



Sustainability **meets** Reliability

Shinhan Financial Group **Annual Report 2008**

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Profile

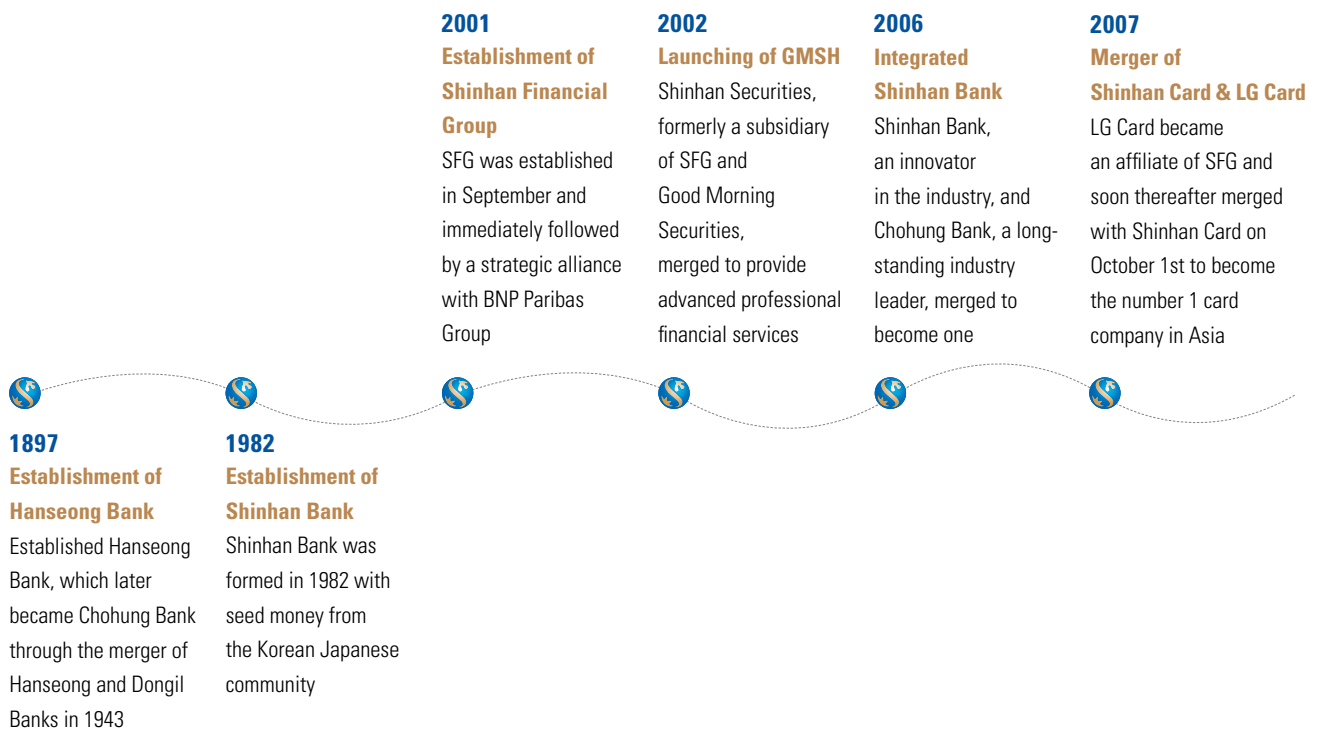


Incorporated on September 1, 2001, Shinhan Financial Group (SFG) was the first privately established financial holding company in Korea. Since its inception, SFG has developed and introduced a wide range of financial products and services in Korea, and aims to deliver comprehensive financial solutions to clients through a convenient one-portal network.

SFG currently has 11 subsidiaries offering a wide range of financial products and services, including retail banking, corporate banking, private banking, credit card, asset management, brokerage and insurance services. SFG currently serves approximately 14.8 million active customers through approximately 17,200 employees at more than 1,430 network branches.

SFG has experienced substantial growth through several mergers and acquisitions. Most notably, the acquisition of Chohung Bank in Sept. 2003 and LG Card in March 2007 have enabled us to expand our nationwide organization of branch networks and broaden our customer base. In addition, SFG has significantly expanded its non-banking business capacity and achieved a balanced business portfolio.

History



Stock Performance

Number of Shares Issued

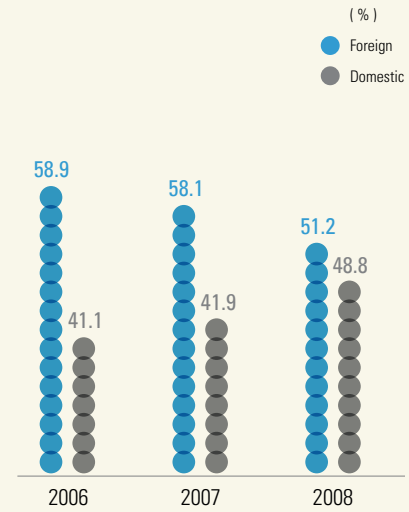
(As of March 2009)

Type of Stock	No. of Shares
Registered common stock	474,199,587
Registered redeemable preferred stock	47,690,251
Registered convertible redeemable preferred stock	14,721,000
Total	536,610,838

Credit Ratings

Shinhan Bank	Moody's	S&P	Fitch
Long Term	A2	A-	A
Short Term	P1	A2	F1

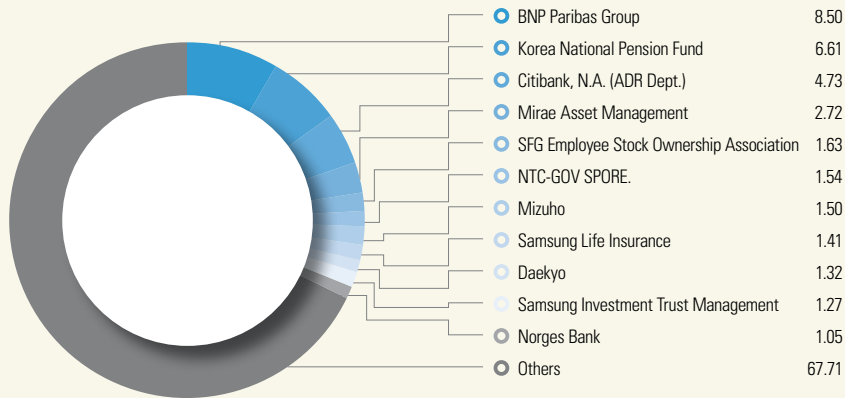
Share Ownership 2008



Major Shareholders

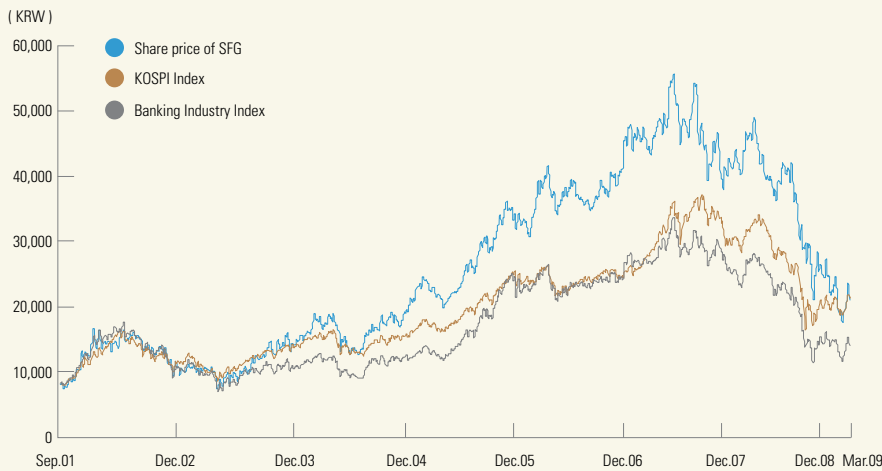
(As of Dec. 2008)

(%)



SFG Stock Price Performance

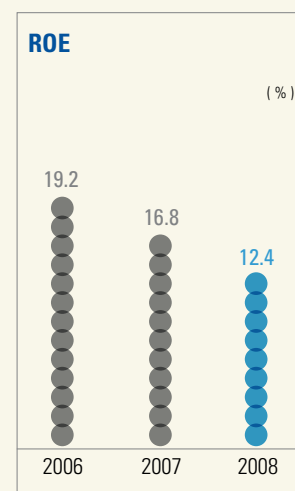
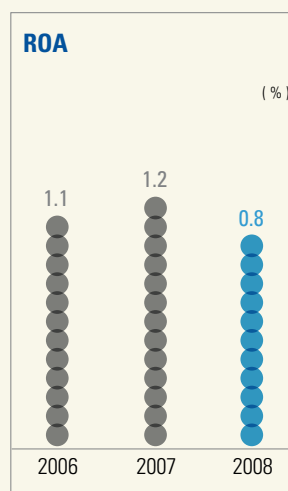
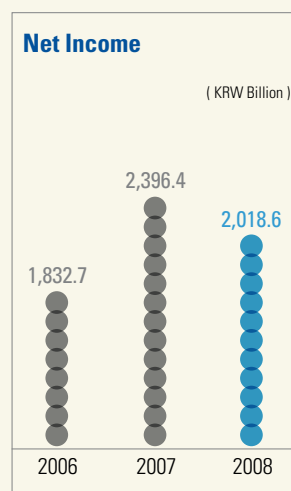
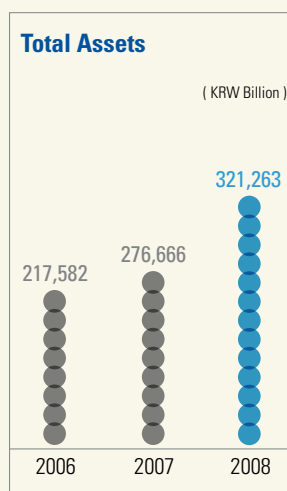
(Market Cap: US\$ 11.7 billion, as of March 2009)



Financial Highlights

	FY2008	FY2007	Chg Amt	Chg %
For the Year (KRW Billion)				
Operating Revenues	59,775.6	26,639.5	33,136.1	124.4%
Operating Income Before Provisioning	4,018.2	4,603.9	-585.8	-12.7%
Net Income	2,018.6	2,396.4	-377.8	-15.8%
At Year End (KRW Trillion)				
Total Assets	321.3	276.7	44.6	16.1%
Total Loans	166.5	149.3	17.2	11.5%
Total Deposits	131.4	119.2	12.2	10.3%
Total Shareholders' Equity	17.6	18.0	-0.4	-2.1%
Key Financial Ratios				
BIS Capital Adequacy Ratio - Group (*)	10.2%	9.8%	0.4%p	
BIS Capital Adequacy Ratio - Shinhan Bank (Tier I Ratio)	13.4%	12.1%	1.3%p	
NPL (Substandard and Below Loans) Ratio	1.1%	1.0%	0.1%p	
NPL Coverage Ratio	172%	192%	-20.0%p	
ROA	0.8%	1.2%	-0.4%p	
ROE	12.4%	16.8%	-4.4%p	
Group NIM	3.5%	3.9%	-0.4%p	
Cost-to-Income Ratio	49.3%	46.6%	2.7%p	
Cost-to-Income Ratio excluding goodwill amortization	43.1%	42.2%	0.9%p	
BPS (KRW)	35,312	35,141	171	0.5%
EPS (KRW)	4,384	5,404	-1,020	-18.9%

(*) Goodwill excluded according to BIS I standard (Reduction of around 2%p)



Chairman's Message



Dear Shareholders and Customers,

I am pleased to take this opportunity to express my sincere appreciation for the unwavering support and encouragement you have shown to Shinhan Financial Group.

Financial deleveraging ignited by insolvency in U.S. subprime mortgage vehicles has led to a worldwide financial crisis in 2008, which in turn led to a sluggish global economy, resulting in increased difficulties for all but, in particular the export-oriented economies such as Korea. As such, Korean financial institutions are witnessing a significant deterioration of asset quality owing to a rise in delinquencies and insufficient foreign currency liquidity as a consequence of a surge in the won-dollar exchange rate. In such uncertain times, the key competency is risk management.

I am pleased to share with you the news that even in such a difficult business environment, Shinhan Financial Group has made meaningful achievements in tune with its reputation as the leading financial group of Korea.

Last year, Shinhan Financial Group took another step towards becoming a world-leading financial group by establishing a future growth foundation and strengthening its business lines.

“
Even in such a
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”



Based on the long-term strategic relationship and cooperation with the BNP Paribas Group, we have successfully carried out the integration of our two asset management companies, thereby establishing a firm presence and leadership in the asset management industry in Korea. In addition, thanks to the sound performance made in the non-banking sectors, such as credit card, securities, and insurance, Shinhan Financial Group was able to establish the most balanced domestic business portfolio.



In recognition of our progress made at home and abroad, Shinhan Financial Group became the first Korean financial group to be chosen by Fortune Magazine as one of the top 500 global companies. SFG further strengthened its reputation as Korea's leading financial institution by posting a net income of more than KRW 2 trillion for two consecutive years, based on its efforts to strengthen internal competencies and generate new synergistic effects.



Committed to continuing innovation and achievement, Shinhan Financial Group will not become complacent with its recent achievements. It is expected that the the Korean economy will continue to suffer from sluggish exports as well as volatile foreign exchange and stock markets. Though the forecasts of market participants may differ in actual figures, most agree that a considerable amount of time needs to pass before a meaningful turnaround can be expected due to these factors, in addition to sluggish domestic consumption.

Shinhan Financial Group has established a separate strategy to weather the current storm and overcome the crisis, faithfully executing this strategy since the end of 2008. The group also established a system that enables active response to sharp changes in the market. All business lines of the group are strengthening their basic competencies and building distinctive development models, thereby developing pipelines for new growth. I believe these efforts by Shinhan Financial Group will allow the group to overcome the current crisis and be prepared to seize opportunities for new growth following the crisis.

Through committed performance of its responsibilities as the best financial group in Korea, we seek to contribute to the sustainable development of the national economy and financial industry by employing new methods suitable for the new era. We will continue utilizing our strength and efforts to become a more reliable and true financial partner by taking steps forward towards the future with the mindset of "Back to Basics." I believe that these strenuous efforts will lead to the realization of our vision of becoming a world-class financial group.

I ask you for your continued support and encouragement and wish you all and your family, good health and happiness. Thank you.

Chairman **Eung Chan Ra** *EChan Ra*

CEO's Message



Dear shareholders,

2008 will be a year to remember for all of us. The unprecedented economic downturn triggered by a global financial crisis has resulted in an increase of uncertainty. In Korea specifically, the exchange rate remains unstable, exports are decreasing, and consumer consumption is further slowing due to a rise in household debt and deterioration of the job market. Even world-renowned financial institutes are suffering from a rise in delinquencies and bad assets, compounded by a liquidity shortage and a decrease in asset value. As a result, shareholders interest in the soundness of domestic financial institutes is at an all time high.

In spite of the difficult business environment at home and abroad, Shinhan Financial Group has demonstrated outstanding capabilities in responding to the situation and further gained the market's confidence by focusing on balanced growth in the group's business portfolio, attributable to its implementation of stringent risk management and qualified business management.

“
In 2008,
the group made
efforts to achieve
continued growth
in each business
sector by engaging
in substantive
management that is
true to the basics.
”



Business Results of 2008

With broader strategic goals of business scale and scope expansion, Shinhan Financial Group has been making great achievements while diversifying its business portfolio. In 2008, the group made efforts to achieve continued growth in each business sector by engaging in substantive management.

Profitability

The net income in the banking sector witnessed a 29.1% decrease from 2007 to post KRW 1.46 trillion. However, the income from the non-banking sector improved considerably, recording a net income of KRW 1.34 trillion, a year-on-year rise of 25.5%. The group recorded a consolidated net income of KRW 2.02 trillion resulting from the sharp increase of net income contributions made by non-bank subsidiaries rising from 11.2% in 2005 to 23.5% in 2006, 34% in 2007, and 47.8% in 2008.

Asset growth

Total assets, including assets under management, in the banking sector grew by 19.6% as the non-banking sector demonstrated solid growth of 7.8%, resulting in an overall year-in-year rise of 16% to post KRW 321 trillion.

Net Interest Margin (NIM)

The group's NIM, a leading index that indicates the earning power of a financial institution, was the highest in the industry at 3.52%. In particular, the level of decrease of the NIM ratio of Shinhan Bank was 14bp, which was lower than the 20bp average posted by domestic banks, thus maintaining an advantageous level.

Continued balanced growth of the group's business portfolio

Last year, the group's key subsidiary, Shinhan Bank, recorded a strong performance thanks to various efforts to enhance efficiency and overcome the upheaval in the market, reaffirming its reputation as the top blue-chip bank in Korea. Shinhan Card, in its second year of integration, has firmly established its position as another leading business line within the group after successfully completing its IT operations and extending integration synergy.

In addition, the non-banking sectors, including securities, insurance, and investment trust, demonstrated strong growth, exceeding the industry average. Having integrated the two asset management companies, our asset management wing is in a better position to attain market leadership in the investment management field. These achievements have resulted in a more stabilized business portfolio, based on balanced business models between the banking and non-banking sectors.

Management Plan for 2009

The strategic goal of the group for 2009 is “strong foundation, sustainable growth” and the following three key strategic tasks were chosen:

First, we will focus on strengthening the basic substance of the group’s business portfolio, while promptly responding to the current crisis.

To this end, Shinhan Financial Group will actively make use of its integrated CRM structure and the management accounting system built last year, thereby expanding the foundation for generating customer-oriented synergy effects. In addition, the overall risk management capabilities of the group will be upgraded and cost efficiency will be enhanced to substantially improve the profit structure.

Second, we will build distinctive growth models for existing businesses.

Shinhan Financial Group achieved business scale and scope expansion through successful mergers and acquisitions. As a result, the group has various business lines – a characteristic that differentiates the group from others – and the nation’s largest customer base. In 2009, the group will innovate its distribution capabilities and strengthen product-manufacturing competencies to further strengthen its growth foundation. Shinhan Financial Group will redirect its goal of synergy marketing to focus on creating real value for customers and gain customer value-oriented synergy. In addition, joint marketing activities will be expanded to further strengthen the distinctive position of Shinhan.



Shinhan is confident in its ability to continue to establish itself as Korea’s leading comprehensive financial group through effective use of its ability to overcome adversity with spirit and determination, and to create opportunities from crisis situations.



Third, we will make efforts to build a new growth pipeline.

Shinhan Financial Group will secure its leading position in the asset management sector and actively develop new businesses, in such areas as financial investment and futures, to diversify our revenue sources and develop opportunities for mid-to-long term development in order to sustain growth. The group will also continuously strengthen its competencies in the IB and global business sectors.



The effects of the change in our economic surroundings as well as challenging financial environment are expected to continue in 2009. However, Shinhan is confident in its ability to continue to establish itself as Korea's leading comprehensive financial group through effective use of its strength and resources to overcome adversity with spirit and determination, and to create opportunities from crisis situations.

Moving forward, everyone at Shinhan Financial Group will lead the way with passion and a challenging spirit, while making every effort to bring Shinhan Financial Group to the forefront of world-class financial groups as a trusted partner.

I am grateful for your continued support and encouragement of Shinhan Financial Group. Please join us as we take great strides towards a better future. Thank you.

President & CEO **Sang Hoon Shin**

BOD and Management (Shinhan Financial Group)

I. EXECUTIVE DIRECTORS

Eung Chan Ra	
Date of Birth	November 25, 1938
Current Position	Chairman of Board of Directors, Shinhan Financial Group
Education	Seonlin Commercial High School, Seoul, Korea
Main Work Experience	1977 Director, Jaeil Investment & Finance Corp., Seoul 1999 President & CEO, Shinhan Bank 2001 Chairman of the Board of Directors, Shinhan Financial Group

Sang Hoon Shin	
Date of Birth	July 1, 1948
Current Position	President & CEO, Shinhan Financial Group
Education	BA in Business Administration, Sungkyunkwan University, Seoul, Korea MBA, Yonsei University
Main Work Experience	1998 Director, Shinhan Bank 2001 Senior Executive Vice President, Shinhan Financial Group 2003 President & CEO, Shinhan Bank

II. NON EXECUTIVE DIRECTOR

Baek Soon Lee	
Date of Birth	October 8, 1952
Current Position	President & CEO, Shinhan Bank
Education	Duksu Commercial High School
Main Work Experience	2003 Head of SME Support Department, Shinhan Bank 2004 Managing Director, Shinhan Financial Group 2006 Senior Executive Vice President, Shinhan Bank

III. OUTSIDE DIRECTORS

Boo In Ko	
Date of Birth	December 25, 1941
Current Position	Outside Director, Shinhan Financial Group
Education	BA, Meiji University
Main Work Experience	1998 Vice Chairman, Korea Chamber of Commerce and Industry in Japan Advisor, The National Unification Advisory Council 2005 Outside Director, Jeju Bank

Young Woo Kim	
Date of Birth	May 1, 1952
Current Position	CEO of New Hanil Electronic
Education	BA in Political Economy, Waseda University
Main Work Experience	1990 CEO, Hanbaek Precision Co. 2007 CEO of Hanil Electronic, CEO of New Hanil Electronic

Yo Koo Kim	
Date of Birth	March 23, 1950
Current Position	Director, Korea Chamber of Commerce and Industry in Aichi Province
Education	BA in Industrial & Systems Engineering, Aoyama Gakuin University
Main Work Experience	1984 CEO, Sanyo Bussan Co., Ltd. 2000 Director, Sanyo Hanbai Co., Ltd. 2007 Outside Director, Shinhan Bank

Shee Yul Ryoo	
Date of Birth	September 5, 1938
Current Position	Advisor, Shin & Kim Law Firm
Education	LLB, Seoul National University
Main Work Experience	1997 President, Korea First Bank 1999 Chairman, Korea Federation of Banks 2001 Steering Committee Member, Korea Center for International Finance

Ke Sup Yun	
Date of Birth	May 20, 1945
Current Position	Professor, College of Business Administration, Seoul National University
Education	Ph.D. Graduate School of Seoul National University
Main Work Experience	1999 Dean, College of Business Administration, Seoul National University 2001 Chairman, Seoul Economist Club

Jung Il Lee	
Date of Birth	August 28, 1952
Current Position	CEO, Hirakawa Shoji Co., Ltd.
Education	BA in Political Science & Economics, Meiji University
Main Work Experience	1990 CEO, Hirakawa Shoji Co., Ltd.

COMMITTEES OF THE BOARD OF DIRECTORS

	Board Steering Committee	Risk Management Committee	Audit Committee	Compensation Committee	Outside Director Recommendation Committee*	Audit Committee Member Recommendation Committee*
Eung Chan Ra						
Boo In Ko						
Young Woo Kim						
Yo Koo Kim						
Shee Yul Ryoo						
Ke Sup Yun						
Jung Il Lee						



IV. DEPUTY PRESIDENT

Sung Bin Chun	
Date of Birth	January 21, 1953
Current Position	Professor, College of Business Administration, Sogang University
Education	BA in English Literature, Sogang University, Seoul Ph.D. in Accounting at Berkley University, USA
Main Work Experience	1999 Director, Vice President of Korean Accounting Association 2003 Director, Business Administration Research Center, Sogang University 2004 Director, Financial Supervisory Commission
Kap Young Jeong	
Date of Birth	August 22, 1951
Current Position	Professor, College of Economics, Yonsei University
Education	BA in Economics, Yonsei University Ph.D. in Economics, Cornell University
Main Work Experience	2004 President, Northeast Economic Association 2006 Vice President, Yonsei University
Haeng Nam Chung	
Date of Birth	March 15, 1941
Current Position	Advisor, Korea Chamber of Commerce & Industry in Japan
Education	Tomishima Middle School
Main Work Experience	2001 Chairman, ABIC Group Director, Asuka Credit Cooperative 2005 Advisor, Korea Chamber of Commerce & Industry in Japan

Bong Youn Cho	
Date of Birth	March 9, 1948
Current Position	President for Pan Asia Capital Limited.
Education	BA in Statistics, Korea University, Seoul, Korea
Main Work Experience	1996 President, Oriens Capital Limited 1997 Chairman, Pan Asia Capital Manager Limited, Hong Kong 2001 President, Pan Asia Capital Limited
Young Seok Choi	
Date of Birth	July 2, 1929
Current Position	President, C.Y.S. Ltd.
Education	BA in Commerce, Meiji University, Japan
Main Work Experience	1993 Advisor, The National Unification Advisory Council 1995 Outside Director, Shinhan Bank 2003 Outside Director, Shinhan Financial Group
Philippe Reynieix	
Date of Birth	June 24, 1949
Current Position	CEO & GM for Korea, BNP Paribas, Seoul
Education	Master of Business Law (with award), Paris II University
Main Work Experience	1994 Regional Head of Corporate Banking for S.E. and India, Paribas, Singapore 1999 Country Manager, Paribas Singapore 2000 Chief Operating Officer BNP Paribas, Singapore 2002 CEO & GM for Korea BNP Paribas, Seoul

Buhmsoo Choi	
Date of Birth	December August 8, 1956
Current Position	Deputy President & CFO, Shinhan Financial Group
Education	Advanced Management Program, Harvard Business School Ph.D. in Economics, Yale University
Main Work Experience	2004 Head of Acquisition Steering Committee, Kookmin Bank Chairman & Secretary General, CB Launching Office 2005 Chief Operating Officer, Korea Credit Bureau 2007 Deputy President & CFO, Shinhan Financial Group
Sung Ho Wi	
Date of Birth	June 12, 1958
Current Position	Deputy President, Shinhan Financial Group
Education	B.A. in Economics, Korea University
Main Work Experience	2006 Head of HR Team, Shinhan Financial Group 2007 Head of Business Management Team, Shinhan Financial Group Managing Director, Shinhan Financial Group 2008 Deputy President, Shinhan Financial Group
Chan-Hee Jin	
Date of Birth	June 10, 1955
Current Position	Deputy President, Shinhan Financial Group
Education	B.A. in Statistics, Korea University
Main Work Experience	2002 Head of Human Resources Development Center 2007 Executive Vice President and Head of Treasury & Global Banking Group 2009 Deputy President, Shinhan Financial Group

	Board Steering Committee	Risk Management Committee	Audit Committee	Compensation Committee	Outside Director Recommendation Committee*	Audit Committee Member Recommendation Committee*
Sung Bin Chun						
Kap Young Jeong						
Haeng Nam Chung						
Bong Youn Cho						
Young Seok Choi						
Philippe Reynieix						

Chairperson of Committee

* as of March 31, 2009

* Outside Director Recommendation Committee and Audit Committee Member Recommendation Committee will be formed when deemed necessary.

BOD and Management (Subsidiaries)

Shinhan Bank		Jeju Bank		Good Morning Shinhan Securities	
President & CEO	Baek Soon Lee	President & CEO	Chang Kee Hur	Vice Chairperson	Dong Geol Lee
Outside Director	Kyung Suh Park	Standing Auditor	Young Gil Kim	CEO	Hyu Won Lee
	Sang Rok Seo	Outside Director	Si Hyang Lee	Standing Auditor	Ki Seung Jung
	Jae Ha Park		Kang Nam Lee	Outside Director	Sung Ho Wi
	Cheol Soon Park		Hyang Jin Huh		Kyung Ho Kim
	Sang Hoon Shin		Seung Ik Ko		Ho Joo Shin
	Sung Ho Wi	Deputy President	Seong Chol Kim	Vice President	Jin Kook Lee
	Hirakawa Yuki		Heung Bo Kim		Seoung Hee Hyun
Director & Standing Auditor	Woo Jong Won				
Deputy President	Jeum Joo Gweon				
	Joo Won Park				
	Chan Park				
	Jung Won Lee				
	Hyung Jin Kim				
	Young Hoon Lee				
	Sung Rack Lee				
Executive Vice President	Dong Dae Lee				
	Se Il Oh				
	Yong Byoung Cho				
	Jong Bok Moon				
Shinhan Card		Shinhan Life Insurance			
President & CEO	Jae Woo Lee	Vice Chairman	Dong Woo Han		
Non-Executive Director	Sang Hoon Shin	President & CEO	Jin Won Suh		
Standing Auditor	Ihn Nam	Standing Auditor	Soon Bae Soh		
Outside Director	Byoung Ho Kang	Outside Director	Yee Yong Jo		
	Sang Yong Park		Hwa Nam Kim		
	Young Tak Lee		Sang Kyun Lee		
	Chan-Hee Jin		Jung Bo Lee		
	Young Rae Jo		Byung Chan Lee	Vice President	Keun Jong Lee
Deputy CEO	Hong Kyu Kang		Keun Jong Lee		Jung Kun Lee
	Soo Ik Park		Ki Won Kim		Ki Won Kim
	Hee Geon Kim		Ho Kyung Bae		Ho Kyung Bae
	Chun Kuk Lee		Jae Gun Bae		Jae Gun Bae
	Jong Cheol Kim				



Shinhan BNP Paribas AMC

CEO	Bhang Gil Choi
Deputy CEO	Patrick Mange
Non-Executive Director	Jean Audibert
Outside Director	Max Diulus
	Buhmsoo Choi
	Yee Yong Jo
	Hyo Il Lee
Non-Director Executive	Seung Tae Kang

SH&C Life Insurance

CEO	Herve GIRAUDON
Auditor	Jin Ho Lee
Non-Executive Director	Xavier GUILMINEAU
	Jean Bertrand LAROCHE
	Hyo Il Lee
	Yee Yong Jo
	Sung Ho Wi
	Buhmsoo Choi
Deputy CEO	Sun Koo Kim
	Jean-Christophe DARBES

Shinhan Credit Information

CEO	Pan-Am Lee
Auditor	Kang-Mo Lee
Non-Executive Director	Hee-Geon Kim
	Chan-Hee Jin

Shinhan Capital

CEO	Do-Heui Han
Auditor	Young-Soo Paek
Non-Executive Director	Yee Yong Jo
	Hyo Il Lee
Deputy President	Jun-Gi Eun
	Sun-Yeol Song
Excutive Vice President	Young-Sub Hwang

Shinhan Macquarie Financial Advisory

Chairman	John William Walker
Representative Director	
	Woo Gon Hwang
Auditor	Buhmsoo Choi
Non-Executive Director	Hyu Won Lee
	Hyo Il Lee

Shinhan Private Equity

CEO	Jin Yeong Lee
Auditor	Yee Yong Jo
Non-Executive Director	Sung Ho Wi
	Dong Dae Lee

Management Principles – “ABCD Principles”

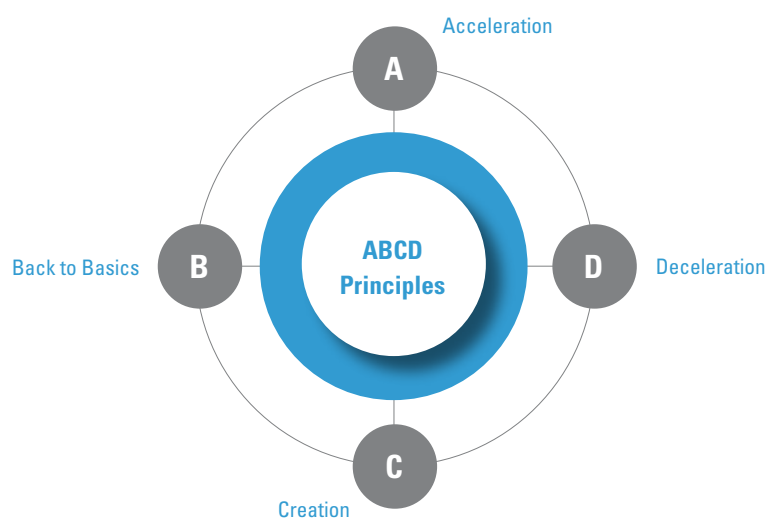
Under the strategic goals of business scale and scope expansion, Shinhan Financial Group has been diversifying its business portfolio while also focusing on securing scale to improve its market position and efficiency. And such efforts have produced sound results so far. However, the financial environment has rapidly changed as the global economic downturn triggered by the recent global credit crisis has spread out. The world financial market is experiencing a predicament completely different from any other it has experienced.

Reflecting the overall situation, SFG has established the following four core management principles that we call the “ABCD Principles.” New approaches and innovative ideas will be implemented to overcome the current crisis and advance into the future, as Shinhan Financial Group develops into a world-class financial group.

The “ABCD Principles” include Acceleration, which refers to increasing the momentum of existing business areas and quickly responding to changing circumstances; Back to Basics, for the areas we need to return to our basic principles for reconsideration; Creation, or developing new pursuits in line with the rapidly changing environment and times; and Deceleration, which refers to areas of existing management practices we should refrain from engaging in or decelerate.

A for Acceleration refers to areas of existing businesses in which we need to hasten the pace of progress.

We will accelerate our efforts to foster balanced growth of both the banking and non-banking businesses. Redoubling our efforts in areas where market leadership has been attained so as to further widen the gap with runner-ups. And in businesses where we have yet to advance, we will lay a firm groundwork on which common efforts will be concentrated to become a leading company in the given industry.





At the same time, we will expedite the ongoing risk management task force project, conduct it more in-depth so that we can upgrade the risk management capability of all group subsidiaries up to the level of Shinhan Bank, while setting up an early warning system with which the group's management may monitor KPIs likely to affect our business.

With regards to the ongoing government driven deregulation initiative aimed to promote sound economic activities and enhance competitiveness of market participants, we will gather our information sources to identify and measure the implications to our operations and be ready to take preemptive responses.

In addition, despite the current conditions, we will spare no investment in talent development – the group's core competency – so as to bring the group's human resource portfolio to the next level.

B refers to areas that need to be reassessed or taken Back to the Basics for reconsideration.

The overarching principle of Shinhan Financial Group, which has led us from our foundation to today, has and will remain unchanged. Our founding principle of "Creating Value for Customers" should be our first and foremost concern amid any circumstances. To this end, we will establish a customer value management system at the group level to concentrate all our energy and resources on regaining customers' trust and maximizing customer value.

In this context, we will readdress the goal of synergy marketing, a capability that differentiates us from others, from producing financial results to creating value for customers to gain "customer value-oriented synergy."

Furthermore, as the importance of accurate customer communication is growing in today's milieu, realistic ways to strengthen customer communication will be proactively explored. Moreover, as a leading financial group in Korea, we will concentrate more energy on social contribution activities at the group level to fulfill our social roles and responsibilities.

In the case of our future growth engine businesses, such as global business and IB, we will retain its basic orientation but, in consideration of internal and external circumstances, our approach will be more cautious and focused on strengthening internal capabilities to secure a solid foundation for sustainable growth.

C, the third principle, refers to taking a creative approach in line with the rapidly changing environment and times.

In this current age of convergence, we have moved beyond the age of information to a time of interaction of various industries. The financial services industry is no exception to this trend. While convergence within the industry and with other industries is quickly taking place, value is already

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New approaches and innovative ideas will be implemented to overcome the current crisis and advance into the future, as Shinhan Financial Group develops into a world-class financial group.
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shifting to next-generation financial service areas where globalization has progressed considerably. The research function within the group will be dramatically enhanced to cope with such paradigm shifts, develop new growth engines, and lead the financial service culture in Korea. Furthermore, to maximize the efficiency of overlapping and redundant areas within the group, we will proactively pursue integration in the group's shared service areas.

Taking into account the recent financial industry environment marked with increasing uncertainty and volatility, a scenario-based management system will be utilized on the basis of the group's contingency plan to effectively respond to rapidly changing circumstances. We will also give positive consideration to financial businesses for public interests such as the promotion of low-carbon, green growth to meet public expectations for financial institutions.

D, the fourth principle of deceleration refers the areas of existing management practices which require deceleration or even termination.

After executing several successful mergers and acquisitions during recent years and persisting organic growth based on broader asset bases, we have expanded on a scale previously unforeseen. Therefore, it is time we take a keen look back at ourselves to see if there are any systematic cracks or flaws within. The side affects of fast paced growth, such as bureaucracy and authoritarianism, have no place within our group.

While doing so, we must also look at ourselves as individuals to assess our goals and see if we have become complacent with our routine practices or if tasks are being affected by short-sighted or narrow-minded issues. In line with this effort, we will reevaluate past projects to see whether the execution was in line with best practices or had there been any conflict of interest amongst related parties, which we missed because of miscommunication. This effort will be an extensive major overhaul encompassing not only the basic operation of our group, but also of the way we think.

Business Portfolio



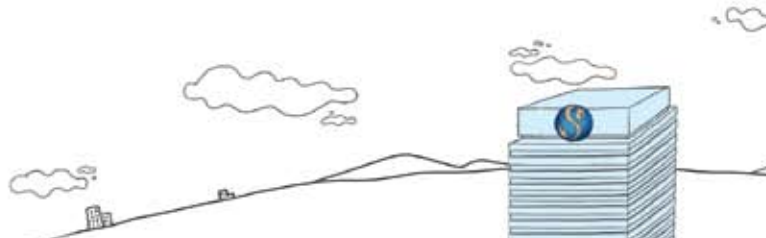
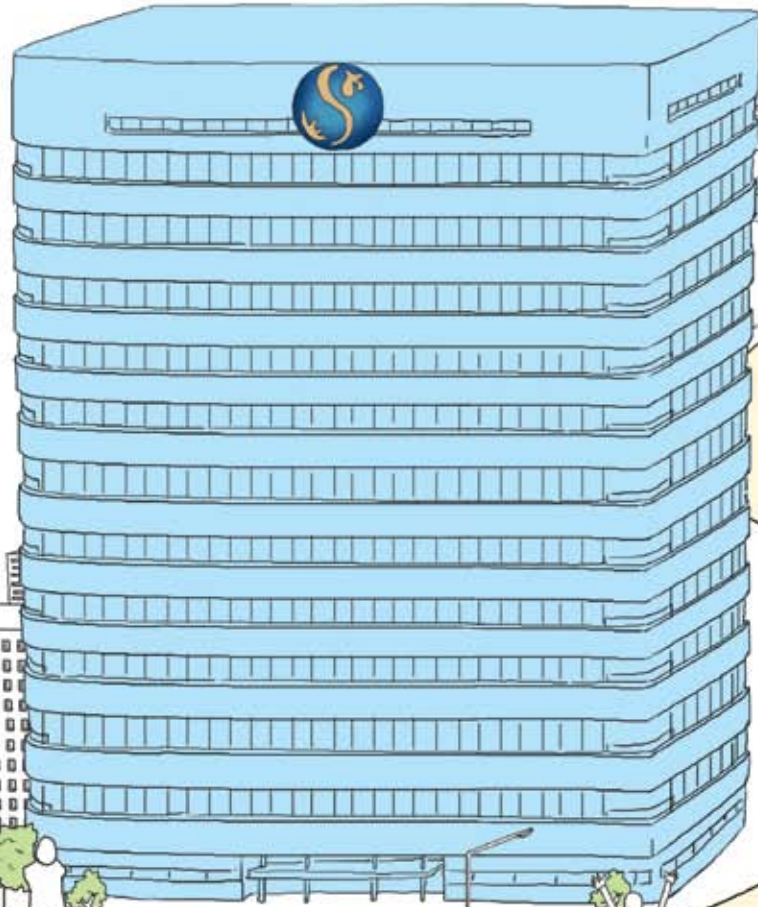
Shinhan Financial Group was able to sustain organic and inorganic growth by persistently facing challenges at hand and successfully closing meaningful rounds of M&As. After integrating the two banks under its umbrella and acquiring LG Card in 2007, SFG has established a well-balanced portfolio as a integrated financial services provider.



