disclosures represent financial instruments in which the ending balance is not carried at fair value in its entirety on the Group s consolidated balance sheets at December 31:

	2009		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions of Won)			
Financial assets:				
Financial assets for which carrying value approximates fair value	(Won) 17,225,681	(Won) 17,225,681	(Won) 17,257,557	(Won) 17,257,557
Interest-bearing deposits in banks	2,164,004	2,164,004	2,378,905	2,378,905
Held-to-maturity securities	12,793,618	12,840,594	12,587,018	12,994,228
Loans	165,593,546	167,393,995	176,589,401	179,145,181
Non-marketable equity investments included in other assets	2,045,547	3,437,571	2,763,431	3,847,867
Total Financial assets	(Won) 199,822,396	(Won) 203,061,845	(Won) 211,576,312	(Won) 215,623,738
Financial liabilities:				
Financial liabilities for which carrying value approximates fair value	(Won) 5,853,609	(Won) 5,853,609	(Won) 7,199,880	(Won) 7,199,880
Deposits	143,698,489	144,364,290	152,892,183	153,630,439
Short-term borrowings	9,686,890	9,686,890	7,446,901	7,446,901
Secured borrowings	7,944,390	8,078,573	8,295,896	8,368,091
Long-term debt	43,727,523	42,319,203	44,546,409	45,587,964
Total Financial liabilities	(Won) 210,910,901	(Won) 210,302,565	(Won) 220,381,269	(Won) 222,233,275

The differences between the carrying amounts and the fair values of guarantees, commercial letters of credit, standby letters of credit, and other lending commitments are immaterial to the consolidated financial statements.

30. Derivative Instruments, Hedging Activities and Credit Derivatives

Derivative Instruments

The Group enters into various types of derivative transactions in the course of its trading and non-trading activities. These derivatives include futures and forward contracts, swap contracts and option contracts. Futures and forward contracts are commitments to buy or sell at a future date a financial instrument, commodity or currency at a contracted price and may be settled in cash or through delivery. Swap contracts are commitments to settle in cash at a future date or dates which may range from a few days to a number of years, based on differentials between specified financial indices, as applied to a notional principal amount. Option contracts give the purchaser, for a fee, the right, but not the obligation, to buy or sell within a limited time, a financial instrument or currency at a contracted price that may also be settled in cash, based on differentials between specified indices.

The Group enters into these derivative transactions relating to interest rate, foreign currency, market/credit, commodity and other risks to enable customers to transfer, modify or reduce their interest rate, foreign exchange and other market risks. As part of this process, the Group considers the customers suitability for the risk involved, and the business purpose for the transaction. The Group also manages its derivative-risk positions

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through offsetting trade activities, controls focused on price verification, and daily reporting of positions to senior managers. In addition the Group trades these products for its own account. Trading limits and price verification controls are key aspects of this activity. The Group uses derivatives in connections with its risk-management activities to hedge certain risks or reposition the risk profile of the Group. For example, the Group may issue fixed-rate long-term debt and then enter into a receive-fixed, pay-variable-rate interest rate swap with the same tenor to a net variable-rate basis. This strategy is the most common form of an interest rate hedge, as it minimizes interest cost in certain yield curve environments. Derivatives are also used to manage interest rate risk relating to specific groups of on-balance sheet assets and liabilities, including investments, loans, and long-term debt. In addition, foreign exchange contracts are used to hedge the foreign currency denominated debt, net capital exposures and foreign exchange transactions. The fair values of derivatives not qualifying for hedge accounting are included in trading assets(or trading liabilities) and any changes in fair values are included in net trading profits(losses). The fair values of derivatives qualifying for hedge accounting are included in other assets (or other liabilities) and the earning impact of these fair value hedges and the changes in fair values attributable to the risk being hedged for the hedged item are included in non-interest income (or non-interest expense).

Derivatives may expose the Group to market risk, credit risk or liquidity risk in excess of the amounts recorded on the consolidated statements of financial position. Market risk on a derivative or foreign exchange product is the exposure created by potential fluctuations in interest rates, foreign exchange rates and other values, and is a function of the type of product, the volume of transactions, the tenor and terms of the agreement, and the underlying volatility. Credit risk is the exposure to loss in the event of nonperformance by the other party to the transaction where the value of any collateral held is not adequate to cover such losses. The recognition in earnings of unrealized gains on these transactions is subject to management s assessment as to collectibility. Liquidity risk is the potential exposure that arises when the size of the derivative position may not be able to be rapidly adjusted in periods of high volatility and financial stress at a reasonable cost.

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The total notional amounts for both long and short derivative positions, representing the volume of derivative activity, at December 31, 2010 are as follows:

	Underlying Notional Amount(1)	2010 Estimated Fair Value Assets(2) (in millions of Won)	Estimated Fair Value Liabilities(2)
Trading:			
Foreign exchange derivatives:			
Swaps	(Won) 14,436,472	(Won) 635,507	(Won) 859,188
Future and forward contracts	45,434,011	786,918	449,650
Options purchased	876,993	146,405	
Options written	797,706		11,426
Sub-total	61,545,182	1,568,830	1,320,264
Interest rate derivatives:			
Swaps	164,834,750	596,529	765,421
Options purchased	4,670,000	42,644	
Options written	4,689,103		43,177
Sub-total	174,193,853	639,173	808,598
Equity derivatives:			
Swaps	898,766	33,503	2,126
Options purchased	9,630,082	1,219,683	
Options written	9,194,627		1,212,666
Sub-total	19,723,475	1,253,186	1,214,792
Credit derivatives:			
Protection sell	87,742	349	422
Sub-total	87,742	349	422
Other derivatives:			
Options purchased	88,645	5,525	
Options written	56,042		5,119
Sub-total	144,687	5,525	5,119
Total	(Won) 255,694,939	(Won) 3,467,063	(Won) 3,349,195
Nontrading:			
Hedge accounting:			
Foreign exchange derivatives:			

Swaps		300,453		350		19,281
Interest rate derivatives:						
Swaps		1,582,889		27,040		34,286
Sub-total		1,883,342		27,390		53,567
Nontrading that do not qualify for hedge accounting(3):						
Foreign exchange derivatives:						
Swaps		593,005		61,961		2,334
Future and forward contracts		1,727		131		
Interest rate derivatives:						
Swaps		8,365,330		285,344		65,610
Sub-total		8,960,062		347,436		67,944
Total	(Won)	10,843,404	(Won)	374,826	(Won)	121,511

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Note:

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

(2) The fair values of the trading derivative assets/liabilities and nontrading that do not qualify for hedge accounting are presented in Note 6. The fair values of the hedging derivative assets/liabilities that qualify for hedge accounting are presented in Note 11 and Note 17.

(3) While the Group engages in derivatives trading activities to hedge the interest rate risk and foreign exchange risk exposure that arise from its 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.

The Group present the fair value of derivative instruments on a gross basis even when the derivative instruments are subject to master netting arrangement and qualify for net presentation in the consolidated balance sheet in accordance with ASC 210-20 (formerly FIN 39). Therefore, cash collateral payables and receivables associated with the derivative instruments are not added to or netted against the fair value amounts.

Trading profits (losses) related to derivative instruments not designated or qualifying as hedging instruments under ASC 815 (formerly SFAS 133) at December 31, 2010 are as follows:

	2010	
	Nontrading that do not qualify for hedge accounting	Trading
	(in millions of Won)	
Foreign exchange derivatives	(Won) 17,190	(Won) 723,121
Interest rate derivatives	131,729	(59,157)
Equity derivatives		52,646
Credit derivatives		2,664
Commodity and other derivatives		10,873
	(Won) 148,919	(Won) 730,147

Hedging activities

The Group accounts for its hedging activities in accordance with ASC 815. As a general rule, hedge accounting is permitted for those situations where the Group is exposed to a particular risk, such as interest rate or foreign exchange risk, that causes changes in the fair value of an asset or liability, or variability in the expected future cash flows of an existing asset, liability or a forecasted transaction that may affect earnings.

