EXCHANGE RATES

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

Year Ended December 31,	At End of Period	Average(1)	High	Low
	(Won per US$1.00)			
2004	1,035.1	1,139.3	1,195.1	1,035.1
2005	1,010.0	1,023.2	1,059.8	997.0
2006	930.0	950.1	1,002.9	913.7
2007	935.8	928.0	950.2	903.2
2008	1,262.0	1,105.3	1,507.9	935.2
2009 (through June 19)	1,264.2	1,346.7	1,570.1	1,232.1
January	1,380.0	1,354.4	1,391.5	1,292.3
February	1,532.8	1,439.6	1,532.8	1,368.7
March	1,372.3	1,449.6	1,570.1	1,334.8
April	1,277.0	1,332.1	1,378.3	1,277.0
May	1,249.0	1,254.3	1,277.0	1,232.9
June (through June 19)	1,264.2	1,250.4	1,269.0	1,232.1

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

Note:

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

We have translated certain amounts in Korean Won, which appear in this document, into dollars for convenience. This does not mean that the Won amounts referred to could have been, or could be, converted into dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, translations of Won amounts to U.S. dollars are based on the Noon Buying Rate in effect on December 31, 2008, which was ₩1,262.0 to US$1.00. On June 19, 2008, the Noon Buying Rate in effect was ₩1,264.2 to US$1.00.

RISK FACTORS

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

Risks Relating to the Current Economic and Market Crisis

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

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

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

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

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

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

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

Risks Relating to Our Overall Business

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

Competition in the Korean financial services industry is, and is likely to remain, intense. Shinhan Bank competes principally with other major Korean commercial banks and major global banks operating in Korea, as well as government-run banks, specialized banks and regional banks. Our credit card and other subsidiaries also compete in a highly fragmented market. Some of our competitors, particularly the major global financial institutions, have greater experience and resources than we do. As the Korean economy further develops, more competitors may enter the industry. In addition, potential consolidation among our rival institutions may make the competitive landscape more adverse to us.

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

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

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

We and our banking subsidiaries in Korea are required to maintain a minimum Tier I capital adequacy ratio of 4.0% and a BIS ratio of 8.0%, each on a consolidated Korean GAAP basis. These ratios measure the respective regulatory capital as a percentage of risk-weighted assets on a consolidated basis and are determined based on guidelines of the Financial Services Commission. As of December 31, 2008, the Tier I capital adequacy ratio and the BIS ratio on a consolidated basis were 5.2% and 10.2%, respectively, for Shinhan Financial Group. As of December 31, 2008, the Tier I capital adequacy ratio and the BIS ratio on a consolidated basis were 9.3% and 13.4%, respectively, for Shinhan Bank. Our credit card subsidiary, Shinhan Card, is required to maintain a consolidated adjusted equity capital ratio of 8.0%, and as of December 31, 2008, such ratio was 20.3%.

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

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

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

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

Credit ratings affect the cost and other terms upon which we are able to obtain funding. Domestic and international rating agencies regularly evaluate us and our subsidiaries and their ratings of our and our subsidiaries' long-term debt are based on a number of factors, including our financial strength as well as conditions affecting the financial services industry generally and Korea. In light of the ongoing difficulties in the financial services industry and the financial markets, there can be no assurance that the rating agencies will maintain our current ratings or outlooks. For example, in February 2009, Moody's Investors Service, Inc. ("Moody's") downgraded credit ratings on eight banks in Korea, including Shinhan Bank, as a result of which Shinhan Bank's foreign currency-denominated long-term unsecured senior debt credit rating was downgraded from A1 to A2, which is the corresponding credit rating currently assigned to the Korean government. Other rating agencies may decide to follow suit or place us or our subsidiaries, including Shinhan Bank, in a lower credit rating category. Additional downgrades in the credit ratings and outlooks of us and our subsidiaries will likely increase the cost of our funding, limit our access to capital markets and other borrowings, require us to post additional collateral in financial transactions, any of which could adversely affect our liquidity, net interest margins and profitability, and in turn, our business, financial condition and results of operation.

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

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

We may incur losses associated with our counterparty exposures.

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

Risks Relating to Our Banking Business

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

Our banking activities are conducted primarily through our wholly-owned subsidiary, Shinhan Bank. One of our core banking businesses has historically been and continues to be lending to small- and medium-sized enterprises (as defined in "Item 4. Information on the Company— Business Overview — Our Principal Activities — Corporate Banking Services — Small- and Medium-sized Enterprises Banking"). Our loans to such enterprises increased from ₩47,159 billion as of December 31, 2006, to ₩62,296 billion as of December 31, 2007, and ₩71,212 billion as of December 31, 2008, representing 38.5%, 41.0% and 41.8%, respectively, of its total loan portfolio as of such dates.