SHINHAN FINANCIAL GROUP

(As of March 2009)

Bank	Shinhan Bank	100%
	Jeju Bank	68.9%
Consumer Finance	Shinhan Card	100%
	Shinhan Capital	100%
Securities	Good Morning Shinhan Securities	100%
Insurance	Shinhan Life Insurance	100%
	SH&C Life Insurance	50%
Asset Management	Shinhan BNP Paribas AMC	65%
	Shinhan Private Equity	100%
Others	Shinhan Macquarie Financial Advisory	51%
	Shinhan Credit Information	100%



Inspiring confidence

An experienced management team with a long-term vision and strategy

Since the establishment of the former Shinhan Bank in 1982, SFG has retained an experienced and highly qualified management team, which has been instrumental in charting our growth.

With over thirty years of experience in the financial services industry, SFG's chairman of the board, Mr. Ra Eung Chan, has been instrumental in leading our growth, supported by a strong management team with excellent experience and track records.

Having already led the Group through trying times as well as through a series of successful strategic acquisitions and innovations, SFG's management team is committed to building the business while cultivating a culture of innovation with a long-term vision.

A strong risk management system, robust culture and solid track record

Recording a profit every year since its 1982 inception, even during the chaos of the 1997 and 1998 Asian financial crisis and the credit card crisis in 2003 and 2004, SFG's unblemished track record is due to our firm emphasis on conservative lending policies and systematic risk management. As such, risk and credit management, which is at the core of our capabilities, has been thoroughly integrated into all aspects of our subsidiaries' daily operations.

The credit approval systems of our subsidiaries provide efficient and centralized credit rating procedures to ensure compliance with their internal risk management policies. SFG's subsidiaries have strengthened central risk and credit operations by promoting close communication between relationship managers and credit officers, utilizing proven models to better quantify credit risk, make more accurate risk-based pricing decisions, reduce delinquent loans and distressed assets and maximize the recovery value of non-performing loans, and increase accountability and efficiency throughout our loan approval and monitoring processes. These risk and credit management systems have contributed to our financial strength, as is represented by our consistently low delinquency ratios and non-performing loan ratios when compared with other major commercial banks in Korea.



Vision and Strategy

Shinhan Financial Group is Korea's first private sector-led financial holding company. Founded in 2001, SFG is based on Shinhan Bank, which was established in 1982. The holding company model was specifically designed to overcome the limitations of the previous bank-centered domestic financial business model, and to more actively address the quickly-changing financial environment at home and abroad while diversifying customer needs. Shinhan Financial Group appropriately implemented parallel organic and inorganic growth strategies through several successful M&As, such as the acquisitions of Cho Hung Bank in 2003, Shinhan Life Insurance in 2005, and LG Card in 2007, allowing it to become a balanced 'universal financial group' with eleven subsidiaries, including those in the banking, securities, credit card, insurance, and asset management sectors.

The mid-to-long term vision of the group is to become a 'world-class financial group' with strenuous efforts being made to attain a level of the 'world's top 50 and Asia's top 10' by securing a stable profit foundation through balanced growth of all business lines. Its key strategies are to secure a differentiated competitive edge for each core business line and to maximize synergy generation as a genuine universal financial group. In addition, thoroughgoing efforts will be made to bolster the group's leadership in the capital market business and obtain momentum for success in the global business.

Ensure a differentiated competitive edge in core business lines

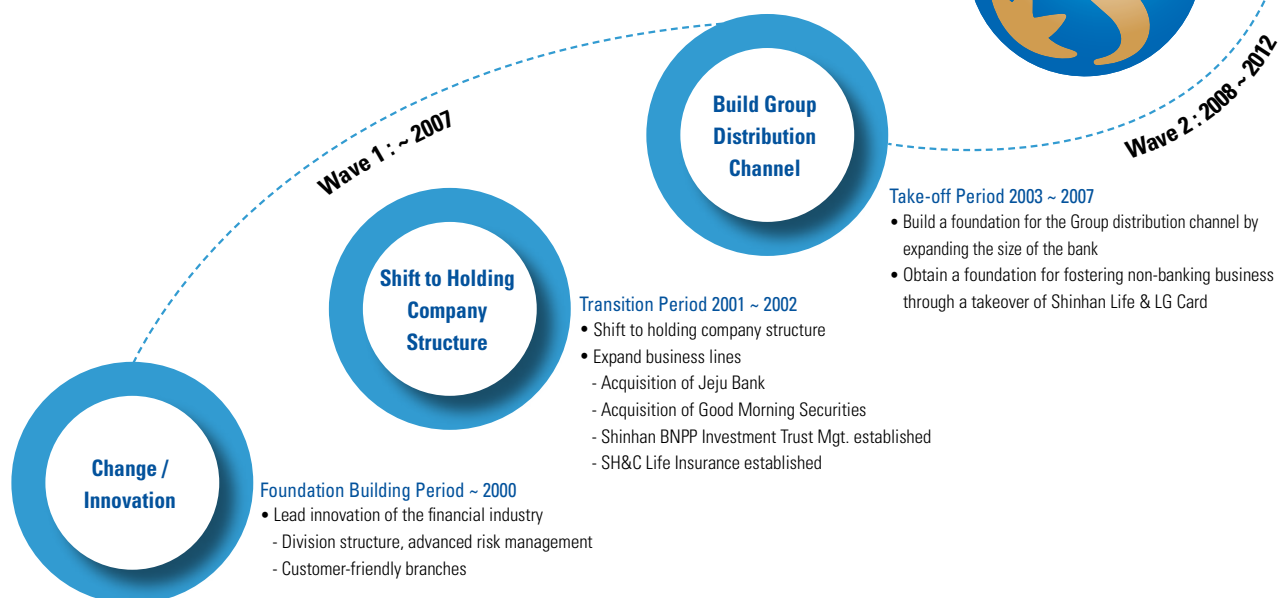
In terms of the banking sector, its role as the group's distribution channel will be further strengthened, expanding the customer base through traditional bank (commercial banking) business innovation. The banking sector will lead the future growth of the group by bolstering its competencies in key future development areas, including IB and PB.

In terms of the credit card sector, synergy effects among the group's subsidiaries will be maximized and business models will be innovated, including the establishment of an optimal channel model to reinforce the group's market leadership.

SFG Vision

World Class Financial Group: Global Top 50 / Asia Top 10

- Balanced growth of bank/non-bank business
- New value creation
 - Identify new growth drivers
 - Differentiate business model
- Build global capabilities and system





In terms of the securities and asset management sector, a foundation will be established for the group to advance into a market-leading financial investment company by establishing the group's financial investment model, strengthening the group's role as a 'product manufacturing center,' developing competitive business models in areas where rapid growth is forecasted, such as wealth management and IB, and cultivating the group's representative mutual fund products.

In terms of the insurance sector, the group will advance into a leading insurance business group by exploiting new growth opportunities through the innovation of the channel structure and strengthening of competencies in preparation for an aging society.

Maximize synergy generation as a genuine universal financial group

Synergy among subsidiaries will be maximized to enhance the value of each business line and to boost customer value. To this end, three key tasks will be executed: promote the sharing of customer information among subsidiaries; expand the sharing of sales channels among subsidiaries; and strengthen customer management and the product recommendation system. In so doing, the group will offer optimal products and services that befit the group's reputation as a genuine universal financial group.

Strengthen leadership in the capital market business

Plans have been drawn up to actively establish the capital market business as the group's future growth foundation, along with the group's global business, based on the growth of the asset management sector. To this end, IB business models will be created at the group level, the capability to produce and distribute financial investment products will be strengthened, and professional human resources will be secured.

Obtain momentum for success in global business

An extensive overseas network, in the form of overseas subsidiaries, branches, and offices, will be built to develop the group's future growth engine, increase the contribution to net income by the global business sector and strengthen business competencies.

SFG vision and mid-to-long term strategy

Vision	World Class Financial Group				
Strategic Objective	Global Top 50 / Asia Top 10				
Key Strategy	Ensure differentiated competitive edge in core business lines	Maximize synergy generation as a genuine universal financial group	Strengthen leadership in the capital market business	Obtain momentum for success in global business	
Capability Base	Innovative distribution network	Management support infrastructure & systems	Premium brand	Shared group culture & talent development	Efficient governance structure
2009 Management Goal	Sound foundation, Sustainable growth				
	Strengthen group business portfolio fundamentals	Develop differentiated business models for existing businesses	Build new growth pipelines		

Capital Management

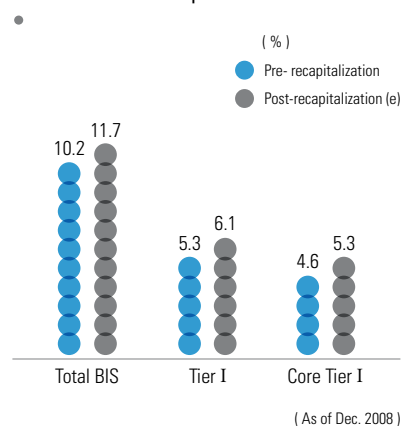
Recapitalization by key global financial institutions, which began in the second half of last year, was a corporate action carried out in response to market concerns over the asset quality of financial institutions and the change of investor appetite for a more comfortable core capital (Core Tier I) due to the effects of the economic downturn triggered by the global financial crisis.

With this in mind, Shinhan Financial Group's BOD deliberated on and passed a resolution to pursue a rights issuance, in which the offering was limited to existing shareholders in order to minimize the decrease in shareholders' equity ratio and maximize subscription. Our group successfully increased its capital by approximately KRW 1.3 trillion at the end of March this year. It became the first among domestic financial institutions to successfully complete a preemptive and active capital take-up. By doing so, the group addressed future uncertainties and secured distinctive competitiveness for continuous growth. It has thus enhanced value for shareholders and further strengthened its status as a leading financial institution.

The new shares issued as a result of the recapitalization totaled 78 million common shares, accounting for roughly 19% of total common shares issued. Approximately 0.1452 shares were allocated per share to existing shareholders and as a result of the fresh capital increase, the group's capital base rose by KRW 1.3 trillion. As of the end of 2008, the group's consolidated BIS capital adequacy ratio increased by 1.5%p (10.2%→11.7%), the Tier I ratio by 0.8%p (5.3%→6.1%), and the Core Tier I ratio by 0.7%p (4.6%→5.3%).

Since its transition into a financial holding company structure, Shinhan Financial Group has been increasing its enterprise value through dynamic M&A activities and solid strategy implementations based on orchestral management. This recapitalization, the first ever to be carried out by a domestic financial holding company, has positioned the group to implement more flexible capital policies, thereby contributing to efficient allocation of resources so that such policies are in line with the long-term direction of business strategies. This will ultimately enhance shareholder value. In addition, the group's reputation in the market will be further strengthened by deepening ties with existing customers while also attracting new, high-quality customers.

Changes in the Capital Ratio and the Group's BIS Ratio after Recapitalization



Corporate Governance



Shinhan Financial Group establishes fair and responsible corporate governance to offer more value to stakeholders and shareholders, the owners of the company, and to advance into a world-class financial group. Focus is being placed on streamlining the group's ownership structure by making use of the most advantageous characteristics of a holding company; and on enhancing transparency of the group's decision-making structure.

Composition of the BOD and sub-committees

Shinhan Financial Group places the highest priority on strengthening the professionalism and independence of the BOD. To increase the professionalism of the BOD, five expert outside directors are appointed. In addition, separate sessions by outside directors are being held to ensure the independence and authority of the outside directors in monitoring and supporting general business operations.

The sub-committees of the BOD enable sufficient incorporation of the competencies of individual directors in various BOD activities. Each committee is specifically designed to represent the interests of stakeholders, shareholders in particular, while keeping the business operations of executive management in check and balance as well as providing constructive alternatives. To assist with their fiduciary duties as a board member, a BOD secretariat that provides transparent information on corporate management and explanation of BOD's agenda is in place.

Board Steering Committee

Comprised of five directors, the Board Steering Committee deliberates on matters relating to the governance structure of the company; recommends a member of the committee for the BOD; recommends executive director candidates, excluding outside directors; deliberates on the appointment and dismissal of members of executive management, excluding the company's directors; and decides on other BOD operation-related matters.

Risk Management Committee

Composed of three outside directors, this committee develops basic risk management policies that are in line with management strategies, and gives approval for appropriate investment limits or loss tolerance limits.

Audit Committee

The Audit Committee is made up of four outside directors, including one accounting expert. It oversees and audits the company's accounting and audit work. It has an auditing team within the holding company which is assisting the committee to engage in efficient audit work.

Outside Director Recommendation Committee

The committee, assembled when necessary, recommends the company's outside director candidates and makes decisions on other necessary matters with regard to such recommendations.

Compensation Committee

Comprised of five outside directors, this committee evaluates the company's executive management and decides, deliberates, and adjusts the compensation system.

Audit Committee Member Recommendation Committee

Composed entirely of outside directors and assembled when necessary, this committee recommends candidates for the company's audit committee and makes decisions on relevant matters.

Risk Management

Shinhan Financial Group manages various risks that can occur in each business area. Key targets are credit risk, market risk, liquidity risk, interest rate risk, and operational risk. These risks are recognized, measured, controlled, and reported in accordance with basic risk management guidelines established at our holding company level.

Organization

Basic policies and strategies on the group's risk management are drawn up by the Risk Management Committee of the board of directors at the level of the holding company (hereinafter referred to as the Group Risk Management Committee). The executive in charge of risk management of the holding company gives advice to the Group Risk Management Committee and discusses the risk management policies and strategies of the group and its subsidiaries at the Group Risk Management Council, which is comprised of executive officers of risk management from its subsidiaries. Each subsidiary executes the group's risk policies and strategies through its own risk committee and a dedicated risk management organization of each company. Subsidiaries also set up and implement consistent and detailed risk policies and strategies. The Risk Management Team of the holding company assists the executive in charge of risk management of the holding company, and executes regular risk management and supervision work.

In order to maintain the group-wide risk at an appropriate level, we have established a hierarchical limit system. The Group Risk Management Committee establishes risk limits for the group and each subsidiary. Each subsidiary establishes and manages more detailed risk limits by risk type, department, office desk and product.

Group Risk Management Committee

The Group Risk Management Committee establishes the risk management system of the holding company and each subsidiary, and comprehensively manages group risk related matters, such as the establishment of group risk policies and the setting and approval of limits.

The committee consists of three outside directors of the holding company, one of whom is appointed as the chairperson of the committee. The committee makes decisions on the following:

- Establishing basic risk management policies that are consistent with management strategies
- Establishing risk limits for the group and each subsidiary
- Approving appropriate investment limits or allowed loss limits
- Enacting and amending risk management regulations
- Attending to other matters that the board of directors and committee recognize as necessary

The decisions of the Group Risk Management Committee are reported to the board of directors.

Group Risk Management Council

The Group Risk Management Council deliberates on various risk-related details of the group to maintain consistency in the group's risk policies and strategies. The chairperson is the executive in charge of risk management of the holding company. The head of the Risk Management Team of the holding company and the executive officers in charge of risk management of each subsidiary comprise the members.





The Group Risk Management Council discusses the following:

- Matters related to subsidiary risk policies and strategies
- Matters requiring joint deliberations in relation to risk management at the group level
- Risk management matters related to supporting funds to subsidiaries
- Other matters decided by the chairperson

The Group Risk Management Council sets up and operates a sub-council to review and discuss matters in advance and to ensure smooth operations.

Basel II Execution Status

The Financial Supervisory Service (hereafter FSS) announced that it would adopt Basel II in Korea starting from 2008 and execute the Advanced Measurement Approach starting from 2009.

Currently, the FSS has opened the window for Basel II only to banks. As such, our banking subsidiaries, Shinhan Bank and Jeju Bank, have adapted Basel II. Furthermore, preparation plans are in place to expand application of Basel II throughout our subsidiaries once FSS announces its plan to expand Basel II application to non-banking sectors. However, the schedule for implementation is yet uncertain.

To effectively prepare for the adoption of Basel II, Shinhan Bank established a project team in February 2004 dedicated to overhauling relevant business processes, systems, and organizations since that time. At the end of 2006, the development of the new system to equip the Basel II model was completed. Throughout 2007, a lengthy period of back testing, prior operation and validation were conducted to trim and tune the system to meet stringent Basel II requirements. In addition, we overhauled organizations and business processes to ensure the independence and appropriateness of our Basel II system and credit evaluation models.

Thanks to these efforts, Shinhan Bank acquired FSS's approval in April 2008 for the Foundation Internal Rating Based (FIRB) method with respect to credit risks. Shinhan Bank has also applied for the approval of the Advanced Measurement Approach for operational risks. Our goal is to use the Advanced Internal Rating Based (AIRB) method for credit risks in the long term.

Shinhan Bank is making continuous efforts to satisfy the qualitative requirements of Basel II on general management and business processes. Such efforts include the re-establishment of a transparent loan underwriting process, reconstruction of a credit evaluation system that reflects characteristics of transaction exposures and evaluation of borrowers' nonpayment risk, and expanded application of the RAPM and profit-and-loss evaluation that considers estimated losses. Ultimately, our goal is to advance our risk management level to a world-class level and instill the culture of risk management.



Achieving balance

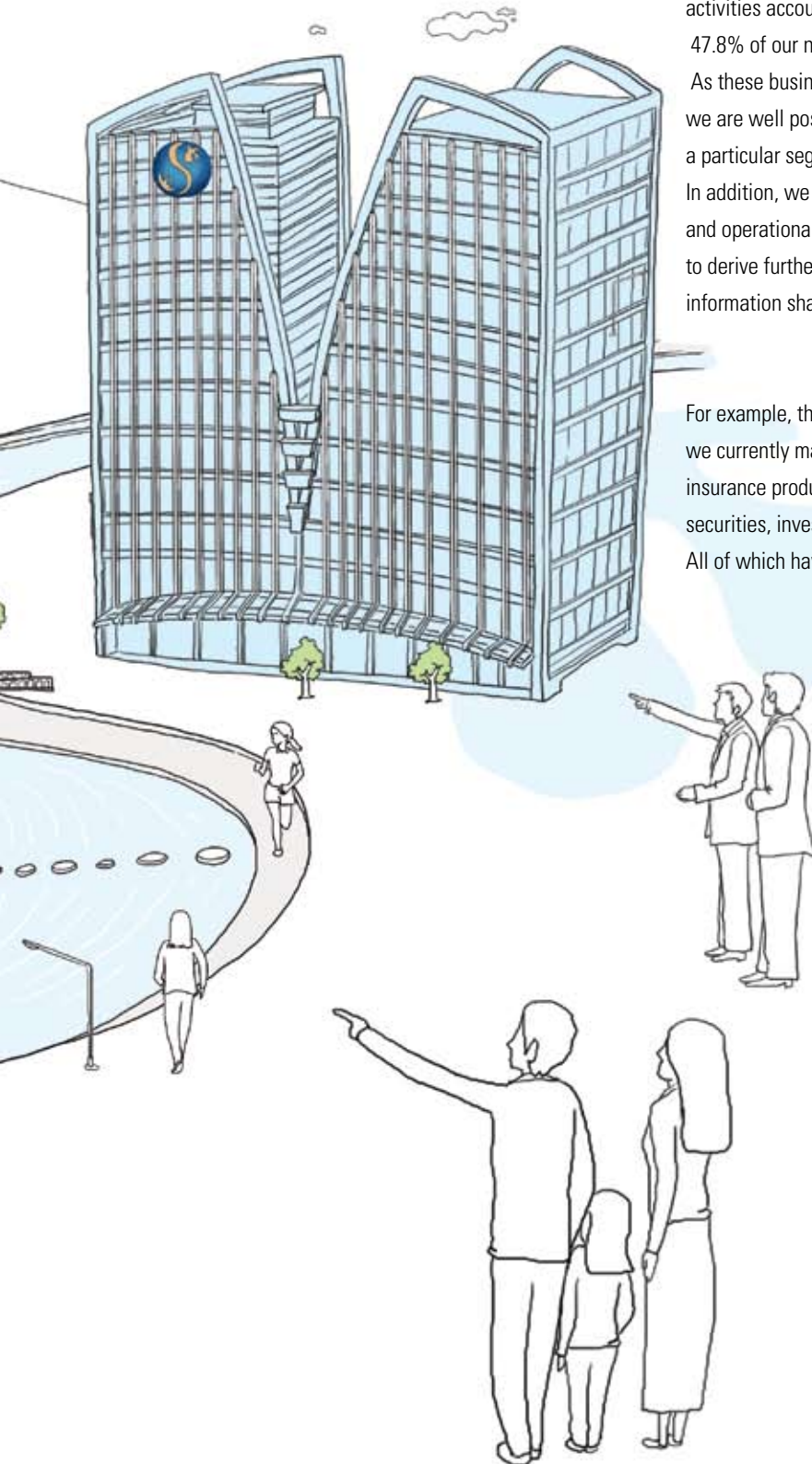
A balanced business portfolio with a strong potential for synergy

We at SFG have developed a well-balanced portfolio of core businesses in banking, credit cards, securities, life insurance and asset management, with our non-banking activities accounting for approximately 15.6% of our revenues and approximately 47.8% of our net income in 2008.

As these businesses provide us with a diversified source of income, we believe we are well positioned to withstand business, regulatory or other challenges that affect a particular segment of the financial industry in Korea.

In addition, we believe the shared networks of customers, distribution channels and operational centers among our subsidiaries afford us with a common platform to derive further synergy and scalability primarily through, cross-selling, information sharing and cutting costs through informational technology integration.

For example, through our extensive banking branch network, we currently market credit card products, investment fund products and insurance products including bancassurance products developed by our credit card, securities, investment management and insurance subsidiaries, respectively. All of which have significantly contributed to our revenues.



Synergy

One of the greatest benefits of being a comprehensive financial group is the ability to create synergy profits by sharing customer information among subsidiaries. The landmark acquisition of Cho Hung Bank and LG Card led to Shinhan Financial Group's establishment of various business lines, including banking, credit card, securities, insurance, and investment trust. The group can now offer various products that meet the diverse financial needs of customers. It has thereby developed outstanding abilities to generate synergy-based operating income, in comparison to its competitors, based on approximately 1,400 branches across the nation and a customer base that consists of around 24 million people from various economic backgrounds.

The basic form of synergy sales involves selling the various financial products of competitive non-bank subsidiaries to customers through bank distribution channels. For example, an individual is being provided of a variety of financial products of Shinhan Financial Group such as credit card, fund, and bancassurance products, at single counter desk of Shinhan Bank. In terms of corporate customers, the group further boost its introduction of competitive financial services to targeted customers in sectors of securities and asset management (example: IB, bond underwriting, Initial Public Offering (IPO), and ABS issuance). To this end, the accumulated customer information by our subsidiaries and the recently established group level integrated Customer Relationship Management (CRM) system is a valuable asset. Furthermore, we will contemplate not only refining the system itself but also introducing a more sophisticated and systematic approach to meet the various needs of our customers.

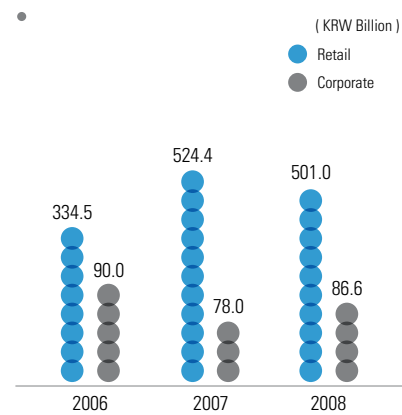
Shinhan Financial Group's drive to strengthen the foundation for creating customer values through synergy will be a continuing effort. Such synergy efforts will be pursued based upon a clear understanding of our customers, for which our group's effective network and customer base is a stronghold. In addition, we will look more closely into the changes and implications the new regulations under the Capital Market Act will bring to the financial market, which in turn will open new venues for synergy creation for our customers.

Review of the Key Synergy Performance of 2008

Under the strategic goal of "strengthening the foundation for creating customer value through synergy," Shinhan Financial Group has strengthened the group's integrated CRM capabilities. We have promoted customer information sharing among group subsidiaries through the integrated CRM Mart and established a foundation to implement integrated customer loyalty programs. Simultaneously, we have strengthened the group's synergy sales structure by developing a sales introduction system in 2008. In particular, Shinhan Bank and Shinhan Card steadily continued the credit card settlement account conversion campaign resulting in the opening of 3 million accounts at Shinhan Bank to settle credit card bills from Shinhan Card. As a result, we have observed an increase in the credit card sales volume with the banking sector taking deposits of low-cost funds. This is a prime example of synergy-generating marketing among subsidiaries the group wishes to pursue, creating a win-win situation for all.

The synergy marketing profits generated by the group in 2008 witnessed a year-on-year decrease of 2.4% to record KRW 587.6 billion. The personal finance sector recorded KRW 501 billion, while the corporate finance (IB) sector recorded KRW 86.6 billion. The main causes for the decrease were a 20% decrease in fund returns and a 30% decrease in financial network account (FNA) profits, owing to a sharp deterioration in customers' investment sentiment due to the global financial crisis in the second half of the year. In 2008, however, Shinhan Financial Group further increased cross-selling based on

Group's Synergy Review





its expanded channels and customers, resulting from the integration of credit card companies. The group's pursuit of world-leading synergy competencies and business models made it a meaningful year for SFG. The group offered various mutual fund and tax benefits products, in line with its goal of providing the market's top products; developed new credit card products and services in connection with the banking sector; and released foreign-currency FNAs and expanded the scope of overseas countries subject to FNA.

2009 Plan

The strategic goal of Shinhan Financial Group for 2009 is to "promote the group's 24 million customers into customers who engage in cross activities." based on the three initiatives as follows;

First, we will enhance customer value and strengthen the synergy foundation. As our goal for 2009 is to acquire more than 11.5 million cross product users, we will pursue active synergy marketing throughout the group. However, more focus will be placed on customer value maximization. In other words, the group will engage in customer-oriented "up sell, cross sell" marketing that offers the most appropriate and competitive products based on the change in market environments, rather than simply following the trend in sales. By doing so, we may add more customer values as well as increase our synergy sales.

Second, the integrated CRM capability of the group will be enhanced and joint marketing activities among group subsidiaries will be promoted. The group's integrated CRM capability and marketing execution process will be further tuned to allow for efficient synergy marketing. Moreover, products and services will be developed on a group level through the joint efforts of subsidiaries for more effective joint marketing and sales.

Finally, we will make efforts to maximize the cost-benefits of synergy. The group's shared services will be strengthened by optimizing the use of competencies and resources owned by Shinhan. We will further develop the cost synergy-generation structure, including the execution of strategic purchasing through selection and concentration in key areas and the establishment of an integrated purchase information management structure among subsidiaries.

2009 Synergy Strategic Goal

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Strategic Goal	Customer Value Creation			
Customers Into	Convert the group's 24 million cross-active customers			
Key Tasks	Strengthen the synergy foundation for enhancing customer value	Enhance the group's integrated CRM competencies	Promote joint marketing among subsidiaries	Maximize cost synergy based on selection and concentration
Optimal use of the group's channels, products, service skills and resources				

Retail Banking

The business environment in the retail banking sector has been unfavorable, weighed down by the sluggish stock market and further decline of the real estate market in the latter half of the year. Such market conditions have resulted in bank competition over growth and asset size to subside. However, with more attention to establishing a firm foundation for long-term growth, Shinhan Financial Group has concentrated its efforts in areas of synergies. Furthermore, we were successful in offering Shinhan Bank's hybrid bonds and subordinated bonds as well as teaser rate special deposits by identifying and attracting customers motivated by the "flight to quality" earlier than our peers.

Key Retail Banking Performance in 2008

Retail Banking sustaining strong performance amidst the financial crisis

- The Group's loans in KRW totaled approximately KRW 120 trillion as of the end of 2008. Categorized into mortgages, home equity loans and other consumer loans, such as general unsecured loans or loans secured or guaranteed by deposits or 3rd party guarantors, household loans accounted for 47% (KRW 56.1 trillion) of total loans. Mortgage and home equity loans were KRW 34.5 trillion, accounting for around 62% of the total household loan balance. Of the home mortgage loans, long-term mortgage loans posted KRW 21.5 trillion, substantially contributing to stable generation of interest returns.

In terms of deposits, there was a steep rise in savings deposits as a result of a temporary increase in the market interest rate and the sluggish stocks market in the second half of last year. Total funding raised by Shinhan Bank, which includes deposits and marketable securities such as financial debentures and certificates of deposits, reached around KRW 134 trillion, of which savings deposits took up 42%, low-cost deposits 27%, financial bonds 21%, and other marketable deposits including CDs, 10%. The group maintained a stable foundation for deposits by effectively using its nationwide channel network and customer base.

In particular, the settlement account campaign that the group has been continuously carrying out since the acquisition of LG Card in February 2007 is leading to great achievements. At the time of the acquisition, just 8% of LG card members had their settlement account at Shinhan Bank. However, effective use of bank channels and telemarketing over the last two years has resulted in nearly 50% of members using Shinhan Bank as the credit card settlement bank. As a result, the average balance of low-cost deposits has risen in a situation where an increasing number of customers were shifting their money to high yield products such as CMA products and mutual funds. Another attribution for the group is that credit card customers with a Shinhan Bank settlement account exhibit higher transaction amounts and usage ratios than that of non-Shinhan Bank settlement account customers.

Retail Banking Strategy for 2009

2009 will be another challenging year for number of reasons; the ongoing aftershock of the global financial crisis, the sluggish real economy, the still-fragile financial market and real estate market, increased household insolvency, prolonged low interest rates, and a loss of confidence in financial institutions. Under such circumstances, our strategy focus will weigh on preemptive risk (quality) management, enhancement of profitability, establishment of a stable funding foundation, recovery of customer trust, and distinctive customer management. At the same time, we will conduct a close examination of the new Integrated Capital Market Act and its implication so that we can prepare

Shinhan Bank Wins the Award for Best Retail Bank in South Korea, 2008





ourselves not only for the strengthened systematic and regulatory environment but also for new marketing opportunities. Such efforts include increasing the expertise of fund sales, enhancing the BIS ratio, increasing available deposits, and facilitating connected sales of face-to-face and non-face-to-face channels.

Strengthen future competitiveness by generating customer value

The Retail Banking group of Shinhan Financial Group set detailed execution methods under the management strategy of "Retail ABCI: Recovering customer confidence to strengthen future competitiveness" after closely conducting internal studies of recent trends and analysis of the financial environment of 2009.

First, we will pursue selective, quality asset-oriented growth, by strengthening delinquency management and flexible household loan management each quarter, in order to strengthen efficient management of risk and asset growth (Asset Quality Improvement).

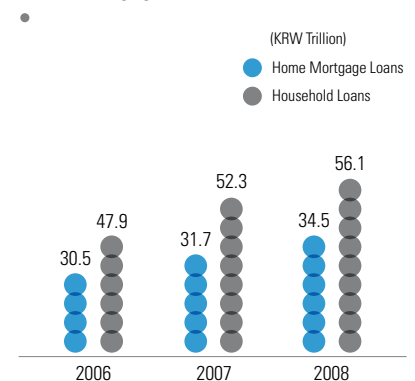
Second, in order to increase profitability, we will improve the funding structure by increasing the pitch of deposit-taking efforts, in particular converting payroll accounts and opening new accounts. At the same time, to secure appropriate margins, we will review the loan pricing system and verify whether the proper fund transfer price is being applied to retail customers (Build up Profitability).

Third, we will retain fund customers and defend against the attrition of existing customers by strengthening customer management (Customer Relationship Enrichment). We will continue to broaden the customer base and expand business relations with customers of other subsidiaries of the group.

Fourth, we will establish a systematic infrastructure (Infrastructure Upgrade). In 2009, Shinhan Financial Group created the Retail Support Headquarters, which consists of three departments – the Marketing Department, Product Development Department, and BPR Department – to provide full support for marketing, products, and processes in the retail sector. Based on this organizational structure, we will rebuild mutual fund selling schemes; reform the retail counter operation structure; strengthen customer management and connected sales between face-to-face and non-face-to-face channels; and make business processes more efficient by improving BPR and expanding target businesses.

Retail banking has been a traditional strongpoint of Shinhan Bank as well as the group as a whole. Not only will we continue our thoroughgoing efforts to strengthen customer ties and to create new values for all, but we will also focus on responding preemptively to the difficult economic conditions at home and abroad.

Increase in Household Loans and Home Mortgage Loans of Shinhan Bank



Corporate Banking

At Shinhan Financial Group, the main customers of corporate finance include large corporations, small-to-medium sized companies, and public organizations. The group aims to become the “best financial partner in creating customer value” by offering stable funding and various services to the corporate sector, while contributing to the development of the national economy. Last year we experienced a rise in corporate bankruptcies, loan delinquencies, and bad assets, owing to the sharp economic slump. Nevertheless, even in this environment, Shinhan Financial Group has faithfully performed its roles as a leader in the corporate finance market by creating customer value through selection and concentration on key areas.

Key Corporate Banking Performance in 2008

In 2008, the corporate finance market achieved sharp growth, mainly based on quality SMEs of external audit companies, despite the global credit crunch and sluggish world economy. This is due to strengthened government financial support policies for small-to-medium sized companies and because of a rise in corporate demand for funds owing to the economic downturn. Shinhan Bank's corporate KRW loans reached approximately KRW 63.7 trillion at the end of 2008, demonstrating stable growth of around 18.5% from the previous year. Loans to small-to-medium sized companies posted KRW 52.4 trillion, while loans to large corporations and public organizations recorded KRW 11.3 trillion. In particular, competition among banks has been intensive during the previous three years (2006-2008) in terms of small-to-medium sized company loans. Shinhan recorded a high market share and maintained a low delinquency ratio compared to the industry average in 2008, thereby substantially contributing to the group's income.

Cross-selling contributes to non-interest income Active synergy co-marketing was implemented throughout 2008. Through joint marketing with subsidiaries, including GMSH Securities and Shinhan Capital, we have aggressively moved onward in areas of IPOs and issuance of corporate bonds CBs, and BWs. Corporate customers were introduced to our subsidiaries who may provide their unique services to meet diverse financial needs. For instance, Shinhan Card actively marketed corporate customers introduced by us to pay employment insurance and industrial disaster insurance premiums by credit card, thereby benefiting both subsidiaries.

Exploring new business areas to secure future sources of profit New business areas in which we can secure future source of profit were explored. We have discovered that there was a need to engage in comprehensive marketing that combined consulting functions to traditional loan products. Accordingly, the Strategic Sales Headquarters was created in the bank in July 2008 to take charge of strategic new business areas. The roles of the Strategic Sales Headquarters include strategically attracting target customers, providing consulting on the business succession, providing Real Estate Total Service (RETS), and engaging in CIB sales. This body will form a foundation for strengthening marketing for the potential corporate finance market, which has a high possibility of growth.

Maintaining soundness through preemptive risk management Risk management was also a center of attention. In early 2008, a “risky loan management system” was adopted to perform preemptive management of low credit companies and “early warning companies.” In addition,





efforts were made to minimize the delinquency ratio by conducting regular loan reviews on branches with potentially bad loans. Moreover, loan support was provided selectively to comparative advantage companies.

Corporate Banking Strategy for 2009

The group defined a strategic goal for 2009, based on the performance of 2008 called: "Take the lead in making our corporate finance department distinctive by improving asset and profit structures while strengthening their inner substance." Initiatives stated below will be implemented to successfully achieve this goal.

First, we will establish a sustainable growth foundation and continually improve the profit generation structure.

We will engage in efficient asset management by maintaining an appropriate asset level by quarter, and actively implement socially responsible management by strengthening financial support for small-to-medium sized companies. Additionally, efforts will be made to strengthen marketing for long-term growth products, such as retirement pensions, and to develop new businesses.

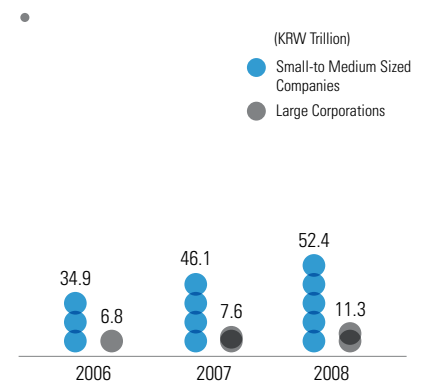
Second, we will engage in preemptive risk management and develop new businesses to expand profitability.

We will continuously engage in preemptive risk management with regard to potentially problematic assets, and strengthen early management of these loans through collaboration with relevant departments. In addition, by selectively targeting future growth industries, we will seek to maximize our earning profitability.

Third, we will work on maximizing organizational competencies and productivity.

The competencies of employees will be further developed – especially Senior Relationship Management (SRM) marketing capacity. In addition, we will improve customer-oriented events to reinforce ties with customers, and boost productivity by overhauling the SRM system.

Increase in Corporate Loans of Shinhan Bank



Credit Card

On October 1, 2007, former Shinhan Card and LG Card were integrated as the new Shinhan Card under the motto of 'One Company, One System, One Culture'. The integration of the two companies resulted in a strong customer base – with the number of active card-holders reaching 13.6 million and a market share at 23.9%. The net earnings of KRW 940.6 billion achieved by Shinhan Card during 2008 allow it to stand tall among its peers. Within Shinhan Financial Group, Shinhan Card's contribution to the total net income reached 34.3% as of 2008 year end, establishing itself as another core business line of the group.