Derivative contracts hedging the risks associated with the changes in fair value are referred to as fair value hedges, while contracts hedging the risks affecting the expected future cash flows are called cash flow hedges. Hedges that utilize derivatives or debt instruments to manage the foreign exchange risk associated with equity investments in non-Korean Won functional currency foreign subsidiaries (net investment in a foreign operation) are called net investment hedges.

If certain hedging criteria specified in ASC 815 are met, in including testing for hedge effectiveness, special hedge accounting may be applied. The hedge effectiveness assessment methodologies for similar hedges are performed in a similar manner and are used consistently throughout the hedging relationships. For fair value hedges, the changes in value of the hedging derivative, as well as the changes in value due to the risk being hedged, are reflected in current earnings. For cash flow hedges and net investment hedges, the changes in value of the hedging derivative are reflected in accumulated other comprehensive income (loss) in the Group s

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stockholders equity, to the extent the hedge is effective. Hedge ineffectiveness, in either case, is reflected in current earnings. The Group does not apply net investment hedge.

For asset and liability management hedging, the fixed-rate long-term debt may be recorded at amortized cost under current U.S. GAAP. However, by electing to use ASC 815 hedge accounting, the carrying value of the debt is adjusted for changes in the benchmark interest rate, with any such changes in value recorded in current earnings. The related interest-rate swap is also recorded on the balance sheet at fair value, with any changes in fair value reflected in earnings. Thus, any ineffectiveness resulting from the hedging relationship is recorded in current earnings. Alternatively, an economic hedge, which does not meet the ASC 815 hedging criteria, would involve only recording the derivative at fair value on the balance sheet, with its associated changes in fair value recorded in earnings. The debt would continue to be carried at amortized cost and, therefore, current earnings would be impacted only by the interest rate shifts and other factors that cause the change in the swap s value and the underlying yield of the debt.

Key aspects of achieving hedge accounting are documentation of hedging strategy and hedge effectiveness at inception and substantiating hedge effectiveness on an ongoing basis. A derivative must be highly effective in accomplishing the hedge objective of offsetting changes in the fair value for the risk recognized in current earnings. Any ineffectiveness in the hedge relationship is recognized in current earnings. The assessment of effectiveness excludes changes in the value of the hedged item that are not related to the risks being hedged.

Fair value hedges

The Group hedges exposure to changes in the fair value of outstanding fixed-rate issued debt and available for sale debt securities. The fixed cash flows from those financing transactions are converted to benchmark floating-rate cash flows by entering into interest rate swaps. The Group had applied fair value hedge accounting exclusively to interest rate swap transactions with the hedged items of fixed rate debts that qualified for the short-cut method for hedge relationships commencing prior to December 31, 2005. Since the Group assumed no ineffectiveness for those transactions, no ineffective portion was recognized in the consolidated statements of income for the years presented. However, the Group has applied hedge accounting for new hedging relationships entered into since January 1, 2010. In accordance with ASC 815, the Group documented hedging strategy and hedge effectiveness at the hedge inception. These fair-value hedging relationships utilize regression analysis to assess whether the hedging relationships are highly effective at inception and on an ongoing basis.

The gain and loss on designated and qualifying fair value hedges recognized in other non-interest income and other non-interest expense for the year ended December 31 are as follow:

	Derivatives	2010 Hedged Items (in millions of Won)	Hedge Ineffectiveness
Gain (loss) on designated and qualifying fair value hedges:			
Interest rate derivatives	(Won) (5,718)	(Won) 6,314	(Won) 596

Cash flow hedges

Hedging of benchmark interest rate risk

The group hedges variable cash flows resulting from floating-rate liabilities. Variable cash flows from those liabilities are converted to fixed-rate cash flows by entering into receive-variable, pay-fixed interest rate swaps.

These cash-flow hedging relationships use regression analysis to assess whether the hedging relationships are highly effective at inception and on an ongoing basis.

Since efforts are made to match the terms of the derivatives to those of the hedged forecasted cash flows as closely as possible, the amount of hedge ineffectiveness is not significant.

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Hedging of foreign exchange risk

The Group locks in the functional currency equivalent cash flows of long-term debt and short-term borrowings that are denominated in a currency other than the functional currency of the issuing entity.

Depending on the risk management objectives, these types of hedges are designated as either cash flow hedges of only foreign exchange risk or cash flow hedges of both foreign exchange and interest rate risk, and the hedging instruments used are foreign exchange cross-currency swaps and forward contracts. These cash flow hedge relationships use regression analysis to determine whether the hedging relationships are highly effective at inception and on an ongoing basis.

The effective portion of cash flow hedges included in AOCI and the amount that is expected to be reclassified into earnings in the next 12 months from cash flow hedges at December 31, 2010 are as follow:

		2010 (in millions of Won)
Effective portion of cash flow hedges included in AOCI		
Interest rate contracts	(Won)	(2,359)
Foreign exchange contracts		(4,676)
Total effective portion of cash flow hedges included in AOCI	(Won)	(7,034)
Amount that is expected to be reclassified into earnings in the next 12 months		
Interest rate contracts	(Won)	
Foreign exchange contracts		(200)
Total amount that is expected to be reclassified into earnings in the next 12 months	(Won)	(200)

Credit Derivatives

The Group enters into credit derivatives primarily to facilitate client transactions and to manage credit risk exposures. Credit derivatives derive value based on an underlying third party-referenced obligation or a portfolio of referenced obligations and generally require the Group as the seller of credit protection to make payments to a buyer upon the occurrence of a predefined credit event. Such credit events generally include bankruptcy of the referenced credit entity and failure to pay under the obligation, as well as acceleration of indebtedness and payment repudiation or moratorium. For credit derivatives based on a portfolio of referenced credits or credit indices, the Group may not be required to make payment until a specified amount of loss has occurred and/or may only be required to make payment up to a specified amount.

For most credit derivatives, the notional value represents the maximum amount payable by the Group. However, the Group does not exclusively monitor its exposure to credit derivatives based on notional value because this measure does not take into consideration the probability of occurrence. As such, the notional value is not a reliable indicator of the Group s exposure to these contracts. Instead, a risk framework is used to define risk tolerances and establish limits to help to ensure that certain credit risk-related losses occur within acceptable, predefined limits.

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The following disclosures represent a summary of the notional amounts of credit derivatives and credit linked notes the Group sold and purchased at December 31, 2009 and 2010:

	Protection sold	2009 Protection purchased with identical underlyings(1) (in millions of Won)	Net protection sold
Credit derivatives:			
Credit default swaps	(Won) 174,918	(Won)	(Won) 174,918
Credit linked notes	23,352		23,352
	(Won) 198,270	(Won)	(Won) 198,270

	Protection sold	2010 Protection purchased with identical underlyings(1) (in millions of Won)	Net protection sold
Credit derivatives:			
Credit default swaps	(Won) 87,742	(Won)	(Won) 87,742

Note:

(1) Represents the notional amount of purchased credit derivatives where the Group is the protection seller on the identical underlying reference instrument.

The following table represents the maturity and credit rating of reference entities at December 31, 2009 and 2010:

	Less than one year	One to five years	2009 Over five years (in millions of Won)	Total notional amount	Fair value asset (liability)(2)
Risk rating of reference entity:					
AAA to BBB-(1)	(Won) 137,628	(Won) 60,642	(Won)	(Won) 198,270	(Won) 2,656

	Less than one year	One to five years	2010 Over five years (in millions of Won)	Total notional amount	Fair value asset (liability)(2)
Risk rating of reference entity:					
AA to CCC-(1)	(Won) 37,978	(Won) 49,764	(Won)	(Won) 87,742	(Won) (73)

Note:

(1) The Group considers ratings of BBB- or higher to meet the definition of investment grade.