Compared to loans to large corporations, which tend to be better capitalized and prone to weather business downturns with greater ease, or loans to individuals and households, which tend to be secured with homes and with respect to which the borrowers are therefore less willing to default, loans to small- and medium-sized enterprises have historically had a relatively higher delinquency ratio. In recent years, loans to such enterprises have been the target of aggressive lending by Korean banks, including Shinhan Bank, as part of their campaigns to increase their respective market shares. As of December 31, 2006, 2007 and 2008, under Korean GAAP, Shinhan Bank's delinquent loans to small- and medium-sized enterprises were ₩318 billion, ₩453 billion and ₩820 billion, respectively, representing delinquency ratios (net of charge-offs and loan sales) of 0.72%, 0.85%, and 1.33%, respectively. If the current business downturn further deepens in terms of length and severity, the delinquency ratio for our loans to the small- and medium-sized is likely to rise significantly at least in the near future.

Of particular concern is the significant exposure we have to enterprises in the real estate and leasing industry and the construction industry. As of December 31, 2008, our loans to the real estate and leasing industry and the construction industry was ₩12,140 billion and ₩7,374 billion, representing 7.12% and 4.32%, respectively, of its total loan portfolio. The enterprises in the real estate development and construction industries are concentrated in the housing market, which has been particularly affected by declining asset prices as a result of the global credit crisis as well as sustained efforts by the Korean government to stem speculation in the housing market. We also have a significant exposure to construction companies that have built residential units in provinces outside the metropolitan Seoul area, which have experienced a relatively low rate of pre-sales, the proceeds from which the construction companies primarily rely on as a source for their liquidity and cash flow. In addition, we also have significant exposure to the shipbuilding industry, which has also been disproportionately hurt by the recent economic downturn following a particularly robust period, largely due to the rapid slowdown in world trade which has substantially diminished shipbuilding orders.

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

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

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

Most of our home and mortgage loans are secured by borrowers' homes, other real estate, other securities and guarantees (which are principally provided by the Korean government and other financial institutions), and a substantial portion of our corporate loans are also secured, including by real estate. As of December 31, 2008, under Korean GAAP, the secured portion of Shinhan Bank's loans amounted to ₩71,955 billion, or 60.06% of its total loans. We cannot assure that the collateral value may not materially decline in the future. Shinhan Bank's general policy for home and mortgage loans is to lend up to 50% to 70% of the appraised value of collateral (except in "highly speculated" areas designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) and to periodically re-appraise our collateral. However, in light of the current downturn in the real estate market in Korea, the value of the collateral may fall below the outstanding principal balance of the underlying loans. Declines in real estate prices reduce the value of the collateral securing our mortgage and home equity loans, and such reduction in the value of collateral may result in our inability to cover the uncollectible portion of our secured loans. A decline in the value of the real estate or other collateral securing our loans, or our inability to obtain additional collateral in the event of such declines, may result in the deterioration of our asset quality and require us to take additional loan loss provisions. In Korea, foreclosure on collateral generally requires a written petition to a Korean court. Foreclosure procedures in Korea typically take from seven months to one year from initiation to collection depending on the nature of the collateral, and foreclosure applications may be subject to delays and administrative requirements, which may result in a decrease in the recovery value of such collateral. There can be no assurance that we will be able to realize the full value of collateral as a result of, among others, delays in foreclosure proceedings, defects in the perfection of collateral and general declines in collateral value. Our failure to recover the expected value of collateral could expose us to significant losses.