Although these financial results are important, what we value more are our customers. In this regard, the 'Customer Satisfaction Management Award,' we received, provided a meaningful achievement, highlighting the trust and reliance from our customers and the market.

All in all, Shinhan Card is on course, laying the groundwork for the sustainable growth of the group.

Key Credit Card Performance in 2008

Under the umbrella of Shinhan Financial Group, the distribution channel has meaningfully expanded. Now there are 3 channels by which Shinhan Card attracts new customers – 1,052 bank branches of Shinhan Bank, 30 credit card branches and credit card underwriting agencies

A balanced management scheme

- Reshuffling our asset mix was a key achievement in 2008. By establishing an optimal asset portfolio that ranges from credit card to card loans, and installment financing to auto leasing, we have established an operation and management system to survive and sustain even the toughest situations. As a result of management rationalization measures that involved enhancing organizational efficiency by reforming the network of headquarters and branches, as of 2008 year end we are now comprised of 15 headquarters and 52 teams across the nation, and 4 headquarters, 48 branches, and 3 depots.

Development of competitive product lines

- In 2008, Shinhan Card launched 30 new products that incorporate customer needs and lifestyles. Of the new products, the 'Shinhan Love Card' provides various benefits and its services are connected with the group's other subsidiaries. It recorded a remarkable performance, with the number of issuances exceeding 2 million in just 15 months. In 2009, Shinhan Card plans to promote the issuance of the Love Check Card, which offers a wide array of value-added services that will meet the needs of customers, who will likely become more interested in efficient spending due to the increased sluggishness of the economy in 2009.

Providing optimal products and services

- Shinhan Card is providing optimal products and services that are suitable for customer lifestyles, based on a scientific customer management system and elaborate individual marketing. Adding to this is the infrastructure of the largest product sales network and merchant network, which allows customers to easily use Shinhan Card credit cards almost anywhere they go. Asset quality, which has become one of the main areas of concern, is also maintaining a world-leading asset quality level due to the industry's top credit management skills as of date.





However, we will not become complacent with our achievements. Continuous efforts in pursuit of creative changes and innovation for customer value creation and customer satisfaction will be carried out persistently.

Credit Card Strategy for 2009

Balanced growth based on management with substance

The business environment is forecast to remain uncertain and difficult, as a result of the continued economic downturn and contraction of consumer spending in 2009. However, as the top credit card company leading the market, Shinhan Card established VISION 2012, which is a mid-to-long term vision to become a 'world-leading credit card company that leads the future of the credit card industry,' going beyond the boundaries of Asia.

To weather the current crisis and prepare for a bright future, Shinhan Card has set a strategic goal of achieving 'balanced growth based on substantial management.' To this end, we will execute five strategic initiatives. First, we will strengthen our capability of preemptive risk management. Also, we will identify and remedy areas in which inefficiencies and costs saving potential are still present. In terms of market presence, although we have attained market leadership, competition for market share within the credit card business is ongoing. We will further strengthen our market position while not participating in cut-throat competitions. With the co-work between group subsidiaries we will improve models for generating synergy within the group, thereby establishing a foundation for mid-to-long term growth.

By systematically operating its enterprise-wide risk management system, Shinhan Card will thoroughly prepare for a business environment with great uncertainties, and innovate its cost structure to ensure efficient management. The company will also continue to develop distinctive products and services based on convergence with other business types, thereby making efforts to develop future growth drivers and new profit sources.

Key Status of Shinhan Card

	No. of Customers (Thousand)	Net Income (KRW Billion)	Market Share (%)
2008 Performance	13,600	960.4	24

Wealth Management

Shinhan Financial Group offers distinctive asset management services to customers with considerable assets, as a “personal financial physician.” Wealth Management is being provided by two subdivisions based on the target customer base. They are the Private Banking Division, which provides comprehensive asset management services to customers with financial assets amounting to at least KRW 1 billion (High Net Worth Individuals; HNWI); and the Wealth Management Division, which offers services to customers with assets amounting to at least KRW 100 million (Mass Affluent).

The Private Banking Division is comprised of the PB Center, which handles sales, and the PB Customer sector, which supports the PB Centers. The service provided by the PB division ranges from financial services, including bank, securities, insurance, and investment trust, to non-financial services, including comprehensive real estate management services, tax/legal services, and inheritance services, as well as “life care” services, including health, travel, shopping, and golf. Such versatile financial services are being provided based on the well-balanced network of Shinhan Financial Group.

Newly established in 2009, the Wealth Management Division’s objective is to expand asset management sales throughout the bank. It provides professional services through the VIP windows of branches and 54 V-Rounds, to customers and potential customers with assets of KRW 100 million or more. Such services include distinctive investment counseling, efficient portfolio suggestions, and professional tax and real estate-related services.

Key Wealth Management Performance in 2008

2008 was a difficult period for all, but the economic downturn and asset deterioration of HNWI were significant, therefore business for PB bankers who target these customers were particularly challenging. Even in such conditions, our PB division secured approximately 5,000 customers with assets worth at least KRW 1 billion, recording net assets of KRW 10.8 trillion and before-tax income of KRW 55 billion. In recognition of these results, the Korean Standards Association, Chosun Daily, and Seoul National University awarded the 2008 Premium Brand Index to Shinhan. More and more, the group is gaining recognition as a financial institution that is leading the domestic PB market.

Expansion of market leadership

In 2008, an additional PB Center was opened in Haeundae, Busan, resulting in a total of 16 centers, including 12 in the Seoul metropolitan area and 4 in large regional cities. The group has the largest PB network in Korea for customers of at least KRW 1 billion. Furthermore, the Seoul Finance Gold Center opened in August 2008. With target customers of VVIPs who engage in unique financial transactions in terms of amount and complexity, it not only provides products and services offered by other PB centers, but also distinctive services such as professional “family office services” and specialized PB products such as equity investments, PEFs, hedge funds, and private equity funds.

Strengthening of the compliance structure

In the PB business, compliance is its most basic and important element. In 2008, we further strengthened the PB compliance structure and operated a wide array of compliance systems, resulting in greater trust from customers. We are doing our best to protect our customers and prevent incidents by strictly observing the PB Code of Ethics of Shinhan, which covers ethics, confidentiality, priorities on customers, risk management, faithfulness, and professionalism. We are also operating an internal control scheme at PB centers, which requires submitting a written oath every quarter, making





a report on compliance regulations every month, and the center managers and PB team managers engaging in mutual supervision.

Wealth Management Strategy for 2009

Under the vision of “providing the best asset management services through the strengthening of core competencies” in 2009, asset management services, which were limited to the PB sector, will be expanded to the bank level. We will further stretch our market leadership in the asset management market. To this end, we will look into areas where we can improve operating efficiencies; strengthen employees’ competencies; manage risks by product and customer; increase the number of new customers; and diversify profit sources.

WM Consulting Team

• Last year, a WM Consulting Team was created to cultivate and foster employees who have leading skills in asset management. It effectively delivers information on recent investment strategies and recommended products to employees in the field who offer asset management counseling to customers. The team also provides one-on-one counseling and coaching to our employees, and has established a consulting system by which employees may access experts to support them when needed. In addition, a global PB financial expert course will be opened in Hong Kong at which we will continuously provide training programs for advanced level asset management experts to broaden their knowledge base on various subjects and to further develop sales skills.

Strict risk management

• In furtherance with the risk management efforts of the group, to maintain asset and customer quality at a higher level, risk management will be further broken down per product and by customer. This will include operating a risk ceiling for each product based on risk management for each market situation scenario; and operating a “customer portfolio clinic program” based on portfolio asset distribution strategies.

Strengthening the profit foundation and securing new growth engines

• In our field of business, we plan to focus on strengthening the foundation for profits by diversifying profit sources and attracting new customers. We will develop new business models in areas of foreign currency earnings, comprehensive real estate management services, and family business services. In addition, new customer and business opportunities will be created by using the various business lines of Shinhan Financial Group. We will also develop new potential markets, such as customers who receive government compensations and corporate CEOs.

Expansion of the global sales network

• Last but not least, in line with Shinhan Financial Group efforts to expand to the global market in the asset management business, as our first step we plan to target Koreans living abroad and introduce local investments as well as provide professional investment information and advisory services. Conversely, for local customers, we will offer global investment advisory services and provide open doors to our global network. After all, our ultimate goal is to satisfy customers’ needs, regardless of where they reside.

Key Status of Shinhan Bank’s PB Sector

	Assets under Management (KRW Trillion)	Before-Tax Income (KRW Billion)
2008 Performance	10.8	55.0

Brokerage

Good Morning Shinhan Securities (GMSH) is a 100% subsidiary of Shinhan Financial Group. It has become a quality company that is leading the domestic securities sector, based on its strong and stable corporate governance and financial structure as well as advanced management techniques. Operating 120 branches across the nation and three overseas subsidiaries, GMSH offers comprehensive securities-related services for individual and corporate customers.

Key Brokerage Performance in 2008

GMSH posted an operating profit of KRW 191.5 billion and net income of KRW 156.3 billion in 2008. In terms of net income, it raised its status from the industry's No. 8 company to the No. 4 company. This is a meaningful achievement in that it implies that GMSH successfully laid the foundation for early realization of its management goal of 'becoming the industry's No. 3 by 2012 through Challenge 123.'

Balanced growth and performance

Stock trading decreased in 2008, resulting in GMSH posting a year-on-year decrease of 20% in operating profit and 12% in net income. However, GMSH's profit structure is continually improving. In other words, the ratio between brokerage versus non-brokerage profits improved from 73% to 27% in 2005, to 63% to 37% in 2007, and 48% to 52% in 2008. The rise in the percentage of non-brokerage profits is attributable to a continuous increase in the percentage of profits in the IB and product management sectors.

Retail

In the retail sector, GMSH avoided expansion policies and implemented profitability-centered branch policies. Rather than engaging in brokerage fee cut-throat competition, GMSH strategy was focused on differentiation. GMSH continually implemented the 'Corporate Support Project' to increase the number of corporate customers, which served as a mid-to-long term retail growth foundation. Strategic alliances with approximately 100 corporations, including Daewoo International and the Innobiz Association have been established, thereby expanding retail coverage as well.

Asset management and IB sales sector

To expand its asset management sales foundation, GMSH focused on developing new products, such as the 'Luxury Wrap Account', as well as strengthening sales effort and market delivery means. The financial product balance (sum of the AUM of mutual funds, wrap accounts, RPs and ELSs) in 2008 reached KRW 10.9 trillion, posting a year-on-year rise of 37% from the KRW 8 trillion recorded at the end of the previous year. In spite of the Lehman CLN-related one-off loss, profits in the IB sector exclusive of one-off losses rose by roughly 6% from KRW 96 billion in 2007 to KRW 101.4 billion in 2008.

Construction of an efficient IT system

Compared to other financial industries, IT-structured business processes is an important source of competitiveness for securities companies. A critical factor is the smooth and efficient operations of the home-trading system and internal business system. Accordingly, GMSH is working on improving its IT infrastructure, carrying out nine projects in 2008, and completing five of them related to the construction of the risk improvement system. The remaining four projects are slated for completion in the second half of 2009.





Brokerage Strategy for 2009

Attributable to increased competition and the ongoing economic slump, the securities industry will continue to experience difficulties in 2009. As such, companies will likely engage in aggressive competition to gain a competitive edge in areas where new opportunities exist. It will thus become important, more than ever, to make fundamental internal changes to gain customer trust, including strengthened investor protection, in tandem with the enforcement of the Capital Market Integration Act.

Establishing a foundation to become a market leader based on steady growth

- GMSH's net income grew from KRW 59 billion in 2002, the first year of the company's merger, to KRW 156.3 billion in 2008. Under the mid-to-long term vision of becoming one of the industry's Big 3 by 2012 and the No. 1 securities company in Asia by 2020, the management strategy for 2009 in order to realize this vision is 'risk management' and 'differentiation.' Our strategic goal is to 'build a foundation to become one of the Big 3,' which is in line with its slogan of 'overcoming crises achieve market leadership.'

Detail initiatives

- Detailed initiatives include strengthening risk management; actively responding to the crisis by securing business stability; and maximizing synergy effects with other subsidiaries, including Shinhan Bank, Shinhan Card, and Shinhan BNP Paribas. In addition, GMSH will work towards making its existing businesses distinctive, in areas of retail, wholesale, IB, and product management, and take a leading position in new business areas of futures and collective investment, thereby diversifying its profit sources. Finally, GMSH will strengthen its global network to establish a next-generation profit-generating foundation, and secure a competitive edge that earns recognition at home and abroad.

Brokerage and Non-Brokerage Ratio

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	2005	2008
Brokerage	73%	48%
Non-Brokerage	27%	52%

Insurance

Shinhan Life Insurance and SH&C Life Insurance represent the insurance business wing of Shinhan Financial Group. SH&C is a bancassurance-specializing insurance company, and was established based on a strategic alliance with Cardif, a life insurance subsidiary of the BNP Paribas Group. Shinhan Life Insurance was founded in March 1990 and became a subsidiary of Shinhan Financial Group in December 2005.

Our objective is to provide a comprehensive financial service with distinctive insurance services which are designed to serve the dreams of customers and ensure their happiness, through co-marketing efforts with other subsidiaries of the group. With 994 employees, 152 branches around the nation, and a sales organization consisting of 8,658 persons, we will continue to develop insurance products and offer financial services that address the various needs of customers, thereby expanding our market presence.

Key Insurance Performance in 2008

Sound management performance

Despite the economic slump, Shinhan Life Insurance's premiums written reached KRW 2.71 trillion and total assets amounted to KRW 8.52 trillion in 2008, thanks to stable asset management based on risk management, and balanced business performance among sales channels, including a year-on-year rise of 13.5% in the monthly new premiums paid. In terms of profitability, the company posted a net income of KRW 139.2 billion, surpassing KRW 100 billion every year since 2001. Its solvency margin ratio, which is a financial soundness index, stood at 209.5%, well exceeding the standards set by supervisory authorities. Adding to this, in order to increase operating efficiencies, IT infrastructure such as the general business management system and the new insurance system, were upgraded.

Strategic development and diversification of sales channels

Shinhan Life Insurance engages in sales through a wide array of channels, such as its own sales network, agents, telemarketers, and the Internet. In particular, it is demonstrating excellence in insurance sales capacity through telemarketing, which the company was the first in the insurance industry to adopt and was later benchmarked by other companies.

Insurance Strategy for 2009

Shinhan Life Insurance defined its management goal as 'continued balanced growth and strengthened market competitiveness' after analyzing its 2008 performance and systems. The key execution strategies are 'strengthening sales competitiveness,' 'developing strategic new growth drivers,' and 'strengthening internal competencies and substance.' We will overcome the crisis based on such strategies and strict risk management; and further expand synergy sales with other subsidiaries and achieve balanced growth through various channels.





Sales competitiveness boosted by strength concentration

• Shinhan Life Insurance will achieve balanced growth through different channels to respond to environmental changes; engage in distinctive product operations for each channel; and professionalize sales organization by strengthening sales personnel development structure. The company intends to increase the number of active customers and enhance customer loyalty by strengthening customer satisfaction management and innovating the complete sales culture.

Development of strategic new growth engines

• Plans have been drawn up to develop new businesses and strengthen synergy strategies by expanding cross sells with other subsidiaries; and to strengthen CRM based on the group's 24 million customers. Shinhan Life Insurance will focus on developing strategic channels in response to environmental changes, and on expanding the foundation for new market opportunities that will likely emerge with the aging society.

Balanced development between growth and internal substance

• The company will improve internal competencies by bolstering company-wide risk management capabilities. It will also focus on developing financial experts to accommodate customer needs in the era of comprehensive financial services. The company's management competencies will be focused on achieving continued growth even in an increasingly competitive environment by building an advanced management infrastructure and establishing a performance-oriented HR structure. Moreover, Shinhan Life Insurance will fulfill its social responsibilities by faithfully executing social contribution activities in connection with the group.

Key Status of Shinhan Life Insurance

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	(KRW Trillion)		
	Total Asset	Premiums Written	Net Income (KRW Billion)
2008 Performance	8.5	2.7	139.2

Investment Banking

In terms of the Investment Banking (IB) business of Shinhan Financial Group, efforts are being made to offer customized IB services that meet customers' financial needs by bringing together the commercial IB capacity of Shinhan Bank and traditional IB capacity of GMSH Securities, based on the group's corporate customer base.

Key IB Performance in 2008

2008 will be a year hard to forget for the global IB in particular as even the major player struggled to stay afloat. Financing difficulty was at its peak, which forced domestic companies to drop investments in the uncertainty of when the global economic downturn will rebound. Despite this fact, IB business of Shinhan Financial Group continually increased income by strengthening connected sales between the banking and securities sectors, based on its extensive customer base. The before-tax net income marked KRW 328.2 billion in 2008 despite the crisis situation in the financial market, thanks to strict risk management.

IB Strategy for 2009

The IB-related strategic goal for 2009 is achieving "distinctive growth by building a sound internal management system and creating new markets." Three key tasks have been set, including re-establishing a Shinhan IB business model based on strengthened internal competencies; systematically creating new businesses; and making its global business distinctive.

Investment Finance

- In the field of the investment finance sector, we plan to reinforce our business in the M&A and acquisition finance markets. Recent observations have shown continuous growth of the M&A market and the expansion in the size of such deals. As such, we plan to strengthen mezzanine funding as a means of finance and a new source of diversifying profits.

Asset-backed Securitization

- In the asset-backed securitization sector, we have set plans to actively reach out in order to expand globally with asset-backed securitization for companies advancing overseas and securitization of real estate for overseas business. Our experience as the first company in Korea to develop the ABCP conduit will be a valuable asset.

Principal Investment

- The Principal Investment (PI) sector will increase equity investments in small-to-medium sized companies by using the corporate network; and will focus on acquiring global investment opportunities based on indirect investments.

Project Finance

- With regards to the project finance sector, we will strengthen our market leadership in the large public subscription project area, and further strengthen our real estate fund business. We aim to perform a pivotal role in the domestic project finance market by leading private education development projects, participating in large government-run infrastructure development projects, and expanding overseas project financing business.

Moving forward, the IB sector of Shinhan Financial Group will make strenuous efforts to become a market leader by strengthening risk management and actively pursuing marketing activities in the relevant markets in order to perform the role as a future growth engine.



Asset Management



In January 2009, the two asset management companies of our group – Shinhan BNP Paribas ITMC and SH Asset Management – successfully completed integration and were newly launched under the name of Shinhan BNP Paribas Asset Management with a 65% : 35% ownership structure between our group and the BNP group, adding a new competitive edge in terms of synergy and professionalism to the group in the field of asset management.

Key Asset Management Performance in 2008

Successful completion of integration

In 2008, the domestic asset management industry was in need for a new momentum. Ripple effects from the sluggish global stock market and decreased returns from fund products have led people's preference to shift towards safe assets, which in turn has affected fund investments. Moreover, management companies themselves have been deficient in efforts to innovate products or create distinctive management competencies even though there was a substantial expansion of the market. The integration between the two asset management companies will bring distinctive synergy effects created between Shinhan Financial Group, which has the top channel capacity in Korea, and BNP Paribas, which is demonstrating its true value during the global financial crisis.

Operations in equity and bond management

For equities, focus was placed on security selection, carrying out in-depth analyses on individual companies rather than making forecasts on the market subject to the high level of uncertainty. The basic strategy was to acquire alphas through long-term investment in shares that are undervalued compared to the relevant company's intrinsic value. Decisions on investments were made through the seamless combination of the outstanding skills of fund managers and the in-depth analyses based on value evaluation models and corporate analyses by the industry's best in-house research team. These asset management processes are the key elements that warrant consistency and continuity in asset management at the corporate level.

In terms of bonds, we have effectively exerted our efforts to exploit opportunities opened by market inefficiency. Our basic strategy was to steadily achieve excess gains in the mid-to-long term through systematic and in-depth research and analysis. Our focus was not on making short-term achievements. Rather, we strived to maintain continuous and stable gains in consideration of risks with a mid-to-long term perspective, while adhering to our investment philosophies and principles.

Asset Management Strategy for 2009

Forecasts remain dim for the asset management business in 2009, owing to changes in investors' appetites and the bearish market. However, we believe that there will be more investors looking into fund investments, mainly in niche fund products focused in safe assets, or alternative investments funds, if the yield offered by banks is kept at such low levels. On that account, we plan to stabilize the aftermath of the integration and skill sharing initiative early to improve our asset management capabilities and product development. Synergy creating efforts, a stronghold of our group, will be carried out constantly in cooperation with other subsidiaries of the group. In addition, more emphasis will be placed on reinforcing risk management in furtherance of enhancing customer trust and brand identity, both of which will become a solid foundation for us to lead the domestic asset management market.

Key Status of Shinhan BNPP AM

	AUM (KRW Trillion)	Market Share
2008 Performance	26.9	3rd place

Sustaining growth

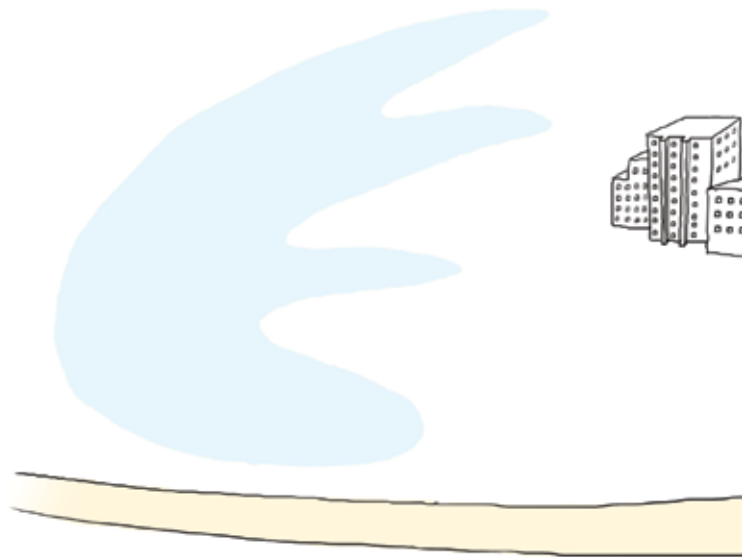
Shinhan Financial Group is making strenuous efforts to fulfill its social responsibilities based on a firm belief in the importance of continually creating customer value and fostering experts, in addition to enhancing shareholders' value based on management that remains true to the basics.

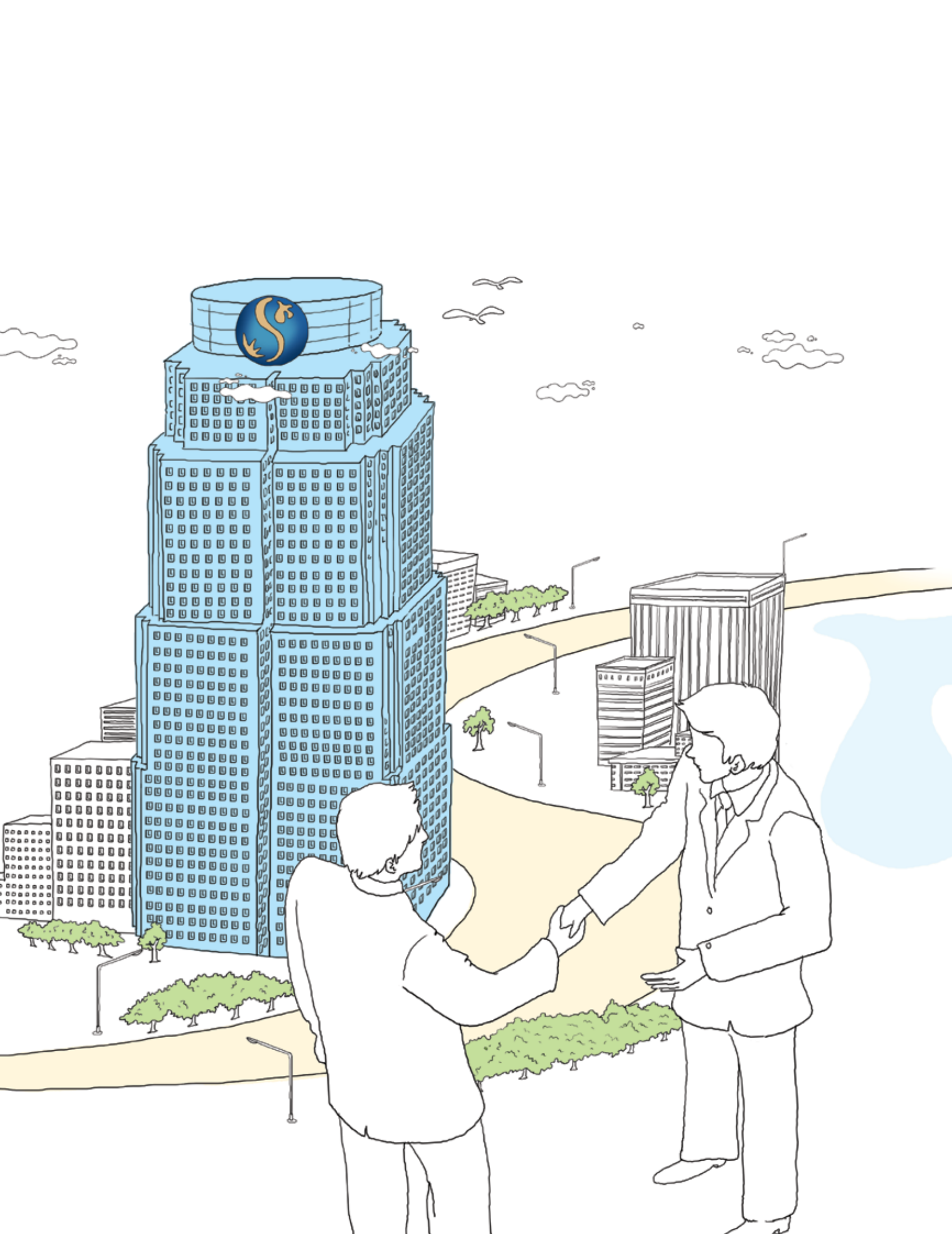
The subsidiaries and employees at Shinhan Financial Group have established a reliable corporate culture, including transparent ethical management and a code of conduct for customer satisfaction, and are taking the lead in the development of creative programs and services.

The group is also endeavoring to foster 'Shinhan people' who lead the global financial market by placing the highest priority on talented people and promoting communication as well as various programs. To perform its role as a leading financial group in social contributions, Shinhan Financial Group is executing mutually beneficial management that considers the interests of stakeholders in various fields such as public interest programs, the environment, scholarship, culture and art.

Moving forward, Shinhan Financial Group intends to become a widely respected world leader by taking continuous interest in individual customers and society at large, and continuously demonstrating that it cares for others.

SFG will continue to take on more responsibilities for a sustainable future of harmony and balance for all.





Corporate Social Responsibilities

Shinhan adopted social responsibility management in the early 1980s, when corporate ethics and social responsibilities had not yet gained attention, even in advanced nations. Shinhan is performing more roles and responsibilities as a corporate citizen, while increasing customer wealth and convenience by strictly observing its fundamental principles. It is faithfully fulfilling its economic responsibilities as a leading financial institution that contributes to the development of the financial industry and the nation's wealth as a whole. Shinhan is taking a step further by fulfilling its social, environmental, and ethical responsibilities, thereby making efforts to satisfy various stakeholders.

In 2005, Shinhan became the first in the domestic financial industry to publish a <Corporate Social Responsibility Report>, which detailed the company's efforts and achievements regarding social responsibility management. Every year since then, the company has expressed its strong determination towards social responsibility management.

Moreover, Shinhan set a direction for social responsible management – “coexistence and co-prosperity with stakeholders” – and established short-to-long term tasks in line with the goals and strategies of each stakeholder that will be implemented by 2012. The company is thus operating a more systematic social responsibility management program.

Key Execution Status in 2008

Shinhan is conducting a wide array of social contribution activities under the slogan of “happiness and greater joy is found in being with others.” The internal volunteer team is performing various activities aimed to share with those in need based on three basic directions: preserving traditional culture; creating beautiful neighborhoods; and fostering the future generation. The activities carried out by the team include protecting cultural assets, volunteering at social welfare facilities, carrying out a campaign involved with lending a helping hand to others, supporting undernourished children, sharing briquettes and kimchi, and giving support for emergency disaster recovery.

Environmental preservation activities

- We are continually carrying out a project that involves attaching nature-friendly labels on trees at 18 national parks around the nation and raising awareness among mountain climbers about preserving our nature. In addition, the company is holding an annual ‘nationwide environmental picture competition,’ based on sponsorship by the Ministry of Environment to promote the importance of environmental preservation. Shinhan is also actively taking part in campaigns to protect natural plant and animal treasures. The company is developing environmental products, such as the green welfare trust and the Nakdong River saving passbook, and making donations based on a matching grant method.

Scholarship programs and support for culture and art activities

- Shinhan Financial Group and 6 other subsidiaries funded KRW 50 billion to establish the “Shinhan Scholarship Foundation” in January 2006. Through this foundation, we assist talented young students – about 360 students to date – with limited financial means to realize their full potential. The foundation also supports charitable projects and academic researches with regard to educational environment improvement to duly contribute for a better society.



Various social welfare programs

Shinhan has recently been carrying out public programs, such as providing education on sharing with those in need and offering support for low-income families, based on partnership with NPOs, such as the Beautiful Foundation and Social Solidarity Bank. It is the first financial institution to implement a credit recovery support program for people who have defaulted on credit to aid them in recovering credit by taking part in social volunteer activities. The company is also developing and selling public interest products, such as the 'Social responsibility management loan,' 'Beautiful fund,' 'Time deposit to sponsor righteous people,' and 'Love's promise deposit/installment savings.' Shinhan is also planning various programs related to social welfare, including an economy class for children, an event inviting children from remote areas or islands, a campaign to send teachers overseas, and support for promotion of sports in everyday life.

Strategy for 2009

Leading social contributions

The Social Cooperation Team is a dedicated organization for social responsibility management at Shinhan Bank. With the team taking the lead, Shinhan Bank defined four strategic directions and is conducting relevant projects. The bank established the four directions - 'future generation,' 'sharing happiness,' 'moving toward the environment,' and 'sharing culture' – by considering the characteristics of the banking business, global standards, and changes in consumer mindsets and recent social trends. Efforts will be made to realize world-leading social responsibility management by becoming a member of CRS-related initiatives, including the UN Global Compact, UNEP FI, and CDP.

Moving forward, Shinhan Bank will place the highest value on making a better tomorrow in which all stakeholders are happy. Shinhan will create more systematic and substantial sustainable management programs so as to perform a leading role in the financial sector while fulfilling social responsibilities, thereby ensuring that sustainable development is more than simply a one-time slogan.



Ethical Management

In realizing our management philosophy, Shinhan Financial Group clearly recognizes the importance of non-financial achievements, in addition to financial achievements. As such, we independently establish standards for our employees to observe while strictly implementing ethical management in order to become a financial institution respected both by individual customers and by society in general. All ethical management-related duties are administered and examined by a compliance department pursuant to relevant statutes and regulations. Information on the status of ethical management and other relevant activities is disclosed to customers and stakeholders through the company's website and the Social Responsibility Report. Such internal and external evaluations are functioning as important guidelines for reviewing the current state of ethical management and setting directions for future activities.

Executing various ethical management programs Our ethical management is more than simply a one-time event. The Ethical Management SM Forum is held every year. The forum begins with an oath by the CEO, followed by the placing of signatures by all employees on the 'Ethics Implementation Oath.' During the 'Ethical Management Festival' that took place in May 2008, an ethical compliance quiz event was held in which all employees participated. This led to heightened interest towards ethical management at the corporate level. Through these events, we were able to recognize that ethical management is a key competitive factor of the group as well as a growth driver that will enable us to advance as a leader of the global financial market.

In particular, Shinhan Bank is operating the 'self-assessment program on ethical compliance,' in which employees periodically assess their compliance, and the 'ethical management help center,' to which employees may request consultation in establishing transparent transaction practices and best practice working procedures. In June 2007, the group adopted the 'voluntary fair trade compliance program' and, in September 2008, also enacted the 'management guidelines on insider trading' to provide guidelines as to the allowable support in terms of funding, asset and human resources among the group's subsidiaries in accordance with relevant regulations. We also have in place the 'integrity contract system' for business with partner companies, enabling us to ensure transparency in the bidding process for procurement of goods and services. We will not become complacent with having this wide array of programs in place, but will plan to further upgrade the systems and corporate culture to substantially and systematically improve ethical management.

Spreading ethical management within We designated the third week of every month as 'ABC week' so that strict compliance to the relevant statutory and supervisory regulations is ensured in all business activities. During ABC week, information on recent cases of financial incidents and finance-related laws and regulations is delivered to employees through a 'compliance letter.' Included in the letter are cases representing the laws and regulations that are applied to the field. The 'ethical management and law compliance' course is a mandatory training course related to ethical compliance that employees are required to complete either online or offline. New and recently promoted employees in particular are required to receive training that is customized by job class.

Moreover, the Compliance Support Department staff visits branches situated in regional areas every year and provide training on ethical compliance and relevant the laws and regulations. A guidebook on compliance and ethics and a handbook on ethical standards are created and distributed to employees to promote ethical principles in their daily lives.



HR Management



The importance of talented personnel is greater in the global financial market. Shinhan Financial Group is endeavoring to foster top experts and strengthen the competencies of employees by executing an optimal expert-fostering system that incorporates changes in the business environment and management strategies.

Key Execution Status in 2008

Fostering financial professionals

Shinhan Financial Group actively provided educational support for employees either by providing financial support for course studies for certain financial certificates, or by establishing open courses for studies in more diverse fields. Our objective was simple – to strengthen the professional knowledge and skills of our employees, our far most valuable asset, to a higher level. For general managers who are in leadership position, special lectures were provided to broaden their perspective. In contrast, for working level employees, technical job training courses and in-depth training programs were provided to enhance not only their level of knowledge, but also their capabilities in execution and performance.

Program to strengthen global competency

Going beyond the boundary of Korea to become a world-leading financial institute is our long-term goal. As such, it is essential for us to retain skillful financial experts with competitiveness and professionalism. To this end, Shinhan has developed and is operating global language training programs to foster global competent employees.

Establishing a dynamic learning hub and expanding infrastructure

A learning environment in which employees can interact was established. The company's on-line education service, Eduland, was upgraded to provide a more user-friendly environment to enhance the learning curve as well as expand compatibility for mobile content usage.

Strategy for 2009

Fostering global business leaders to have Shinhan stand proud in the global community

Shinhan is planning to make a shift into an efficient HRD structure, which will be the driving force behind our organizational survival by responding to changes in the financial environment in 2009. Shinhan is the first in the domestic industry to open a financial training center in Hong Kong, a global financial hub; implement the Shinhan Global 1050 Program, including the operation of a customized MBA program and overseas MBA support; foster next-generation leaders; manage personnel at the group level; and increase the employment of outstanding personnel from home and abroad. Through these programs, Shinhan will secure future growth drivers for the group, create personnel synergy by providing motivation to employees, and secure professional human resources.

Shinhan Financial Group realizes that human resources are a key source of competitiveness. Accordingly, it will actively execute various programs to enhance the group's reputation and employees' competencies. Advanced human resource management will contribute to paving the way for Shinhan to become a world-class financial group.



Customer Satisfaction

Shinhan's unique principle of conduct in relation to customer satisfaction is implied in the catchphrase 'impress your customers.' Customer satisfaction has been, ever since the bank's establishment, Shinhan's greatest value and most essential condition. Thanks to such efforts, Shinhan was recognized for its excellence in customer satisfaction and service quality by various organizations in 2008 and has established itself as the No. 1 bank in customer satisfaction with great pride.

Key Execution Status in 2008

Customer satisfaction of a new dimension

- Shinhan Bank became aware that it could no longer gain recognition from customers with 'friendliness' alone, against the backdrop of heated service competition among banks. To satisfy the frequently-changing demands of customers and offer distinctive services, Shinhan Bank developed a special service dubbed 'services that make you feel better.' The three basic principles to this service are: 1) first, accurately assess and manage customer feelings and emotions, 2) second, be in resonance with customer experiences to satisfy core values, and 3) last, spread the happiness of employees to customers.

Active CS activities all around

- The Tuesday of the second week of each month is designated as the "Wow! Service Day" at all Shinhan Bank branches to create a fun and exciting workplace and to pass on this delightful atmosphere to customers. In April 2008, <Fun management that gives vitality to the organization> was published. This manual is unique in that it is the first publication which encompasses the field experience of practitioners of customer satisfaction staff with valuable know-how accumulated during the five-year history of "Wow! Service Day."

Development of a customer time management system

- Time is gold to people living in the 21st century and effective time management is an important factor in the service business. Understanding this, Shinhan Bank became the first in the domestic banking sector to develop an intelligent turn-waiting system and customer time management system. The intelligent turn-waiting system segregates customer transactions to provide a separate waiting time per transaction type so that the customer may be served in a more efficient manner, dramatically decreasing the waiting time of customers.

Strategy for 2009

The leading bank in customer satisfaction

- Since becoming the first in the domestic financial circle to build a customer satisfaction center in 1994, Shinhan Bank's belief that customers are the key element to our success has never wavered. Refusing to be complacent with past achievements, Shinhan Bank will reinforce its reputation as the leading bank in customer satisfaction by offering 'more delightful services even before customers ask for them.' To this end, Shinhan Bank will strengthen the process of customer feedback and assessment of expected service levels by customers; provide more pleasant services by strengthening a sensible organizational culture; and reinforce complaint/Voice of Customers management and support activities.





Financial Section

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Management's Discussion & Analysis

I. FY2008 Review

The current acute credit crunch in the global financial sector brought on by the U.S. subprime mortgage crisis and its resultant global financial crisis has had a pervasive impact on financial markets, affecting the cost of funds, reducing liquidity and causing insolvency, leading to restructuring and a recession in the real economy.

The Korean financial sector's low percentage of risky assets, including structured notes, which set off the financial crisis, as well as the overall asset soundness of its loans has kept it free from the need to undergo widespread restructuring. The financial sector is, however, leading the restructuring of business types that have lost competitiveness and to which excessive investments have been made.