(2) Represents the netted amount of credit default swaps included in protection sell contracts amounting to (Won)(73) million

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Credit Risk-Related Contingent Features

Certain derivative instruments contain provisions that require the Group to either post additional collateral or immediately settle any outstanding liability balances upon the occurrence of a specified credit risk-related event. These events, which are defined by the existing derivative contracts, are primarily downgrades in the credit ratings of the Group and its subsidiaries. The fair value of all derivative instruments with credit risk-related contingent features that are in a liability position on December 31, 2009 and 2010 is (Won)1,878,791 million and (Won)1,691,332, respectively. The Group has posted (Won)476,903 million and (Won)31,146 million as collateral for this exposure in the normal course of business as of December 31, 2009 and 2010 respectively. The Group s credit rating as of December 31, 2009 and 2010, assigned by Moody s and S&P was A2 and A-, respectively. The Group would be required to post an additional (Won)312,162 million and (Won)180,783 million of collateral to its counterparties at December 31, 2009 and 2010 if Moody s or S&P s rating falls to Baa3 and BBB-, respectively, or below.

31. Commitments and Contingencies

Legal and Tax Contingencies

In the ordinary course of business, the Group is involved in tax and legal proceedings, claims and litigation. As of December 31, 2010, the Group has 336 pending lawsuits as a defendant (total amount: (Won)373,612 million). In the opinion of management, based on current knowledge and after consultation with external counsel, the outcome of such matters will not have a material adverse effect on the Group s consolidated financial statements.

Lease Commitments

At December 31, 2010, the Group is obliged under a number of non-cancelable operating leases for premises and equipment used primarily for banking purposes. Total rent expense for the years ended December 31, 2008, 2009 and 2010 was (Won)220,839 million, (Won)228,291 million and (Won)245,636 million, respectively. Pursuant to the terms of non-cancelable lease agreements pertaining to premises and equipment in effect at December 31, 2010, future minimum rental commitments under various non-cancelable operating leases are as follows:

Years ending	(in millions of Won)	
2011	(Won)	69,601
2012		41,267
2013		26,951
2014		14,675
2015		8,278
Thereafter		12,104
	(Won)	172,876

In lieu of rent, certain lease agreements require the Group to advance a non-interest-bearing refundable security deposit to the landlord for the Group s use during the lease term. The amount of the advance is determined by the prevailing market rate. The Group has recorded rent expense and interest income related to these leases of (Won)43,286 million, (Won)42,365 million and (Won)39,163 million on deposit balances of (Won)1,222,172 million, (Won)1,225,577 million and (Won)1,284,984 million for the years ended December 31, 2008, 2009 and 2010, respectively. Such amounts were calculated based on the fixed interest rate for time deposits with similar maturities.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

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Credit Commitments and Guarantees

The following table summarizes the contractual amounts relating to unused credit commitments at December 31:

	2009	2010
	(in millions of Won)	
Commitments to extend credit:		
Corporate	(Won) 49,590,230	(Won) 52,527,737
Credit card	64,904,222	67,117,196
Consumer(1)	8,794,536	9,390,520
Commercial letters of credit	3,319,107	4,310,739
	(Won) 126,608,095	(Won) 133,346,192

Note:

(1) Excludes credit card.

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 has to comply with predetermined conditions to draw funds under the commitments. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. The majority of the Group s unfunded commitments are not guarantees under ASC 460 (formerly FIN 45).

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

The Group provides a variety of guarantees to its customers to enhance their credit standing and enable them to complete a variety of business transactions. The maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. Certain guarantees issued or modified after December 31, 2002 that are not derivative contracts have been recorded on the Group s consolidated balance sheets at their fair value at inception. The Group has recorded this amount in other liabilities with an offsetting entry in other assets. As cash is received under such arrangements and applied to other assets, the liability recorded at inception is amortized into income as commissions and fees over the life of the contract. The majority of these guarantees expire without being drawn upon. As a result, total contractual amounts are not representative of the Group s expected future cash outlay.

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The table below summarizes all of the Group s guarantees at December 31, 2010:

	Expire within One Year	Expire after One Year	Total Notional Amount Outstanding	Current Carrying Liability Amount(1)	Amount of Recourse or Collateral Held	Maximum Potential Amount of Future Payments
			(in millions of Won)			
Financial stand-by letters of credit	(Won) 392,815	(Won) 146,799	(Won) 539,614	(Won) 2,333	(Won) 113,543	(Won) 539,614
Other financial guarantees	924,302	61,891	986,193	6,346	137,481	986,193
Performance letters of credit and guarantees	7,309,853	1,851,907	9,161,760	104,830	905,378	9,161,760
Liquidity facilities to SPEs	352,626	893,851	1,246,477	23,125		1,246,477
Guarantees on trust accounts	473,157	2,905,831	3,378,988			3,378,988
	(Won) 9,452,753	(Won) 5,860,279	(Won) 15,313,032	(Won) 136,634	(Won) 1,156,402	(Won) 15,313,032

Note:

(1) Includes allowance for guarantees and liabilities recorded under ASC 460 (formerly FIN 45).

Financial stand-by letters of credit represent irrevocable obligations to pay third party beneficiaries when its customers fail to repay loans or debt instruments, which are generally in foreign currencies.

Other financial guarantees are used in various transactions to enhance the credit standing of the Group s customers. They represent irrevocable assurance, subject to satisfaction of certain conditions, that the Group will make payment in the event that the customers fail to fulfill their obligations to third parties. Such financial obligations include a return of security deposits and the payment of service fees.

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 specified products, commodities, maintenance or other services to third parties.

Liquidity facilities to SPEs represent irrevocable commitments to provide contingent liquidity credit lines including commercial paper purchase commitments to SPEs for which the Group serves as the administrator. The SPEs are established by clients to obtain funding from the commercial paper market or the corporate debt market by transferring assets to the SPEs. The Group has commitments to provide liquidity to the SPEs in amounts up to (Won)1,483,977 million at December 31, 2010. Although the Group does not sell assets to these SPEs, it would be required to provide funding under the liquidity facilities in the event that the SPEs do not hold enough funds to make scheduled payments on their outstanding senior debt securities. Under the commercial paper purchase commitments, the Group is required to purchase commercial paper issued by the SPEs when enough funding is not available in the commercial paper market. The Group has limited credit exposure to these SPEs because the risk of first loss is borne by the clients or other third parties, or the SPEs are over-collateralized with the assets sold to them.

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Notes to Consolidated Financial Statements (Continued)

Guarantees on trust accounts represent guarantee on the Guaranteed Principal Money Trusts and Guaranteed Fixed Rate Money Trust which require the Group to guarantee the return of the principal amount invested at the termination of a fixed term deposit. The Group manages and administers trust assets in the capacity as a fiduciary on behalf of its customers.

Pledged Assets

The following table sets forth the primary components of assets pledged as collateral for borrowings and other purposes at December 31:

	2009	2010
	(in millions of Won)	
Restricted cash	(Won) 72,806	(Won) 2,111
Trading securities	3,031,946	4,518,181
Available-for-sale securities	1,933,160	1,194,725
Held-to-maturity securities	5,087,576	5,067,670
Loans	5,862,846	7,276,007
Real estate	16,227	96,045
Other assets	5,455	12,529
	(Won) 16,010,016	(Won) 18,167,268

32. Concentrations of Geographic and Credit Risks

Geographic Risk

Loans to borrowers based in Korea represented approximately 97% and 99% of the Group s loan portfolio at December 31, 2009 and 2010, respectively. Investments in debt and equity securities of Korean entities represented approximately 98% and 96% of the Group s investment portfolio at December 31, 2009 and 2010, respectively.

Credit Risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic conditions. Note 6 and Note 7 discuss the types of securities in which the Group invests. Note 8 discusses the type of loans in which the Group engages.

The Group regularly monitors various segments of its credit risk portfolio to assess potential concentration of risks and to obtain collateral when deemed necessary. Except for securities issued by KDIC, BOK and other governmental entities, no entity was responsible for 10% or more of the Group s total loans outstanding, trading assets and liabilities, available-for-sale securities, held-to-maturity debt securities or total interest and dividend income at December 31, 2009 and 2010 and for each of the three years ended on December 31, 2010.