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

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

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

Of our 20 largest corporate exposures as of December 31, 2008, seven were companies that are or were members of the main debtor groups identified by the Governor of the Financial Supervisory Service, which are largely comprised of *chaebols*. As of such date, the total amount of our exposures to the main debtor groups was ₩20,397 billion, or 6.62% of our total exposure. As of that date, our single largest corporate credit exposure was to the Hyundai Heavy Industry group, to which we had outstanding credit exposure of ₩4,612 billion, or 1.36% of our total exposures. See "Item 4. Information on the Company — Description of Assets and Liabilities — Loans — Loan Portfolio — Exposure to the Main Debtor Group." If the credit quality of our exposures to the main debtor groups declines, we may be required to record additional loan loss provisions in respect of loans and impairment losses in respect of securities, which would adversely affect our financial condition, results of operations and capital adequacy. We cannot assure you that the allowances we have established against these exposures will be sufficient to cover all future losses arising from such exposures, especially in light of the current economic downturn. Specifically, starting in April 2009, the major creditor financial institutions to large corporations with outstanding unsecured debt of W50 billion conducted credit review on 433 such corporations under the supervision of the Government as part of a campaign to promote swift restructuring in the Korean corporate sector, and on June 11, 2009, the Financial Supervisory Service reportedly announced that, after the credit review, 22 and 11 of such corporations will become subject to workouts and liquidation, respectively. In addition, the creditor financial institutions also entered into agreements with nine main debtor groups, largely comprised of *chaebols*, under which such groups will undertake plans to improve their financial conditions, including through sale of subsidiaries. Detailed information regarding the exposure to the foregoing corporations and main debtor groups is not publicly available. The Bank is one of the creditor financial institutions and has exposure to a limited number of such corporations and main debtor groups. With respect to those companies that are in or in the future may enter into workout, restructuring or liquidation processes, the Bank may not be able to make full recoveries against such companies. Bankruptcies or financial difficulties of large corporations, including *chaebol* groups, may have the adverse ripple effect of triggering delinquencies and impairment of our loans to small- and medium-sized enterprises that supply parts or labor to such corporations. If we experience future losses from our exposures to large corporations, including *chaebol* groups, it may have a material adverse impact on our business, financial condition and results of operation. See “Item 4. Information on the Company — Description of Assets and Liabilities — Loans — Loan Portfolio — Exposure to Main Debtor Groups.”

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

In the normal course of our banking activities, we make various commitments and incur certain contingent liabilities in the form of guarantees and acceptances. Certain guarantees issued or modified after December 31, 2002 that are not derivative contracts have been recorded on our consolidated balance sheet at their fair value at inception. Other guarantees are recorded as off-balance sheet items in the footnotes to our financial statements and those guarantees that we have confirmed to make payments on become acceptances, which are recorded on the balance sheet. As of December 31, 2008, we had aggregate guarantees and acceptances of W18,208 billion, for which we provided allowances for losses of W240 billion. Such guarantees and acceptances include refund guarantees provided by us to shipbuilding companies, which involve guaranteeing payment of advance cash payments received by shipbuilders in the event that such shipbuilders are unable to deliver the ships in time or otherwise default under the shipbuilding contracts. Recently, small- to medium-sized shipbuilding companies are facing increasing financial difficulties due to global economic downturn and the slowdown in shipbuilding orders, which increases the risk that they may default on their shipbuilding contracts and we may have to make payments under the refund guarantees. The refund guarantees provided by us to small- and medium-sized shipbuilding companies amounted to approximately W1 trillion as of December 31, 2008. If we experience significant asset quality deterioration with respect to our guarantees and acceptances, there is no assurance that our allowances will be sufficient to cover actual losses resulting in respect of these liabilities, or that the losses we incur on guarantees and acceptances will not be larger than the outstanding principal amount of the loans.

Risks Relating to Our Credit Card Business

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

As of December 31, 2008, the outstanding balance of our credit card receivables amounted to W14,637 billion. Our large exposure to credit card and other consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers in general. Accordingly, the recent rise in unemployment, increase in interest rates and other difficulties affecting the Korean economy are expected to lead Korean consumers to reduce spending (including by way of credit card transactions), which in turn would lead to reduced revenue for our credit card business, as well as to higher default rates on credit card loans, which would result in deterioration in the credit quality of our credit card asset portfolio and increased difficulties in recovering written-off assets from which a significant portion of Shinhan Card's revenues is derived. Furthermore, a deepening of the global liquidity and economic crisis and the concomitant rise in borrowing rates may also hurt Shinhan Card's ability to source funding in sufficient quantity and on acceptable commercial terms or at all. A rise in borrowing rates may have the effect of shrinking the pool of investors for asset-backed securitization products of Shinhan Card and raising the borrowing rates for Shinhan Card's corporate debentures, which comprise the principal sources of funding for Shinhan Card. Any of these developments could have a material adverse effect on our business, financial condition and results of operation.