There is a possibility of the Korean economy recovering earlier than expected, particularly if a synergy of natural and preemptive industrial restructuring to satisfy the market's expectations develops in conjunction with the government's various investments and measures to promote consumption.

Shinhan Financial Group's net income in 2008 was KRW 2,018.6 billion, recording a 15.8% reduction from 2007. This is due to the decrease in net income decrease of Shinhan Bank, the group's core subsidiary, with KRW 1,446.7 billion in 2008, posting an annual decrease of 29.5%. The reduced performance of the banking sector lies in a 60.1% decrease in non-interest income in 2008, a result of the expiration of one-off income from securities of the previous year; and a 49.2% increase in the allowance for loan losses compared to 2007, a result of a deterioration in asset soundness stemming from the economic downturn.

On the other hand, the non-bank sector posted a net income of about KRW 1,335 billion, reflecting an annual increase of 25.5%. The net income contribution level of non-bank subsidiaries, such as those in the card, securities, life insurance, and investment trust business, substantially increased from 34% in 2007 to approximately 48% in 2008. Continuously favorable sales conditions in the non-banking sector are making up for the group's decreased income in the banking sector.

In terms of details of changes in the group's income in 2008, the interest income considerably increased owing to an annual increase of 15.6% in the average interest bearing assets. In addition, sales and general administrative expenses went down by 2.2%, thanks to reduced expenses from the wage freeze in 2008. In contrast, the non-interest business was stagnant due to several factors, including the expiration of one-off gains worth around KRW 720 billion, such as LG Card securities-related gains in 2007, the reduction of the commission income from the sales of mutual fund products in 2008, and an impairment loss on securities. In addition, the group saw a rise in transfer to the allowance for loan losses, owing to an increase in arrears due to the continued economic downturn and the reserving of approximately KRW 184 billion for companies in the construction and shipbuilding sectors that are undergoing restructuring.

In 2008, demand for bank loans among large corporations and small-to-medium sized companies sharply increased as a result of the contraction of the bond market. This led to the group's loans in Won witnessing an annual rise of 15.4%. The group also recorded a high asset growth rate of 16.1% compared to the end of 2007, on account of a 63.5% increase in other assets/liabilities, brought about by increased financial derivative transactions. The asset growth of Shinhan Bank was KRW 41.2 trillion, Shinhan Life Insurance KRW 1.1 trillion, Shinhan Capital KRW 1 trillion, and Shinhan BNP Paribas KRW 1.6 trillion. The resultant asset growth level was extremely high in the banking sector.

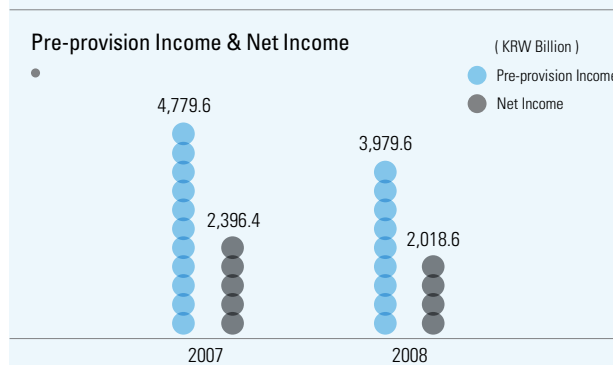
The asset increase of Shinhan Bank is attributable to an increase in loans, a key asset management sector of a bank, when excluding the rise in one-off derivatives assets. The bank's loans in won rose by KRW 13.8 trillion (13.0%) compared to the previous year. Loans to small-to-medium sized companies increased by KRW 6.3 trillion (13.7%), while those to large corporations increased by KRW 3.6 trillion (47.2%). The considerable rise in loans to large corporations is attributable to an increase in demand for funds of one-off bridge loans for large M&As among companies, and a contraction in the bond issuance market owing to the global liquidity squeeze.

Deposits at Shinhan Bank recorded an annual increase of 13.3%, which is similar to the level of the increase of loans. Low-cost deposits posted a decrease of 5.2% compared to the end of the previous year, but savings deposits, including time deposits, posted an annual increase of 41.2%. It is presumed that this is a result of short-term funds being invested in Money Market Funds, among other financial products, while long-term funds are flowing into the banking sectors that provide a high level of interest against the backdrop of the sluggish stock market. Overall funding costs inched up due to the increased percentage of high-cost time deposits. Despite the high increase in loans, however, the loan to deposit ratio has remained stable at



114%, similar to the level realized at the end of 2007.

Notwithstanding the economic downturn, the group's non-performing loan (NPL) ratio remained very stable at 1.14% as of the end of 2008 thanks to quality asset-based growth strategies and improvements in credit risk control capabilities, an NPL ratio that is extremely good in comparison to competitor banks. The NPL ratios of Shinhan Bank and Shinhan Card were 1.00% and 2.44%, respectively, at the end of 2008, thus continuously maintaining a stable level. Furthermore, the NPL coverage ratio of the Shinhan Financial Group, Shinhan Bank, and Shinhan Card were 172%, 164%, and 206%, respectively, thus earning an assessment as having an outstanding ability to prepare for potential insolvency.



II. Summary of the Reported Income Statement (Profitability and Market Position)

1. Shinhan Financial Group

SFG recorded a consolidated net income of KRW 2,018.6 billion for 2008, down KRW 377.8 billion or 15.8% year on year. It maintained a net income of more than KRW 2 trillion for two consecutive years against the backdrop of financial institutions experiencing difficulties in maintaining profits due to the global financial and economic crisis. Despite the group's decrease in income, it can still claim the lowest level of reduction in the relevant industry in Korea. This is attributable to a sharp rise in the net income contribution ratio of the non-bank subsidiaries, despite a decreased income level recorded by the bank subsidiaries resulting from continuous efforts to diversify income sources since the establishment of the holding company; as well as the effective management of new provisions, thanks to the maintenance of the soundness of comparatively high quality assets.

The group strengthened the key sales foundation of each subsidiary by leveraging its customer base and nationwide channel, based on well-balanced business lines of the banking and non-banking sectors; increased business transactions with existing customers while continuously attracting new, high-quality customers; and steadily increased cross-selling of products among the group's subsidiaries. In particular, Shinhan Card, Shinhan Capital, and Shinhan BNP Paribas achieved high double-digit increases in their income.

By sector, interest income sharply increased owing to a 15.6% annual rise in the average interest bearing assets balance. Sales and general administrative expenses went down by 2.2% despite Shinhan Card's KRW 84.5 billion payment of the early retirement program (ERP), resulting from reduced expenses owing to the wage freeze in 2008 and the expiration of Shinhan Bank's ERP in 2007. However, the group's non-interest business was stagnant due to several factors, such as the expiration of one-off returns worth around KRW 720 billion, including LG Card securities-related gains in 2007; the reduction of commission income from sales of mutual fund products in 2008; and an impairment loss on securities. In addition, the group transferred more funds to the allowance for loan losses, owing to an increase in unpaid debts due to the continued economic downturn and the reserving of approximately KRW 184 billion for companies in the construction and shipbuilding sectors undergoing restructuring.

The provision of Shinhan Bank increased by KRW 289.3 billion, including the bank's reserving of KRW 183.9 billion owing to the selection of companies subject to restructuring in the construction and shipbuilding industries and KRW 131 billion in relation to the downgrade of the ratings of small-to-medium sized companies. The provision of Shinhan Card went down KRW 194.6 billion as a result of reserving KRW 396 billion for unused credit lines in 2007.

Management's Discussion & Analysis

(KRW Billion)

Category	FY2008	FY2007	Chg Amt	Chg %
Total Income (a=b+c)	7,930.7	8,603.6	-672.9	-7.8
Interest Income (b)	7,010.9	6,459.9	551.0	8.5
Non-interest Income (c)	919.7	2,143.6	-1,223.9	-57.1
SG&A Expenses (d)	3,912.5	3,999.6	-87.1	-2.2
Operating Income (e=a-d)	4,018.2	4,603.9	-585.8	-12.7
Non-operating Income (f)	-38.5	175.7	-214.2	N.A.
Pre-provision Income (g=e+f)	3,979.6	4,779.6	-800.0	-16.7
Loan Loss Provision (h)	985.8	866.5	119.3	13.8
Pre-tax Income (i=g-h)	2,993.8	3,913.1	-919.3	-23.5
Income Tax Expenses	968.5	549.0	419.5	76.4
Net Income of Subsidiaries before Purchase Date	-0.4	874.1	-874.5	N.A.
Consolidated Net Income	2,018.6	2,396.4	-377.8	-15.8

Of the group's subsidiaries, Shinhan Bank saw its net income go down, which can be attributed to a reduction in one-off gains and increased loan loss expenses. In the case of Shinhan Card, which became a part of the group in March 2007, the subsidiary's income of only nine months was incorporated in 2007. In 2008, however, the annual income was reflected, resulting in an income growth of 40.4%. Shinhan Capital's income rose by 34.3%, a result of several factors, including an increase in corporate leased assets that were transferred by Shinhan Card and improvements in existing business areas, such as installment financing. Good Morning Shinhan Securities saw its income go down by 11.6% year on year, owing to a one-off impairment loss on securities amounting to KRW 90.4 billion in relation to Lehman Brothers.

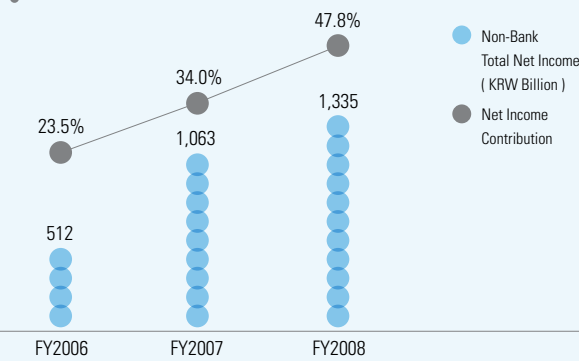
(KRW Billion)

Category	FY2008	FY2007	Chg Amt	Chg %
Bank Subsidiaries (a)	1,460.5	2,060.2	-599.7	-29.1
Shinhan Bank	1,446.7	2,051.3	-604.6	-29.5
Jeju Bank	13.8	8.9	4.9	54.5
Non-Bank Subsidiaries (b)	1,335.0	1,063.3	271.7	-25.5
Shinhan Card	959.6	683.3	276.3	40.4
Good Morning Shinhan Securities	156.3	176.8	-20.5	-11.6
Shinhan Life Insurance	139.2	132.0	7.2	5.5
Shinhan Capital	66.1	49.2	16.9	34.3
Shinhan Credit Information	1.9	2.1	-0.2	-9.5
Shinhan Private Equity	0.4	0.2	0.2	N.A.
Shinhan BNPP ITMC	14.1	10.7	3.5	32.4
SH&C Life Insurance	2.3	5.3	-3.0	-56.6
Shinhan Macquarie FA	-4.9	3.8	-8.7	N.A.
Net Income (c=a+b)	2,795.5	3,123.5	-328.1	-10.5
Consolidated Net Income	2,018.6	2,396.4	-377.8	-15.8

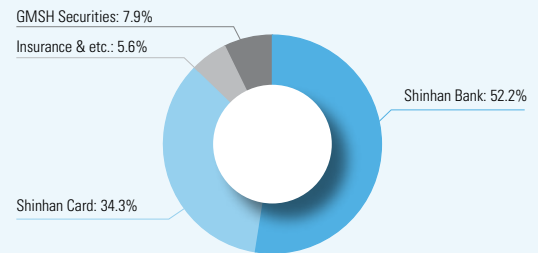
Note) After reflecting ownership by SFG



Net Income Contribution by Non-Bank Subsidiaries



Net Income Contribution by Subsidiaries



2. Shinhan Bank

1) Overview

Shinhan Bank's net income for 2008 totaled KRW 1,446.7 billion, reflecting a 29.5% or KRW 604.6 billion year-on-year decrease.

The bank's interest income rose by KRW 439.4 billion (11.8%) thanks to an increase in the average interest bearing assets of KRW 18.4 trillion (15.6%). However, its non-interest income was KRW 886.4 billion, which is an annual reduction of KRW 1.3348 trillion (60.1%), attributable to several factors, including a reduction in the commission income from sales of mutual fund products owing to the sluggish capital market; expiration of one-off securities-related gains of 2007; and an impairment loss on securities resulting from deterioration of the capital market in 2008. The expired one-off income included KRW 464.8 billion gained from the disposal of LG Card stocks and KRW 297.9 billion gained from the disposal of the holding company's stocks.

SG&A expenses went down by KRW 174.4 billion (7.3%), thanks to several factors, such as the wage freeze and efforts to cut expenses in 2008; expiration of the effects of payment of Shinhan Bank's ERP worth KRW 137.1 billion in 2007; and a KRW 112.6 billion reversal of stock option compensation costs resulting from reduced stock prices.

The bank's loan loss provision stood at KRW 877.2 billion, posting a rise of 49.2% from 2007. The main cause was the additional loan loss provision of KRW 442.3 billion in the fourth quarter. This was a result of the downgrade of the asset quality of 16 companies that were announced as being subject to restructuring and additional provisions in January 2009. However, the delinquency ratio as of the end of 2008 was 0.3% for households and 1.3% for small-to-medium sized companies, and the NPL ratio was 1.0%, meaning that they are manageable.

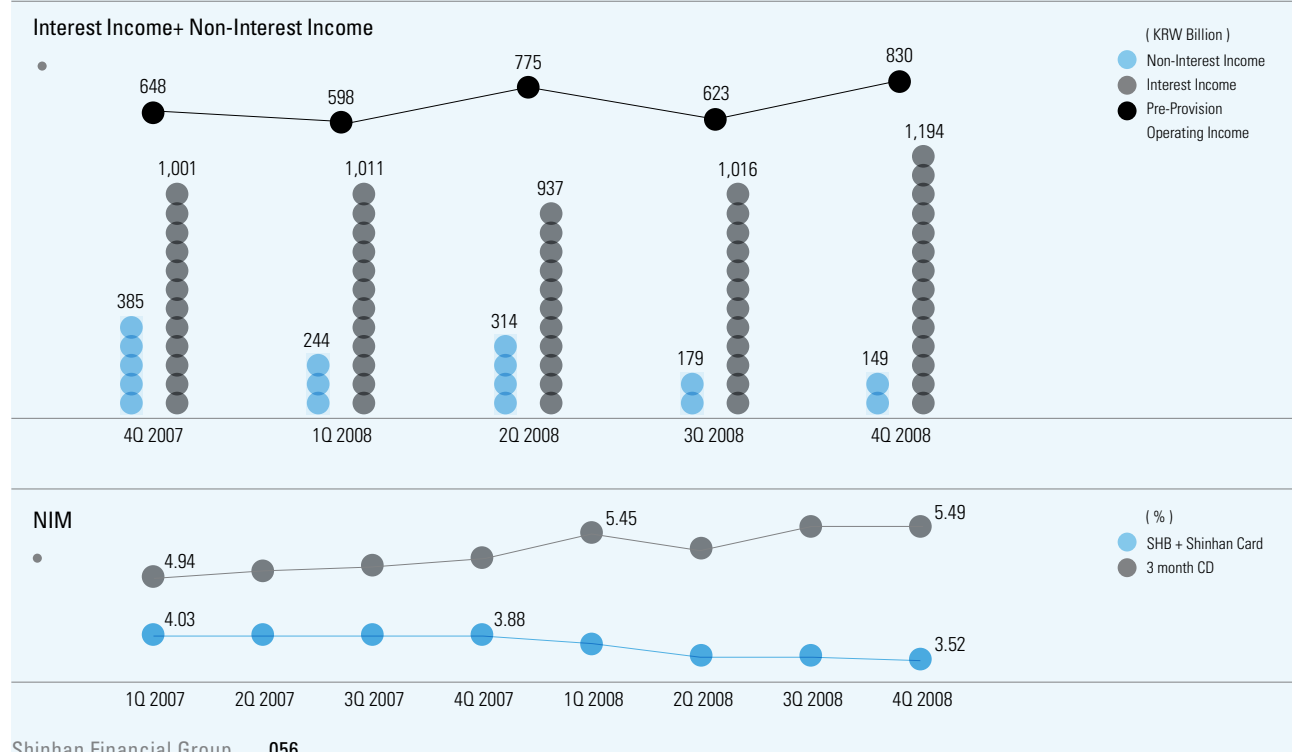
Management's Discussion & Analysis

(KRW Billion)				
Category	FY2008	FY2007	Chg Amt	Chg %
Total Income (a=b+c)	5,044.6	5,940.1	-895.5	-15.1
Interest Income (b)	4,158.3	3,718.9	439.4	11.8
Non-interest Income (c)	886.4	2,221.2	-1,334.9	-60.1
SG&A Expenses (d)	2,218.4	2,392.7	-174.4	-7.3
Operating Income (e=a-d)	2,826.2	3,547.4	-721.1	-20.3
Non-operating Income (f)	-32.6	-91.3	58.7	N.A.
Pre-provision Income (g=e+f)	2,793.6	3,456.1	-662.4	-19.2
Loan Loss Provision (h)	877.2	587.9	289.3	49.2
Pre-tax Income (i=g-h)	1,916.5	2,868.1	-951.7	-33.2
Net Income	1,446.7	2,051.3	-604.6	-29.5

2) Interest Income and Net Interest Margin (NIM)

Shinhan Bank's interest income inched up by KRW 439.4 billion, up 11.8% year on year to post a total of KRW 4,158.3 billion. This is because the interest revenue rose by roughly KRW 2.1 trillion thanks to improvements in the loan yield from a rise in interest rates and the average loan balance, despite an increase of around KRW 1.7 trillion in interest expenses owing to sales of high-interest rate deposit products to increase the percentage of bank deposits and reduce the issuance of financial bonds with high fluctuations.

The accumulative NIM of Shinhan Bank in 2008 edged down by 14 basis points to 2.12% from 2.26% in 2007. This fall was relatively minor compared to its competitors. The key reasons include efforts to prevent the increase in funding costs by continuously securing low-cost deposits, such as attracting consumers to open low-cost deposits, including court escrow deposits and Shinhan Card bill settlement accounts; and the bank's focus on maintaining an appropriate margin by applying differentiated prices based on customer risk profiles.





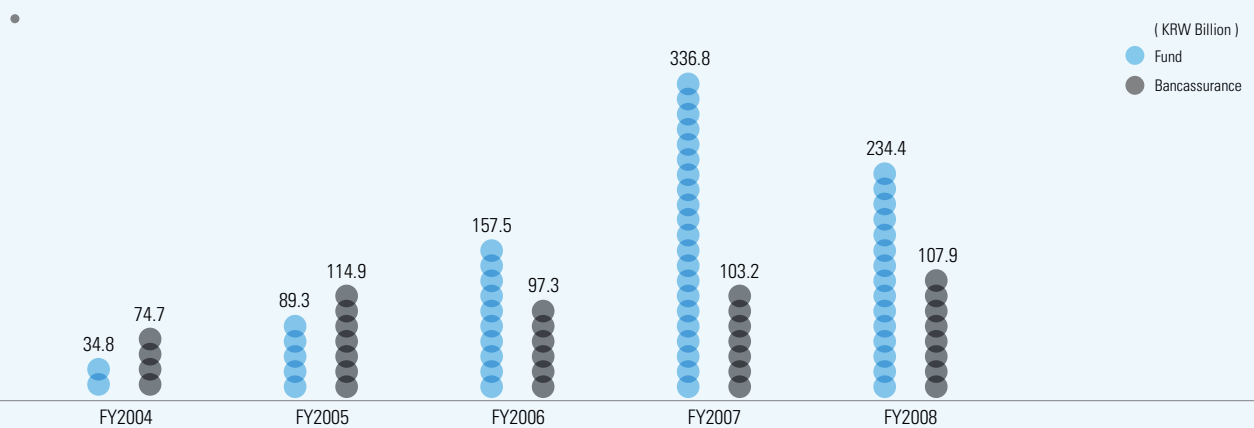
3) Non-Interest Income

Shinhan Bank's non-interest income decreased by 60.1% (KRW 1,334.8 billion) year on year to KRW 886.4 billion. The KRW 464.8 billion gains on the disposal of LG Card stocks and KRW 297.9 billion of gains on the disposal of holding company stocks were concluded in 2007. In addition, the bank saw an impairment loss on derivatives, such as CDO and CDS, among other securities. The bank also unrecognized a KRW 172.1 billion valuation gain from equity in foreign currency related to overseas subsidiaries with significant depreciation of the KRW. The bank's commissions on mutual fund sales witnessed a sharp decrease of 30.4%, a result of sluggish sales of new mutual funds due to the sluggish global stock market.

(KRW Billion)

Category	FY2008	FY2007	Chg Amt	Chg %
Non-Interest Income (A)	886.4	2,221.2	-1,334.9	-60.1
Fees & Commissions	891.8	953.3	-61.5	-6.5
Fund	234.4	336.8	-102.4	-30.4
Bancassurance	107.9	103.2	4.7	4.6
Trust Fees	43.8	48.0	-4.2	-8.7
Securities related	292.1	1,237.0	-944.9	-76.4
Others	-341.3	-17.1	-324.3	N.A.

Fund / Bancassurance Sale Fees & Commissions



Management's Discussion & Analysis

4) SG&A Expenses

Despite the rise in commodity prices and the increase in ordinary expenses, the bank substantially reduced expenses that were neither essential nor urgent by engaging in various expenses cutting efforts and a wage freeze. Other factors that had a great impact on the reduction of expenses include an expiration of the ERP of KRW 137.1 billion in the previous year and the reversal of stock option costs of KRW 112.6 billion.

Shinhan Bank's cost income ratio was at an appropriate level in 2008 at 43.7%. It increased 3.5%p from 40.2% in 2007, despite reduced expenses. This resulted from an unprecedentedly low cost income ratio in 2007 that resulted from one-off gains from securities in 2007.

(KRW Billion)

Category	FY2008	FY2007	Chg Amt	Chg %
SG&A Expenses	2,218.4	2,392.7	-174.4	-7.3
Labor Costs	876.4	1,092.3	-216.0	-19.8
Admin Expenses	956.4	924.6	31.8	3.4
D&A Costs	241.9	252.0	-10.1	-4.0
Taxes & Dues	143.7	123.8	19.9	16.1

3. Shinhan Card

1) Overview

In 2008, the Korean credit card market continued stable asset growth, good asset soundness, and a high profitability level, despite increased competition owing to aggressive sales activities to small-to-medium sized card companies in all sectors as well as banks. However, credit card companies became influenced by the global economic downturn, a result of an impact on the real economy by the financial crisis that originated from the U.S. As of the fourth quarter of 2008, credit card companies shifted their business direction, focusing on risk control. Against this backdrop, Shinhan Card posted a before-tax income of KRW 1,324.4 billion and an after-tax income of KRW 940.6 billion, based on its leading market position and stable asset soundness.

After joining the Shinhan Financial Group in March 2007, the legal integration of the former Shinhan and LG Card took place in October. The key component of the credit card business – IT integration – began in October 2007 and was completed in August 2008.

Involving more than a simple IT integration, the system was redesigned to enhance customer services by effectively making use of the strengths of the two companies. Usually requiring 12 to 13 months to integrate the IT systems of financial institutions, Shinhan was able to accomplish this task in only 10 months, in 70% of the usual time entailment. The IT integration was successfully completed with stable operations commencing without any system-related incidents following its launch. As a result, Shinhan Card has gained further competitiveness.

Moreover, two disaster recovery centers were merged into one allowing for measures to ensure that no failures occur for card usage approvals and complete recovery is made within three hours in the event of a disaster. By merging the labor unions in December 2008, the employees of the formerly separate card companies came together and prepared for a better future.

Based on the abovementioned integration of IT systems and labor unions, Shinhan Card operated an ERP at the end of 2008. This resulted in a reduction in labor by 488 persons, around 18% of regular employees, which is anticipated to lead to annual cost reduction effects of KRW 40 billion. Shinhan Card thus strengthened its ability to respond to the long-term global economic slowdown.



2) Income Statement Analysis

Income Statement

(KRW Billion)

Category	FY2008	FY2007	Chg Amt	Chg %
Operating Revenue (a)	4,275.5	3,906.4	369.1	9.4
Interest Expenses (b)	731.6	618.3	113.3	18.3
SG&A Expenses / Others (c)	2,245.3	1,858.6	386.7	20.8
Operating Income (d=a-b-c)	1,298.5	1,429.5	-130.9	-9.2
Loan Loss Provision	24.0	285.5	-261.5	-91.6
Earnings Before Income Tax	1,324.4	1,290.6	33.8	2.6
Income Tax Expense	383.8	-361.9	745.6	N.A.
Net Income	940.6	1,652.4	-711.8	-43.1

Notes) Managed based income statement (2007 figures are Pro-forma based)

Shinhan Card's operating revenue increased by 9.4% year on year, thanks to stable growth in transaction amounts across all business lines, including credit purchase, installment finance, and lease. However, gains from loans declined owing to Shinhan Card's intentional demarketing of mortgage loans. Furthermore, the revenue from restructured loans, which saw a 45% decrease in re-aged loans on a YTD basis.

Interest expenses posted an annual increase of 18.3% (KRW 113.3 billion) in 2008. This is attributable to a rise in the market interest rate stemming from the unstable financial market, and an increase in the average borrowings balance due to the payment of dividends in March 2008.

SG&A expenses grew by 6.7% (KRW 123.5 billion), when excluding the loss on foreign currency translations. The main causes include a rise in product service and marketing costs, due to an increase in transaction amounts, and costs amounting to KRW 84.6 billion related to the ERP conducted at the end of the year.

In 2008, Shinhan Card recovered KRW 439.6 billion from written-off assets. This marks a KRW 17.9 billion decrease from the KRW 457.5 billion posted the previous year. However, this achievement stands out, given the fact that those assets are aging. This remarkable performance can be ascribed to the outstanding collection system and continuous improvements in collection skills. Shinhan Card held a capital sum of KRW 7.1 trillion in written-off asset balance as of the end of 2008. Recovery from those assets will likely decrease in 2009 compared to 2008 due to the economic downturn and continuous aging of the assets. However, it is expected that recovery from written-off assets will remain as a key source of revenue.

Shinhan Card's earnings before income tax went up compared to the previous year, but the net income decreased KRW 711.8 billion year on year in 2008, resulting from the reversal of the corporate income tax of 2007 of the former LG Card (KRW 520 billion).

Management's Discussion & Analysis

4. Good Morning Shinhan Securities (GMSH)

In 2008, the economy decelerated at home and abroad, resulting from the spread of the global financial crisis; the trading volume in the stock market decreased due to the unstable financial market; the bond and foreign exchange market experienced greater fluctuations; and the growth of the fund market sharply slowed. All things considered, the business environment for the securities industry deteriorated to a great extent. Against this backdrop, the operating income of GMSH in 2008 was KRW 191.5 billion, down 19.6% from the previous year. GMSH posted a net income of KRW 156.3 billion, recording a year-on-year decrease of 17.1%.

In terms of operating revenue details, commissions received, which accounted for 73% of total operating revenue in 2008, dropped by an annual 24.7%. This is due to an annual decrease of 28.2% in the brokerage commissions received from KRW 411.6 billion in 2007 to KRW 295.7 billion in 2008, stemming from a reduction in the stock market trading volume. In addition, brokerage commissions on beneficial certificates went down 3.6% year on year to post KRW 17.5 billion in 2008. The corporate finance commission, which is the sum of the underwriting commission and consulting fee, slightly increased from the KRW 18 billion recorded the previous year to KRW 18.2 billion in 2008. GMSH earned trust fees worth KRW 2.6 billion in 2008, an increase of 93.4% from the KRW 1.4 billion of the previous year. Other commissions received dropped 19.5% year on year. The main cause was the 47.2% decrease in brokerage commissions on new certificates from KRW 6.5 billion in 2007 to KRW 3.4 billion in 2008, owing to sluggish sales from offering ELS for public subscription.

Comprised of gains and losses from transaction, and the evaluation of trading securities and derivatives, net trading gains surged from KRW 71.9 billion in 2007 to KRW 141.4 billion in 2008, thanks to several factors, including the accumulation of product management know-how, diversification of management models, and considerable trading gains in the bond management sector. In particular, bond trading gains skyrocketed from KRW 30.6 billion in 2007 to KRW 140.5 billion in 2008, a result of an increase in the Repurchase Agreement (RP) volume stemming from increased CMA subscription and a decrease in the benchmark interest rate in the second half of 2008; government and public bond-centered stable management; and DLS product sales through the Fixed Income Currency & Commodity (FICC) sector.

Interest income recorded a year-on-year increase of 29.5% to post KRW 102.4 billion. This is attributable to an increased interest income through real estate Project Finance (PF) and a rise in interest income for Deposits to Korea Securities Finance Corporation (KSFC).

Of the operating expenses, SG&A expenses posted KRW 275.6 billion in 2008, a 20.5% decrease from the KRW 346.7 billion recorded the previous year, resulting from reduced operating revenue stemming from the deteriorated market environment and reduced costs incurred from performance-based bonuses.

(KRW Billion)

Category	CY2008	CY2007	Chg Amt	Chg %
Operating Revenue	531.8	657.1	-125.3	-19.1
Commissions Received	383.6	510.6	-127.0	-24.9
Net Trading Gain	141.4	71.9	69.5	96.7
Net Interest Income	102.4	79.0	23.4	29.5
Other Operating Income	-95.6	-4.5	-91.1	N.A.
Operating Expenses	340.2	418.8	-78.4	-18.8
Commission Expense	64.6	72.0	-7.4	-10.3
G&A Expense	275.6	346.7	-71.1	-20.5
Operating Income	191.5	238.4	-46.8	-19.6
Non-Operating Income (Loss)	17.9	14.3	3.5	24.7
Net Income Before Taxes	209.4	252.7	-43.3	-17.1
Income Taxes	53.1	75.9	-22.8	-30.0
Net Income (Loss) for the Year	156.3	176.8	-20.5	-11.6



Commissions Received

(KRW Billion)

Category	CY2008	CY2007	Chg Amt	Chg %
Commissions Received	383.6	510.6	-127.0	-24.9
Brokerage Commissions	295.7	411.6	-115.9	-28.2
Brokerage Commissions on Beneficial Certificates	17.5	18.2	-0.7	-3.6
Underwriting Commissions	15.0	15.5	-0.5	-3.0
Consulting Fees	3.2	2.5	0.7	28.2
Trust Fees and Commissions Received from Trust Account	2.6	1.4	1.2	93.4
Others (*)	49.5	61.5	-12.0	-19.5

(*) Includes ELS sales commissions and Project Financing advisory fees

G&A Expenses

(KRW Billion)

Category	CY2008	CY2007	Chg Amt	Chg %
G&A Expenses	275.6	346.7	-71.1	-20.5
Salary	199.1	225.7	-26.6	-11.8
Other General Expenses	64.3	109.4	-45.1	-41.2
Depreciation	12.2	11.7	0.5	5.1

Trading Volume and Market Share

In 2008, GMSH's stock trading volume dropped 20.4% from the previous year to record KRW 175 trillion. Its market share was 5.10%, posting a year-on-year decrease of 0.55%p. Futures trading volume stood at KRW 1,121 trillion, up 14.4% from the previous year with a market share of 8.99%, down 0.3%p. Options trading volume recorded KRW 60 trillion, up 58.0% year on year with a 1.75%p year-on-year growth to capture 10.4% of the market.

Market Share

Category	2008	2007	Chg %p
Stocks	5.1%	5.7%	-0.6
Futures	9.0%	9.3%	-0.3
Options	10.4%	8.7%	-1.7

Trading Volume

(KRW Trillion)

Category	2008	2007	Chg %
Stocks	175	220	-20.4
Futures	1,121	980	14.4
Options	60	38	57.9

Management's Discussion & Analysis

5. Shinhan Life Insurance

Shinhan Life realized KRW 139.2 billion in net income for 2008, posting a year-on-year growth of KRW 7.2 billion (5.5%). Special account operating net results dropped KRW 83 billion and provision of policy reserve rose by KRW 46.2 billion, resulting from such factors as increased in-force business. However, general account operating net results saw an annual increase of KRW 132.2 billion owing to increased premiums written, stemming from an increase in new contracts.

The KRW 83 billion decrease of separate account operating net results is attributable to a KRW 27 billion increase in claims paid, including retirement claims, and a KRW 61.2 billion drop in premiums written for retirement insurance.

Of general account operating net results, insurance operating net results posted a year-on-year rise of KRW 83 billion (8.9%) because of the rise in premiums written, owing to an expanded sales organization (no. of non-billable resources: 6,952 persons; year-on-year increase of +27.0%) and an increase in the number of new contracts with a monthly premium (KRW 67.5 billion; year-on-year increase of 13.4%), exceeded the increase in claims paid and operating expenses.

Net investment gains improved by an annual KRW 50.2 billion (16.5%), resulting from a rise in the interest income (year-on-year increase of KRW 65.6 billion), thanks to the establishment of a stable asset portfolio through increased hold-to-maturity bonds (KRW 1,113 billion; annual increase of KRW 346.7 billion) and increased loan assets (KRW 2,380 billion; annual increase of KRW 443 billion).

(KRW Billion)

Category	CY2008	CY2007	Chg Amt	Chg %
Insurance Operating Net Results	1,018.4	935.4	83.0	8.9
Premiums Written	2,625.3	2,368.6	256.7	10.8
Claims Paid (-)	1,018.7	916.3	102.4	11.2
Reinsurance Operating Results	-1.1	-0.9	-0.2	-
Operating Expenses (-)	587.1	516.0	71.1	13.8
Net Investment Gains	353.9	303.7	50.2	16.5
Others	-8.0	-7.0	-1.0	-
General Account Operating Net Results	1,364.3	1,232.1	132.2	10.7
Separate Account Operating Net Results	12.1	95.1	-83.0	-87.3
Total Operating Net Results	1,376.4	1,327.2	49.2	3.7
Provision of Policy Reserve (-)	1,190.0	1,143.8	46.2	4.0
Net Income Before Taxes	186.4	183.4	3.0	1.6
Net Income	139.2	132.0	7.2	5.5



III. Balance Sheet Review & Asset Quality

1. Shinhan Financial Group

1) Total Assets

The group's total assets as of the end of 2008 were recorded at KRW 264 trillion, up KRW 41.8 trillion (18.8%) year on year according to the consolidated financial statements. Of the group's subsidiaries, Shinhan Bank's total assets rose by KRW 40 trillion, Shinhan Life's total assets by KRW 1 trillion, and Shinhan Capital's total assets by KRW 1 trillion. By category, securities went up by KRW 4 trillion and loans in won increased to result in a KRW 22 trillion rise in total loans. Of loans in won, corporate loans demonstrated a strong growth rate of 18.5%, while retail loans showed a stable increase rate of 7.4%. Of corporate loans, large corporation loans in particular saw a substantial increase. This is because large corporations increased their loan dependence on banks, owing to difficulties in issuance of corporate bonds resulting from the contraction of the bond market.

The group funded the increasing loans through deposit-taking, borrowings, and bank debentures. Deposits grew by KRW 17.6 trillion and borrowings and bank debentures by KRW 7.3 trillion, each, from the previous year. In 2008, the group increased the percentage of retail funding through deposits and reduced the percentage of wholesale funding for stable liquidity management.

(KRW Billion)

Category	2008	2007	Chg Amt	Chg %
Cash and Dues from Banks	13,125	9,600	3,525	36.7
Securities	47,485	43,448	4,037	9.3
Loans	167,083	144,820	22,263	15.4
(Loan Loss Allowances)	3,317	2,954	363	12.3
Properties, Premises and Equipment	2,411	2,405	6	0.2
Other Assets	33,957	20,603	13,354	64.8
Total Assets	264,061	220,876	43,185	19.6
Deposits	126,810	110,821	15,989	14.4
Borrowings	27,735	24,224	3,512	14.5
Debentures	49,176	42,568	6,609	15.5
Other Liabilities	42,388	25,090	17,298	68.9
Total Liabilities	246,109	202,702	43,407	21.4
Paid-in Capital	2,462	2,462	-	-
Capital Surplus	9,033	8,631	401	4.6
Retained Earnings	6,300	5,222	1,078	20.6
Capital Adjustments	-191	1,662	-1,853	-111.5
Minority Interest	348	197	151	77.0
Total Shareholders' Equity	17,952	18,174	-222	-1.2
Total Liabilities and Shareholders' Equity	264,061	220,876	43,185	19.6

Management's Discussion & Analysis

Asset Breakdown by Subsidiary

(KRW Billion)

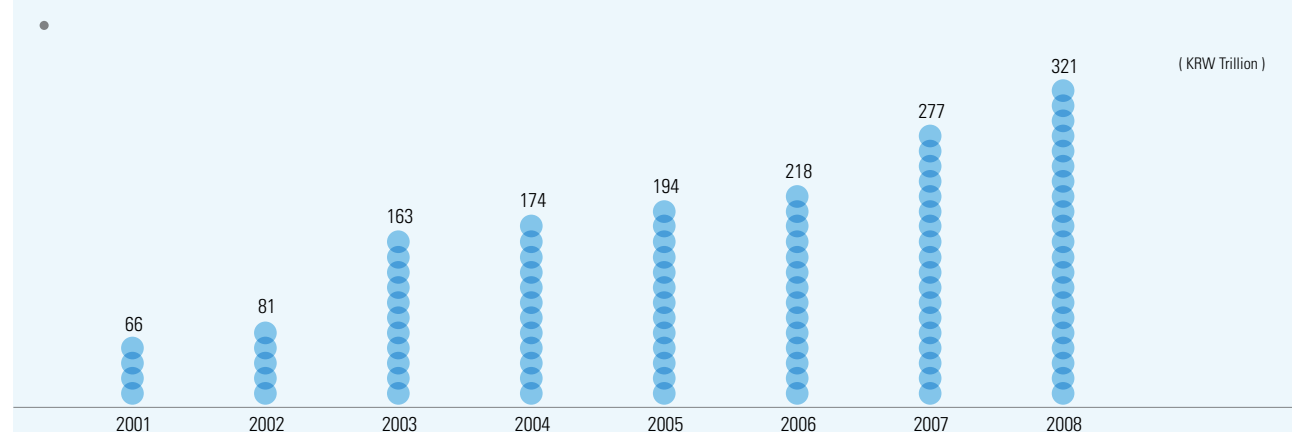
Category	2008	2007	Chg Amt	Chg %
Bank Subsidiaries	252,413	211,100	41,313	19.6
Shinhan Bank	249,509	208,315	41,195	19.8
Jeju Bank	2,903	2,785	118	4.2
Non-Bank Subsidiaries	64,038	59,430	4,608	7.8
Shinhan Card	17,076	16,881	195	1.2
Good Morning Shinhan Securities	7,315	6,686	629	9.4
Shinhan Life Insurance	8,517	7,411	1,106	14.9
Shinhan Capital	4,008	2,963	1,044	35.2
Shinhan BNPP ITMC	15,101	15,142	-41	-0.3
SH Asset Management	12,022	10,347	1,675	16.2
Total Assets ^(*)	321,263	276,666	44,597	16.1

(*) Including Trust A/C and AUM (Shinhan BNPP ITMC+SH Asset Management), Simple aggregation of subsidiaries

The group's total assets under management (AUM) combining assets entrusted in trust and asset management subsidiaries as of the end of 2008 was recorded at KRW 321 trillion, up KRW 44.6 trillion (16.1%) from the end of 2007. This is due to a uniform asset increase among the subsidiaries, resulting from an increase in assets under management by asset management subsidiaries – mainly bond funds, and a rise in assets under management by GMSH Securities, along with increased assets of Shinhan Bank, Shinhan Life Insurance, and Shinhan Capital.