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The following table presents major products including both on-balance sheet (100% loans) and off-balance sheet (principally commitments to extend credit) exposures at December 31:

	2009			2010		
	Credit Exposure	On-Balance Sheet	Off-Balance Sheet	Credit Exposure	On-Balance Sheet	Off-Balance Sheet
	(in millions of Won)					
Commercial and industrial	(Won) 101,768,977	(Won) 54,479,473	(Won) 47,289,504	(Won) 109,426,546	(Won) 59,610,344	(Won) 49,816,202
Other commercial	53,782,606	34,770,389	19,012,217	53,557,510	34,601,192	18,956,318
Lease financing	1,559,652	1,559,652		1,578,151	1,578,151	
Mortgage and home equity	40,525,281	40,022,157	503,124	45,163,921	44,646,443	517,478
Credit cards	80,020,979	15,116,757	64,904,222	84,596,542	17,479,346	67,117,196
Other consumer	31,598,021	23,306,609	8,291,412	30,914,902	22,041,860	8,873,042
	(Won) 309,255,516	(Won) 169,255,037	(Won) 140,000,479	(Won) 325,237,572	(Won) 179,957,336	(Won) 145,280,236

33. Related Party Transactions

A number of banking transactions are entered into with related parties in the normal course of business. These include trust accounts managed by the Group and loans to executives, directors and affiliated parties.

Trust Accounts

Under the FSCMA, the Group serves as trustee to the trust accounts in a trust management capacity in the normal course of business. See Note 35 for more information on trust accounts.

Loans to Executives, Directors and Affiliated Parties

The following table summarizes the movements in the amount of loans to executive officers, directors, director nominees, their immediate families and companies affiliated with the directors at December 31:

	2009	2010
	(in millions of Won)	
Loans at beginning of the year	(Won) 254,463	(Won) 7,687
New loans	33,594	1,550
Repayments	(280,370)	(5,448)

Loans at end of the year		(Won)	7,687	(Won) 3,789

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

The following table sets forth the outstanding balances at December 31, and the related income and expense for the years ended December 31 for related party transactions:

	2008		2009		2010	
	Trust Accounts	Executives, Directors and Affiliated Parties	Trust Accounts	Executives, Directors and Affiliated Parties	Trust Accounts	Executives, Directors and Affiliated Parties
	(in millions of Won)					
Loans	(Won)	(Won) 254,463	(Won)	(Won) 7,687	(Won)	(Won) 3,789
Trust fees payable	9,514		10,299		57,410	
Short-term borrowings	929,175		772,373		1,224,846	
Other liabilities	39,365		16,489		3,154	
Net trust management fees	33,567		28,960		33,734	
Interest expense on short-term borrowings	42,929		24,449		25,387	
Interest on loans		5,844		329		204

It is the Group s policy to make loans available to employees and officers on terms equivalent to those at which it extends credit to unrelated parties. The Group does not customarily track or aggregate the total earnings on such loans as outstanding amounts are not material.

34. Segment Reporting

For management reporting purposes, the Group s business segment results are reported to management under Korean GAAP. The Group is organized into seven major business segments: retail banking, corporate banking, treasury and international business, other banking services, securities brokerage services, credit card and life insurance. The Group s reportable segments are based on the nature of the products and services provided, the type or class of customers, and the Group s management organization, and provide the basis on which the Group reports its primary segment information:

Retail banking Activities within this segment include savings and demand deposits, consumer loans and mortgages of individual customers and sole proprietors with lending limits of (Won)1,000 million or less.

Corporate banking Activities within this segment include loans, overdrafts, other credit facilities, deposits in foreign currencies and other foreign currency activities. The corporate banking segment s assets and liabilities are mainly from transactions with customers including small and medium sized private companies, publicly traded enterprises and sole proprietors with lending limits greater than (Won)1,000 million.

Treasury and international business Activities within this segment include Shinhan Bank s internal asset and liability management, proprietary trading in securities and derivatives, proprietary investment in security portfolios using Shinhan Bank s capital, and international business.

Other banking services Activities within this segment include Shinhan Bank s impaired loan management, administration of Shinhan Bank, and trust account management services.

Securities brokerage services Activities within this segment include a full range of brokerage services, investment advice and financial planning to retail customers, and various investment banking services to corporate customers conducted through Shinhan Investment Corp. (formerly Good Morning Shinhan Securities).

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Shinhan Financial Group Co., Ltd. and Subsidiaries

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Credit card Activities within this segment include processing domestic as well as overseas credit and debit card operations conducted through Shinhan Card. The credit card segment s assets and liabilities are mainly from transactions with individual or corporate cardholders and card merchants.

Life insurance Activities within this segment include Shinhan Life Insurance s providing life-insurance products and financial consulting services, by various sales distributions such as FC, TM, CM and Bancasurance (bank alliances including Shinhan Bank), which meet the needs of individual and group customers who want health insurance, whole life insurance and pension plan, etc.

Other services of the Group are comprised of activities of the holding company and other subsidiaries such as Jeju Bank and Shinhan Capital, none of which constitutes a separately reportable segment.

Operating revenue and expense and interest revenue and expense, related to both third party and intersegment transactions, are included in determining the operating earnings of each respective segment. The provision for income tax is comprised of corporate income tax and resident tax surcharges. Income tax expenses are allocated to the respective segment based upon performance.

Transactions between the business segments are reflected on terms established by management.

Geographic segment disclosures have been excluded as assets and revenues attributable to external customers in foreign countries are not significant.

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The following table sets forth information about reporting segments as of and for the years ended December 31:

	2008					
	Shinhan Bank					
	Retail Banking	Corporate Banking	Treasury & International Business	Other Banking Services	Securities Brokerage Services(1)	Credit Card(2)
	(In millions of Won)					
Net interest income	(Won) 2,309,914	(Won) 2,476,414	(Won) (578,185)	(Won) 134,540	(Won) 184,408	(Won) 2,958,371
Non-interest income	1,999,084	5,339,037	27,961,314	2,773,492	1,531,926	631,799
Total revenues	4,308,998	7,815,451	27,383,129	2,908,032	1,716,334	3,590,170
Provision (reversal) for credit losses	361,749	326,219	(3,660)	244,541	29,009	43,110
Non-interest expense	2,718,954	5,426,404	27,940,895	3,261,292	1,463,084	2,159,435
Depreciation and amortization	105,439	4,650	1,607	124,384	14,832	63,250
Net income (loss) before tax	1,122,856	2,058,178	(555,713)	(722,185)	209,409	1,324,375
Income tax expense (benefit)	309,441	74,099	(51,527)	124,396	53,108	383,800
Net income attributable to noncontrolling interest						
Net income (loss) attributable to the Group	813,415	1,984,079	(504,186)	(846,581)	156,301	940,575
US GAAP adjustments	(53,561)	(480,122)	149,673	(8,694)	(15,169)	(503,266)
Intersegment transactions	24,855	(416,592)	(2,033)	9,177	(9,375)	248,781
Net income (loss) attributable to the Group	(Won) 784,709	(Won) 1,087,365	(Won) (356,546)	(Won) (846,098)	(Won) 131,757	(Won) 686,090
Segments total assets	(Won) 84,746,067	(Won) 46,860,042	(Won) 50,672,104	(Won) 31,290,886	(Won) 7,315,710	(Won) 17,051,579

	2008					
	Life Insurance	Other	Subtotal before Elimination	US GAAP Adjustments	Inter-Segment Transactions(3)	Total
	(In millions of Won)					
Net interest income	(Won) 357,085	(Won) (500,365)	(Won) 7,342,182	(Won) (1,528,543)	(Won) (34,267)	(Won) 5,779,372
Non-interest income	2,505,032	5,028,456	47,770,140	(42,109,891)	(1,088,832)	4,571,417
Total revenues	2,862,117	4,528,091	55,112,322	(43,638,434)	(1,123,099)	10,350,789
Provision (reversal) for credit losses	9,189	33,407	1,043,564	457,233	(64,199)	1,436,598
Non-interest expense	2,657,719	1,071,084	46,698,867	(40,193,949)	(649,474)	5,855,444
Depreciation and amortization	8,816	19,322	342,300	529,116		871,416

Net income (loss) before tax		186,393		3,404,278		7,027,591		(4,430,834)		(409,426)		2,187,331
Income tax expense (benefit)		47,160		44,888		985,365		(191,269)		(99,165)		694,931
Net income attributable to noncontrolling interest										11,701		11,701
Net income (loss) attributable to the Group		139,233		3,359,390		6,042,226		(4,239,565)		(321,962)		1,480,699
US GAAP adjustments		256,082		(3,584,508)		(4,239,565)						
Intersegment transactions		6,717		(183,492)		(321,962)						
Net income (loss) attributable to the Group	(Won)	402,032	(Won)	(408,610)	(Won)	1,480,699	(Won)		(Won)		(Won)	1,480,699
Segments total assets	(Won)	8,517,262	(Won)	48,041,984	(Won)	294,495,634	(Won)	(15,492,069)	(Won)	(18,030,432)	(Won)	260,973,133

Note:

(1) Securities brokerage business is conducted through Shinhan Investment Corp. (formerly Good Morning Shinhan Securities).