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

Over the past several years, substantially all commercial banks and financial institutions in Korea have focused their businesses on, and engaged in aggressive marketing campaigns in, the credit card sector. The growth, market share and profitability of our credit card subsidiary's operations may decline or become negative as a result of growing market saturation in this sector, intensified interest rate competition, pressure to lower the fee rates and higher marketing expenses, as well as government regulation and social and economic developments in Korea, such as changes in consumer confidence levels, spending patterns or public perception of credit card usage and consumer debt. Shinhan Card's ability to continue its asset growth in the future will depend on, among others, its success in developing and marketing new products and services, its capacity to generate funding at commercially reasonable rates and in amounts sufficient to support further asset growth, its ability to develop the personnel and system infrastructure necessary to manage its growing and increasingly diversified business operations and its ability to manage increasing delinquencies, but there is no assurance that it will be able to do so at a sufficient level.

Risks Relating to Our Other Businesses

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

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

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

Downturns in stock markets, including the current cycle, are likely to lead to a decline in the volume of transactions that we execute for our customers and, therefore, to a decline in our non-interest revenues. In addition, because the fees that we charge for managing our clients' portfolios are in many cases based on the size of the assets under management, a market downturn which has the effect of reducing the value of our clients' portfolios or increasing the amount of withdrawals would reduce the revenues we receive from our securities brokerage, trust account management and other asset management services. Even in the absence of a market downturn, below-market performance by our securities, trust account or asset management companies may result in increased withdrawals and reduced inflows, which would reduce the revenue we receive from these businesses. In addition, protracted market movements resulting in declines of asset prices can reduce liquidity for assets held by us and lead to material losses if we cannot close out or otherwise dispose of deteriorating positions in a timely way or at commercially reasonable prices.

Other Risks Relating to Us

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

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

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

Damage to our reputation could harm our business.

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

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

In the course of our operations, we must manage a number of risks, such as credit risks, market risks and operational risks. Although we devote significant resources to developing and improving our risk management policies and procedures and expect to continue to do so in the future, our risk management techniques may not be fully effective at all times in mitigating risk exposures in all market environments or against all types of risk, including risks that are unidentified or unanticipated. For example, in January 2009, we reported to the Financial Supervisory Service that an employee at a regional branch of Shinhan Bank had embezzled approximately ₩22 billion of Shinhan Bank’s funds. We expect to recover approximately ₩5.7 billion of the embezzled fund. To date, we are waiting for the Financial Supervisory Service to issue a request for remedial measures. Management of credit, market and operational risk requires, among others, policies and procedures to record properly and verify a large number of transactions and events, and we cannot assure you that these policies and procedures will prove to be fully effective at all times against all the risks we face.

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

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

Recently, we have become a party to individual and collective lawsuits in connection with the sale of foreign currency derivatives products known as “KIKO,” which stands for “knock-in knock-out,” to certain of our customers comprised mostly of small- and medium-sized enterprises. The KIKOs, which are intended to be hedging instruments, operate so that if the value of Korean Won increases to a certain level, then we are required to pay the purchasers a certain amount, and if the value of Korean Won falls below a certain level, then the purchasers of KIKOs are required to pay us a certain amount. As the Korean Won significantly depreciated against the U.S. dollar in the second half of 2008, purchasers of KIKOs were required under the relevant contracts to make large payments to us, and some of such purchasers have filed lawsuits to nullify their obligations. The aggregate amount of such claims as of December 31, 2008, was ₩6 billion, and this amount may become larger as the lawsuits progress. The amount of damages we may be liable for if we lose these lawsuits may increase if the Korean Won further depreciates against the U.S. dollar. While we have won a limited number of preliminary injunction cases at the lower court level, other cases are pending and additional cases may be filed against us. Other commercial banks facing similar claims have lost some of their cases. If we lose, the court may nullify the contracts under which KIKO products were sold and order us to return payment received from the customers. While the final outcome of such litigation is uncertain and we plan to rigorously defend our position, the lawsuits, especially if the courts rule against us, may have a material adverse effect on our business, financial condition and results of operation.

In addition, due to the global economic slowdown and a deteriorating Korean stock market since the second half of 2008, investment funds whose performance are tied to domestic and foreign stock markets have experienced a sharp fall in their rates of return. Consequently, investors in these funds have increasingly brought lawsuits against commercial banks in Korea that have sold such investment fund products based on the allegation that such banks used defective sales practices in selling such funds, such as failing to comply with disclosure requirements or unfairly inducing them to invest in the funds. There have been cases in which the courts required the banks to compensate their customers for inadequate disclosure and unfair inducement. We cannot assure you that, despite due training, all of our employees in charge of such sales have not breached disclosure requirements, engaged in unfair inducement or committed similar acts. As of December 31, 2008, there were five cases filed against Shinhan Bank, which claims amounted to ₩1.0 billion in aggregate. The amount claimed may increase in the course of litigation and there may be other lawsuits that may be brought against us based on similar allegations. While it is difficult to predict the outcome of each lawsuit against Shinhan Bank as it will ultimately depend on the specific facts and circumstances underlying such lawsuit, if the courts rule against us, the lawsuits may have a material adverse effect on our business, financial condition and results of operation.