SFG Total Assets

(KRW Trillion)



2) Total Deposits

The group's total deposits as of the end of 2008 stood at KRW 131.4 trillion, up around KRW 12.2 trillion (10.3%). Most notably, the deposits of Shinhan Bank grew by a sizeable KRW 12.3 trillion. This is attributable to a KRW 16.6 trillion (41.9%) increase in time deposits. This is a result of various efforts made by the bank to increase the percentage of deposits; and customers moving their funds from the fund market to bank time deposits in accordance with their preference towards safe assets in 2008. Deposits in foreign currency also demonstrated a substantial increase of 48.8% (KRW 2.2 trillion), owing to the increased exchange rate.



(KRW Billion)

Category	2008	2007	Chg Amt	Chg %
Total Deposits	131,411	119,189	12,222	10.3
SHB	129,110	116,758	12,353	10.6
Low Cost Deposits	36,002	37,993	-1,990	-5.2
Time Deposits	56,115	39,554	16,562	41.9
Installment Deposits	225	343	-118	-34.3
CDs	13,124	15,168	-2,044	-13.5
RPs & Bills Sold	3,187	5,498	-2,312	-42.0
Deposits in FC	6,887	4,628	2,259	48.8
Trust Account	13,570	13,574	-5	N.A.
GMSH	1,191	902	289	32.1
Jeju Bank	2,311	2,270	41	1.8
Intra Transaction (-)	1,202	741	461	62.2

3) Total Loans

As of the end of 2008, the group's total loans rose by KRW 17.2 trillion (11.5%) year on year to record KRW 166.5 trillion. Shinhan Bank's KRW 16.5 trillion hike mainly contributed to this upswing. The gain in Shinhan Bank's loans was mainly due to the significant growth of corporate loans. Shinhan Card reduced card loans, a high-risk asset, to enhance asset quality. GMSH also reduced assets by collecting real estate PF loans. Furthermore, Shinhan Life increased assets under management by expanding new insurance business, while Shinhan Capital increased assets under management by acquiring corporate lease-related assets from Shinhan Card.

(KRW Billion)

Category	2008	2007	Chg Amt	Chg %
Total Loans	166,507	149,292	17,215	11.5
SHB	141,212	124,694	16,517	13.2
Bank Account	140,467	124,017	16,450	13.3
Trust Account	744	677	67	10.0
Shinhan Card	16,815	17,273	-458	-2.7
Good Morning Shinhan Securities	752	1,193	-441	-37.0
Shinhan Life Insurance	2,380	1,997	383	19.2
Shinhan Capital	3,396	2,634	762	28.9
Jeju Bank	2,072	1,970	102	5.2
Intra Transaction (-)	120	469	-349	-74.5

Management's Discussion & Analysis

4) Group Asset Quality

As of the end of 2008, the group's NPL ratio went up by 14bp from the end of the previous year to record 1.14%. This is because the substandard & below loan ratio of Shinhan Bank increased by 27bp from the end of the previous year to post 1.0% due to reasons such as increased delinquencies from the economic slump. This is despite the fact that the asset quality level of non-bank subsidiaries remained strong, such as Shinhan Card's substandard & below loan ratio dropping 60bps from the end of the previous year to post 2.44%.

The subsidiaries asset quality ratio improved slightly as of the end of 2008, with the exception of Shinhan Bank. Although changes in the asset quality level have not been realized as of yet, more focus is being placed on asset quality management in consideration of the deterioration of macroeconomic indexes. The group's NPL coverage ratio stood at 172% as of the end of 2008, recording a decrease of 20%p from the end of the previous year. This is attributable to a slight increase in substandard & below loans in relation to restructuring in the construction and shipbuilding sectors. However, reserves for bad debts remain exceptionally high.

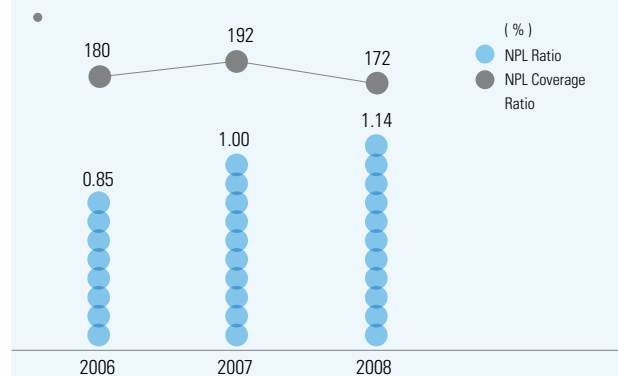
The quality of retail loans remains at a particularly stable level despite the continued economic slump. In addition, steady quality improvements are being made in the credit card sector as well. The group's loans are being controlled in a quite stable manner, even when including loans to small-to-medium sized companies, which there is growing concern over.

(KRW Billion)

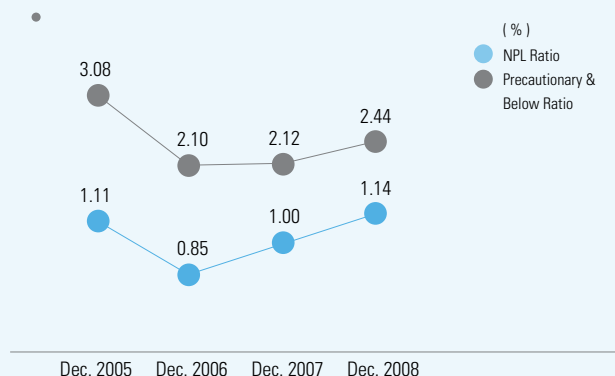
Category	2008	2007	Chg Amt	Chg % (%p)
Total (*)	179,561	159,486	20,075	12.6
Normal	175,182	156,109	19,073	12.2
Precautionary	2,332	1,786	545	30.5
Substandard	764	518	246	47.5
Doubtful	430	241	189	78.7
Estimated Loss	853	831	21	2.6
Substandard & Below	2,047	1,590	457	28.7
Ratio	1.14%	1.00%	-	0.14
Loan Loss Reserve	3,523	3,050	473	15.5
NPL (Substandard & Below) coverage ratio	172%	192%	-	-20.0

(*) Simple aggregation of Shinhan/ Jeju Bank, Shinhan Card, GMSH Securities, Shinhan Life Insurance, and Shinhan Capital

Group NPL Ratio & Coverage Ratio



Group Precautionary & Below Ratio/ NPL Ratio





2. Shinhan Bank

1) Loans in KRW

Shinhan Bank's loans in Won increased sharply in 2008, largely attributable to corporate loans. Loans to large corporations demonstrated the highest increase (year-on-year rise of 47.2%), owing to increased loan demand by large corporations that experienced difficulties in issuing bonds resulting from the contraction of the capital market. SME loans also posted a high increase rate of 13.7%. Retail loans showed a stable increase rate of 8.7%, mostly concentrated in mortgage loans. As of the end of 2008, Shinhan Bank's mortgage LTV was at a stable level of around 46%.

(KRW Billion)

Category	2008	2007	Chg Amt	Chg %
Loans in Won (A)	119,797	105,995	13,802	13.0
Retail	56,131	52,257	3,874	7.4
Mortgage	34,510	31,744	2,765	8.7
Others	21,622	20,513	1,109	5.4
Corporate	63,666	53,737	9,928	18.5
SME	52,414	46,093	6,320	13.7
SOHO	18,189	17,109	1,080	6.3
Large Corporate	11,252	7,644	3,608	47.2

2) Asset Quality

As of the end of 2008, Shinhan Bank's ratio of substandard and below loans was 1.00%. This marks a 27bp increase from the end of the previous year, due to the economic slump. However, Shinhan Bank is maintaining one of the best asset quality levels in Korea. In particular, the NPL coverage ratio that prepares for potential future losses stood at 164%, which is an exceedingly high level even by international standards.

In addition, the delinquency ratio slightly increased by 8bp year on year to post 0.72% as of the end of 2008 and is being maintained at an extremely stable level. By sector, retail and SME loans recorded a delinquency ratio of 0.33% and 1.25%, respectively. The delinquency ratio of SOHO, which is known to be the most vulnerable to business fluctuations among small-to-medium sized companies, was 0.91%, lower than the average delinquency ratio of SMEs. It is thus being maintained at an extremely stable level.

Of corporate loans, SME loans demonstrated a high delinquency ratio. This is attributable to a rise in the delinquency ratio of companies in the construction sector by 1.20%p from the end of the previous year to mark a delinquency ratio of 2.53% as of the end of December, stemming from deterioration of the real estate market and unsold apartments. In contrast, the delinquency ratio of companies in the real estate and leasing business remains stable at 1.09%.

What is noticeable is that the delinquency ratio of the manufacturing sector has been steadily increasing since June 2008 to record 1.48%. Main causes include reduced sales from a slowdown in exports, increased burden on companies due to a rise in the price of raw materials, and decreased corporate profitability owing to a rise in interest rates. Shinhan Bank is strengthening monitoring to prepare for the possibility of additional delinquencies by business types and companies whose competitiveness is weakening and business types that are sensitive to business fluctuations. Although the overall delinquency ratio of SMEs is on the rise, it remains at a level that can be effectively controlled. The average loan to value ratio is 54%. As such, the amount of losses are not forecast to be high even in the case of SMEs whose asset quality has deteriorated.

Management's Discussion & Analysis

(KRW Billion)

Category	2008	2007	Chg Amt	Chg % (%p)
Total	153,851	134,241	19,611	14.6
Normal	150,627	132,180	18,448	14.0
Precautionary	1,693	1,081	613	56.7
Substandard	743	503	241	47.9
Doubtful	302	124	178	143.2
Estimated Losses	486	354	132	37.3
Substandard & Below	1,531	981	550	56.1
Ratio	1.00%	0.73%	-	0.27
Loan Loss Reserves	2,509	1,869	640	34.2
NPL (Substandard & Below) Coverage Ratio	164%	191%	-	-27.0



3. Shinhan Card

1) Card Member

During the credit card bubble, the effective number of card members of the former LG Card in 2002 reached approximately 11.8 million. This number dropped to around 9.5 million by the middle of 2005 through continuous member restructuring and rebounded to roughly 13.3 million by the end of 2007, thanks to actively engaging in such measures as member retention activities and actively recruiting financially sound members, as well as the merger with the former Shinhan Card in October 2007. As of the end of 2008, this figure stood at approximately 13.6 million, recording a year-on-year increase of 270 thousand persons. The monthly-base number of card users was temporarily reduced to around 50% during the credit card crisis in 2003. However, this figure increased thanks to continuous marketing activities and has reached 63% as of the end of 2008, recording a slight increase from the end of the previous year.

2) Earning Assets

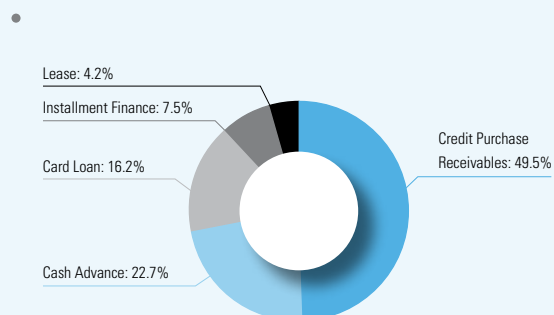
Shinhan Card's earning assets are classified into normal and risk assets. Risk assets are comprised of refinanced assets and assets delinquent for over one month. To take pre-emptive action against the global financial crisis, Shinhan Card began engaging in risk control-centered management in the first half of 2008. In contrast to other companies, Shinhan Card was able to reduce the percentage of high-risk financial assets in 2008. Its assets recorded an annual decrease of 2.7% to post KRW 16.8 trillion, resulting from the continuous decrease in refinanced assets and card loans. Into the asset mix, credit purchase receivables that contain relatively low risks increased by an annual 2.7%p. In addition, refinanced assets that carry a high risk declined by 1.8%p and accounted for 2.4% of total assets, resulting in the formation of a healthy asset portfolio. Through this successful adjustment in its business portfolio, Shinhan Card maintained stable revenues while controlling risks at an adequate level.

Changes in the Asset Portfolio Composition

(KRW Billion)

Category	2008	2007	Chg Amt	Chg %
Assets (Managed)	16,815	17,273	-458	-2.7
Credit Purchase Receivables	8,325	8,093	232	2.9
Cash Advances	3,810	3,727	83	2.2
Card Loans	2,718	3,432	-714	-20.8
(Refinanced Loans)	395	717	-322	-44.9
Installment Finance	1,263	1,219	44	3.6
Leases	699	802	-103	-12.9

Asset Portfolio Composition

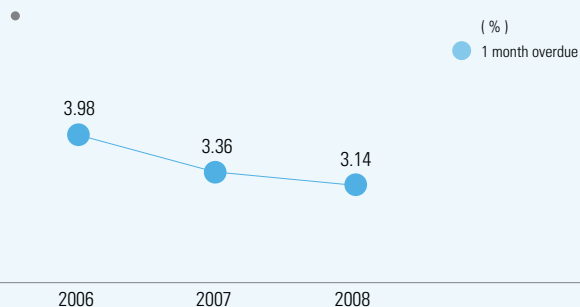


Management's Discussion & Analysis

3) Asset Quality

The one-month or longer delinquency ratio reached 30% at the end of 2003 when the credit card bubble burst. However, the market achieved steady stabilization along with a change for the better in market conditions. Shinhan Card's one-month or longer delinquency ratio was maintained at 3.14% as of the end of 2008. Though the delinquency ratio is steadily rising due to the recent global financial crisis having an impact on the real economy, the delinquency ratio are forecast to remain below the high level recorded during the credit crisis of the past.

Delinquency Ratio



The former LG Card has written off KRW 5.4 trillion in 2004 and KRW 1.5 trillion in 2005, before becoming a subsidiary of the Shinhan Financial Group in March 2007. However, the write-off amount continued to decrease as the company engaged in stable business after successful corporate and asset restructuring. Shinhan Card wrote off KRW 603.9 billion in 2008. It is forecasted that the write-off amount will slightly increase in 2009 due to deteriorating economic conditions and a corresponding increase in the delinquency ratio.

As of the end of 2008, Shinhan Card had reserved a total of KRW 848 billion in loan loss provisions. This is 5.0% of the KRW 16.8 trillion of earning assets, with NPL coverage standing at 206% (Shinhan Card's NPL coverage ratio is calculated based on loans delinquent for more than three months), improving 6%p from the previous year. The company's loan loss provisions totals KRW 1.3 trillion, when including other provisions, including provisions for unused credit lines of KRW 486 billion.



4. Good Morning Shinhan Securities

(KRW Billion)

Category	2008	2007	Chg Amt	Chg %
Cash and Deposits	1,376.9	1,060.9	316.0	29.8
(Deposits)	1,132.2	809.7	322.5	39.8
Securities	4,561.5	4,051.8	509.7	12.6
(Trading Securities)	4,061.9	3,339.0	722.9	21.7
Derivatives	165.5	61.3	104.2	170.0
Loans	748.4	1,181.1	-432.7	-36.6
(Broker's Loans)	351.0	719.3	-368.3	-51.2
Tangible Fixed Assets	175.9	173.3	2.6	1.5
Other Assets	289.3	157.3	132.0	83.9
Total Assets	7,315.7	6,685.9	629.8	9.4
Deposits	1,195.2	909.7	285.5	31.4
(Customers' Deposits)	1,191.5	902.2	289.3	32.1
Borrowings	4,176.1	3,883.9	292.2	7.5
Call Money	274.4	680.7	-406.3	-59.7
Borrowings	149.2	253.0	103.8	-41.0
Bonds sold under Repurchase Agreements	2,688.5	1,745.6	942.9	54.0
Other Liabilities	234.3	308.2	-73.9	-24.0
Total Liabilities	5,605.6	5,101.8	503.8	9.9
Total Stockholder's Equity	1,710.0	1,584.0	126.0	8.0
Total Liabilities & Stockholder's Equity	7,315.7	6,685.9	629.8	9.4

Good Morning Shinhan Securities' (GMSH) total assets increased by 9.4% year on year to KRW 7.3 trillion as of the end of 2008. Of the total, securities, including trading securities, posted KRW 4.6 trillion, and accounted for 62.4% of total assets. Cash and deposits accounted for 18.8% at KRW 1.4 trillion.

Cash and deposits witnessed a year-on-year increase of 22.9%. This is attributable to deposits, including the reserve for claims of customers' deposits, going up 28.5% from KRW 809.8 billion at the end of 2007 to KRW 1.1 trillion at the end of 2008. Securities also increased by 12.6% year on year, owing to trading securities, which account for the majority of total securities, posting an increase of 21.7% from KRW 3.3 trillion at the end of 2007 to KRW 4.1 trillion at the end of 2008. Bonds account for 90% of trading securities. Loans decreased 3.66% year on year to KRW 748.5 billion at the end of 2008. This is due to a reduction in broker's loans, including loans with securities as collateral, from KRW 719.3 billion at the end of 2007 to KRW 351 billion at the end of 2008, a result of reduced stock trading stemming from the sluggish stock market in 2008.

Total liabilities increased by 9.9% year on year to KRW 5.6 trillion as of the end of 2008. The main causes of the rise were an increase in customers' deposits and a climb in the repurchase agreement (RP) volume owing to the release of the CMA. Customers' deposits grew by 32.1% from KRW 902.3 billion at the end of 2007 to KRW 1.2 trillion at the end of 2008. In addition, the RP volume also went up by 54.0% from KRW 1.7 trillion at the end of 2007 to KRW 2.7 trillion at the end of 2008. Furthermore, call money and short-term borrowings recorded a year-on-year decrease of 59.7% and 41.0%, respectively as a result of GMSH pursuing the diversification of its funding structure and securing stable liquidity as part of its measures to actively counter the global financial market crisis and credit crunch in the second half of 2008.

Total stockholder's equity rose by 8.0% year on year to KRW 1.7 trillion as of the end of 2008, reflecting the net income growth of 2008.

Management's Discussion & Analysis

5. Shinhan Life Insurance

1) Asset Quality

As of the end of 2008, the loan loss provision ratio stood at 265.4%, up 2.6%p from the previous year. This can be ascribed to active management of the delinquency ratio and the expansion of new quality loans, mainly policy loans. The loan loss provision ratio remains at a stable level, meaning that the company will be able to sufficiently cover insolvencies in the future.

(KRW Billion)

Category	2008	2007	Chg % (%p)
Substandard	1.6	2.2	-0.6
Doubtful	0.1	0.0	0.1
Estimated Loss	9.1	5.4	3.7
Substandard & Below Loans	10.8	7.6	3.2
Substandard & Below Loan Ratio	0.44%	0.37%	0.07
Loan Loss Provision Ratio	265.4%	262.8%	2.6

2) Solvency Margin Ratio

As of the end of December 2008, the solvency margin ratio stood at 209.5%. This is the highest level in the industry that substantially exceeds the regulated ratio (100%) of the Financial Supervisory Service. The level is attributable to a continuous increase in accumulated earnings, notwithstanding a rise in the required solvency margin owing to an increase in business in force.



IV. Funding

1. Shinhan Bank

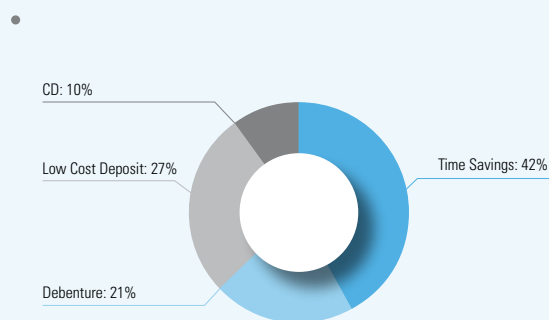
Shinhan Bank's deposits in Korean won grew by 13.3% (KRW 12.3 trillion) year on year. Savings deposits recorded an annual increase of a whopping 41.2% due to several factors: concern over liquidity that continued throughout the year 2008; a rise in customer demand for products with high returns; and the bank's policy of increasing the percentage of deposits opened through bank branches in the mid-to-long term. Accordingly, the bank witnessed its funding costs sharply increase. In particular, certificate deposits, which recorded substantial growth for several years until 2007, posted a decrease of 13.5%.

Shinhan Bank's funding structure is considered extremely stable as low-cost deposits take up 27% of overall funding, resulting from its national retail customer base and court escrow deposits. Time deposits, bank debentures, and CDs account for 42%, 21%, and 10%, respectively. The percentage of time savings rose sharply from 34% at the end of 2007 to 42% at the end of 2008.

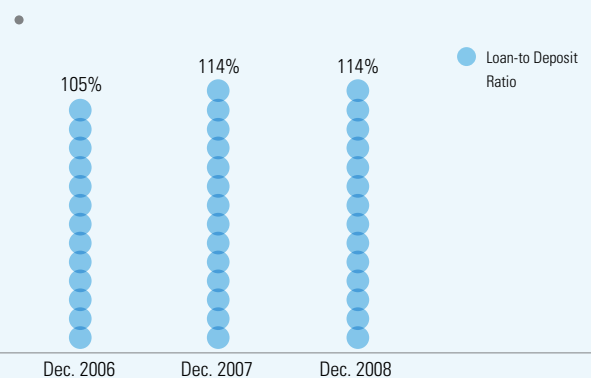
(KRW Billion)

Category	2008	2007	Chg Amt	Chg %
Total Deposits In KRW	105,247	92,907	12,340	13.3
Low Cost Deposits	36,002	37,993	-1,991	-5.2
Demands	11,725	12,406	-681	-5.5
Savings	24,277	25,586	-1,309	-5.1
Other Savings	56,121	39,747	16,374	41.2
Time Deposits	50,516	34,293	16,223	47.3
Accumulative / Others	5,605	5,453	152	2.8
Certificate Deposit	13,124	15,168	-2,044	-13.5
Debtentures In KRW	28,783	25,122	3,661	14.6

Funding Composition



Loan-to-Deposit Ratio



Management's Discussion & Analysis

2. Shinhan Card

As a monoline card company, LG Card was heavily dependent on wholesale funding before its entry into the Shinhan Financial Group. However, the incorporation has enabled it to secure stable funding sources. Funding sources are diversified into corporate debentures, asset-backed securities at home and abroad, and commercial papers. As of December 2008, the funding balance stood at KRW 12.4 trillion.

The following tables summarize funding composition and maturity based on the managed assets.

Liabilities composition

(As of the end of 2008)

Type	Credit card bonds	ABS	CP	Borrowing from holding company, etc.
Portion	62%	18%	8%	12%

Maturity

	1 year or less	1~2 years	3 years or more
End of 2008	36%	30%	34%

V. Capital Management

1. Shinhan Financial Group

As of the end of 2008, the group's BIS ratio stood at 10.2%, posting an increase of 0.3%p from the end of the previous year. Given Shinhan Bank's BIS ratio of 13.5%, the group's BIS ratio is relatively low. This is because the goodwill amounting to KRW 3.7 trillion related to the merger of LG Card in March 2007 was deducted from Tier I capital during calculation of the group's BIS ratio. In addition, the bank uses the Basel II grading method, but observes the group's BIS Basel I criteria, resulting in the application of a risk weight that is larger than the bank to the group's risk-weighted assets.

Shinhan Financial Group is planning to complete a paid-in capital increase in March 2009, through which the group's BIS ratio is expected to rise by roughly 1.5%p. Shinhan Financial Group's capital adequacy is expected to be further strengthened through the capital increase.

(KRW Billion)

Category	2008	2007	Chg Amt	Chg % (%p)
Risk-Weighted Assets	183,766	161,849	21,917	13.5
Capital	18,746	15,946	2,801	17.6
Tier I	9,809	8,389	1,420	16.9
Tier II	8,938	7,557	1,381	18.3
BIS Ratio	10.2%	9.9%	-	0.3
Tier I	5.3%	5.2%	-	0.1
Tier II	4.9%	4.7%	-	0.2



2. Shinhan Bank

Shinhan Bank's BIS ratio as of the end of 2008 was 13.5%, posting an increase of 1.4%p from the previous year. Its Tier I capital ratio recorded 9.4% and thus maintained an exceptionally good level. There are several reasons for the substantial improvement in the bank's BIS ratio: an increase in accumulated earnings from business activities, issuance of subordinated bonds worth KRW 1 trillion in November 2008, and a capital increase from the issuance of ordinary shares worth KRW 800 billion at the end of December 2008.

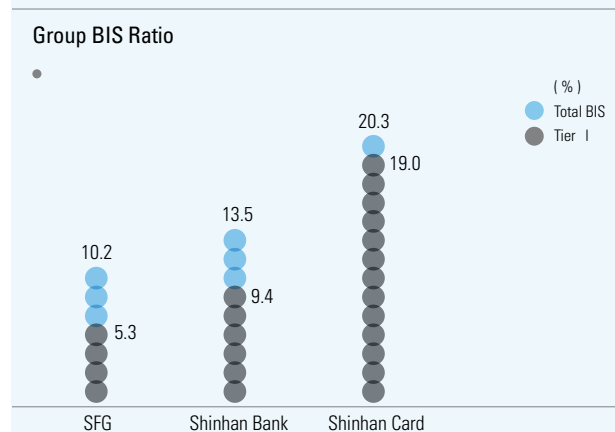
Shinhan Bank received approval from the Financial Supervisory Service on the use of the Basel II-based internal standard grading method in April 2008. Accordingly, it is calculating its BIS capital adequacy ratio based on the internal standard grading method starting from the second quarter of 2008.

(KRW Billion)

Category	2008	2007	Chg Amt	Chg % (%p)
Risk-Weighted Assets	131,561	135,496	-3,934	-2.9
Capital	17,763	16,375	1,388	8.5
Tier I	12,389	10,347	2,042	19.7
Tier II	5,374	6,028	-654	-10.9
BIS Ratio	13.5%	12.1%	-	1.4
Tier I	9.4%	7.6%	-	1.8
Tier II	4.1%	4.4%	-	-0.4

3. Shinhan Card

As of the end of 2008, Shinhan Card held KRW 3.9 trillion in equity capital, with a high Capital Adequacy Ratio (CAR) of 20.3%. This high equity ratio can be attributed to the constantly high returns that it sustained over the past few years (2005-2008). Shinhan Card paid dividends totaling around KRW 1.3 trillion to the holding company through a regular dividend in March 2008 and interim dividend in December 2008, resulting in a slight decrease of CAR from the 25.3% of the previous year.



Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders

Shinhan Financial Group Co., Ltd.:

 KPMG Samjong Accounting Corp.
10th Floor, Star Tower, 737 Yeoksam-dong
Gangnam-gu, Seoul 135-984 Republic of Korea
Tel. 82-2-2112-0100 / Fax. 82-2-2112-0101
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We have audited the accompanying consolidated balance sheets of Shinhan Financial Group Co., Ltd. and its subsidiaries (collectively the "Consolidated Company") as of December 31, 2008 and 2007 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of Shinhan Financial Group Co., Ltd.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Consolidated Company as of December 31, 2008 and 2007, and the results of its operations, the changes in its stockholders' equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

The accompanying consolidated financial statements as of and for the years ended December 31, 2008 and 2007 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Korean Won have been translated into dollars on the basis set forth in note 2(b) to the consolidated financial statements.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 2(a) to the consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position, results of operations, changes in stockholders' equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are intended solely for use by those knowledgeable in Korean accounting principles and auditing standards and their application in practice.

As discussed in note 36 to the consolidated financial statements, on December 15, 2008, the Consolidated Company acquired 9,000,000 shares (100.00%) of the outstanding shares of SH Asset Management Co., Ltd., from Shinhan Bank, a subsidiary of the Consolidated Company, at ₩158,511 million, in accordance with a resolution of the Board of Directors' meeting held on September 24, 2008. Effective January 1, 2009, SH Asset Management Co.,



Ltd. a subsidiary of the Consolidated Company, was merged into Shinhan BNP Paribas Investment Trust Management Co., Ltd. another subsidiary of the Consolidated Company, in accordance with a resolution of the extraordinary shareholders' meeting held on November 5, 2008. In connection with the merger, Shinhan BNP Paribas Investment Trust Management Co., Ltd. issued common stock to the Consolidated Company in exchange for SH Asset Management Co., Ltd.' stock at a ratio of 0.786083. As a result, the Consolidated Company's ownership interest in Shinhan BNP Paribas Investment Trust Management Co., Ltd. increased from 50.00% to 73.47%. SH Asset Management Co., Ltd. merger was accounted for as a business combination between entities under common control, and had no effect on the Consolidated Company's results of operations. Furthermore, on January 2, 2009, the Consolidated Company disposed 1,276,162 shares of Shinhan BNP Paribas Investment Trust Management Co., Ltd. stock at ₩18,023 per share. As a result, the Consolidated Company's ownership interest in Shinhan BNP Paribas Investment Trust Management Co., Ltd. decreased to 65%.

As discussed in note 36 to the consolidated financial statements, on January 30, 2009, the Consolidated Company acquired 5,549,055 shares of Jeju Bank at ₩5,000 per share through rights issue offering. As a result, the Company's ownership interest in Jeju Bank increased from 62.42% to 68.88%.

As discussed in note 36 to the consolidated financial statements, the Consolidated Company decided to issue 78,000,000 new common shares by way of rights issue to stockholders on the record date of February 18, 2009, in accordance with a resolution of the Board of Directors' meeting held on February 2, 2009.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.

Seoul, Korea

February 12, 2009

This report is effective as of February 12, 2009, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Consolidated Balance Sheets

December 31, 2008 and 2007

	Won		U.S. dollars (note 2(b))	
In millions of Won and thousands of U.S. dollars, except share data	2008	2007	2008	2007
Assets				
Cash and due from banks (notes 5, 20, 21 and 22)	₩ 13,078,807	9,677,332	\$ 10,400,643	7,695,692
Securities (notes 6, 20 and 22)	47,485,326	43,377,538	37,761,692	34,495,058
Loans, net (notes 7 and 22)	170,345,242	147,972,764	135,463,415	117,672,178
Property and equipment (notes 9, 20 and 21)	2,411,138	2,407,099	1,917,407	1,914,195
Goodwill, net (notes 4 and 10)	4,528,166	4,986,250	3,600,927	3,965,208
Other assets (notes 8, 11 and 22)	26,166,608	13,815,861	20,808,431	10,986,770
Total assets	₩ 264,015,287	222,236,844	\$ 209,952,515	176,729,101
Liabilities and Stockholders' equity				
Liabilities:				
Deposits (notes 12 and 22)	₩ 126,763,679	110,582,065	\$ 100,806,107	87,938,025
Borrowings (notes 13 and 22)	27,730,528	24,205,471	22,052,111	19,248,885
Debentures, net (notes 14 and 22)	49,181,313	42,585,968	39,110,388	33,865,581
Retirement and severance benefits, net (note 15)	381,457	334,842	303,346	266,276
Other liabilities (notes 16 and 22)	42,006,155	26,302,686	33,404,495	20,916,646
Total liabilities	246,063,132	204,011,032	195,676,447	162,235,413
Stockholders' equity:				
Capital stock of ₩5,000 par value (note 23)				
Common stock	1,980,998	1,980,998	1,575,346	1,575,346
Authorized - 1,000,000,000 shares issued and outstanding: 396,199,587 shares issued and 396,199,058 shares outstanding in 2008 and 2007				
Redeemable and convertible preferred stock Issued and outstanding: 62,411,251 shares in 2008 and 74,161,377 shares in 2007	481,475	481,475	382,883	382,883
Capital surplus	9,032,572	9,032,572	7,182,960	7,182,960
Capital adjustments (note 24)	(432,887)	(413,189)	(344,244)	(328,579)
Accumulated other comprehensive income (note 25)	242,333	1,477,262	192,710	1,174,762
Retained earnings	6,299,623	5,418,683	5,009,641	4,309,091
Minority interest in consolidated subsidiaries	348,041	248,011	276,772	197,225
Total stockholders' equity	17,952,155	18,225,812	14,276,068	14,493,688
Commitments and contingencies (note 32)				
Total liabilities and stockholders' equity	₩ 264,015,287	222,236,844	\$ 209,952,515	176,729,101

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

For the years ended December 31, 2008 and 2007



	Won		U.S. dollars (note 2(b))	
In millions of Won and thousands of U.S. dollars	2008	2007	2008	2007
Interest income and dividends:				
Interest on due from banks	₩ 297,590	183,049	\$ 236,652	145,566
Interest and dividends on securities	2,455,241	1,779,008	1,952,479	1,414,718
Interest on loans	13,798,699	11,894,243	10,973,121	9,458,643
Other	129,462	101,630	102,953	80,819
Total interest income and dividends	16,680,992	13,957,930	13,265,205	11,099,746
Interest expense:				
Interest on deposits	4,915,819	3,665,090	3,909,200	2,914,584
Interest on borrowings	1,137,232	969,439	904,359	770,926
Interest on debentures	2,686,730	2,131,885	2,136,565	1,695,336
Other	125,436	101,356	99,750	80,601
Total interest expense	8,865,217	6,867,770	7,049,874	5,461,447
Net interest income	7,815,775	7,090,160	6,215,331	5,638,299
Provision for loan losses	1,043,900	738,926	830,139	587,615
Net interest income after provision for loan losses	6,771,875	6,351,234	5,385,192	5,050,684
Non-interest income:				
Fees and commission income	1,397,006	1,551,331	1,110,939	1,233,663
Insurance income	2,458,655	2,397,808	1,955,193	1,906,806
Realized gain from sale of trading securities	316,430	369,377	251,634	293,739
Unrealized gain on trading securities	341,669	40,901	271,705	32,526
Realized gain from sale of available-for-sale securities	285,699	790,449	227,196	628,588
Reversal of impairment loss on available-for-sale securities	52,935	162,799	42,095	129,462
Reversal of impairment loss on held-to-maturity securities	30,166	50,001	23,989	39,762
Gain from equity method investment securities	70,791	57,255	56,295	45,531
Gain from disposition of equity method investment securities	4,795	-	3,813	-
Gain from sale of loans	24,629	37,907	19,586	30,145
Gain on foreign currency transactions	6,434,959	1,374,222	5,117,264	1,092,821
Gain on derivatives	30,814,698	5,500,804	24,504,730	4,374,397
Others	1,044,272	553,574	830,435	440,217
Total non-interest income	₩ 43,276,704	12,886,428	\$ 34,414,874	10,247,657

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income, Continued

For the years ended December 31, 2008 and 2007

	Won		U.S. dollars (note 2(b))	
In millions of Won and thousands of U.S. dollars, except earnings per share	2008	2007	2008	2007
Non-interest expense:				
Fees and commission expense	₩ 1,117,674	1,080,443	\$ 888,806	859,199
Insurance expense	2,671,083	2,552,209	2,124,122	2,029,590
Realized loss from sale of trading securities	468,741	198,180	372,756	157,598
Unrealized loss on trading securities	128,515	96,455	102,199	76,704
Realized loss from sale of available-for-sale securities	16,848	9,728	13,398	7,736
Impairment loss on available-for-sale securities	258,960	17,587	205,932	13,986
Impairment loss on held-to-maturity securities	27,253	35,424	21,672	28,170
Loss from equity method investment securities	878	716	698	569
Loss from disposition of equity method investment securities	964	-	767	-
Loss from sale of loans	23,815	958	18,938	762
General and administrative expenses (note 26)	3,912,493	3,999,621	3,111,326	3,180,613
Loss on foreign currency transactions	6,284,361	1,215,939	4,997,504	966,950
Loss on derivatives	30,935,816	5,459,954	24,601,047	4,341,912
Others	1,207,332	657,334	960,105	522,731
Total non-interest expense	47,054,733	15,324,548	37,419,270	12,186,520
Net non-interest expense	(3,778,029)	(2,438,120)	(3,004,396)	(1,938,863)
Earnings before income taxes	2,993,846	3,913,114	2,380,796	3,111,821
Income taxes (note 27)	968,548	549,015	770,217	436,592
Pre-acquisition income in Subsidiaries	(364)	874,101	(289)	695,110
Consolidated net income	2,025,662	2,489,998	1,610,868	1,980,119
Net income in majority interest	2,018,627	2,396,377	1,605,272	1,905,669
Net income in minority interest	7,035	93,621	5,596	74,450
Earnings per share (note 28)				
Earnings per share in Won and U.S. dollars	4,466	5,562	3.55	4.42
Diluted earnings per share in Won and U.S. dollars	₩ 4,369	5,424	\$ 3.47	4.31