(2) Credit card business is conducted through Shinhan Card.

(3) Includes eliminations for consolidation, intersegment transactions and certain differences in classification under management reporting system.

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	2009					
	Shinhan Bank					
	Retail Banking	Corporate Banking	Treasury & International Business	Other Banking Services	Securities Brokerage Services(1)	Credit Card(2)
	(In millions of Won)					
Net interest income	(Won) 2,245,178	(Won) 876,033	(Won) 336,678	(Won) 242,709	(Won) 147,002	(Won) 2,853,957
Non-interest income	669,676	968,840	27,913,513	2,465,668	1,323,276	280,041
Total revenues	2,914,854	1,844,873	28,250,191	2,708,377	1,470,278	3,133,998
Provision (reversal) for credit losses	558,072	465,414	50,960	132,530	135,192	104,910
Non-interest expense	1,750,268	1,216,338	28,057,444	2,225,703	1,256,340	1,887,058
Depreciation and amortization	79,463	7,010	1,270	107,614	21,718	41,476
Net income (loss) before tax	527,051	156,111	140,517	242,530	57,028	1,100,554
Income tax expense (benefit)	156,969	46,494	41,850	72,232	12,844	243,799
Net income attributable to noncontrolling interest						
Net income (loss) attributable to the Group	370,082	109,617	98,667	170,298	44,184	856,755
US GAAP adjustments	(90,671)	(250,439)	247,069	11,610	39,585	(216,509)
Intersegment transactions	15,684	(327,712)	59,836	(39,297)	14,447	284,414
Net income (loss) attributable to the Group	(Won) 295,095	(Won) (468,534)	(Won) 405,572	(Won) 142,611	(Won) 98,216	(Won) 924,660
Segments total assets	(Won) 93,012,758	(Won) 37,373,660	(Won) 40,836,217	(Won) 31,014,717	(Won) 7,551,810	(Won) 17,556,352

	2009					
	Life Insurance	Other	Subtotal before Elimination	US GAAP Adjustments	Inter-Segment Transactions(3)	Total
	(In millions of Won)					
Net interest income	(Won) 419,116	(Won) (663,136)	(Won) 6,457,537	(Won) (1,217,995)	(Won) (18,213)	(Won) 5,221,329
Non-interest income	2,997,633	3,957,527	40,576,174	(34,322,618)	(568,815)	5,684,741
Total revenues	3,416,749	3,294,391	47,033,711	(35,540,613)	(587,028)	10,906,070
Provision (reversal) for credit losses	12,453	131,996	1,591,527	635,409	(25,772)	2,201,164
Non-interest expense	3,166,479	759,233	40,318,863	(33,403,844)	(491,185)	6,423,834
Depreciation and amortization	13,442	46,906	318,899	394,622		713,521
Net income (loss) before tax	224,375	2,356,256	4,804,422	(3,166,800)	(70,071)	1,567,551
Income tax expense (benefit)	50,402	26,264	650,854	(181,802)	(45,026)	424,026

Net income attributable to noncontrolling interest									9,673			9,673
Net income (loss) attributable to the Group		173,973		2,329,992		4,153,568		(2,984,998)	(34,718)			1,133,852
US GAAP adjustments		(90,485)		(2,635,158)		(2,984,998)						
Intersegment transactions		33,881		(75,971)		(34,718)						
Net income (loss) attributable to the Group	(Won)	117,369	(Won)	(381,137)	(Won)	1,133,852	(Won)		(Won)		(Won)	1,133,852
Segments total assets	(Won)	10,054,742	(Won)	50,983,388	(Won)	288,383,644	(Won)	(16,355,259)	(Won)	(17,118,469)	(Won)	254,909,916

Note:

(1) Securities brokerage business is conducted through Shinhan Investment Corp. (formerly Good Morning Shinhan Securities).

(2) Credit card business is conducted through Shinhan Card.

(3) Includes eliminations for consolidation, intersegment transactions and certain differences in classification under management reporting system.

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	2010											
	Shinhan Bank											
	Retail Banking		Corporate Banking		Treasury & International Business		Other Banking Services		Securities Brokerage Services(1)		Credit Card(2)	
	(In millions of Won)											
Net interest income	(Won)	2,758,610	(Won)	1,046,769	(Won)	510,946	(Won)	122,805	(Won)	158,113	(Won)	3,133,483
Non-interest income		562,506		498,129		10,546,258		1,944,021		1,464,612		279,015
Total revenues		3,321,116		1,544,898		11,057,204		2,066,826		1,622,725		3,412,498
Provision (reversal) for credit losses		440,176		385,415		13,887		120,988		21,539		(26,062)
Non-interest expense		1,801,235		803,287		10,603,777		1,568,769		1,387,486		2,219,608
Depreciation and amortization		76,249		6,747		987		76,445		29,651		38,900
Net income (loss) before tax		1,003,456		349,449		438,553		300,624		184,049		1,180,052
Income tax expense (benefit)		212,845		74,123		93,022		63,766		45,159		73,024
Net loss attributable to noncontrolling interest												
Net income (loss) attributable to the Group		790,611		275,326		345,531		236,858		138,890		1,107,028
US GAAP adjustments		(334,469)		473,451		266,330		(57,789)		29,322		(150,521)
Intersegment transactions		29,318		28,108		(13,327)		9,411		9,855		32,528
Net income (loss) attributable to the Group	(Won)	485,460	(Won)	776,885	(Won)	598,534	(Won)	188,480	(Won)	178,067	(Won)	989,035
Segments total assets	(Won)	109,027,747	(Won)	20,753,183	(Won)	40,927,355	(Won)	34,669,682	(Won)	9,539,649	(Won)	21,096,513

	2010											
	Life Insurance		Other		Subtotal before Elimination		US GAAP Adjustments		Inter-Segment Transactions(3)		Total	
	(In millions of Won)											
Net interest income	(Won)	472,538	(Won)	(611,645)	(Won)	7,591,619	(Won)	(1,396,372)	(Won)	(21,218)	(Won)	6,174,029
Non-interest income		3,455,653		5,120,265		23,870,459		(18,006,004)		(64,920)		5,799,535
Total revenues		3,928,191		4,508,620		31,462,078		(19,402,376)		(86,138)		11,973,564
Provision (reversal) for credit losses		6,343		(109,025)		853,261		(51,106)		(129,163)		672,992
Non-interest expense		3,629,467		893,500		22,907,129		(15,660,307)		50,277		7,297,099
Depreciation and amortization		14,322		16,831		260,132		344,627				604,759
Net income (loss) before tax		278,059		3,707,314		7,441,556		(4,035,590)		(7,252)		3,398,714
Income tax expense (benefit)		67,429		43,248		672,616		(34,424)		(61,366)		576,826

Net loss attributable to noncontrolling interest									22,634			22,634
Net income (loss) attributable to the Group		210,630		3,664,066		6,768,940		(4,001,166)	76,748			2,844,522
US GAAP adjustments		(371,517)		(3,855,973)		(4,001,166)						
Intersegment transactions		(6,859)		(12,286)		76,748						
Net income (loss) attributable to the Group	(Won)	(167,746)	(Won)	(204,193)	(Won)	2,844,522	(Won)		(Won)		(Won)	2,844,522
Segments total assets	(Won)	11,956,060	(Won)	60,601,311	(Won)	308,571,500	(Won)	(18,978,038)	(Won)	(19,560,873)	(Won)	270,032,589

Note:

(1) Securities brokerage business is conducted through Shinhan Investment Corp. (formerly Good Morning Shinhan Securities).