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

In March 2007, the Government announced that all companies listed on the Korea Exchange, including us, will be required to comply with International Financial Reporting Standards (“IFRS”) by 2011. IFRS is the financial reporting standard adopted in more than 110 countries and have requirements that are substantially different from those under Korean GAAP or U.S. GAAP. A task force team has been established by us and our subsidiaries to prepare for IFRS compliance. Such preparation, as well as actual compliance with IFRS, may result in significant costs for us and may have a material adverse effect on our results of operations. In addition, we may not be able to comply with the IFRS requirements within the prescribed timeline, and such non-compliance may result in regulatory sanctions as well as harm to our reputation.

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

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

Risks Relating to Law, Regulation and Government Policy

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

As a financial services provider, we are subject to a number of regulations designed to maintain the safety and soundness of Korea's financial system, ensure our compliance with economic and other obligations and limit our risk exposure. These regulations may limit our activities, and changes in these regulations may increase our costs of doing business. Regulatory agencies frequently review regulations relating to our business. We expect the regulatory environment in which we operate to continue to change. Changes to regulations applicable to us and our business or changes in their implementation or interpretation could affect us in unpredictable ways and could adversely affect our business, results of operations and financial conditions.

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

For further details on the principal laws and regulations applicable to us as a holding company and our principal subsidiaries, see "Item 4. Information on the Company — Supervision and Regulation."

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

In response to the ongoing turbulence in the financial markets and the impact on the real economy, many governments worldwide, including the Korean government, have intervened on a massive scale, including by way of fiscal stimulus, lowered interest rates and direct investment in troubled financial institutions and corporations. The anticipated severity of the current economic crisis may lead the Korean government to take other interventionist measures, as a result of which we may be requested to participate in providing assistance to support distressed companies that are not our subsidiaries. In addition, we may voluntarily enter into arrangements with the government under which we accept greater government intervention in our affairs in exchange for government assistance. For example, in November 2008, Shinhan Bank entered into a memorandum of understanding with the Korean government, under which it may become subject to increased government monitoring of its operations and may be required to make certain adjustments to operations if it were to receive government guarantees for a certain amount of our foreign currency-denominated borrowings. In April 2009, the term during which Shinhan Bank is entitled to government guarantees for its foreign currency-denominated debt was extended until December 2009. While we do not currently anticipate that Shinhan Bank will need such government guarantees, increased government involvement in its operations could adversely affect our business, financial condition and results of operation. In addition, in February 2009, in order to provide additional liquidity and capital support for commercial banks in Korea, the Korean government announced a plan to establish a bank capital improvement fund in the amount of ₩20 trillion. The fund will be funded with loans from government-owned banks as well as outside investors. The commercial banks may draw down from the fund up to a limit specified for each bank, in exchange for subordinated debt, preferred shares and/or hybrid securities to be issued to the fund, which may have the effect of improving the drawing bank's liquidity and capital adequacy. Shinhan Bank's drawdown limit is expected to be ₩2 trillion, and on February 26, 2009, Shinhan Bank's board of directors decided to apply for the credit line with the fund. If Shinhan Bank draws down from the fund, it may become subject to increased government monitoring and certain conditions on the use of proceeds from the drawdown, including increased lending to small- to medium-sized enterprises which generally are facing increasing difficulties due to the economic downturn. This may have a material adverse effect on Shinhan Bank's and our business, results of operation and financial condition.

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

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

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

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

In light of the deepening slump in the housing market, the Korean government has recently announced or started implementing various policies to support the economy, such as deregulating the real estate sector and lowering tax rates. However, if the housing market shows signs of recovery, the Korean government may from time to time take measures to regulate such market in order to preempt undue speculation, including by way of imposing restrictions on retail lending, including mortgage and home equity lending. Any such measures may be premature and may contribute to substantial future declines in real estate prices in Korea, which will reduce the value of the collateral securing our mortgage and home equity loans. See "— Risks Relating to Our Banking Business — A decline in the value of the collateral securing our loans and our inability to fully realize the collateral value may adversely affect our credit portfolio." Such measures may also have the effect of limiting the growth and profitability of our retail banking business, especially in the area of mortgage and home equity lending.