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2008 and 2007



Won

In millions of Won	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interest	Total
Balance at January 1, 2007	₩ 2,170,758	4,411,506	67,899	1,323,403	3,387,960	150,579	11,512,105
Cumulative effect for accounting changes	-	154,730	(351,529)	(70)	196,869	42,426	42,426
	2,170,758	4,566,236	(283,630)	1,323,333	3,584,829	193,005	11,554,531
Dividends	-	-	-	-	(392,238)	-	(392,238)
Common stock issuance	73,160	771,082	-	-	-	-	844,242
Preferred stock issuance	218,555	3,517,683	-	-	-	-	3,736,238
Repayment of preferred stock	-	-	-	-	(172,812)	-	(172,812)
Disposition of treasury stock	-	177,571	161,504	-	-	-	339,075
Acquisition of treasury stock	-	-	(28)	-	-	-	(28)
Acquisition of stocks of subsidiaries	-	-	(243,620)	-	-	(643,567)	(887,187)
Changes in stock option	-	-	(44,491)	-	-	-	(44,491)
Changes in other capital adjustments	-	-	(2,924)	-	-	-	(2,924)
Net income	-	-	-	-	2,396,377	93,621	2,489,998
Changes in retained earnings of subsidiaries	-	-	-	-	2,527	-	2,527
Changes in valuation gain on available-for-sale securities	-	-	-	138,895	-	(485)	138,410
Changes in unrealized gain (loss) on equity method investment securities	-	-	-	4,313	-	(3)	4,310
Changes in adjustment for foreign currency translation	-	-	-	6,063	-	-	6,063
Changes in valuation gain on derivatives	-	-	-	4,658	-	643	5,301
Other changes in minority interest	-	-	-	-	-	604,797	604,797
Balance at December 31, 2007	₩ 2,462,473	9,032,572	(413,189)	1,477,262	5,418,683	248,011	18,225,812

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity, Continued

For the years ended December 31, 2008 and 2007

U.S. dollars (note 2(b))

In thousands of U.S. dollars	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interest	Total
Balance at January 1, 2007	\$ 1,726,249	3,508,156	53,995	1,052,408	2,694,203	119,745	9,154,756
Cumulative effect for accounting changes	-	123,046	(279,546)	(56)	156,556	33,738	33,738
	1,726,249	3,631,202	(225,551)	1,052,352	2,850,759	153,483	9,188,494
Dividends	-	-	-	-	(311,920)	-	(311,920)
Common stock issuance	58,179	613,186	-	-	-	-	671,365
Preferred stock issuance	173,801	2,797,362	-	-	-	-	2,971,163
Repayment of preferred stock	-	-	-	-	(137,425)	-	(137,425)
Disposition of treasury stock	-	141,210	128,433	-	-	-	269,643
Acquisition of treasury stock	-	-	(22)	-	-	-	(22)
Acquisition of stocks of subsidiaries	-	-	(193,734)	-	-	(511,783)	(705,517)
Changes in stock option	-	-	(35,381)	-	-	-	(35,381)
Changes in other capital adjustments	-	-	(2,324)	-	-	-	(2,324)
Net income	-	-	-	-	1,905,669	74,450	1,980,119
Changes in retained earnings of subsidiaries	-	-	-	-	2,008	-	2,008
Changes in valuation gain on available-for-sale securities	-	-	-	110,455	-	(386)	110,069
Changes in unrealized gain (loss) on equity method investment securities	-	-	-	3,430	-	(2)	3,428
Changes in adjustment for foreign currency translation	-	-	-	4,821	-	-	4,821
Changes in valuation gain on derivatives	-	-	-	3,704	-	511	4,215
Other changes in minority interest	-	-	-	-	-	480,952	480,952
Balance at December 31, 2007	\$ 1,958,229	7,182,960	(328,579)	1,174,762	4,309,091	197,225	14,493,688

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity, Continued

For the years ended December 31, 2008 and 2007



Won

In millions of Won	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interest	Total
Balance at January 1, 2008	₩ 2,462,473	8,617,811	198,368	1,477,335	5,221,814	196,614	18,174,415
Cumulative effect for accounting changes (note 2)	-	414,761	(611,557)	(73)	196,869	51,397	51,397
	2,462,473	9,032,572	(413,189)	1,477,262	5,418,683	248,011	18,225,812
Dividends	-	-	-	-	(620,442)	-	(620,442)
Repayment of preferred stock	-	-	-	-	(537,834)	-	(537,834)
Net income	-	-	-	-	2,018,627	7,035	2,025,662
Changes in other capital adjustments	-	-	(19,698)	-	-	(271)	(19,969)
Changes in retained earnings of subsidiaries	-	-	-	-	20,589	-	20,589
Changes in valuation gain on available-for-sale securities	-	-	-	(1,349,347)	-	3,368	(1,345,979)
Changes in unrealized gain (loss) on equity method investment securities	-	-	-	15,448	-	(17)	15,431
Changes in adjustment for foreign currency translation	-	-	-	155,459	-	-	155,459
Changes in valuation gain on derivatives	-	-	-	(56,489)	-	-	(56,489)
Other changes in minority interest	-	-	-	-	-	89,915	89,915
Balance at December 31, 2008	₩ 2,462,473	9,032,572	(432,887)	242,333	6,299,623	348,041	17,952,155

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity, Continued

For the years ended December 31, 2008 and 2007

U.S. dollars (note 2(b))

In thousands of U.S. dollars	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interest	Total
Balance at January 1, 2008	\$ 1,958,229	6,853,130	157,749	1,174,819	4,152,536	156,353	14,452,816
Cumulative effect for accounting changes	-	329,830	(486,328)	(57)	156,555	40,872	40,872
	1,958,229	7,182,960	(328,579)	1,174,762	4,309,091	197,225	14,493,688
Dividends	-	-	-	-	(493,394)	-	(493,394)
Repayment of preferred stock	-	-	-	-	(427,701)	-	(427,701)
Net income	-	-	-	-	1,605,272	5,596	1,610,868
Changes in other capital adjustments	-	-	(15,665)	-	-	(216)	(15,881)
Changes in retained earnings of subsidiaries	-	-	-	-	16,373	-	16,373
Changes in valuation gain on available- for-sale securities	-	-	-	(1,073,039)	-	2,678	(1,070,361)
Changes in unrealized gain (loss) on equity method investment securities	-	-	-	12,284	-	(14)	12,270
Changes in adjustment for foreign currency translation	-	-	-	123,625	-	-	123,625
Changes in valuation gain on derivatives	-	-	-	(44,922)	-	-	(44,922)
Other changes in minority interest	-	-	-	-	-	71,503	71,503
Balance at December 31, 2008	\$ 1,958,229	7,182,960	(344,244)	192,710	5,009,641	276,772	14,276,068

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007



	Won		U.S. dollars (note 2(b))	
In millions of Won and thousands of U.S. dollars	2008	2007	2008	2007
Cash flows from operating activities:				
Net income	₩ 2,025,662	2,489,998	\$ 1,610,868	1,980,119
Adjustments to reconcile consolidated net income to net cash used in operating activities:				
Depreciation and amortization	805,615	703,599	640,648	559,522
Provision for loan losses, net	1,043,900	787,233	830,139	626,031
Provision for retirement and severance benefits	146,841	138,318	116,772	109,994
Unrealized loss (gain) on trading securities, net	(213,154)	55,554	(169,506)	44,178
Impairment loss on available-for-sale securities	258,960	17,197	205,932	13,676
Reversal of impairment loss on available-for-sale securities	(52,935)	(162,799)	(42,095)	(129,462)
Impairment loss on held-to-maturity securities	27,253	-	21,672	-
Reversal of impairment loss on held-to-maturity securities	(30,166)	(51,913)	(23,989)	(41,283)
Income from equity method investment securities, net	(69,913)	(62,463)	(55,597)	(49,672)
Gain from disposition of equity method investment securities, net	(3,831)	-	(3,046)	-
Gain on foreign currency transactions, net	105,139	(155,814)	83,610	(123,908)
Valuation gain on derivatives, net	(521,286)	(183,372)	(414,541)	(145,824)
Stock compensation costs	(2,217)	73,452	(1,763)	58,411
Policy reserves and other insurance expense	1,195,982	1,155,759	951,079	919,093
Other, net	52,161	178,733	41,478	142,134
Changes in assets and liabilities:				
Decrease (increase) in trading securities	2,901,168	(6,222,494)	2,307,092	(4,948,305)
Increase in available-for-sale securities	(8,773,239)	(4,327,334)	(6,976,731)	(3,441,220)
Increase in held-to-maturity securities	(633,112)	(560,324)	(503,469)	(445,586)
Dividends received from equity method investment securities	1,094,635	14,482	870,485	11,517
Increase in loans	(19,254,698)	(16,392,174)	(15,311,886)	(13,035,527)
Loan origination fee	183,999	194,469	146,321	154,647
Increase in other assets	(6,621,770)	(1,150,065)	(5,265,820)	(914,562)
Increase (decrease) in other liabilities	8,539,864	(170,625)	6,791,142	(135,687)
Retirement and severance benefits paid	(97,764)	(59,203)	(77,745)	(47,080)
Decrease (increase) in deposit for severance benefit insurance	(3,993)	1,312	(3,175)	1,043
Net cash used in operating activities	(17,896,899)	(23,688,474)	(14,232,125)	(18,837,751)
Cash flows from investing activities:				
Cash provided by investing activities:				
Decrease in equity method investment securities	15,290	10,962	12,159	8,717
Proceeds from disposal of property and equipment	92,217	11,728	73,334	9,326
Decrease in other assets	207,432	232,990	164,956	185,281
	₩ 314,939	255,680	\$ 250,449	203,324

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2008 and 2007

	Won		U.S. dollars (note 2(b))	
In millions of Won and thousands of U.S. dollars	2008	2007	2008	2007
Cash used in investing activities:				
Acquisition of equity method investment securities	₩ (162,947)	(25,412)	\$ (129,580)	(20,208)
Acquisition of subsidiaries	(36,729)	(6,179,343)	(29,208)	(4,913,990)
Purchase of property and equipment	(389,637)	(455,519)	(309,850)	(362,242)
Increase in other assets	(329,503)	(420,568)	(262,031)	(334,448)
	(918,816)	(7,080,842)	(730,669)	(5,630,888)
Net cash used in investing activities	(603,877)	(6,825,162)	(480,220)	(5,427,564)
Cash flows from financing activities:				
Cash provided by financing activities:				
Increase in deposits	18,090,470	10,728,032	14,386,058	8,531,239
Proceeds from borrowings	35,366,897	35,853,038	28,124,770	28,511,362
Proceeds from debentures	19,363,642	19,358,446	15,398,523	15,394,390
Increase in other liabilities	2,204,244	331,295	1,752,878	263,455
Disposition of treasury stock	-	61,269	-	48,723
Issuance of preferred stock	-	3,749,962	-	2,982,077
Increase in minority interest	100,958	339,418	80,285	269,915
	75,126,211	70,421,460	59,742,514	56,001,161
Cash used in financing activities:				
Decrease in deposits	(3,171,551)	-	(2,522,109)	-
Repayment of borrowings	(33,829,514)	(30,081,049)	(26,902,197)	(23,921,311)
Repayment of debentures	(14,890,628)	(11,050,184)	(11,841,453)	(8,787,423)
Debentures issue cost paid	(94,830)	(88,744)	(75,412)	(70,572)
Decrease in other liabilities	(60,849)	(25,599)	(48,390)	(20,357)
Stock issuance costs paid	(1,984)	(13,747)	(1,578)	(10,932)
Dividends paid	(619,916)	(391,708)	(492,975)	(311,497)
Repayment of preferred stocks	(537,834)	(172,812)	(427,701)	(137,425)
Acquisition of treasury stock	-	(372)	-	(296)
Decrease in minority interest	(26,551)	(87,504)	(21,114)	(69,586)
	(53,233,657)	(41,911,719)	(42,332,929)	(33,329,399)
Net cash provided by financing activities	21,892,554	28,509,741	17,409,585	22,671,762
Increase in cash and due from banks due to change in consolidation scope	9,697	334,143	7,711	265,720
Net increase (decrease) in cash and due from banks	3,401,475	(1,669,752)	2,704,951	(1,327,833)
Cash and due from banks at beginning of year	9,677,332	11,347,084	7,695,692	9,023,525
Cash and due from banks at end of year	₩ 13,078,807	9,677,332	\$ 10,400,643	7,695,692

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007



(1) General Description on the Consolidated Company

Shinhan Financial Group Co., Ltd., the controlling company, and its subsidiaries included in consolidation or accounted for under the equity method are summarized as follows:

(a) Controlling Company

Shinhan Financial Group Co., Ltd. (the "Shinhan Financial Group") was incorporated on September 1, 2001 through a business combination involving exchange of Shinhan Financial Group's common stock with the former shareholders of Shinhan Bank, Shinhan Securities Co., Ltd., Shinhan Capital Co., Ltd. and Shinhan BNP Paribas Investment Trust Management Co., Ltd. (formerly Shinhan Investment Trust Management Co., Ltd.). Shinhan Financial Group was formed with ₩1,461,721 million of initial capital stock for the purpose of providing management services and financing to affiliated companies and Shinhan Financial Group's shares were listed on the Korea Exchange on September 10, 2001. In addition, on September 16, 2003, Shinhan Financial Group's American Depository Shares were listed on the New York Stock Exchange.

As of December 31, 2008, Shinhan Financial Group has 29 subsidiaries which are consolidated and 19 subsidiaries which are accounted for under the equity method, and its capital stock amounted to ₩1,980,998 million in common stock and ₩481,475 million in redeemable and convertible preferred stock, respectively.

(b) Subsidiaries included in Consolidation

a. Shinhan Bank (formerly Chohung Bank)

Chohung Bank was established on October 1, 1943 through the merger of Hanseong Bank, established on February 19, 1897, and Dongil Bank, established on August 8, 1906, to engage in commercial banking and trust operations.

The credit card division of Chohung Bank was merged with Shinhan Card Co., Ltd. on April 1, 2006. Additionally, on April 1, 2006, Shinhan Bank merged with Chohung Bank (excluding the card division of Chohung Bank). Chohung Bank was the surviving legal entity. After the merger, Chohung Bank changed its name to Shinhan Bank.

As of December 31, 2008, Shinhan Bank operated through 922 domestic branches, 104 depository offices and 10 overseas branches, and its capital stock amounted to ₩7,928,078 million.

b. Shinhan Card Co., Ltd. (formerly LG Card Co., Ltd.)

LG Card Co., Ltd. ("LG Card") was incorporated on December 17, 1985, under the name of Express Credit Card Corporation to provide credit card services. LG Card merged with Goldstar Factoring Corporation and LG Financing Corporation on June 1, 1988 and January 1, 1998, respectively. LG Card mainly provides credit card services, factoring, installment financing and leasing under the Specialized Credit Financial Business Act. LG Card was listed on the Korea Exchange on April 22, 2002.

On March 19, 2007, Shinhan Financial Group acquired 98,517,316 shares (78.6%) of the outstanding shares of LG Card at ₩67,770 per share through a tender offer and LG Card became a subsidiary of Shinhan Financial Group. Subsequently, Shinhan Financial Group acquired 9,624,218 shares (7.68%) at ₩46,392 per share through a second tender offer on July 3, 2007 and the remaining 17,227,869 shares (13.74%) were subject to a share exchange, at an exchange ratio of 0.84932 shares in Shinhan Financial Group for one LG Card share, on September 21, 2007. As a result, LG Card became a wholly owned subsidiary of Shinhan Financial Group and LG Card was delisted from the Korea Exchange on October 10, 2007.

In accordance with a resolution of the Board of Directors' meeting held on May 28, 2007, Shinhan Card Co., Ltd. (SHC Management Co., Ltd. as of March 31, 2008), a wholly owned subsidiary of Shinhan Financial Group, transferred all assets, liabilities and operations to LG Card effective October 1, 2007. With this business transfer, LG Card changed its name to Shinhan Card Co., Ltd. effective October 1, 2007.

Shinhan Card Co., Ltd. (formerly LG Card Co., Ltd.; "Shinhan Card") transferred its corporate leasing business division to Shinhan Capital Co., Ltd. effective January 1, 2008, in accordance with a resolution of the Board of Directors' meeting held on November 12, 2007.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

As of December 31, 2008, Shinhan Card had 90 branches, approximately 2.27 million merchants in its network, and 13.62 million active credit card holders, and its capital stock amounted to ₩626,847 million.

c. Good Morning Shinhan Securities Co., Ltd.

Good Morning Shinhan Securities Co., Ltd. ("Good Morning Shinhan Securities") was incorporated on April 2, 1973 to engage in securities trading, underwriting and brokerage services and became a wholly owned subsidiary in August 17, 2004 through a tender offer and share exchange. As of December 31, 2008, it operated through 87 branches and its capital stock amounted to ₩1,296,998 million (including ₩19,117 million of preferred stock).

d. Shinhan Life Insurance Co., Ltd.

Shinhan Life Insurance Co., Ltd. ("Shinhan Life Insurance") was incorporated in January 1990 under the laws of the Republic of Korea to engage in life insurance and related businesses and became a wholly owned subsidiary as of December 31, 2005. As of December 31, 2008, Shinhan Life Insurance operated through 140 branches and its capital stock amounted to ₩200,000 million.

e. Shinhan Capital Co., Ltd.

Shinhan Capital Co., Ltd. ("Shinhan Capital") was incorporated on April 19, 1991 to engage in the leasing and rental business. It changed its name on May 27, 1999 from Shinhan Leasing Co., Ltd. to Shinhan Capital Co., Ltd. Shinhan Capital's capital stock as of December 31, 2008 amounted to ₩180,000 million. In addition as noted above, Shinhan Capital acquired the net assets of the corporate leasing business division of Shinhan Card effective January 1, 2008, in accordance with a resolution of the Board of Directors' meeting held on November 12, 2007.

f. Jeju Bank

Jeju Bank was incorporated on March 18, 1969 under the General Banking Act of the Republic of Korea to engage in commercial banking and the trust business and listed its shares on the Korea Exchange on December 28, 1972. Jeju Bank's capital stock as of December 31, 2008 amounted to ₩77,644 million.

g. Shinhan Credit Information Co., Ltd.

Shinhan Credit Information Co., Ltd. ("Shinhan Credit Information") was established on July 8, 2002 to engage in the business of debt collection services and credit research. Shinhan Credit Information's capital stock as of December 31, 2008 amounted to ₩3,000 million.

h. Shinhan Private Equity, Inc.

Shinhan Private Equity, Inc. ("Shinhan PE") was established on December 8, 2004 to provide financial advisory services and operating assistance to domestic and overseas private equity funds. Shinhan PE's capital stock as of December 31, 2008 amounted to ₩10,000 million.

i. Shinhan BNP Paribas Investment Trust Management Co., Ltd.

On August 1, 1996, Shinhan Investment Trust Management Co., Ltd. was established and obtained a license to engage in investment and trust of securities and advisory services under the Investment and Trust of Securities Law. Under the joint venture agreement on October 2002 with BNP Paribas Asset Management Group, Shinhan Investment Trust Management Co., Ltd. was renamed Shinhan BNP Paribas Investment Trust Management Co., Ltd. ("Shinhan BNP Paribas ITMC"). Shinhan BNP Paribas ITMC's capital stock as of December 31, 2008 amounted to ₩40,000 million.

j. SH&C Life Insurance Co., Ltd.

SH&C Life Insurance Co., Ltd. ("SH&C Life Insurance") was established on October 1, 2002 to engage in insurance and related businesses under the joint venture agreement with Cardif SA. SH&C Life Insurance's capital stock as of December 31, 2008 amounted to ₩47,000 million.



k. Shinhan Macquarie Financial Advisory Co., Ltd.

On August 1, 2001, Shinhan Macquarie Financial Advisory Co., Ltd. ("Shinhan Macquarie") was incorporated to engage in financial advisory services and cross border leasing under the joint venture agreement with Macquarie International Holdings Ltd. Shinhan Macquarie's capital stock as of December 31, 2008 amounted to ₩1,000 million.

l. SH Asset Management Co., Ltd.

SH Asset Management Co., Ltd. ("SH Asset Management") was established in 1988 and engages in securities management services and conducts surveys of the economic and capital markets. As of December 31, 2008, SH Asset Management's capital stock amounted to ₩45,000 million.

m. Trust accounts of Shinhan Bank and Jeju Bank

Trust accounts managed by Shinhan Bank and Jeju Bank are consolidated only if Shinhan Bank or Jeju Bank guarantees repayment of principal and, in certain cases, minimum interest earnings.

n. Shinhan Asia Limited

Shinhan Asia Limited ("Shinhan Asia") engages in merchant banking activities in Hong Kong. As of December 31, 2008, Shinhan Asia's capital stock amounted to US\$100,000 thousand.

o. Shinhan Bank America

Shinhan Bank America was established on March 24, 2003 through the merger of Chohung Bank of New York and California Chohung Bank. As of December 31, 2008, Shinhan Bank America's capital stock amounted to US\$63,000 thousand. In addition, Shinhan Bank America merged with North Atlanta National Bank on November 30, 2007.

p. Shinhan Bank Europe GmbH

Shinhan Bank Europe GmbH ("Shinhan Europe") was established in 1994. As of December 31, 2008, Shinhan Europe's capital stock amounted to EUR 23,000 thousand.

q. Shinhan Khmer Bank

Shinhan Khmer Bank ("Shinhan Khmer") was established on August 10, 2007. As of December 31, 2008, Shinhan Khmer's capital stock amounted to US\$20,000 thousand.

r. Shinhan Kazakhstan Bank

Shinhan Kazakhstan Bank ("Shinhan Kazakhstan") was established on March 21, 2008. As of December 31, 2008, Shinhan Kazakhstan's capital stock amounted to US\$43,000 thousand.

s. Shinhan Canada Bank

Shinhan Canada Bank ("Shinhan Canada") was established on August 22, 2008. As of December 31, 2008, Shinhan Canada Bank's capital stock amounted to CAD 30,000 thousand.

t. Shinhan Bank China Limited

Shinhan Bank China Limited ("Shinhan China") was established on April 30, 2008. As of December 31, 2008, Shinhan China's capital stock amounted to CNY 2,000,000 thousand.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

u. Shinhan Data System Co., Ltd.

Shinhan Data System Co., Ltd. ("Shinhan Data System") was established in 1991 and engages in the computer system's development and operation and electronic document management services. As of December 31, 2008, Shinhan Data System's capital stock amounted to ₩1,000 million.

v. Shinhan Aitas Co., Ltd.

Shinhan Aitas Co., Ltd. ("Shinhan Aitas") was established in 2000 under the Act on Asset-Backed Securitization and is engaged in the business of asset management services and business trust services on securitized assets. As of December 31, 2008, Shinhan Aitas's capital stock amounted to ₩2,372 million.

w. Good Morning Shinhan Securities Europe Limited

Good Morning Shinhan Securities Europe Limited ("Good Morning Shinhan Europe") was established in 1991 and provides securities trading, underwriting and derivative brokerage services in Europe under the Securities and Futures Authority of UK. As of December 31, 2008, Good Morning Shinhan Europe's capital stock amounted to GBP 3,400 thousand.

x. Good Morning Shinhan Securities USA Inc.

Good Morning Shinhan Securities USA Inc. ("Good Morning Shinhan USA") was established in 1993 and provides securities trading, underwriting and derivative brokerage services under the Federal Securities Act of USA. As of December 31, 2008, Good Morning Shinhan USA's capital stock amounted to US\$4,200 thousand.

y. Good Morning Shinhan Securities Asia Limited

Good Morning Shinhan Securities Asia Limited ("Good Morning Shinhan Asia") was established on May 25, 2007 and provides securities trading, underwriting and derivative brokerage services under the Securities and Futures Ordinance of Hong Kong. As of December 31, 2008, Good Morning Shinhan Asia's capital stock amounted to HKD 40,000 thousand.

z. Shinhan National Pension Service Private Equity Fund 1st

Shinhan National Pension Service Private Equity Fund 1st ("Shinhan PEF 1st") was established on August 18, 2005. As of December 31, 2008, its capital stock amounted to ₩234,000 million.

aa. Shinhan Private Equity Fund 2nd

Shinhan Private Equity Fund 2nd ("Shinhan PEF 2nd") was established on August 11, 2008. As of December 31, 2008, its capital stock amounted to ₩129,720 million.

bb. Symphony Energy Co., Ltd.

Symphony Energy Co., Ltd. ("Symphony Energy") was established on April 24, 2004 and provides manufacturing and installation services of solar module. As of December 31, 2008, its capital stock amounted to ₩5,467 million.



Ownership between Shinhan Financial Group and its subsidiaries included in consolidation as of December 31, 2008 and 2007 were as follows:

Investor	Investee	2008		2007	
		Number of shares	Ownership (%)	Number of shares	Ownership (%)
Shinhan Financial Group	Shinhan Bank	1,585,615,506	100.0	1,505,615,506	100.0
"	Shinhan Card	125,369,403	100.0	125,369,403	100.0
"	Good Morning Shinhan Securities	259,399,664	100.0	259,399,664	100.0
"	Shinhan Life Insurance	40,000,000	100.0	40,000,000	100.0
"	Shinhan Capital	32,250,000	100.0	32,250,000	100.0
"	Jeju Bank	9,692,369	62.4	9,692,369	62.4
"	Shinhan Credit Information	600,000	100.0	600,000	100.0
"	Shinhan PE	2,000,000	100.0	2,000,000	100.0
"	SH Asset Management	9,000,000	100.0	-	-
"	Shinhan BNP Paribas ITMC	4,000,001	50.0	4,000,001	50.0
"	SH&C Life Insurance	4,700,001	50.0	3,000,001	50.0
"	Shinhan Macquarie	102,000	51.0	102,000	51.0
Shinhan Bank	SH Asset Management	-	-	9,000,000	100.00
"	Shinhan Asia	999,999	99.9	499,999	99.9
"	Shinhan Bank America	1,228,571	100.0	400,000	100.0
"	Shinhan Europe Limited	Limited	100.0	Limited	100.0
"	Shinhan Khmer	16,020,000	80.1	13,000,000	100.0
"	Shinhan Kazakhstan	502,872	100.0	-	-
"	Shinhan Canada Limited	Limited	100.0	-	-
"	Shinhan China Limited	Limited	100.0	-	-
"	Shinhan Data System	200,000	100.0	-	-
"	Shinhan Aitas	421,358	89.6	-	-
"	Shinhan PEF 1 st	624	26.7	624	26.7
"	Shinhan PEF 2 nd	33,840	26.1	-	-
"	Shinhan Corporate Restructuring Fund 7 th	-	-	2,250,000,000	58.8
Shinhan Card	Shinhan Financial Group	529	-	529	-
Good Morning Shinhan Securities	Good Morning Shinhan Europe	3,400,000	100.0	3,400,000	100.0
"	Good Morning Shinhan USA	15,000	100.0	15,000	100.0
"	Good Morning Shinhan Asia	40,000,000	100.0	40,000,000	100.0
Shinhan Life Insurance	Shinhan PEF 1 st	78	3.3	78	3.3
"	Shinhan PEF 2 nd	5,640	4.4	-	-
Shinhan Capital	Shinhan Corporate Restructuring Fund 7 th	-	-	1,125,000,000	29.4

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Investor	Investee	2008		2007	
		Number of shares	Ownership (%)	Number of shares	Ownership (%)
Jeju Bank	Shinhan PEF 1 st	39	1.7	39	1.7
"	Shinhan Corporate Restructuring Fund 7 th	-	-	188,500,000	4.9
Shinhan PE	Shinhan PEF 1 st	117	5.0	117	5.0
"	Shinhan PEF 2 nd	2,820	2.2	-	-
Shinhan PEF 1 st	Symphony Energy	9,424,193	86.2	9,424,193	86.2



(c) Other equity method investees

Details of ownerships in subsidiaries accounted for under the equity method of accounting as of December 31, 2008 and 2007 were as follows:

Investor	Investee	Ownership (%)	
		2008	2007
Shinhan Financial Group	SHC Management Co., Ltd.	100.0	100.0
Shinhan Bank	Shinhan Data System	-	100.0
"	Shinhan Corporate Restructuring Fund 6 th (*)	-	60.0
"	Shinhan Corporate Restructuring Fund 7 th	58.8	-
"	Shinhan Corporate Restructuring Fund 8 th	14.5	14.5
"	Macquarie Shinhan Infrastructure Management Co., Ltd.	35.2	35.2
"	Daewoo Capital Co., Ltd.	14.4	14.8
"	Shinhan Vina Bank	50.0	50.0
"	Shinhan Finance Ltd.	100.0	100.0
Shinhan Card	High Technology Investment, Ltd.	28.6	28.6
"	Shinhan KTF Mobile Card	50.0	-
Good Morning Shinhan Securities	APC Fund	3.3	-
Shinhan Life Insurance	Shinhan Corporate Restructuring Fund 6 th (*)	-	10.0
Shinhan Capital	KTB Corporate Restructuring Fund 18 th	47.2	47.2
"	Macquarie Shinhan Infrastructure Management Co., Ltd.	14.8	14.8
"	CFAG Corporate Restructuring Fund 8 th (*)	-	20.0
"	Shinhan Corporate Restructuring Fund 5 th	45.0	45.0
"	Shinhan Corporate Restructuring Fund 6 th (*)	-	20.0
"	Shinhan Corporate Restructuring Fund 7 th	29.4	-
"	Shinhan Corporate Restructuring Fund 8 th	11.4	11.4
"	DCC Corporate Restructuring Fund 1 st	24.1	24.1
"	KTIC Corporate Restructuring Fund 13 th (KTIC 13 th CRV) (*)	-	24.0
"	Now Corporate Restructuring Fund 3 rd (*)	-	40.0
"	KTIC Corporate Restructuring Fund 16 th (KTIC 16 th CRV) (*)	-	22.0
"	HTIC Corporate Restructuring Fund 2 nd (HTIC 2 nd CRV)	20.0	20.0
"	Nawoo IB Fund 2 nd	34.0	-
"	PT Clemont Finance Indonesia	30.0	-
"	Haejin Shipping Co., Ltd.	24.0	-
"	APC Fund	3.3	-
Jeju Bank	Shinhan Corporate Restructuring Fund 7 th	4.9	-
Shinhan PEF 2 nd	SHPE Holdings One	100.0	-
Symphony Energy	Korea Solec Energy Co., Ltd.	100.0	-

(*) The funds liquidated as of December 31, 2008.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(2) Basis of Financial Statements Presentation and Summary of Significant Accounting Policies

(a) Basis of Financial Statements Presentation

Shinhan Financial Group Co., Ltd. and its subsidiaries (collectively the "Consolidated Company") maintains its accounting records in Korean Won and prepares statutory consolidated financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Consolidated Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these consolidated financial statements are intended solely for use by only those who are informed in Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements.

Certain information included in the Korean language consolidated financial statements, but not required for a fair presentation of the Consolidated Company's financial position, results of operations, changes in stockholders' equity or cash flows, is not presented in the accompanying consolidated financial statements.

(b) Basis of Financial Statements Translation

The consolidated financial statements are expressed in Korean Won and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ₩1,257.50 to US\$1, the basic exchange rate on December 31, 2008. These translations should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

(c) Application of the Statements of Korean Financial Accounting Standards

Effective January 1, 2008, the Consolidated Company has adopted Statements of Korea Accounting Standards (the "SKAS") No. 8 "Investments in Securities", No. 15 "Equity Method (Revised)", No. 16 "Income Tax Accounts (Revised)", Korea Accounting Institute Opinion 06-2 (Deferred Income Taxes on Investments in Subsidiaries, Associates and Interests in Joint Ventures), SKAS Interpretation 53-70 Accounting for Derivative Instruments, and authoritative interpretation from Financial Services Commission (April 24, 2008) "Consolidation of the Joint-Venture Investee Company". Except for the adoption of the aforementioned accounting standards, the Consolidated Company applied the same accounting policies that were adopted in the previous year's financial statements. Certain accounts of the consolidated financial statements as of and for the period ended December 31, 2007 were reclassified to conform to the current year's presentation for comparative purposes, resulting in an increase in the capital surplus, retained earnings and minority interest by ₩414,761 million, ₩196,869 million and ₩51,397 million and decrease in the capital adjustments and accumulated other comprehensive income by ₩611,557 million and ₩73 million, respectively. Meanwhile, according to Financial Services Authority Opinion (the "FSAO") 2005-2 "Cash Flows of the Bank (Revised)", effective January 1, 2007, certain accounts of the consolidated statements of cash flows for the year ended December 31, 2007 were reclassified, resulting in an increase in the cash flows from operating activities by ₩46,955 million, and decrease in the cash flows from investing activities and the cash flows from financing activities by ₩12,722 million and ₩30,047 million, respectively.

(d) Investments in Securities

Upon acquisition, the Consolidated Company classifies certain debt and equity securities into one of the three categories: held-to-maturity, available-for-sale, or trading securities. Investments in debt securities that the Consolidated Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are bought and held principally for the purpose of selling in the near term (thus held for only a short period of time) are classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

Investments in securities are initially recognized at cost. Trading securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of trading securities are included in the consolidated income statement in the period in which they arise. Available-for-sale securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized as accumulated



other comprehensive income, net of tax, directly in equity. Investments in available-for-sale securities that do not have readily determinable fair values are recognized at cost less impairment, if any. Held-to-maturity investments are carried at amortized cost with interest income and expense recognized in the consolidated income statement using the effective interest method.

The fair value of marketable securities is determined using quoted market prices as of the period end. Non-marketable debt securities are fair valued by discounting cash flows using the prevailing market rates for debt with a similar credit risk and remaining maturity. Credit risk is determined using the issuer's credit rating as announced by accredited credit rating agencies in Korea.

The Consolidated Company reviews investments in securities whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Impairment losses are recognized when the reasonably estimated recoverable amounts are less than the carrying amount and it is not obviously evidenced that impairment is unnecessary. Reversal of impairment loss, when it is objectively related to an event occurring after the recognition of impairment loss, is recognized as current income. However, the new carrying amount after the reversal of impairment cannot exceed the carrying value of the investment security that would have been measured at the date of reversal had no impairment loss been recognized.

(e) Investments in Associates

Associates are all entities over which the Consolidated Company has the ability to significantly influence the financial and operating policies and procedures, generally accompanying an equity interest of over 20 percent of the voting rights.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Consolidated Company's investments in associates include goodwill identified on acquisition (net of any accumulated impairment loss). Goodwill is calculated as the excess of the acquisition cost of an investment in an associate over the Consolidated Company's share of the fair value of the identifiable net assets acquired.

Negative goodwill is the excess of fair value of the net identifiable assets acquired over the purchase price. The balance of negative goodwill is allocated to proportionately reduce the values assigned to depreciable non-monetary assets. If the allocation reduces the non-monetary assets to zero, any remainder is recognized as an extraordinary gain in the period of acquisition. However, negative goodwill related to future losses and expenses that have been specifically identified in the purchase agreement, is recognized as income in the period these are actually incurred.

Goodwill and negative goodwill is amortized using the straight-line method over its estimated useful life, between 10 years and 14 years. Amortization of (negative) goodwill is recorded together with equity income (losses).

The Consolidated Company's share of its post-acquisition profits or losses in investments in associates is recognized in the consolidated income statement, and its share of post-acquisition movements in equity is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of each investment. Changes in the carrying amount of an investment resulting from dividends by an associate are recognized when the associate declares the dividend. When the Consolidated Company's share of losses in an associate equals or exceeds its interest in the associate, including preferred stock, other long term loans and receivables issued by the associate or guaranteed obligations of the associate, the Consolidated Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Consolidated Company and its associates are eliminated to the extent of the Consolidated Company's interest in each associate.

When events or circumstances indicate that the carrying value of goodwill may not be recoverable, the Consolidated Company reviews goodwill for impairment and records any impairment loss immediately in the consolidated statement of income.

Notes to Consolidated Financial Statements

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(f) Allowance for Loan Losses

In estimating the allowance for corporate and household loan losses, the Consolidated Company records the greater amount resulting from the methods described below for each loan classification.

i) Expected Loss Method

The Consolidated Company estimates the allowance for corporate and household loan losses using the expected loss method, which multiplies loan balances by probability of default ("PD") and loss given default ("LGD"). This provisional method considers both financial and non-financial factors of borrowers to assess PD and LGD. PD is determined by considering the type of borrowers, the nature of loans and delinquent days and LGD is determined by considering the type of loan and collateral. The Consolidated Company calculated PD based on the data from last seven years (from FY2001 to FY2007) and five years (from FY2003 to FY2007) for corporate loans and household loans, respectively, and LGD based on the data from last seventy months (from January 2001 to October 2006) and sixty months (from December 2001 to November 2006).

ii) Financial Supervisory Service ("FSS") Guideline

The Consolidated Company applies the FSS guidelines for corporate and household loans (excluding credit card loans) in accordance with the Regulations for the Supervision of Banks revised on December 7, 2007. The prescribed minimum levels of provision per the FSS guidelines are as follows:

		2008
Corporate loans	Normal (*)	0.85%
	Precautionary	7%
	Substandard	20%
	Doubtful	50%
	Estimated loss	100%
Household loans	Normal	1%
	Precautionary	10%
	Substandard	20%
	Doubtful	55%
	Estimated loss	100%

(*) 0.9% for construction, real estate and rental services, retail and wholesale, lodging and restaurant; industries susceptible to market

Additionally, the Consolidated Company considers the borrowers' ability to repay and the recovery value of collateral in estimating expected loss on high-risk or large volume loan balances.

For credit card loans, the Consolidated Company provides for allowance through a loss ratio analysis based on historical data of recoverable amounts for rewritten loans, and roll-rate analysis for other loans. The Consolidated Company adopts the FSS guidelines under the Specialized Credit Financial Business Act, as revised on February 11, 2008, and provides for allowance by each loan classification as follows: a minimum of 1.5% for normal, 15% for precautionary, 20% for substandard, 60% for doubtful and 100% for estimated loss, respectively.



(g) Troubled Debt Restructuring

A loan which contractual terms are modified in a troubled debt restructuring program is accounted for at the present value of future cash flows in the modified contract discounted using the effective interest rate in the original contract. If the present value differs from the face value of the loans, the difference is recorded as an allowance for loan losses and provision for loan losses in the current period. The present value discounts are recorded in allowance for loan losses, which is shown as a deduction from the nominal value of the loans. Allowance for loan losses are amortized using the effective interest method and are recognized as interest income.

(h) Deferred Loan Origination Fee

Fees associated with origination of loans are deferred and recognized over the life of the loan as an adjustment to the loan balance and interest income.

(i) Transfer of Assets

Transfers of financial assets to third parties are accounted for as sales when controls surrendered to the transferee. The Consolidated Company derecognizes financial assets from the consolidated balance sheet including any related allowance, and recognizes all assets obtained, and liabilities incurred, including any recourse obligations to the transferee, at fair value. Any resulting gain or loss on the sale is recognized in earnings. Conversely, the Consolidated Company only recognizes financial assets transferred from third parties on the consolidated balance sheet when the Consolidated Company obtains control of financial assets.

(j) Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation, except for assets acquired through exchange, investment in kind or donation, which are recorded at their fair value.