(2) Credit card business is conducted through Shinhan Card.

(3) Includes eliminations for consolidation, intersegment transactions and certain differences in classification under management reporting system.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

35. Trust Accounts

The Group offers a variety of asset management and administrative services under trust arrangements in accordance with the FSCMA. In a trust management capacity, the Group is required to exercise due care in managing and preserving the trust assets. The trust accounts managed by the Group are classified into performance-based trusts and guaranteed trusts in terms of the nature of the trusts, and the guaranteed trusts consist of Guaranteed Principal Money Trusts and Guaranteed Fixed Rate Money Trusts.

The Guaranteed Principal Money Trusts require the Group to guarantee the return of the principal amount invested at the termination of a fixed term deposit. Additionally, the Group guarantees a specified rate of return on the principal amount invested in Guaranteed Fixed Rate Money Trusts. The Group has managed these Trusts and an obligation to absorb losses or the right to receive benefits of these Trusts that could potentially be significant to these Trusts, therefore these Trusts were consolidated in the Group s consolidated financial statements. See Note 36 for further discussion on the consolidation scope of the trust accounts.

With respect to managing the trust accounts, the Group charges investment management fees on the Guaranteed Principal Money Trusts and other performance based trusts, and receives commission income, including penalty charges for early withdrawal of fixed term deposits.

36. Securitizations and Variable Interest Entities

The Group securitizes sells and services corporate loans, credit card receivables, mortgage and student loans. In certain situations, the Group also provides liquidity guarantees to investors in the form of beneficial interests and standby letters of credit as discussed in Note 31.

The Group recognized net gain (loss) of (Won)1,196 million, (Won)42,878 million, and (Won)(38,235) million in 2008, 2009, and 2010, respectively, related to securitizations and sale of loans in which the Group has surrendered control.

The Group may, in the normal course of its business, provide various products and services to various entities which may be deemed to be variable interest entities such as asset-backed securitization of performing and/or non-performing loans, various investment funds, guaranteed trusts and SPEs created for structured financing. The Group may provide liquidity facilities, may be a party to derivative contracts with VIEs, may provide loss enhancement in the form of credit and other guarantees to the VIEs, may be the investment manager and may also have an ownership interest or other investment in certain VIEs. In general, the investors in the obligations of consolidated VIEs have recourse only to the assets of those VIEs and do not have recourse to the Group, except where the Group has provided a guarantee to the investors or is the counterparty to a derivative transaction involving the VIE.

On December 31, 2008, the Group adopted FSP FAS 140-4 and FIN 46(R)-8, coded as ASC 810 and ASC 860, which requires additional disclosures about its involvement with consolidated and unconsolidated VIEs and expanded the population of VIEs to be disclosed. For example, an unconsolidated vehicle that was sponsored by the Group is now included in the disclosures because the Group has a variable interest in the vehicle, even though that interest is not a significant variable interest. The following disclosures incorporate these requirements.

In accordance with the new consolidation guidance effective January 1, 2010, the Group determined that it was the primary beneficiary of a VIE if the Group 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. As a result of this change in accounting, the Group consolidated certain VIEs that were unconsolidated prior to January 1, 2010. The net effect of the accounting change on January 1, 2010 was a decrease in shareholder s equity by (Won)11,924 million. Total assets and total liabilities increased by (Won)4,019,736 million and (Won)4,031,660 million, respectively, as of January 1, 2010. The Group takes into account all of its involvement with a VIE in identifying variable interests (explicit or implicit)

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

that individually or in the aggregate could be significant enough to warrant its designation as the primary beneficiary and hence require it to consolidate the VIE or otherwise require it to make appropriate disclosures under ASC 810.

The following table presents the net incremental impact of this accounting change on the Group s consolidated balance sheet.

	Ending Balance Sheet December 31, 2009	Net Increase (Decrease) (in millions of Won)	Beginning Balance Sheet January 1, 2010
Assets			
Cash and cash equivalents	(Won) 4,363,125	(Won) 5,319	(Won) 4,368,444
Restricted cash	7,973,917		7,973,917
Interest-bearing deposits	2,164,004	296,624	2,460,628
Call loans and securities purchased under resale agreements	1,346,244		1,346,244
Trading assets	11,297,076	1,915,141	13,212,217
Securities:			
Available-for-sale securities	27,611,895	132,449	27,744,344
Held-to-maturity securities	12,793,618		12,793,618
Loans	165,593,546	1,593,691	167,187,237
Customers liability on acceptances	2,780,290		2,780,290
Premises and equipment, net	2,437,014		2,437,014
Intangible assets	1,266,604		1,266,604
Goodwill	3,805,422		3,805,422
Security deposits	1,323,666		1,323,666
Other assets	10,153,495	76,512	10,230,007
Total Assets	(Won) 254,909,916	(Won) 4,019,736	(Won) 258,929,652
Liabilities and equity			
Liabilities			
Deposits:			
Interest-bearing	(Won) 140,808,902	(Won) 3,495,532	(Won) 144,304,434
Non-interest-bearing	2,889,587		2,889,587
Trading liabilities	4,565,034	62,933	4,627,967
Acceptances outstanding	2,780,290		2,780,290
Short-term borrowings	9,714,857	(459,683)	9,255,174
Secured borrowings	7,944,390	691,365	8,635,755
Long-term debt	44,794,981	930	44,795,911
Future policy benefits	8,310,238		8,310,238
Accrued expenses and other liabilities	12,552,247	240,583	12,792,830
Total Liabilities	(Won) 234,360,526	(Won) 4,031,660	(Won) 238,392,186
Equity	20,549,390	(11,924)	20,537,466
Total liabilities and equity	(Won) 254,909,916	(Won) 4,019,736	(Won) 258,929,652

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

The Group consolidated its Guaranteed Fixed Rate Money Trusts and Guaranteed Principal Money Trusts because the Group was deemed to be the primary beneficiary. These trusts were constructed by the Group and it would absorb losses or the right to receive benefits of the trusts by providing a guarantee of the principal and/or a fixed rate of return on the principal amount in trust. The Group did not consolidate its performance-based trusts because the Group was not the primary beneficiary.

The following table presents the carrying amounts and classification of assets and liabilities of VIEs which have been consolidated by the Group at December 31:

	Asset-Backed Securitizations	Investment Trusts	Guaranteed Fixed Rate Money Trusts	Total
		(in millions of Won)		
December 31, 2009				
Consolidated Assets				
Loans	(Won) 5,857,865	(Won) 99,124	(Won) 141	(Won) 5,957,130
Securities	1,939,535	1,606,396	1,368	3,547,299
Other assets	422,529	371,661	1,656	795,846
Total Assets(1)	(Won) 8,219,929	(Won) 2,077,181	(Won) 3,165	(Won) 10,300,275
Consolidated Liabilities				
Total Liabilities(1)	(Won) 4,746,732	(Won) 359,076	(Won) 5,527	(Won) 5,111,335

	Asset-Backed Securitizations	Investment Trusts	Guaranteed Fixed Rate Money Trusts & Guaranteed Principal Money Trusts	Total
		(in millions of Won)		
December 31, 2010				
Consolidated Assets				
Loans	(Won) 7,817,754	(Won) 39,843	(Won) 528,015	(Won) 8,385,612
Securities	1,729,766	828,718	241	2,558,725
Other assets	675,081	110,664	2,572,349	3,358,094
Total Assets(1)	(Won) 10,222,601	(Won) 979,225	(Won) 3,100,605	(Won) 14,302,431
Consolidated Liabilities				
Total Liabilities(1)	(Won) 4,853,989	(Won) 56,758	(Won) 3,659,102	(Won) 8,569,849

Note:

(1) Total assets and total liabilities of consolidated VIEs are reported net of intercompany balances that have been eliminated in consolidation.