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

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

Risks Relating to Korea

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

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

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

- a decrease in tax revenues and a substantial increase in the Korean government’s expenditures for unemployment compensation and other social programs that together could lead to an increased government budget deficit;
- political uncertainty or increasing strife among or within political parties in Korea, including as a result of the increasing polarization of the positions of the ruling conservative party and the progressive opposition;
- a deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy; and
- any other developments that has a material adverse effect in the global economy, such as an act of war, a terrorist act or a breakout of an epidemic such as SARS, avian flu or swine flu.

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

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

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

There recently has been increased uncertainty about the future of North Korea’s political leadership and its implications for the economic and political stability of the region. In June 2009, American and South Korean officials announced that Kim Jong-il, the North Korean ruler who reportedly suffered a stroke in August 2008, designated his third son, who is reportedly to be in his twenties, to become his successor. The succession plan, however, remains uncertain. In addition, North Korea’s economy faces severe challenges.

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

Risks Relating to Our American Depositary Shares

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

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

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

As part of the financing for the LG Card acquisition, we issued to 12 entities in Korea an aggregate of 14,721,000 redeemable convertible preferred shares, which are convertible into 3.71% of our total issued common shares on a fully diluted basis. These redeemable convertible preferred shares may be converted into our common shares at any time from January 26, 2008 through January 25, 2012.

Currently, we do not know when or what percentage of our redeemable convertible preferred shares will be converted, or disposed of following the conversion. Accordingly, we cannot currently predict the impact of such conversion or disposal.

Ownership of our shares is restricted under Korean law.

Under the Financial Holding Companies Act, any single shareholder (together with certain persons in a special relationship with such shareholder) may acquire beneficial ownership of up to 10% of the total issued and outstanding shares with voting rights of a bank holding company controlling national banks such as us. In addition, any person, except for a “non-financial business group company” (as defined below), may acquire in excess of 10% of the total voting shares issued and outstanding of a financial holding company which controls a national bank, provided that a prior approval from the Financial Services Commission is obtained each time such person’s aggregate holdings exceed 10% (or 15% in the case of a financial holding company controlling regional banks only), 25% or 33% of the total voting shares issued and outstanding of such financial holding company. The Korean government and the Korea Deposit Insurance Corporation are exempt from this limit. Furthermore, certain non-financial business group companies (i.e., (i) any same shareholder group with aggregate net assets of all non-financial business companies belonging to such group of not less than 25% of the aggregate net assets of all members of such group; (ii) any same shareholder group with aggregate assets of all non-financial business companies belonging to such group of not less than W2 trillion; or (iii) any mutual fund in which a same shareholder group identified in (i) or (ii) above owns more than 4% of the total shares issued and outstanding of such mutual fund) may not acquire beneficial ownership in us in excess of 4% of our outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of up to 10% of our outstanding voting shares with the approval of the Financial Services Commission under the condition that such non-financial business group companies will not exercise voting rights in respect of such shares in excess of the 4% limit. See “Item 4. Information on the Company — Supervision and Regulation — Principal Regulations Applicable to Financial Holding Companies — Restriction on Financial Holding Company Ownership.” To the extent that the total number of shares of our common stock that you and your affiliates own together exceeds these limits, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Services Commission may order you to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in a fine of up to W50 million, plus an additional charge of up to 0.03% of the book value of such shares per day until the date of disposal.

Holders of American depositary shares will not have preemptive rights in certain circumstances.

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

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

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

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

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

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

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

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

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

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

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

Other Risks

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

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

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

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

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

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

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

Based upon the past and projected composition of our income and valuation of our assets, we do not believe that we were a passive foreign investment company for 2008, and we do not expect to be a PFIC in 2009 or to become one in the foreseeable future, although there can be no assurance in this regard. If, however, we become a PFIC, such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. For example, if we become a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. Our PFIC status is determined on an annual basis and depends on the composition of our income and assets. Specifically, we will be classified as a PFIC for U.S. tax purposes if either: (i) 75% or more of our gross income in a taxable year is passive income, or (ii) the average percentage of our assets by value in a taxable year which produce or are held for the production of passive income (which generally includes cash) is at least 50%. Special rules treat certain income earned by a non-U.S. corporation engaged in the active conduct of a banking business as non-passive income. We cannot assure you that we will not be a PFIC for 2009 or any future taxable year.