

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

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

### Note:

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

We have translated certain amounts in Korean Won, which appear in this annual report, into dollars for convenience. This does not mean that the Won amounts referred to could have been, or could be, converted into U.S. dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, translations of Won amounts to U.S. dollars are based on the Noon Buying Rate in effect on December 31, 2009, which was W1,163.65 to US\$1.00. On June 11, 2010, the Noon Buying Rate in effect was W1,245.9 to US\$1.00.

### ITEM 3.B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

### ITEM 3.D. Risk Factors

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

#### Risks Relating to the Recent Economic and Market Crisis

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

Most of our assets are located in, and we generate most of our income from, Korea. Accordingly, our business and profitability are largely dependent on the general economic and social conditions in Korea, including interest rates, inflation, exports, personal expenditures and consumption, unemployment, demand for business products and

services, debt service burden of households and businesses, the general availability of credit, the asset value of real estate and securities and other factors affecting the financial well-being of our corporate and retail customers.

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

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

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

In addition, given the highly integrated nature of financial systems and economic relationships worldwide, there may be other, unanticipated systemic or other risks that may not be presently predictable. Any of these risks if

materialized may have a material adverse effect on our business, liquidity, financial condition and results of operations.

#### **Risks Relating to Our Overall Business**

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

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

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

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

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

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

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

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

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

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

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

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

Specifically, beginning on January 1, 2008, the Financial Supervisory Service implemented the new Basel Capital Accord, commonly referred to as Basel II, in Korea, which has affected the measurement of risk by Korean financial institutions, including us and our subsidiaries. Building upon the initial Basel Capital Accord of 1988, commonly referred to as Basel I, which focused primarily on capital adequacy and asset soundness as a measure of risk, Basel II expanded this approach by considering additional risks such as operational risk. Basel II also instituted new measures that require us and our subsidiaries to take into account individual borrower credit risk and operational risk when calculating risk-weighted assets. Recently, in order to further bolster the soundness of the banking sector in light of the recent global financial crisis, the Basel Committee on Banking Supervision has recently proposed measures, commonly known as Basel III, to further enhance the Basel II framework. While not finalized, these proposals, which are targeted to be implemented by the end of 2012, include, among others,

narrowing the scope of Tier 1 capital, further strengthening capital requirements and introducing leverage ratio requirements. Our holding company is currently in compliance with Basel I requirements and our banking subsidiaries are currently in compliance with Basel II requirements, and we and our banking subsidiaries are taking active steps to comply with the additional requirements under the more advanced Basel levels, as applicable. However, there can be no assurance that the additional requirements under the more advanced Basel level will not require in the future an increase in our or our subsidiaries' risk capital and liquidity requirements, among others, which may require us or our subsidiaries to improve asset quality or raise additional capital.

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

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

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

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

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

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

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

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

***We may incur losses associated with our counterparty exposures.***

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

#### **Risks Relating to Our Banking Business**

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

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

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

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

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

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

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

significant rise in the delinquency ratios among these borrowers would have a material adverse effect on our business, financial condition and results of operation.

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

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

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

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

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

Of our 20 largest corporate exposures as of December 31, 2009, seven were companies that are or were members of the main debtor groups identified by the Governor of the Financial Supervisory Service, which are largely comprised of *chaebols*. As of such date, the total amount of our exposures to the main debtor groups was ₩22,658 billion, or 6.33% of our total exposure. As of that date, our single largest outstanding *chaebol* exposure amounted to ₩3,974 billion, or 1.1% of our total exposures. See "Item 4.B. Business Overview – Description of Assets and Liabilities – Loans – Loan Portfolio – Exposure to Main Debtor Groups." If the credit quality of our exposures to large corporations declines, we may be required to record additional loan loss provisions in respect of loans and impairment losses in respect of securities, which would adversely affect our financial condition, results of



operations and capital adequacy. We cannot assure you that the allowances we have established against these exposures will be sufficient to cover all future losses arising from such exposures, especially in light of the possibility of another economic downturn. Specifically, starting in April 2009, the major creditor financial institutions to large corporations with outstanding unsecured debt of ₩50 billion conducted credit review on 433 such corporations under the supervision of the Government as part of a campaign to promote swift restructuring in the Korean corporate sector, and on June 11, 2009, the Financial Supervisory Service reportedly announced that, after the credit review, 22 and 11 of such corporations will become subject to workouts and liquidation, respectively.

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

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

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

**Risks Relating to Our Credit Card Business**

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

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

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

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

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

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

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

## Risks Relating to Our Other Businesses

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

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

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

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

## Other Risks Relating to Us

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

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

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

ratios of us or our subsidiaries fall below the required levels, our ability to pay dividends may be restricted by the Financial Services Commission.

***Damage to our reputation could harm our business.***

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

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

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

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

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

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

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

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

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

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

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

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

#### **Risks Relating to Law, Regulation and Government Policy**

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

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

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

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

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

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

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

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

In light of the widely held perception that the recent global liquidity crisis is at least partly attributable to deficiencies in the risk management systems and capital adequacy of financial institutions, many governments

worldwide have taken or are considering taking measures to increase regulatory oversight in these and other areas. Examples of such measures currently being considered by the Government include proposals to further regulate capital and liquidity of financial institutions in line with the additional requirements established or being proposed to be established by the Basel Committee. There can be no assurance that such measures will have the desired consequences or not have unintended adverse consequences which could hurt our business, results of operation and financial condition or profitability.

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

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

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

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

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

of limiting the growth and profitability of our retail banking business, especially in the area of mortgage and home equity lending.

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

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

**Risks Relating to Korea**

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

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

- volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (particularly against U.S. dollar), interest rates and stock markets;
- increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;
- adverse developments in the economies of countries to which Korea exports goods and services (such as the United States, China and Japan), or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;
- the continued emergence of China, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and relocation of the manufacturing base from Korea to China);
- social and labor unrest or declining consumer confidence or spending resulting from lay-offs, increasing unemployment and lower levels of income;
- uncertainty and volatility in real estate prices arising, in part, from the Government's policy-driven tax and other regulatory measures;
- a decrease in tax revenues and a substantial increase in the Government's expenditures for unemployment compensation and other social programs that together could lead to an increased Government budget deficit;



- political uncertainty or increasing strife among or within political parties in Korea, including as a result of the increasing polarization of the positions of the ruling conservative party and the progressive opposition;
- a deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy; and
- any other developments that has a material adverse effect in the global economy, such as an act of war, a terrorist act or a breakout of an epidemic such as SARS, avian flu or swine flu.

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

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

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

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

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

**Risks Relating to Our American Depositary Shares**

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

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

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

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

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

***Ownership of our shares is restricted under Korean law.***

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

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

The Korean Commercial Code and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the depositary bank, after consultation with us, may make the rights available to you or use

reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The depositary bank, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

- a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or
- the offering and sale of those shares is exempt from or is not subject to the registration requirements of the U.S. Securities Act.

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

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

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

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

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

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

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

If the Government deems that certain emergency circumstances are likely to occur, it may impose restrictions such as requiring foreign investors to obtain prior Government approval for the acquisition of Korean securities or

for the repatriation of interest or dividends arising from Korean securities or sales proceeds from disposition of such securities. These emergency circumstances include any or all of the following:

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

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

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

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

#### **Other Risks**

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

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

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

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