In addition to the VIEs that are consolidated in accordance with ASC 810-10 (formerly FIN 46(R)), the Group has significant variable interests in certain other VIEs that are not consolidated because the Group is not the primary beneficiary. These VIEs are managed by other third parties or other entities have an obligation to absorb losses or the right to receive benefits could potentially be significant to the VIE. These VIEs facilitate client transactions, and the Group provides the VIEs with administration services and liquidity. The transactions with these VIEs are conducted at an arm s length, and individual credit decisions are based upon the analysis of the specific VIE, taking into consideration the quality of the underlying assets. The Group records and reports these transactions with the VIEs similar to any other third party transactions.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

The following table presents the aggregated total assets of VIEs where the Group holds a significant variable interest or is a sponsor that holds a variable interest in a VIE, but is not the VIE s primary beneficiary, and the Group s maximum exposure to loss as a result of its involvement with the VIEs, and the carrying amount and classification of the assets and liabilities in the Group s balance sheets that relate to the Group s variable interest in the VIEs at December 31:

	Asset-Backed Securitizations	SPEs Created for Structured Financing	Investment Trusts	Guaranteed Principal Money Trusts & Performance Based Trusts	Other Vehicles	Total
			(in millions of Won)			
December 31, 2009						
Maximum exposure to loss(1)	(Won) 5,684,514	(Won) 9,179,376	(Won) 803,815	(Won) 3,480,492	(Won) 443,435	(Won) 19,591,632
Total assets of VIEs	16,629,900	33,698,441	8,796,449	3,700,384	11,750,970	74,576,144
On-Balance Sheet Assets						
Loans	(Won) 1,597,388	(Won) 7,084,670	(Won)	(Won)	(Won) 254,618	(Won) 8,936,676
Securities	601,086	185,236	724,527		72,006	1,582,855
Other assets	75,501	1,490			1,447	78,438
Total	(Won) 2,273,975	(Won) 7,271,396	(Won) 724,527	(Won)	(Won) 328,071	(Won) 10,597,969
On-Balance Sheet Liabilities	(Won) 3,883	(Won) 516	(Won)	(Won)	(Won) 873	(Won) 5,272

	Asset-Backed Securitizations	SPEs Created for Structured Financing	Investment Trusts	Performance Based Trusts	Other Vehicles	Total
			(in millions of Won)			
December 31, 2010						
Liquidity arrangements	(Won) 1,494,752	(Won) 7,362,491	(Won) 173,854	(Won)	(Won) 364,418	(Won) 9,395,515
Obligations to purchase assets	94,617					94,617
others	530,250	78,165	693,693		35,812,855	37,114,963
Maximum exposure to loss(1)	(Won) 2,119,619	(Won) 7,440,656	(Won) 867,547	(Won)	(Won) 36,177,273	(Won) 46,605,095
Total assets of VIEs	(Won) 11,668,703	(Won) 29,862,778	(Won) 10,529,556	(Won)	(Won) 10,140,907	(Won) 62,201,944
Total Liabilities of VIEs	(Won) 5,828,653	(Won) 24,185,818	(Won) 386,846	(Won)	(Won) 5,696,147	(Won) 36,097,464
On-Balance Sheet Assets						
Loans	(Won) 426,063	(Won) 5,831,434	(Won)	(Won)	(Won) 247,196	(Won) 6,504,693
Securities	450,573	104,529	770,036		48,308	1,373,446

Other assets		6							972		978
Total	(Won)	876,642	(Won)	5,935,963	(Won)	770,036	(Won)	(Won)	296,476	(Won)	7,879,117
On-Balance Sheet Liabilities	(Won)	1,282	(Won)	1,415	(Won)		(Won)	(Won)	1,105	(Won)	3,802

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note:

(1) The Group s maximum exposure to loss often differs from the carrying amount of assets and liabilities in Group s balance sheet that relate to the Group s variable interest in the VIEs. The maximum exposure to loss is dependent on the nature of the Group s variable interest in the VIEs and is limited to the notional amounts of certain liquidity facilities, other credit support, derivatives and investments the Group has made in the VIEs.

As these maximum exposures to loss expire without being drawn, the total variable interest in these VIEs is not, in the Group s view, representative of the Group s actual future funding requirement.

37. Other Comprehensive Income

The following table sets forth the movements of other comprehensive income, net of tax benefit (expense):

	Foreign Currency Translation Adjustments	Net Unrealized Gain on Available-for-Sale Securities	Net gains (losses) on cash flow hedges	Accumulated Other Comprehensive Income
		(in millions of Won)		
Balance at January 1, 2008	(Won) (29,804)	(Won) 792,004	(Won)	(Won) 762,200
Cumulative adjustment for accounting change, net of tax effect of (Won)0				
Foreign currency translation adjustment, net of tax effect of (Won)(52,607)	142,257			142,257
Unrealized net gains on available-for-sale securities, net of tax effect of (Won)79,924		(214,571)		(214,571)
Changes in the Group s ownership interest in subsidiary, net of tax effect of (Won)0				
Reclassifications from other comprehensive income to net income, net of tax effect (Won)33,781		(94,405)		(94,405)
Balance at December 31, 2008	112,453	483,028		595,481
Cumulative adjustment for accounting change, net of tax effect of (Won)2,469		(8,752)		(8,752)
Foreign currency translation adjustment, net of tax effect of (Won)44,997	(67,906)			(67,906)
Unrealized net gains on available-for-sale securities, net of tax effect of (Won)(63,486)		580,596		580,596
Changes in the Group s ownership interest in subsidiary, net of tax effect of (Won)(56)		200		200
Reclassifications from other comprehensive income to net income, net of tax effect (Won)49,540		(130,606)		(130,606)

Balance at December 31, 2009		44,547	924,466		969,013
Foreign currency translation adjustment, net of tax effect of (Won)(2,040)		7,949			7,949
Unrealized net gains on available-for-sale securities, net of tax effect of (Won)(128,754)			371,388		371,388
Net gains (losses) on cash flow hedges, net of tax effect of (Won)2,246				(7,034)	(7,034)
Reclassifications from other comprehensive income to net income, net of tax effect of (Won)71,327			(205,428)		(205,428)
Balance at December 31, 2010	(Won)	52,496	(Won) 1,090,426	(Won) (7,034)	(Won) 1,135,888

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

38. Subsequent Event

On April 20, 2011, as part of funding for partial redemption of the Series 10 redeemable preferred stock and the Series 11 redeemable convertible preferred stock, the Group issued 11,100,000 shares of the Series 12 non-voting redeemable preferred stock.

39. Shinhan Financial Group Co., Ltd.

Shinhan Financial Group Co., Ltd. (the Parent Company) coordinates the activities of its various subsidiaries to offer a comprehensive line of financial services to its customers, and serves as the primary source of funding for its non-banking subsidiaries including Shinhan Card, Shinhan Investment Corp. (formerly Good Morning Shinhan Securities), Shinhan Life Insurance, Shinhan Capital.

Distributions of retained earnings of Shinhan Bank and Jeju Bank are restricted in order to meet the minimum capital ratio requirements under the FSC regulations. Also, retained earnings of Shinhan Bank and other subsidiaries of the Parent Company are restricted in accordance with the Bank Act of Korea, the Korean Commercial Law and other laws.

In certain instances, the Parent Company provided guarantees to other financial institutions that provided funding to its subsidiaries.