Depreciation is computed by the depreciation method and estimated useful lives of the respective assets as follows:

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40-60 years
Vehicles	Declining-balance	5 years
Furniture, fixtures and other	"	"
Leasehold improvement	Straight-line	"

Significant additions or improvements extending the useful lives of assets are capitalized. However, normal maintenance and repairs are charged to expense as incurred.

(k) Intangible Assets

Intangible assets are stated at acquisition cost less accumulated amortization computed using the straight-line method over the estimated useful lives of related intangible assets or twenty years, whichever is shorter.

When the recoverable amount of the intangible assets are substantially below the carrying amount of the assets due to obsolescence or sharp decline in its market value, the Consolidated Company reduces its carrying amount to the recoverable amount and the amount impaired is recognized as impairment loss.

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(l) Bonds under Resale or Repurchase Agreements

Bonds purchased under resale agreements are recorded as loans and bonds sold under repurchase agreements are recorded as borrowings.

(m) Convertible Bonds and Bond with Warrants

When accounting for convertible bonds or bonds with stock purchase warrants, the liability component and the equity component of a bond are separated.

The liability component of a bond is recognized initially at fair value. Fair value is the present value of a similar debt security that does not have an equity conversion option (redemption premium is included if applicable). The equity component is recognized initially as the difference between the fair value of the bond as a whole, which are the gross proceeds of the bond received at the date of issue, and the fair value of the liability component. For bonds with detachable stock warrants, the fair value of the liability and equity components are estimated separately. The equity component of convertible bonds or bonds with stock purchase warrants is presented as part of capital surplus within equity.

Subsequent to initial recognition, the liability component is measured at amortized cost using the effective interest rate method. The equity component is not remeasured subsequent to initial recognition.

(n) Discount (Premium) on Debentures

Discount (premium) on debentures issued, which represents the difference between the face value of debentures issued and the issuance price of debentures, is amortized (accrued) based on the effective interest method over the life of the debentures. The amount amortized (accrued) is included in interest expense.

(o) Retirement and Severance Benefits

Employees who have been with the Consolidated Company for more than one year are entitled to lump-sum payments based on salary rates and length of service at the time they leave the Consolidated Company. The Consolidated Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying consolidated balance sheets. A portion of the liability is covered by an employees' severance pay insurance where the employees have a vested interest in the deposit with the insurance company. The deposit for severance benefit insurance is, therefore, reflected in the accompanying consolidated balance sheets as a deduction from the liability for retirement and severance benefits.

Through March 1999, under the National Pension Scheme of Korea, the Consolidated Company transferred a certain portion of retirement allowances for employees to the National Pension Fund. The amount transferred reduces the retirement and severance benefit amount payable to employees when they leave the Consolidated Company and is accordingly reflected in the accompanying consolidated balance sheets as a reduction of the retirement and severance benefits liability.

(p) Allowance for Unused Credit Commitments

In estimating the allowance for unused corporate, household and credit card commitments, the Consolidated Company records the greater amount resulting from the methods described below for each loan classification.

i) Expected Loss Method

The Consolidated Company estimates the allowance for unused credit commitments using the same method applied for allowance for loan losses.



ii) FSS Guideline

The Consolidated Company estimates the allowance for unused loan commitments based on each classification in accordance with the Regulations for the Supervision of Banks revised at December 7, 2007 as follows: for unused corporate loan commitments a minimum of 0.85% for normal (0.9% for construction, real estate and rental services, retail and wholesale, lodging and restaurant; industries susceptible to market), 7% for precautionary, 20% for substandard, 50% for doubtful and 100% for estimated loss, respectively; for unused household loan commitments a minimum of 1.0% for normal, 10% for precautionary, 20% for substandard, 55% for doubtful and 100% for estimated loss, respectively; and for credit card commitments a minimum of 1.5% for normal, 15% for precautionary, 20% for substandard, 60% for doubtful and 100% for estimated loss, respectively.

(q) Allowance for Guarantees and Acceptances

The Consolidated Company estimates allowance for losses on outstanding guarantees and acceptances, contingent guarantees and acceptances and endorsed bills in accordance with the same loan classification criteria applied in estimating allowance for loan losses and recorded as other liabilities with the respective changes recorded as other non-interest expense.

(r) Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event, (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset when, and only when, it is virtually certain that reimbursement will be received if the Consolidated Company settles the obligation. The expense relating to a provision is presented net of the amount recognized for a reimbursement.

(s) Deferred Acquisition Costs

Policy acquisition costs, which include commissions, certain underwriting and agency expenses associated with acquiring insurance policies, are deferred and amortized using the straight-line method over the contract period, up to seven years. Actual acquisition costs incurred in excess of estimated acquisition costs are expensed.

(t) Policy Reserves

The Consolidated Company accounts for policy reserves based on the Insurance Business Law and other related Insurance Supervisory Regulation. These policy reserves are calculated based on insurance terms and premium and policy reserves approved by the Financial Supervisory Commission of the Republic of Korea and details are as follows:

i) Premium Reserve

Provision is made for premium payable based on assumptions that all policies are surrendered immediately after fiscal year.

ii) Unearned Premium Reserve

Unearned premium reserve refers to premium to be charged during subsequent periods, and for premiums collected before the balance sheet date.

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iii) Reserve for Outstanding Claims

Reserve for outstanding claims is an estimate for losses for insured events that have occurred prior to the balance sheet date but for which an actual claim have not yet been settled or determined.

iv) Reserve for Participating Policyholders' Dividends

Reserve for participating policyholder's dividends are recorded to account for the difference in actual investment yields, mortality rates or morbidity rates and operating expense rates from the initial rates in each policy payable to participating policyholders. In addition, it includes a reserve for long-term maintenance dividends to discourage cancellations.

v) Dividend Reserve for Policyholders' Income Participation

Dividend reserve for policyholders' income participation refers to the amount reserved depending on the business performance for the purpose of appropriating it for future dividends to policyholders.

vi) Reserve for Reinsurance Premium

If the Consolidated Company reinsures its insurance contracts, the recoverable amount from the reinsurance company is recorded as a deduction against the policy reserves.

(u) Translation of Foreign Currency Denominated Assets and Liabilities

Assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet dates, with the resulting gains and losses recognized in current results of operations. Assets and liabilities denominated in foreign currencies are translated into Korean Won at ₩1,257.50 and ₩938.20 to US\$1 based on the basic exchange rate and the cross exchange rates announced by the Seoul Money Brokerage Services Ltd. on December 31, 2008 and 2007, respectively.

Foreign currency assets and liabilities of foreign-based operations and branches accounted for using the equity method are translated at the rate of exchange at the respective balance sheet dates. Foreign currency amounts in the consolidated statement of income are translated using an average rate. Translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based operations are recorded net as accumulated other comprehensive income. These gains and losses are subsequently recognized as income in the year the foreign operations or companies are liquidated or sold.

(v) Share-Based Payments

The Consolidated Company has granted shares or share options to its employees and other parties. For equity-settled share-based payment transactions, the Consolidated Company measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the Consolidated Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Consolidated Company measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest.

For cash-settled share-based payment transactions, the Consolidated Company measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Consolidated Company remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period. For transactions with an option of cash or equity settlement by the Consolidated Company or the counterparty, the transaction is accounted for according to the substance of the transaction.

For cash-settled share-based payments prior to December 31, 2006, the fair value of the liability is remeasured under the intrinsic value method at each subsequent reporting date, with any changes in fair value recognized in profit or loss for the period.



(w) Leases

The Consolidated Company classifies and accounts for leases as either operating or capital leases, depending on the terms of the lease. Leases where the Consolidated Company assumes substantially all the risks and rewards of ownership are classified as capital leases. All other leases are classified as operating leases.

Substantially all the risks and rewards of ownership are evidenced when one or more of the criteria listed below are met:

- Ownership of the leased property transfers to the lessee at the end of the lease term
- The lessee has a bargain purchase option, and it is reasonably certain at the inception of the lease that the option will be exercised.
- The lease term is equal to 75% or more of the estimated economic useful life of the leased property.
- The present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90% of the fair value of the leased property.

In addition, if the leased property is specialized to the extent that only the lessee can use it without any major modification, it would be considered a capital lease.

Where the Consolidated Company is the lessor, a financing lease receivable is the net investment in the lease asset representing the aggregate future minimum lease payments including residual value, if any. The difference between the financing lease receivable and the book value of the underlying asset is recorded as gain (loss) on disposition of lease asset. Additionally, the lease payments received are recognized as collection of financing lease receivable and interest income, determined using the effective interest rate.

For an operating lease, revenue on a lease is recognized evenly throughout the lease period, and the operating lease assets are depreciated using the same depreciation method and estimated useful lives used for similar assets held by the Consolidated Company.

The Consolidated Company also recognizes initial direct costs incurred in negotiating and arranging a financing lease, included as part of net investment, and those costs are expensed as lease expense over the lease term on the same basis in which interest income is recognized. Initial direct costs are incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or dealer lessor.

Where the Consolidated Company is the lessee under a capital lease, the present value of future minimum lease payments is capitalized and a corresponding liability is recognized. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(x) Derivatives and hedge accounting

The Consolidated Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Attributable transaction costs are recognized in profit or loss when incurred.

Hedge accounting

Where a derivative, which meets certain criteria, is used for hedging the exposure to changes in the fair value of a recognized asset, liability or firm commitment, it is designated as a fair value hedge. Where a derivative, which meets certain criteria, is used for hedging the exposure to the variability of the future cash flows of a forecasted transaction it is designated as a cash flow hedge.

The Consolidated Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Consolidated Company documents its assessment, both at hedge inception and on a monthly basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in fair values or cash flows of hedged items.

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Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity as other comprehensive income. The gain or loss relating to any ineffective portion is recognized immediately in the earnings. Amounts accumulated in equity are recycled to the consolidated income statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognized when the forecast transaction is ultimately recognized in earnings. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to earnings.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of derivative instruments that are not designated as fair value or cash flow hedges are recognized immediately in earnings.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognized immediately in earnings.

(y) Interest Income

Interest income on bank deposits, loans and securities are recognized on an accrual basis, except for interest income on loans that are overdue and loans to bankrupt customers. Any unpaid interest previously accrued on such loans is reversed from income, and thereafter interest is recognized only to the extent payments are received. Payments on delinquent loans are first applied to delinquent interest, to normal interest, and then to the principal balance.

(z) Valuation of Receivables and Payables at Present Value

Receivables and payables arising from long-term cash loans/borrowings and other similar transactions are stated at present value. The difference between the nominal value and present value of these receivables or payables is amortized using the effective interest method. The amount amortized is included in interest expense or interest income.

(aa) Income Taxes

Income tax on the income or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted. Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner in which the carrying amount of assets and liabilities will be realized or settled, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.



(bb) Cash Management Account (“CMA”)

The Consolidated Company recognizes income from CMA investments consisting of highly liquid investments and expense from CMA deposits as other interest income and other interest expense, respectively.

(cc) Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes to consolidated financial statements. Actual results could differ from those estimates.

(dd) Earnings per Share

Earnings per share are calculated by dividing net income attributable to stockholders of the Consolidated Company by the weighted-average number of shares outstanding during the period.

Diluted earnings per share are determined by adjusting net income attributable to stockholders and the weighted-average number of shares outstanding for the effects of all dilutive potential shares, which comprise redeemable convertible preferred stock and stock options.

(3) Standards Applied for Preparing Consolidated Financial Statements

(a) The equity method investment securities account of Shinhan Financial Group is eliminated against the stockholders’ equity account of each subsidiary as of the date of acquisition.

(b) The Consolidated Company records differences between the cost of investment accounts and the corresponding fair value of subsidiaries’ net assets at the time of acquisition as goodwill (negative goodwill) which are amortized over 10 to 14 years.

In addition, the Consolidated Company reflects the difference between the acquisition cost and the book value of minority interests in the consolidated balance sheet as consolidated capital surplus or capital adjustment.

(c) All significant inter-company transactions and account balances among the consolidated companies are fully eliminated in consolidation.

(d) With regards to the same borrowers’ loans with same credit risk, the Consolidated Company applies the same provision policy for purposes of preparing the consolidated financial statements.

(4) Acquisition of LG Card Co., Ltd. (“LG Card”)

(a) On March 19, 2007, Shinhan Financial Group acquired 98,517,316 shares (78.6%) of the outstanding shares of LG Card at ₩67,770 per share through a tender offer resulting in total equity ownership of 107,477,321 shares (85.73%) for the Consolidated Company based on existing shares owned by Shinhan Bank. As a result, LG Card became a subsidiary of the Consolidated Company on March 23, 2007. Shinhan Financial Group applied purchase accounting for the acquisition.

The condensed financial information of LG Card as of and for the year ended December 31, 2006 and as of and for the period ended March 19, 2007 were as follows:

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	(in millions of Won)	
	December 31, 2006	March 19, 2007
Assets	₩ 9,645,482	10,019,061
Liabilities	6,624,912	6,127,002
Stockholders' equity	₩ 3,020,570	3,892,059
Operating revenue	₩ 2,703,398	422,308
Operating expense	1,512,216	167,055
Operating income	1,191,182	255,253
Income before income taxes	1,191,138	212,490
Net income	₩ 1,193,679	874,461

(b) Details of goodwill related to the acquisition of LG Card were as follows:

	(in millions of Won)	
Consideration given on March 19, 2007 (*)	₩	7,212,652
Fair value of net assets		3,306,242
Goodwill	₩	3,906,410

(*) Includes consideration given for 8,960,005 shares (7.1%) owned by Shinhan Bank.

Additionally, Shinhan Financial Group acquired 9,624,218 shares (7.68%) at ₩46,392 per share from Shinhan Bank among others, through a second tender offer on July 3, 2007 and the remaining 17,227,869 shares (13.74%) were subject to a share exchange, at an exchange ratio of 0.84932 shares in Shinhan Financial Group for one LG Card share, on September 21, 2007. The Consolidated Company reflected the difference between the acquisition cost and the book value of minority interests in the consolidated balance sheet as capital adjustment in the amount of ₩248,858 million. Subsequently, LG Card changed its name to Shinhan Card Co., Ltd. effective October 1, 2007.

(5) Cash and Due from Banks

(a) Cash and due from banks as of December 31, 2008 and 2007 consisted of the following:

	(in millions of Won)	
	2008	2007
Cash and cash equivalents	₩ 1,908,960	2,258,591
Due from banks in Won	8,585,472	6,105,546
Due from banks in foreign currencies	2,525,638	1,283,687
Due from banks invested in gold	58,737	29,508
	₩ 13,078,807	9,677,332



(b) Restricted due from banks as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008	2007	Restrictions
Due from banks in Won:			
Reserve deposits at the Bank of Korea	₩ 4,746,796	2,852,561	General banking account
Due from banks for customers' accounts	1,109,336	806,691	Reserve for customers' deposits
Other	106,816	61,398	Deposit for severance benefit insurance and security deposit
	5,962,948	3,720,650	
Due from banks in foreign currencies	1,023,328	646,150	General banking account
	₩ 6,986,276	4,366,800	

(c) The maturities of due from banks as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

At December 31, 2008	Due from banks in			Total
	Won	Foreign currencies	Gold	
Due in 3 months or less	₩ 6,740,213	2,523,819	58,737	9,322,769
Due after 3 months through 6 months	210,802	-	-	210,802
Due after 6 months through 1 year	1,400,568	1,805	-	1,402,373
Due after 1 year through 3 years	25,666	-	-	25,666
Thereafter	208,223	14	-	208,237
	₩ 8,585,472	2,525,638	58,737	11,169,847

(in millions of Won)

At December 31, 2007	Due from banks in			Total
	Won	Foreign currencies	Gold	
Due in 3 months or less	₩ 4,784,875	1,226,675	29,508	6,041,058
Due after 3 months through 6 months	188,882	26,977	-	215,859
Due after 6 months through 1 year	529,701	30,018	-	559,719
Due after 1 year through 3 years	110,466	-	-	110,466
Thereafter	491,622	17	-	491,639
	₩ 6,105,546	1,283,687	29,508	7,418,741

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(6) Securities

Securities as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

	2008	2007
Trading securities	₩ 8,837,754	11,739,755
Available-for-sale securities	29,305,130	22,071,433
Held-to-maturity securities	8,885,487	8,234,285
Equity method investment securities	456,955	1,332,065
Total securities	₩ 47,485,326	43,377,538

(a) Trading securities

i) Trading securities as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

	2008	2007
Equity securities:		
Stocks	₩ 219,444	408,464
Debt securities:		
Government bonds	978,436	1,278,243
Finance debentures	4,587,951	3,738,760
Corporate bonds	669,368	851,492
	6,235,755	5,868,495
Beneficiary certificates	305,619	228,504
Commercial paper	1,849,528	4,740,856
Securities in foreign currencies	1	7,949
Other	227,407	485,487
	₩ 8,837,754	11,739,755

ii) Details of debt securities classified as trading securities as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008			
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 973,196	959,671	996,487	978,436
Finance debentures	4,602,263	4,536,042	4,603,107	4,587,951
Corporate bonds	662,301	658,922	681,469	669,368
	₩ 6,237,760	6,154,635	6,281,063	6,235,755



(in millions of Won)

	2007			
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 1,302,241	1,278,039	1,295,700	1,278,243
Finance debentures	3,804,918	3,755,781	3,751,869	3,738,760
Corporate bonds	852,745	853,011	874,107	851,492
	₩ 5,959,904	5,886,831	5,921,676	5,868,495

(*) Fair value of debt securities is measured by applying the lesser of two quoted prices provided by two bond pricing institutions, as of the latest trading day from the balance sheet date.

(**) The difference between fair value and book value is recorded as accrued income.

iii) Trading securities denominated in foreign currencies classified by issuing country as of December 31, 2008 and 2007 were as follows:

(in millions of Won and thousands of U.S. dollars, except ratio)

	2008			2007		
	U.S. dollar	Equivalent Won	Ratio (%)	U.S. dollar	Equivalent Won	Ratio (%)
China	\$ -	₩ -	-	\$ 1,328	₩ 1,246	15.67
Japan	-	-	-	2,733	2,564	32.26
Hong Kong	1	1	100.00	4,412	4,139	52.07
	\$ 1	₩ 1	100.00	\$ 8,473	₩ 7,949	100.00

(b) Available-for-Sale securities

i) Available-for-sale securities as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

	2008	2007
Equity securities:		
Stocks	₩ 3,328,978	5,154,014
Investment in special funds	522,060	309,973
	3,851,038	5,463,987
Debt securities:		
Government bonds	3,936,095	2,105,604
Finance debentures	14,287,011	8,745,528
Corporate bonds	3,977,207	3,605,611
	22,200,313	14,456,743
Beneficiary certificates	964,928	347,823
Securities in foreign currencies	2,062,286	1,555,769
Other	226,565	247,111
	₩ 29,305,130	22,071,433

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

ii) Details of debt securities classified as available-for-sale securities as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008			
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 3,917,561	3,774,416	4,022,845	3,936,095
Finance debentures	14,238,654	14,146,416	14,436,449	14,287,011
Corporate bonds	4,107,097	4,087,732	3,995,560	3,977,207
	₩ 22,263,312	22,008,564	22,454,854	22,200,313

(in millions of Won)

	2007			
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 2,188,443	2,132,666	2,153,386	2,105,604
Finance debentures	8,903,701	8,848,779	8,832,521	8,745,528
Corporate bonds	3,789,181	3,791,992	3,813,691	3,605,611
	₩ 14,881,325	14,773,437	14,799,598	14,456,743

(*) Fair value of debt securities is measured by applying the lesser of two quoted prices provided by two bond pricing institutions, as of the latest trading day from the balance sheet date.

(**) The difference between fair value and book value is recorded as accrued income.

iii) The maturity of available-for-sale debt securities as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

At December 31, 2008	Government bonds	Finance debentures	Corporate bonds	Total
	Due in 3 months or less	₩ 663,986	4,086,726	517,274
Due after 3 months through 6 months	71,940	2,119,728	197,560	2,389,228
Due after 6 months through 1 year	179,501	1,761,170	466,413	2,407,084
Due after 1 year through 3 years	1,145,545	5,431,399	1,676,402	8,253,346
Thereafter	1,875,123	887,988	1,119,558	3,882,669
	₩ 3,936,095	14,287,011	3,977,207	22,200,313

(in millions of Won)

At December 31, 2007	Government bonds	Finance debentures	Corporate bonds	Total
	Due in 3 months or less	₩ 355,047	2,291,177	481,862
Due after 3 months through 6 months	34,822	741,599	256,324	1,032,745
Due after 6 months through 1 year	442,445	835,176	1,088,186	2,365,807
Due after 1 year through 3 years	790,557	4,590,859	1,572,885	6,954,301
Thereafter	482,733	286,717	206,354	975,804
	₩ 2,105,604	8,745,528	3,605,611	14,456,743



iv) Available-for-sale securities denominated in foreign currencies classified by issuing country as of December 31, 2008 and 2007 were as follows:

(in millions of Won and thousands of U.S. dollars, except ratio)

	2008			2007		
	U.S. dollar	Equivalent Won	Ratio (%)	U.S. dollar	Equivalent Won	Ratio (%)
Korea	\$ 1,011,445	₩ 1,271,893	61.69	\$ 912,515	₩ 856,123	55.03
U.S.A.	339,559	426,996	20.70	413,818	388,244	24.96
Hong Kong	42,682	53,673	2.60	11,747	11,019	0.70
U.A.E	-	-	-	5,004	4,695	0.30
Japan	35,262	44,343	2.15	20,846	19,557	1.26
Other	211,041	265,381	12.86	294,320	276,131	17.75
	\$ 1,639,989	₩ 2,062,286	100.00	\$ 1,658,250	₩ 1,555,769	100.00

v) Equity securities restricted for sale for a certain period as of December 31, 2008 were as follows:

(in millions of Won)

	2008	
	Book value	Restricted until
Hynix Semiconductor Inc.	₩ 173,058	Merger & Acquisition
Hyundai Engineering & Construction Co., Ltd.	231,053	Merger & Acquisition
Visa Card	182,550	3 years from IPO
Ssangyong Cement Industrial Co., Ltd.	60,820	Merger & Acquisition
Daewoo International Corporation	31,169	Joint-sale by creditors
SK Networks Co., Ltd. (redeemable preferred stock)	120,759	"
Ssangyong Engineering & Construction Co., Ltd.	7,601	Merger & Acquisition
Daewoo Electronics Co., Ltd.	4,266	March 31, 2009
Other	80,294	
	₩ 891,570	

vi) Changes in impairment loss on available-for-sale securities

Details of impairment loss and reversal of impairment loss on available-for-sale securities for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008		2007	
	Impairment	Reversal	Impairment	Reversal
Equity securities	₩ 6,066	-	8,838	2,373
Investment in private equity funds and other	-	-	-	62,000
Debt securities	88,564	52,935	8,749	98,426
Other	164,330	-	-	-
	₩ 258,960	52,935	17,587	162,799

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

vii) Structured notes as of December 31, 2008 consisted of the following:

(in millions of Won)

	Par value	Book value	Inherent risk
Floating rate notes with long term Korean government bond interest	₩ 35,000	35,604	Reduction of interest income due to decline in long term rates
Credit linked notes	596,243	372,566	Loss from a credit event
Floating rate notes linked to CD interest	20,000	20,000	Reduction of interest income due to separation from section of CD
	₩ 651,243	428,170	

(c) Held-to-maturity securities

i) Held-to-maturity securities as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

	2008	2007
Government bonds	₩ 2,706,484	1,516,894
Finance debentures	4,261,638	4,888,201
Corporate bonds	1,852,382	1,780,830
Securities in foreign currencies	64,983	48,360
	₩ 8,885,487	8,234,285

ii) Details of debt securities classified as held-to-maturity securities as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

	2008			
	Face value	Acquisition cost	Fair value (*)	Book value
Government bonds	₩ 2,774,507	2,689,326	2,853,183	2,706,484
Finance debentures	4,272,746	4,262,534	4,361,662	4,261,638
Corporate bonds	1,859,323	1,850,322	1,896,564	1,852,382
	₩ 8,906,576	8,802,182	9,111,409	8,820,504

(in millions of Won)

	2007			
	Face value	Acquisition cost	Fair value (*)	Book value
Government bonds	₩ 1,547,412	1,510,283	1,532,931	1,516,894
Finance debentures	4,896,000	4,891,613	4,906,032	4,888,201
Corporate bonds	1,785,231	1,783,917	1,770,785	1,780,830
	₩ 8,228,643	8,185,813	8,209,748	8,185,925

(*) Fair value of debt securities is measured by applying lesser of two quoted prices provided by two bond pricing institutions, as of the latest trading day from the balance sheet date.



iii) The maturity of held-to-maturity securities as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

At December 31, 2008	Government bonds	Finance debentures	Corporate bonds	Total
Due in 3 months or less	₩ 264,837	259,250	114,987	639,074
Due after 3 months through 6 months	299,117	255,213	99,970	654,300
Due after 6 months through 1 year	68,792	672,773	170,001	911,566
Due after 1 year through 3 years	818,762	1,948,180	500,470	3,267,412
Thereafter	1,254,976	1,126,222	966,954	3,348,152
	₩ 2,706,484	4,261,638	1,852,382	8,820,504

(in millions of Won)

At December 31, 2007	Government bonds	Finance debentures	Corporate bonds	Total
Due in 3 months or less	₩ 60,489	739,160	-	799,649
Due after 3 months through 6 months	11,936	727,778	89,863	829,577
Due after 6 months through 1 year	360,081	1,028,680	601,952	1,990,713
Due after 1 year through 3 years	778,348	1,397,801	588,953	2,765,102
Thereafter	306,040	994,782	500,062	1,800,884
	₩ 1,516,894	4,888,201	1,780,830	8,185,925

iv) Held-to-maturity securities denominated in foreign currencies classified by issuing country as of December 31, 2008 and 2007 were as follows:

(in millions of Won and thousands of U.S. dollars, except ratio)

	2008			2007		
	U.S. dollar	Equivalent Won	Ratio (%)	U.S. dollar	Equivalent Won	Ratio (%)
Korea	\$ 7,000	₩ 8,803	13.54	\$ 28,395	₩ 26,641	55.10
U.S.A.	8,303	10,440	16.06	18,218	17,092	35.35
Other	36,373	45,740	70.40	4,931	4,627	9.55
	\$ 51,676	₩ 64,983	100.00	\$ 51,544	₩ 48,360	100.00

v) Changes in impairment loss and reversal of impairment loss on held-to-maturity securities for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008		2007	
	Impairment	Reversal	Impairment	Reversal
Debt securities	₩ 27,253	30,166	35,424	50,001

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(d) Investment in Associates

Details of equity method investment securities as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

Subsidiaries	2008					
	Beginning balance	Acquisition (dividend/ disposal), net	Equity method income (loss)	Capital surplus	Accumulated other comprehensive income	Ending balance
SHC Management Co., Ltd.	₩ 1,086,650	(1,171,987)	18,968	75,268	-	8,899
Shinhan Data System	3,644	(3,644)	-	-	-	-
Shinhan Finance Ltd.	78,550	-	62	-	26,733	105,345
Daewoo Capital Co., Ltd.	71,839	(2,884)	21,700	-	(1,118)	89,537
Macquarie Shinhan Infrastructure Management Co., Ltd.	15,222	(17,626)	7,079	-	-	4,675
Shinhan Vina Bank	20,501	21,950	4,286	-	3,890	50,627
Shinhan KTF Mobile Card	-	1,000	(292)	-	-	708
CFAG Corporate Restructuring Fund 8 th	533	(593)	60	-	-	-
Shinhan Corporate Restructuring Fund 5 th	4,310	-	298	-	2	4,610
Shinhan Corporate Restructuring Fund 6 th	8,819	(4,396)	1,354	-	(5,776)	1
Shinhan Corporate Restructuring Fund 7 th (*)	-	3,905	126	-	(237)	3,794
Shinhan Corporate Restructuring Fund 8 th	23,249	(212)	1,364	-	-	24,401
DCC Corporate Restructuring Fund 1 st	3,902	(350)	188	-	(303)	3,437
Now Corporate Restructuring Fund 3 rd	2,189	(2,265)	77	-	-	1
Nawoo IB Fund 2 nd	-	3,000	208	-	-	3,208
KTB Corporate Restructuring Fund 18 th	814	-	(106)	-	-	708
High Technology Investment, Ltd.	1,730	-	92	-	654	2,476
KTIC 13 th CRV	1,169	(1,417)	248	-	-	-
KTIC 16 th CRV	4,970	(5,350)	1,174	-	(794)	-
HTIC 2 nd CRV	3,974	-	(46)	-	-	3,928
PT Clemont Finance Indonesia	-	3,431	309	-	32	3,772
Haejin Shipping Co., Ltd.	-	1,052	-	-	-	1,052
APC Fund	-	8,514	(384)	-	498	8,628
Korea Solec Energy Co., Ltd.	-	50	(50)	-	-	-
SHPE Holdings One	-	123,950	13,198	-	-	137,148
	₩ 1,332,065	(1,043,872)	69,913	75,268	23,581	456,955

(*) Excluded from the scope of consolidation as of December 31, 2008.



(in millions of Won)

Subsidiaries	2007				
	Beginning balance	Acquisition (dividend/ disposal), net	Equity method income (loss)	Accumulated other comprehensive income	Ending balance
SHC Management Co., Ltd.	₩ -	1,082,364	4,286	-	1,086,650
Shinhan Data System	3,028	-	616	-	3,644
Shinhan Finance Ltd.	78,171	-	(344)	723	78,550
Daewoo Capital Co., Ltd.	45,837	-	26,002	-	71,839
Macquarie Shinhan Infrastructure Management Co., Ltd.	2,502	(5,470)	18,175	15	15,222
Shinhan Vina Bank	13,882	2,802	3,674	143	20,501
CFAG Corporate Restructuring Fund 8 th	533	-	-	-	533
Shinhan Corporate Restructuring Fund 3 rd	3,692	(3,839)	278	(131)	-
Shinhan Corporate Restructuring Fund 5 th	356	4,050	(96)	-	4,310
Shinhan Corporate Restructuring Fund 6 th	1,061	360	1,622	5,776	8,819
Shinhan Corporate Restructuring Fund 7 th	8,191	(7,505)	-	(686)	-
Shinhan Corporate Restructuring Fund 8 th	20,062	3,400	(213)	-	23,249
DCC Corporate Restructuring Fund 1 st	3,547	-	277	78	3,902
Now Corporate Restructuring Fund 2 nd	2,074	(2,115)	41	-	-
Now Corporate Restructuring Fund 3 rd	-	2,000	189	-	2,189
KTB Corporate Restructuring Fund 18 th	4,832	(5,182)	1,164	-	814
High Technology Investment, Ltd.	-	920	808	2	1,730
KTIC 13 th CRV	-	1,200	(31)	-	1,169
KTIC 14 th CRV	-	(123)	123	-	-
KTIC 16 th CRV	-	5,000	(6)	(24)	4,970
HTIC 2 nd CRV	-	4,000	(26)	-	3,974
	₩ 187,768	1,081,862	56,539	5,896	1,332,065

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(7) Loans

(a) Loans outstanding as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

	2008	2007
Loans in Won	₩ 130,853,812	113,327,230
Loans in foreign currencies	12,156,628	9,428,370
Domestic import usance bills	2,732,864	2,378,577
Loans in gold	6,246	4,608
Call loans	733,928	640,572
Bills bought in Won	1,776,588	1,981,339
Bills bought in foreign currency	3,113,141	3,427,609
Advances to customers	82,777	13,367
Credit card accounts	12,506,623	12,563,534
Bonds purchased under resale agreement	2,292,223	65,903
Privately placed bonds	3,330,844	3,777,854
Factoring receivables	218,985	69,872
Financing leases	1,497,564	1,262,431
CMA assets	731,801	787,067
Other	1,814,802	1,363,270
	173,848,826	151,091,603
Add (Less):		
allowance for loan losses	(3,316,564)	(2,953,586)
present value discount	(10,261)	(10,855)
deferred loan origination fees	(176,759)	(154,398)
	₩ 170,345,242	147,972,764

(b) Loan maturities as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

At December 31, 2008	Loans in Won	Loans in foreign currencies	Other loans	Total
Due in 3 months or less	₩ 29,476,431	2,203,966	19,582,645	51,263,042
Due after 3 months through 6 months	20,533,015	2,061,138	2,952,178	25,546,331
Due after 6 months through 1 year	29,862,667	2,480,761	2,974,997	35,318,425
Due after 1 year through 3 years	18,473,094	2,185,133	4,072,582	24,730,809
Thereafter	32,508,605	3,225,630	1,255,984	36,990,219
	₩ 130,853,812	12,156,628	30,838,386	173,848,826



(in millions of Won)

At December 31, 2007	Loans in Won	Loans in foreign currencies	Other loans	Total
Due in 3 months or less	₩ 20,683,333	1,719,174	14,623,884	37,026,391
Due after 3 months through 6 months	16,294,156	1,944,870	3,824,850	22,063,876
Due after 6 months through 1 year	29,143,410	1,632,628	3,561,418	34,337,456
Due after 1 year through 3 years	18,672,363	1,648,251	5,018,885	25,339,499
Thereafter	28,533,968	2,483,447	1,306,966	32,324,381
	₩ 113,327,230	9,428,370	28,336,003	151,091,603

(c) Loans classified by issuing country as of December 31, 2008 and 2007 were as follows:

(in millions of Won, except ratio)

	2008				
	Loans in Won	Loans in foreign currencies	Other loans	Total	Ratio (%)
Korea	₩ 130,853,812	5,684,415	30,342,335	166,880,562	95.99
U.S.A.	-	1,612,281	18,875	1,631,156	0.94
U.K.	-	43,099	-	43,099	0.02
Japan	-	1,409,232	483	1,409,715	0.81
Vietnam	-	210,120	27,433	237,553	0.14
China	-	963,178	92,942	1,056,120	0.61
Other	-	2,234,303	356,318	2,590,621	1.49
	₩ 130,853,812	12,156,628	30,838,386	173,848,826	100.00

(in millions of Won, except ratio)

	2007				
	Loans in Won	Loans in foreign currencies	Other loans	Total	Ratio (%)
Korea	₩ 113,327,230	5,319,956	27,859,177	146,506,363	96.96
U.S.A.	-	1,080,987	50,013	1,131,000	0.75
U.K.	-	29,100	-	29,100	0.02
Japan	-	784,669	2,089	786,758	0.52
Germany	-	-	78,989	78,989	0.05
Vietnam	-	95,722	10,098	105,820	0.07
China	-	419,040	2,087	421,127	0.28
Other	-	1,698,896	333,550	2,032,446	1.35
	₩ 113,327,230	9,428,370	28,336,003	151,091,603	100.00

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(d) Loans classified by consumer as of December 31, 2008 and 2007 were as follows:

(in millions of Won, except ratio)

	2008					Ratio (%)
	Loans in Won	Loans in foreign currencies	Other	Total		
Corporate	₩ 69,143,581	12,141,451	16,057,763	97,342,795	55.99	
Household	59,499,936	15,177	14,637,609	74,152,722	42.65	
Public and other	2,210,295	-	143,014	2,353,309	1.36	
	₩ 130,853,812	12,156,628	30,838,386	173,848,826	100.00	

(in millions of Won, except ratio)

	2007					Ratio (%)
	Loans in Won	Loans in foreign currencies	Other	Total		
Corporate	₩ 55,791,968	9,404,217	13,482,862	78,679,047	52.07	
Household	55,815,422	24,153	14,789,271	70,628,846	46.75	
Public and other	1,719,840	-	63,870	1,783,710	1.18	
	₩ 113,327,230	9,428,370	28,336,003	151,091,603	100.00	

(e) Restructured loans due to commencement of bankruptcy proceedings, debt restructuring proceedings by creditors or workout programs for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008		
	Corporate loans	Household loans	Total
Modification of terms	₩ 44,842	16,457	61,299
Balance before restructuring	44,842	16,457	61,299
Balance after restructuring	35,092	12,249	47,341
Loss resulting from restructuring	₩ 9,750	4,208	13,958

(in millions of Won)

	2007		
	Corporate loans	Household loans	Total
Modification of terms	₩ 35,959	25,496	61,455
Balance before restructuring	35,959	25,496	61,455
Balance after restructuring	18,630	18,487	37,117
Loss resulting from restructuring	₩ 17,329	7,009	24,338



(f) Changes in allowance for losses on loans, accounts receivable and accrued income for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008		
	Beginning balance	Increase (Decrease)	Ending balance
Shinhan Financial Group	₩ -	38	38
Shinhan Bank	1,988,844	670,501	2,659,345
Shinhan Bank (Trust account)	9,075	(1,245)	7,830
SH Asset Management	23	9	32
Shinhan Asia	667	352	1,019
Shinhan Bank America	5,190	3,814	9,004
Shinhan Europe	1,588	(368)	1,220
Shinhan China	-	12,863	12,863
Shinhan Card	947,736	(173,775)	773,961
Good Morning Shinhan Securities	36,237	25,980	62,217
Shinhan Life Insurance	21,380	8,824	30,204
Shinhan Capital	41,433	10,961	52,394
Jeju Bank	31,849	(5,385)	26,464
Shinhan BNP Paribas ITMC	101	(41)	60
SH&C Life Insurance	51	(36)	15
Shinhan Macquarie	84	(25)	59
	₩ 3,084,258	552,467	3,636,725

(in millions of Won)

	2007		
	Beginning balance	Increase (Decrease)	Ending balance
Shinhan Bank	₩ 1,707,022	281,822	1,988,844
Shinhan Bank (Trust account)	9,053	22	9,075
SH Asset Management	29	(6)	23
Shinhan Asia	839	(172)	667
Shinhan Bank America	2,259	2,931	5,190
Shinhan Europe	796	792	1,588
Shinhan Card	-	947,736	947,736
Good Morning Shinhan Securities	29,510	6,727	36,237
Shinhan Life Insurance	19,817	1,563	21,380
SHC Management	147,787	(147,787)	-
Shinhan Capital	31,340	10,093	41,433
Jeju Bank	26,313	5,536	31,849
Shinhan BNP Paribas ITMC	24	77	101
SH&C Life Insurance	44	7	51
Shinhan Macquarie	1	83	84
	₩ 1,974,834	1,109,424	3,084,258

Allowance for losses on other assets (note 11) and allowance for disposition of operating lease assets (note 8) are included.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(g) As of December 31, 2008 and 2007, details of loan balances including other accounts receivable and other suspense receivable and the related allowance for credit losses by asset credit risk classification were as follows:

(in millions of Won, except provision ratio)

		2008		
		Balance	Allowance	Provision ratio (%)
Corporate loans	Normal	₩ 97,277,495	945,162	0.97
	Precautionary	1,498,800	199,064	13.28
	Substandard	597,514	161,021	26.95
	Doubtful	203,591	144,367	70.91
	Estimated loss	380,973	380,973	100.00
		99,958,373	1,830,587	1.83
Household loans	Normal	61,093,722	607,384	0.99
	Precautionary	227,953	21,491	9.43
	Substandard	128,591	25,841	20.10
	Doubtful	108,812	61,584	56.60
	Estimated loss	60,059	60,059	100.00
		61,619,137	776,359	1.26
Credit card loans	Normal	11,818,071	328,022	2.78
	Precautionary	377,818	116,963	30.96
	Substandard	20	4	20.00
	Doubtful	74,418	44,651	60.00
	Estimated loss	236,296	236,296	100.00
		12,506,623	725,936	5.80
Other		1,410,361	303,843	21.54
		₩ 175,494,494	3,636,725	2.07



(in millions of Won, except provision ratio)

		2007		
		Balance	Allowance	Provision ratio (%)
Corporate loans	Normal	₩ 78,750,991	747,684	0.95
	Precautionary	970,688	93,389	9.62
	Substandard	360,565	91,403	25.35
	Doubtful	57,117	44,061	77.14
	Estimated loss	349,301	349,301	100.00
		80,488,662	1,325,838	1.65
Household loans	Normal	55,552,199	544,151	0.98
	Precautionary	189,012	19,194	10.15
	Substandard	154,869	31,091	20.08
	Doubtful	81,101	42,636	52.57
	Estimated loss	63,847	63,847	100.00
		56,041,028	700,919	1.25
Credit card loans	Normal	11,609,990	320,980	2.76
	Precautionary	539,072	187,119	34.71
	Substandard	17	4	23.53
	Doubtful	76,181	45,707	60.00
	Estimated loss	338,216	338,216	100.00
		12,563,476	892,026	7.10
Other		2,317,761	165,475	7.14
		₩ 151,410,927	3,084,258	2.04

(h) Loan Origination Fee

Changes in deferred loan origination fees for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008	2007
Beginning Balance	₩ 154,398	44,918
Increase	218,524	224,579
Decrease	(196,163)	(115,099)
Ending Balance	₩ 176,759	154,398

(i) Cash Management Assets

Cash management assets as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

	2008	2007
Bill discounted	₩ 667,000	650,572
Securities	64,801	88,018
Due from banks	-	48,477
	₩ 731,801	787,067

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December 31, 2008 and 2007

(8) Lease Assets

(a) As of December 31, 2008 and 2007, details of operating lease assets were as follows:

(in millions of Won)

	2008	2007
Operating lease assets	₩ 273,101	428,861
Accumulated depreciation	(187,888)	(302,353)
Allowance for loss on disposition of operating lease assets	(464)	(464)
	₩ 84,749	126,044

(b) Future lease receivables as of December 31, 2008 are as follows:

(in millions of Won)

	Operating lease	Financing lease	Total
2009.1.1 ~ 2009.12.31	₩ 41,693	592,385	634,078
2010.1.1 ~ 2010.12.31	28,535	464,877	493,412
2011.1.1 ~ 2011.12.31	30,565	404,817	435,382
2012.1.1 ~ 2012.12.31	24,168	122,172	146,340
Thereafter	-	86,189	86,189
	124,961	1,670,440	1,795,401
Unrealized interest income on financing leases	-	(172,876)	(172,876)
	₩ 124,961	1,497,564	1,622,525

(9) Property and Equipment

(a) Property and equipment as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

	2008	2007
Property and equipment:		
Land	₩ 1,130,214	1,119,214
Buildings	1,178,816	1,064,672
Leasehold improvements	222,797	185,946
Vehicles and equipment	1,645,523	1,632,643
Construction in process	59,109	93,282
	4,236,459	4,095,757
Less: accumulated depreciation	(1,820,015)	(1,683,352)
accumulated impairment loss	(5,306)	(5,306)
	₩ 2,411,138	2,407,099



(b) The officially declared value of land used in domestic branches at December 31, 2008 and 2007, as announced by the Minister of Construction and Transportation, was as follows:

(in millions of Won)

	Book value		Declared value	
	2008	2007	2008	2007
Land (domestic only)	₩ 1,127,888	1,116,527	1,480,681	1,357,977

The officially declared value, which is used for government purposes, does not represent the fair value.