The following table presents the cash dividends paid to the Parent Company by its subsidiaries and affiliates for the three years ended December 31:

	2008	2009	2010
		(in millions of Won)	
Cash dividends paid by:			
Consolidated subsidiaries	(Won) 1,931,865	(Won) 136,241	(Won) 795,951
Equity method investees	12,010	25,210	21,361
	(Won) 1,943,875	(Won) 161,451	(Won) 817,312

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

The Parent Company s condensed balance sheets as of December 31, 2009 and 2010, and the related condensed statements of income and cash flows for each of three-year period ended December 31, 2008, 2009 and 2010 are as follows:

CONDENSED BALANCE SHEETS

	2009	2010
	(in millions of Won)	
Assets		
Deposits with banking subsidiary	(Won) 429,825	(Won) 861,284
Receivables from subsidiaries:		
Non-banking subsidiaries	1,575,000	1,455,000
Investment (at equity) in subsidiaries:		
Banking subsidiaries	13,674,187	15,556,268
Non-banking subsidiaries	10,971,879	11,379,334
Premises and equipment	3,685	3,310
Other assets	160,843	340,455
Total assets	(Won) 26,815,419	(Won) 29,595,651
Liabilities and stockholders equity		
Short-term debt	(Won) 674,000	(Won) 5,000
Long-term debt	5,767,797	6,581,104
Accrued expenses and other liabilities	155,423	214,177
Total liabilities	(Won) 6,597,220	(Won) 6,800,281
Stockholders equity	20,218,199	22,795,370
Total liabilities and stockholders equity	(Won) 26,815,419	(Won) 29,595,651

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

CONDENSED STATEMENTS OF INCOME

	2008	2009	2010
		(in millions of Won)	
Income			
Dividends from banking subsidiaries	(Won) 406,516	(Won) 11,099	(Won) 149,733
Dividends from non banking subsidiaries	1,537,359	150,352	667,579
Interest income from banking subsidiaries	7,329	3,725	17
Interest income from non banking subsidiaries	116,914	119,666	92,405
Other income	148,008	203,230	157,507
Total income	2,216,126	488,072	1,067,241
Expenses			
Interest expense	442,683	443,816	350,087
Salaries and employee benefits	4,813	26,975	28,997
Other expense	44,445	57,996	77,492
Total expenses	491,941	528,787	456,576
Income (Loss) before income tax expense and undistributed net income (loss) of subsidiaries	1,724,185	(40,715)	610,665
Income tax expense	14,560	26,756	(94,511)
Income (loss) before undistributed net income (loss) of subsidiaries	1,709,625	(67,471)	705,176
Equity in undistributed net income (loss) of subsidiaries:			
Banking subsidiaries	261,237	470,423	1,788,868
Non-banking subsidiaries	(490,163)	730,900	350,478
Net income	(Won) 1,480,699	(Won) 1,133,852	(Won) 2,844,522

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	2008	2009	2010
		(in millions of Won)	
Cash flows from operating activities			
Net income	(Won) 1,480,699	(Won) 1,133,852	(Won) 2,844,522
Less: Net income of subsidiaries	(1,714,949)	(1,362,774)	(2,956,658)
Parent Company net loss	(234,250)	(228,922)	(112,136)
Depreciation on premises and equipment	811	893	1,381
Cash dividends from subsidiaries and equity method investees	1,943,875	161,451	817,312
Other expense (income)	27,208	(27,002)	19,783
Unrealized foreign exchange loss (gain)		(10,818)	21,482
Loss on valuation of trading derivatives		14,224	
Other assets, net	8,427	57,923	(166,633)
Accrued expense and other liabilities, net	(5,062)	21,343	57,311
Net cash provided by (used in) operating activities	1,741,009	(10,908)	638,500
Cash flows from investing activities			
Net change in receivables from subsidiaries	(995,000)	835,000	120,000
Increase in investment in subsidiaries	(967,011)	(31,048)	(10,026)
Decrease in investment in subsidiaries	977,471	52,631	
Net change in premises and equipment	(1,503)	(2,302)	(1,006)
Net change in other assets (including assets relating to Shinhan Card acquisition in 2007)	(45,678)	1,008	(5,000)
Net cash provided by (used in) investing activities	(1,031,721)	855,289	103,968
Cash flows from financing activities			
Net change in short-term debt	(99,700)	(481,300)	(669,000)
Proceeds from issuance of long-term debt	1,480,000	712,160	2,450,000
Repayments of long-term debt	(978,763)	(2,360,905)	(1,671,743)
Proceed from the issuance of stock		1,275,260	
Cash dividends paid	(572,004)	(230,586)	(420,266)
Net cash provided by (used in) financing activities	(170,467)	(1,085,371)	(311,009)
Net increase (decrease) in cash and due from banks	538,821	(240,990)	431,459
Cash and due from banks, beginning of year	131,994	670,815	429,825
Cash and due from banks, end of year	(Won) 670,815	(Won) 429,825	(Won) 861,284
Cash paid for interest	(Won) 421,180	(Won) 438,978	(Won) 339,520

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INDEX OF EXHIBITS

1.1	Articles of Incorporation, last amended as of March 23, 2011 (in English)
2.1	Form of Common Stock Certificate (in English) *
2.2	Form of Deposit Agreement to be entered into among Shinhan Financial Group, Citibank, N.A., as depositary, and all owners and holders from time to time of American depositary shares issued thereunder, including the form of American depositary receipt*
2.3	Long-term debt instruments of Shinhan Financial Group, Shinhan Bank and other consolidated subsidiaries for which financial statements are required to be filed are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. Shinhan Financial Group agrees to furnish the Commission on request a copy of any instrument defining the rights of holders of its long-term debt and that of any subsidiary for which consolidated or unconsolidated financial statements are required to be filed.*
4.1	Stock Purchase Agreement by and between Korea Deposit Insurance Corporation and Shinhan Financial Group dated July 9, 2003**
4.2	Investment Agreement by and between Shinhan Financial Group and Korea Deposit Insurance Corporation dated July 9, 2003*
4.3	Agreed Terms, dated June 22, 2004, by and among the President of Korea Deposit Insurance Corporation, CEO of Shinhan Financial Group, CEO of Chohung Bank, Chairman of the National Financial Industry Labor Union of Korea and the Head of the Chohung Bank Chapter of the National Financial Industry Labor Union*
4.4	Merger Agreement between Shinhan Bank and Chohung Bank (in English) ***
4.5	Split-Merger Agreement between Shinhan Card and Chohung Bank (in English) ***
4.6	Form of Share Purchase Agreement, dated January 17, 2007, by and between Shinhan Financial Group and the holders of the redeemable preferred shares and the redeemable convertible shares issued by Shinhan Financial Group as part of the funding for the acquisition of LG Card Co., Ltd. (in English) ****
4.7	LG Card Acquisition Agreement, dated 2006, between Korea Development Bank and 13 other financial institutions, on the one hand, and Shinhan Financial Group *****
8.1	List of all subsidiaries of Shinhan Financial Group
12.1	Certifications of our Chief Executive Officer required by Rule 13a-14(a) of the Exchange Act
12.2	Certifications of our Chief Financial Officer required by Rule 13a-14(a) of the Exchange Act
13.1	Certifications of our Chief Executive Officer required by Rule 13a-14(b) and Section 1350 of Chapter 63 of the United States Code (18 U.S.C. 1350)
13.2	Certifications of our Chief Financial Officer required by Rule 13a-14(b) and Section 1350 of Chapter 63 of the United States Code (18 U.S.C. 1350)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

A fair and accurate translation from Korean into English.

* Incorporated by reference to the registrant s previous filing on Form 20-F (No. 001-31798), filed on September 15, 2003.

** Incorporated by reference to the registrant s previous filing on Form 20-F (No. 001-31798), filed on September 15, 2003. Confidential treatment has been requested for certain portions of the Stock Purchase Agreement.

*** Incorporated by reference to the registrant s previous filing on Form 20-F (No. 001-31798), filed on June 30, 2006.

**** Incorporated by reference to the registrant s previous filing on Form 20-F (No. 001-31798), filed on June 29, 2007

***** Incorporated by reference to registrant s previous filing on Form 20-F (No. 001-31798), filed on June 30, 2008.