(10) Goodwill (Negative Goodwill)

Changes in goodwill and negative goodwill fees for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008			
	Beginning balance	Increase (decrease)	Amortization (reversal)	Ending balance
Shinhan Bank	₩ 592,511	-	(61,294)	531,217
Shinhan Card	3,964,404	(9,240)	(371,123)	3,584,041
Shinhan Capital	-	9,240	(867)	8,373
Good Morning Shinhan Securities	76,521	-	(17,004)	59,517
Shinhan Life Insurance	330,939	-	(41,803)	289,136
Shinhan Bank America	15,588	5,305	-	20,893
Shinhan Aitas	-	30,819	(1,807)	29,012
Symphony Energy	9,200	-	(995)	8,205
	4,989,163	36,124	(494,893)	4,530,394
Jeju Bank	(2,914)	-	686	(2,228)
	₩ 4,986,249	36,124	(494,207)	4,528,166

(in millions of Won)

	2007			
	Beginning balance	Increase (decrease)	Amortization (reversal)	Ending balance
Shinhan Bank	₩ 653,805	-	(61,294)	592,511
Shinhan Card	-	4,204,442	(240,038)	3,964,404
Good Morning Shinhan Securities	93,525	-	(17,004)	76,521
Shinhan Life Insurance	372,742	-	(41,803)	330,939
SHC Management Co., Ltd.	320,572	(298,032)	(22,540)	-
Shinhan Bank America	-	15,588	-	15,588
Symphony Energy	-	9,946	(746)	9,200
	1,440,644	3,931,944	(383,425)	4,989,163
Jeju Bank	(3,599)	-	685	(2,914)
	₩ 1,437,045	3,931,944	(382,740)	4,986,249

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(11) Other Assets

Other assets as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

		2008	2007
Accounts receivables	₩	5,979,759	4,274,075
Advance payments		211,557	183,646
Prepaid expenses		170,104	143,007
Prepaid income taxes		4,641	40,977
Accrued interest income		1,320,568	1,189,891
Operating lease assets, net		84,749	126,044
Security deposits paid		1,356,869	1,316,296
Derivative assets (note 31)		12,338,757	2,059,132
Deferred tax assets (note 27)		781,168	589,656
Other intangible assets		103,486	48,451
Sundry assets		4,134,647	3,974,894
		26,486,305	13,946,069
Less: allowance for losses		(319,697)	(130,208)
	₩	26,166,608	13,815,861

(12) Deposits

(a) Deposits as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

		2008	2007
Demand deposits:			
Deposits in Won	₩	36,327,575	38,063,354
Deposits in foreign currency		2,783,722	1,738,081
		39,111,297	39,801,435
Time deposits:			
Deposits in Won		60,204,407	43,841,012
Deposits in foreign currency		5,802,042	3,707,497
		66,006,449	47,548,509
Negotiable certificates of deposits		13,850,686	15,842,782
Other		7,795,247	7,389,339
	₩	126,763,679	110,582,065



(b) The maturities of deposits as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

At December 31, 2008	Demand deposits	Time deposits	Negotiable certificate of deposits	Other	Total
Due in 3 months or less	₩ 7,731,844	13,416,520	2,985,627	7,328,963	31,462,954
Due after 3 months through 6 months	364	6,373,974	3,403,020	5,833	9,783,191
Due after 6 months through 1 year	-	36,806,071	5,008,537	13,161	41,827,769
Due after 1 year through 3 years	1,798,830	5,508,444	2,423,563	21,693	9,752,530
Thereafter	29,580,259	3,901,440	29,939	425,597	33,937,235
	₩ 39,111,297	66,006,449	13,850,686	7,795,247	126,763,679

(in millions of Won)

At December 31, 2007	Demand deposits	Time deposits	Negotiable certificate of deposits	Other	Total
Due in 3 months or less	₩ 7,958,458	11,672,377	5,622,247	6,931,788	32,184,870
Due after 3 months through 6 months	5,575	6,829,674	2,498,668	7,587	9,341,504
Due after 6 months through 1 year	178,103	20,143,262	4,170,131	14,489	24,505,985
Due after 1 year through 3 years	1,338,082	4,977,730	3,473,259	31,193	9,820,264
Thereafter	30,321,217	3,925,466	78,477	404,282	34,729,442
	₩ 39,801,435	47,548,509	15,842,782	7,389,339	110,582,065

(13) Borrowings

(a) Borrowings as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

	2008	2007
Borrowings in Won	₩ 7,588,157	7,501,673
Borrowings in foreign currencies	9,242,563	7,655,564
Bonds sold with repurchase agreements	5,166,667	6,210,782
Bills sold	637,109	1,033,618
Due to the Bank of Korea in foreign currencies	218,092	130,385
Call money	4,877,940	1,673,449
	₩ 27,730,528	24,205,471

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(b) The maturities of borrowings as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

At December 31, 2008	Borrowings in Won	Borrowings in foreign currency	Other borrowings	Total
Due in 3 months or less	₩ 2,154,664	5,955,096	6,632,816	14,742,576
Due after 3 months through 6 months	680,176	1,495,344	730,800	2,906,320
Due after 6 months through 1 year	2,051,299	850,353	827,265	3,728,917
Due after 1 year through 3 years	1,555,097	679,093	2,708,927	4,943,117
Thereafter	1,146,921	262,677	-	1,409,598
	₩ 7,588,157	9,242,563	10,899,808	27,730,528

(in millions of Won)

At December 31, 2007	Borrowings in Won	Borrowings in foreign currency	Other borrowings	Total
Due in 3 months or less	₩ 1,352,273	3,594,288	4,389,105	9,335,666
Due after 3 months through 6 months	1,859,650	2,115,659	1,256,829	5,232,138
Due after 6 months through 1 year	1,231,315	1,399,609	1,620,762	4,251,686
Due after 1 year through 3 years	2,057,235	296,017	1,781,538	4,134,790
Thereafter	1,001,200	249,991	-	1,251,191
	₩ 7,501,673	7,655,564	9,048,234	24,205,471

(14) Debentures

(a) Debentures as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

	2008	2007
Debentures in Won	₩ 43,725,038	38,213,371
Debentures in foreign currencies	5,456,275	4,372,597
	₩ 49,181,313	42,585,968



(b) Details of debentures in Won as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008		2007	
	Face value	Interest rate (%)	Face value	Interest rate (%)
Discounted debentures	₩ 660,000	5.17~7.25	1,350,000	4.43~5.18
Compound interest debentures	510,000	5.55~7.83	321,800	5.68
Coupon debentures	35,422,703	4.10~10.75	29,626,691	3.50~7.45
Subordinated debentures	4,439,621	4.56~14.45	4,343,207	5.10~7.70
Hybrid securities	922,469	5.70~7.80	495,033	5.70~7.80
Convertible bond (*)	299,670	3.00	299,670	3.00
Bond with warrants (**)	282,665	3.00	282,665	3.00
Other	735,000	4.97~8.70	1,879,845	4.35~5.25
	43,272,128		38,598,911	
Gain on fair value hedge	325,504		(480,820)	
	43,597,632		38,118,091	
Less: bond discounts	(41,302)		(52,305)	
conversion rights adjustments (*)	(1,282)		(23,211)	
stock warrants adjustments (**)	(2,026)		(18,907)	
Add: premium on redemption of convertible bond (*)	99,001		99,001	
premium on redemption of bond with warrants (**)	73,015		73,015	
present value premium	-		17,687	
	₩ 43,725,038		38,213,371	

(*) The Consolidated Company recorded conversion right in the amount of ₩1,890 million in capital surplus. As of December 31, 2008, 18,575 shares have been converted and 147,207 shares could be issued upon exercise of conversion right. Details of the convertible bond are as follows:

Conversion period:	From three months after issue date (2003.7.21) to one month before redemption date (2009.1.21)
Stock to be issued:	Common stock with par value of ₩5,000 per share
Adjustment of conversion price:	The conversion price is adjusted for stock issuances without consideration, stock dividends, or stock issuances at a price lower than the market price.
Special arrangement:	In case of bankruptcy, claims to the principal of the convertible bond have a lower priority than all non-guaranteed, non-subordinated claim, but have a higher priority over claims of common and preferred stock shareholders and bondholders where special agreements inferior to convertible bonds apply.
Conversion price:	₩2,035,704 per share as of December 31, 2008

(**) The Consolidated Company recorded stock warrants in the amount of ₩4,809 million in capital surplus. As of December 31, 2008, 1,179,249 shares have been issued and 142,157 shares could be issued upon exercise of the warrants. Details of the bond with stock warrants are as follows:

Exercise period of the warrants:	From three months after issue date (2003.8.12) to one month before redemption date (2009.2.12)
Stock to be issued:	Common stock with par value of ₩5,000 per share
Adjustment of exercise price:	The exercise price is adjusted in case of stock issuances without consideration, stock dividends, or stock issuances at a price lower than the market price.
Special arrangement:	In case of bankruptcy, claims to the principal of the convertible bond have a lower priority than all non-guaranteed, non-subordinated claim, but have a higher priority over claims of common and preferred stock shareholders and bondholders where special agreements inferior to convertible bonds apply.
Payment method for stock:	Cash or bond redemption
Exercise price:	₩1,988,393 per share as of December 31, 2008

Notes to Consolidated Financial Statements

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(c) Details of debentures in foreign currencies as of December 31, 2008 and 2007 are as follows:

(in millions of Won and thousands of U.S. dollars, except interest rate)

	2008			2007		
	U.S. dollars	Equivalent Won	Interest rate (%)	U.S. dollars	Equivalent Won	Interest rate (%)
GMTN	\$ 620,037	₩ 779,696	2.75~6.88	\$ 2,218,832	₩ 2,081,708	4.75~6.88
Hybrid securities	650,000	817,375	5.66~6.82	650,000	609,830	5.66~6.82
Non-guaranteed debentures	1,817,963	2,286,088	3.92~5.80	1,361,500	1,277,359	4.01~7.47
Subordinated debentures	1,100,000	1,383,250	4.50~5.75	400,000	375,280	4.50~6.25
	\$ 4,188,000	₩ 5,266,409		\$ 4,630,332	₩ 4,344,177	
Gain (loss) on fair value hedge		192,941			23,176	
		5,459,350			4,367,353	
Less: discount		(13,382)			(12,467)	
Add: present value premium		10,307			17,711	
		₩ 5,456,275			₩ 4,372,597	

(d) The maturities of debentures as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

At December 31, 2008	Debentures in Won	Debentures in foreign currency	Total
Due in 3 months or less	₩ 5,485,331	43,778	5,529,109
Due after 3 months through 6 months	4,027,889	168,715	4,196,604
Due after 6 months through 1 year	5,156,056	326,735	5,482,791
Due after 1 year through 3 years	15,214,504	1,935,531	17,150,035
Thereafter	13,713,852	2,984,591	16,698,443
	₩ 43,597,632	5,459,350	49,056,982

(*) ₩124,331 million of bond discounts and premium on redemption of debentures excluded.

(in millions of Won)

At December 31, 2007	Debentures in Won	Debentures in foreign currency	Total
Due in 3 months or less	₩ 3,670,090	144,224	3,814,314
Due after 3 months through 6 months	1,646,980	146,462	1,793,442
Due after 6 months through 1 year	6,761,040	368,985	7,130,025
Due after 1 year through 3 years	13,818,122	1,301,624	15,119,746
Thereafter	12,221,859	2,406,058	14,627,917
	₩ 38,118,091	4,367,353	42,485,444

(*) ₩100,524 million of bond discounts and premium on redemption of debentures excluded.



(15) Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won)

		2008	2007
Estimated liability at beginning of year	₩	478,506	334,880
Net transfer from acquisition and disposal of subsidiaries		2,651	80,462
Adjustment due to foreign exchange rate		235	9
Payments		(97,752)	(59,913)
Retirement benefit payable		-	(25,529)
Transfer to retirement pension		(1,563)	-
Provision (*)		146,846	148,597
Estimated liability at end of year		528,923	478,506
Less: deposit for severance benefit insurance		(146,372)	(142,263)
Less: contribution to National Pension Fund		(1,094)	(1,401)
Ending balance	₩	381,457	334,842

(*) Includes retirement benefit payment recorded as insurance expense related to employees of Shinhan Life Insurance and SH&C Life Insurance (₩5,448 million in 2008 and ₩4,573 million in 2007).

(16) Other Liabilities

Other liabilities as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

		2008	2007
Allowance for losses on guarantees and acceptances (note 18)	₩	113,768	59,977
Other allowances (note 17)		1,093,357	1,147,696
Borrowings from trust accounts		3,112,977	913,916
Foreign exchange remittances pending		148,681	131,658
Securities sold		9,417	244,380
Accounts payable		6,877,643	5,029,897
Accrued expenses		3,718,311	3,648,129
Income tax payable		632,352	500,470
Dividend payable		3,808	2,945
Advance receipts		76,544	94,333
Unearned revenues		201,012	206,663
Taxes withheld		300,175	306,289
Security deposits received		458,734	446,219
Policy reserves (note 19)		6,548,000	5,731,286
Derivatives liabilities (note 31)		11,703,045	2,314,618
Deferred tax liabilities (note 27)		3,516	379,734
Domestic exchange remittances pending		3,499,893	1,175,340
Other		3,504,922	3,969,136
	₩	42,006,155	26,302,686

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(17) Other Allowances

Other allowances as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

	2008	2007
Allowance for unused credit commitments	₩ 736,874	798,818
Allowance for bonus card points program	246,791	213,088
Allowance for expected loss related to tax inspection	4,195	4,512
Allowance for expected loss related to litigation	57,034	28,627
Allowance related to escheated funds	8,009	51,311
Other	40,454	51,340
	₩ 1,093,357	1,147,696

(18) Guarantees and Acceptances

(a) The guarantees and acceptances as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008	2007
Guarantees and acceptances outstanding		
Guarantees and acceptances in Won:		
Performance guarantees	₩ 1,070,838	2,583,486
Credit-linked derivatives	28,755	622,355
Guarantees on loan collateral	106,727	87,427
Financial guarantees	5,446	7,765
Guarantees on debentures	116,886	1,354
Guarantees on electronic payments	380,895	-
Guarantees on letter of credit	5,274	6,647
	1,714,821	3,309,034
Guarantees and acceptances in foreign currencies:		
Performance guarantees	5,364,069	2,532,767
Financial guarantees	608,565	187,710
Acceptances on letter of credit	472,859	325,576
Credit-linked derivatives	-	197,022
Acceptances for letters of guarantee for importers	71,046	124,417
	6,516,539	3,367,492
Contingent guarantees and acceptances		
Letters of credit	3,008,868	3,489,551
Performance guarantees	4,978,090	3,547,919
Financial guarantees	-	430
	7,986,958	7,037,900
	₩ 16,218,318	13,714,426



(b) Guarantees and acceptances classified by country as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008					
	Guarantees and acceptances outstanding in				Contingent guarantees and acceptances	
	Won		Foreign currencies		Balance	Ratio (%)
	Balance	Ratio (%)	Balance	Ratio (%)		
Korea	₩ 1,714,821	100.00	6,239,299	95.74	7,937,075	99.38
U.S.A.	-	-	55,344	0.85	21,639	0.27
Japan	-	-	21,610	0.33	1,314	0.02
U.K.	-	-	9,225	0.14	-	-
China	-	-	16,317	0.25	11,426	0.14
Vietnam	-	-	13,440	0.21	5,305	0.07
Other	-	-	161,304	2.48	10,199	0.12
	₩ 1,714,821	100.00	6,516,539	100.00	7,986,958	100.00

(in millions of Won)

	2007					
	Guarantees and acceptances outstanding in				Contingent guarantees and acceptances	
	Won		Foreign currencies		Balance	Ratio (%)
	Balance	Ratio (%)	Balance	Ratio (%)		
Korea	₩ 3,309,034	100.00	3,051,872	90.63	6,925,608	98.40
U.S.A.	-	-	54,427	1.62	25,418	0.36
Japan	-	-	17,707	0.53	12,898	0.18
U.K.	-	-	8,971	0.27	6,973	0.10
China	-	-	10,152	0.30	22,594	0.32
Vietnam	-	-	17,049	0.51	7,109	0.10
Other	-	-	207,314	6.14	37,300	0.54
	₩ 3,309,034	100.00	3,367,492	100.00	7,037,900	100.00

(c) Guarantees and acceptances classified by consumer as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

At December 31, 2008	Guarantees and acceptances outstanding in				Contingent guarantees and acceptances	
	Won		Foreign currencies		Balance	Ratio (%)
	Balance	Ratio (%)	Balance	Ratio (%)		
	Corporate	₩ 1,714,821	100.00	6,516,539	100.00	7,986,958

(in millions of Won)

At December 31, 2007	Guarantees and acceptances outstanding in				Contingent guarantees and acceptances	
	Won		Foreign currencies		Balance	Ratio (%)
	Balance	Ratio (%)	Balance	Ratio (%)		
	Corporate	₩ 3,309,034	100.00	3,367,492	100.00	7,037,900

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(d) The allowance for losses on guarantees and acceptances as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

2008						
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Guarantees and acceptances outstanding:						
Balance	₩ 8,027,860	153,763	42,684	688	6,365	8,231,360
Allowances	43,789	16,795	8,598	440	6,365	75,987
Ratio (%)	0.55	10.92	20.14	63.95	100.00	0.92
Contingent guarantees and acceptances:						
Balance	₩ 7,798,291	69,968	111,424	1,042	6,233	7,986,958
Allowances	17,830	2,941	10,496	150	6,233	37,650
Ratio (%)	0.23	4.20	9.42	14.40	100.00	0.47
Total						
Balance	₩ 15,826,151	223,731	154,108	1,730	12,598	16,218,318
Allowances	61,619	19,736	19,094	590	12,598	113,637
Ratio (%)	0.39	8.82	12.39	34.10	100.00	0.70

(*) ₩131 million of allowance for endorsed bills excluded.

(in millions of Won)

2007						
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Guarantees and acceptances outstanding:						
Balance	₩ 6,662,304	9,835	1,313	-	3,074	6,676,526
Allowances	36,758	647	176	-	3,074	40,655
Ratio (%)	0.55	6.58	13.40	-	100.00	0.61
Contingent guarantees and acceptances:						
Balance	₩ 7,020,529	9,422	452	1,836	5,661	7,037,900
Allowances	12,340	552	48	310	5,661	18,911
Ratio (%)	0.18	5.86	10.62	16.88	100.00	0.27
Total						
Balance	₩ 13,682,833	19,257	1,765	1,836	8,735	13,714,426
Allowances	49,098	1,199	224	310	8,735	59,566
Ratio (%)	0.36	6.23	12.69	16.88	100.00	0.43

(*) ₩411 million of allowance for endorsed bills excluded.

(e) As of December 31, 2008, 2007 and 2006, allowance ratios to guarantees and acceptances were as follows:

(in millions of Won)

	2008	2007	2006
Guarantees and acceptances	₩ 16,218,318	13,714,426	6,888,593
Allowances for loss on guarantees and acceptances	113,637	59,566	51,631
Ratio (%)	0.70	0.43	0.75



(19) Policy Reserves

As of December 31, 2008 and 2007, details of policy reserves provided by insurance type were as follows:

(in millions of Won)

	2008			2007		
	Individual	Group	Total	Individual	Group	Total
Premium reserve	₩ 6,125,446	62,213	6,187,659	5,380,349	66,789	5,447,138
Unearned premium reserve	1,334	1,775	3,109	2,020	1,069	3,089
Reserve for outstanding claims	302,075	35,711	337,786	228,724	32,865	261,589
Reserve for participating policyholders' dividends	21,497	29	21,526	20,833	66	20,899
Dividend reserve for policyholders' income participation	-	-	-	109	-	109
Reserve for reinsurance premium	(2,046)	(34)	(2,080)	(1,504)	(34)	(1,538)
	₩ 6,448,306	99,694	6,548,000	5,630,531	100,755	5,731,286

(20) Pledged Assets

Assets pledged as collateral as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

Accounts	2008	2007	Pledged for
Due from banks	₩ 114,205	62,269	Credit card loans and beneficiary certificates
Available-for-sale securities	13,168,760	8,987,041	Borrowings, derivatives trading
Land and buildings	163,061	123,817	Borrowings
	₩ 13,446,026	9,173,127	

(21) Insured Assets

Details of insured assets as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

Assets insured	2008	2007
Cash	₩ 17,750	18,057
Property and equipment used in operations	1,264,162	1,465,015
Fire Insurance	336,412	324,667
	₩ 1,618,324	1,807,739

In addition, the Consolidated Company maintains vehicle insurance, management indemnity insurance, workers' compensation insurance and other insurance policies covering loss and liability arising from accidents.

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(22) Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2008 and 2007 were as follows:

(in millions of Won and thousands of U.S. dollars)

	Foreign currency		Won equivalent	
	2008	2007	2008	2007
Assets:				
Cash and due from banks	\$ 2,254,127	1,614,631	₩ 2,834,564	1,514,849
Securities	1,979,473	1,825,685	2,489,187	1,712,859
Loans	15,336,858	17,219,964	19,286,098	16,155,768
Other assets	2,501,779	2,499,742	3,145,987	2,345,259
	\$ 22,072,237	23,160,022	₩ 27,755,836	21,728,735
Liabilities:				
Deposits	\$ 6,894,662	5,804,284	₩ 8,670,037	5,445,578
Borrowings	9,514,704	10,740,496	11,964,740	10,076,730
Debentures	4,341,431	4,655,034	5,459,350	4,367,353
Other liabilities	2,231,394	2,156,981	2,805,979	2,023,680
	\$ 22,982,191	23,356,795	₩ 28,900,106	21,913,341

(23) Capital Stock

(a) Details of preferred stocks issued as of December 31, 2008 were as follows:

	Number of shares	Predetermined dividend rate (%) (*)	Redeemable period
Redeemable preferred stock:			
Series 4	9,316,792	4.04	August 19, 2007 - August 18, 2009
Series 5	9,316,793	4.04	August 19, 2008 - August 18, 2010
Series 8	66,666	7.86	July 19, 2010 - August 18, 2010
Series 10 (**)	28,990,000	7.00	January 25, 2012 - January 25, 2027
	47,690,251		
Convertible redeemable preferred stock:			
Series 11 (***)	14,721,000	3.25	January 25, 2012 - January 25, 2027
	62,411,251		

(*) Based on initial issuance price

(**) Shinhan Financial Group maintains the right to redeem Series 10 redeemable preferred stock in part or in its entirety within the redeemable period.

If the preferred shares are not redeemed by the end of the redeemable period, those rights will lapse.

(***) Details with respect to the conversion right are as follows:

Conversion period : January 26, 2008 – January 25, 2012

Conversion ratio : One common stock per one preferred stock

Conversion price : ₩57,806



The following redeemable preferred stocks were redeemed as of December 31, 2008. As a result, the amount of capital stock differs from the total par value of the outstanding capital stock.

(in millions of Won, except shares)

Redemption year	Redeemable preferred stock	Number of shares	Redemption amount
2008	Series 3	9,316,792	172,812
	Series 7	2,433,334	365,023
2007	Series 2	9,316,792	172,812
2006	Series 1	9,316,792	172,831
	Series 6	3,500,000	525,033
		33,883,710	1,408,511

(b) Details of changes in capital stock for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won, except shares)

	Number of shares	Common stock	Preferred stock
Balance at January 1, 2007	421,334,783	₩ 1,907,838	262,920
Issuance of preferred stocks	43,711,000	-	218,555
Repayment of preferred stocks	(9,316,792)	-	-
Acquisition of LG Card Co., Ltd. through share exchange (note 4)	14,631,973	73,160	-
Balance at December 31, 2007	470,360,964	₩ 1,980,998	481,475
Repayment of preferred stocks	(11,750,126)	-	-
Balance at December 31, 2008	458,610,838	₩ 1,980,998	481,475

(c) Details of preferred stock which was redeemed by appropriation of retained earnings for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won, except shares and price per share)

December 31, 2008	Number of shares	Redemption date	Redemption price per share	Redemption amount
Series 3 redeemable preferred stock	9,316,792	August 19, 2008	₩ 18,548	₩ 172,812
Series 7 redeemable preferred stock	2,433,334	August 19, 2008	150,009	365,023
	11,750,126			₩ 537,835

(in millions of Won, except shares and price per share)

December 31, 2007	Number of shares	Redemption date	Redemption price per share	Redemption amount
Series 2 redeemable preferred stock	9,316,792	August 20, 2007	₩ 18,548	₩ 172,812

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(24) Capital Adjustments

Capital adjustments as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

	2008	2007
Treasury stock	₩ (28)	(28)
Other	(432,859)	(413,161)
	₩ (432,887)	(413,189)

(a) Share-Based Payment

1) Details of cash-settled share-based payment granted as of December 31, 2008 were as follows:

	1 st grant	2 nd grant	3 rd grant	4 th grant
Grant date	May 22, 2002	May 15, 2003	March 25, 2004	March 30, 2005
Exercise price in Won	₩18,910	₩11,800	₩21,595	₩28,006
Number of shares granted	1,004,200	1,156,300	1,301,600	2,695,200
Vesting period	Within four years after two years from grant date	Within four years after two years from grant date	Within three years after two years from grant date	Within four years after three years from grant date
Changes in number of shares granted:				
Balance at January 1, 2008	292,851	426,255	716,039	2,369,031
Exercised	292,851	261,002	439,416	385,773
Balance at December 31, 2008	-	165,253	276,623	1,983,258
Exercisable at December 31, 2008	-	165,253	276,623	1,983,258



2) Details of share-based payments for which Shinhan Financial Group has the option of cash or equity settlement as of December 31, 2008 were as follows:

	5 th grant	6 th grant	7 th grant
Grant date	March 21, 2006	March 20, 2007	March 19, 2008
Exercise price in Won	₩38,829	₩54,560	₩49,053
Number of shares granted	3,296,200	1,301,050	808,700
Vesting period	Within four years after three years from grant date	Within four years after three years from grant date	Within four years after three years from grant date
Terms:			
Service period	Two years from grant date	Two years from grant date	Two years from grant date
Market performance Management	Increase rate of stock price and target ROE	Increase rate of stock price and target ROE	Increase rate of stock price and target ROE
Employee	Net income for three years	Achievement of annual target ROE for three consecutive years	-
Changes in number of shares granted:			
Outstanding at January 1, 2008	2,788,698	1,167,300	-
Granted	-	-	808,700
Canceled or forfeited	22,960	9,402	105,840
Exercised	-	-	-
Outstanding at December 31, 2008	2,765,738	1,157,898	702,860
Exercisable at December 31, 2008	-	-	-
Assumptions used to determine the fair value of options:			
Risk-free interest rate	-	3.35%	3.53%
Expected exercise period	-	3.2 years	4.2 years
Expected stock price volatility	-	34.83%	32.80%
Expected dividend yield	-	1.99%	2.35%
Weighted average fair value	-	Management: ₩2,391 Employee: ₩2,529	Management: ₩3,728

The Consolidated Company has the option to settle cash or equity in respect to share-based payments. For the fifth grant, the Consolidated Company recognized compensation costs as an expense and a liability, based on past experience which provides a reasonable basis that the share-based payments will be paid in cash. For the sixth and seventh grant, the Consolidated Company recognized compensation costs as an expense and a liability as accrued expense.

Notes to Consolidated Financial Statements

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The fair value of options with performance conditions are calculated using the Monte Carlo simulation and Partial Differential Equation (PDE) Solution model. Effective January 1, 2008, the Consolidated Company modified its valuation model for options with market conditions (based on return on equity) from the Black-Scholes model to the PDE Solution Model for a more reasonable measurement of fair value of options with market conditions. In addition, in estimating weighted-average volatility, the Consolidated Company applied the average volatility based on individual stock price. The Consolidated Company applied these changes in methodology prospectively as it is considered a change of accounting estimate.

3) Changes in stock compensation costs for the year ended December 31, 2008 were as follows:

(in millions of Won)

Stock options granted	Stock compensation cost	Employee of		Total
		Shinhan Financial Group	Subsidiaries	
1 st	Recorded at beginning of the period	₩ 5,401	20,553	25,954
	Incurred during the period	32	(77)	(45)
	To be recorded in subsequent periods	-	-	-
2 nd	Recorded at beginning of the period	8,040	29,269	37,309
	Incurred during the period	(737)	(5,017)	(5,754)
	To be recorded in subsequent periods	-	-	-
3 rd	Recorded at beginning of the period	9,526	29,926	39,452
	Incurred during the period	(1,367)	(8,957)	(10,324)
	To be recorded in subsequent periods	-	-	-
4 th	Recorded at beginning of the period	9,138	51,232	60,370
	Incurred during the period	(7,764)	(38,715)	(46,479)
	To be recorded in subsequent periods	-	-	-
5 th	Recorded at beginning of the period	5,984	30,911	36,895
	Incurred during the period	(5,984)	(30,911)	(36,895)
	To be recorded in subsequent periods	-	-	-
6 th	Recorded at beginning of the period	586	2,965	3,551
	Incurred during the period	(158)	(852)	(1,010)
	To be recorded in subsequent periods	52	215	267
7 th	Recorded at beginning of the period	-	-	-
	Incurred during the period	183	885	1,068
	To be recorded in subsequent periods	281	1,272	1,553



(25) Accumulated Other Comprehensive Income

(a) Consolidated accumulated other comprehensive income as of December 31, 2008 and 2007 consisted of the following:

(in millions of Won)

		2008	2007
Unrealized gain on available-for-sale securities	₩	176,555	1,525,902
Unrealized holding gain on equity method investment securities		12,856	6,631
Unrealized holding loss from equity method investment securities		(24,852)	(34,075)
Cumulative effects of foreign currency translation adjustments		130,130	(25,329)
Gain (loss) from effective portion of changes in fair value of cash flow hedges		(52,356)	4,133
	₩	242,333	1,477,262

(b) Comprehensive income for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won)

		2008	2007
Net income	₩	2,025,662	2,489,998
Other comprehensive income			
Unrealized gain (loss) on available-for-sale securities		(1,345,979)	138,410
Change in unrealized holding gain on equity method investment securities		6,225	4,209
Change in unrealized holding loss from equity method investment securities		9,206	101
Cumulative effects of foreign currency translation adjustments		155,459	6,063
Valuation gain (loss) from derivatives		(56,489)	5,301
Comprehensive income		794,084	2,644,082
Comprehensive income – majority interest		783,698	2,550,306
Comprehensive income – minority interest		10,386	93,776
	₩	794,084	2,644,082

Notes to Consolidated Financial Statements

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(26) General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008	2007
Salaries and wages	₩ 1,247,737	1,417,990
Provision for retirement and severance benefits	141,398	144,023
Retirement and severance benefits paid due to early retirement	85,965	140,838
Other employee benefits	465,478	542,553
Rental	177,872	163,926
Entertainment	24,528	24,372
Depreciation	291,038	303,397
Amortization	514,851	404,067
Tax and dues	182,119	171,227
Advertising	177,930	170,256
Other	603,577	516,972
	₩ 3,912,493	3,999,621

(27) Income Taxes

(a) The Consolidated Company is subject to income taxes based on taxable income, which result in the nominal tax rate of 27.5%. The components of income tax expense for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008	2007
Current income tax expense	₩ 984,579	950,633
Changes in temporary difference	(741,462)	(182,338)
Income tax expense included in stockholders' equity	552,932	(56,475)
Change in net operating loss	172,499	(162,805)
	₩ 968,548	549,015



(b) Reconciliation of income before income taxes for financial reporting purposes and income tax expense for the years ended December 31, 2008 and 2007 are as follows:

(in millions of Won)

	2008	2007
Income before income taxes	₩ 2,993,846	3,913,114
Expense for income taxes at normal tax rates	835,920	1,076,372
Adjustments:		
Non taxable income	(130,367)	(30,105)
Non deductible expense	156,914	146,288
Tax credit	(15,977)	(9,152)
Changes in statutory tax rate	167,206	-
Changes in probability of temporary differences	(67,246)	(425,853)
Other	28,349	(183,620)
Income tax return	(6,251)	(24,915)
Income tax expense	₩ 968,548	549,015
Effective tax rate	32.35%	14.03%

(c) The deferred tax assets and liabilities that were directly charged or credited to equity for the years ended December 31, 2008 are as follows:

(in millions of Won)

	Temporary difference	Deferred tax asset (liability)
Unrealized gain on available-for-sale securities, net	₩ (2,210,974)	541,174
Gain (loss) from effective portion of changes in fair value of cash flow hedges	(70,790)	16,300
Unrealized holding loss on equity method investments securities, net	20,654	(4,542)
	₩ (2,261,110)	552,932

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(d) Changes in significant accumulated temporary differences and tax effects for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008			
	Beginning balance	Increase	Decrease	Ending balance
Deductible temporary differences:				
Securities	₩ 45,666	355,467	120,331	280,802
Impairment loss on securities	1,270,435	796,693	654,506	1,412,622
Allowance for losses on guarantees and acceptances	72,004	122,425	64,869	129,560
Retirement and severance benefits	304,908	103,784	67,630	341,062
Restructured loans	1,103	-	1,101	2
Provision for loan losses	135,052	176,855	142,612	169,295
Other allowances	823,517	865,374	859,733	829,158
Other	1,538,274	1,362,750	618,197	2,282,827
	4,190,959	3,783,348	2,528,979	5,445,328
Taxable temporary differences:				
Accrued income	503,826	283,153	492,862	294,117
Securities	2,314,099	293,647	2,287,628	320,118
Unrealized gain on securities	200,814	285,661	45,588	440,887
Group retirement and severance benefits	298,075	104,489	62,906	339,658
Other	418,555	767,054	293,488	892,121
	3,735,369	1,734,004	3,182,472	2,286,901
Net	455,590			3,158,427
Unrealizable temporary differences (*)	(265,501)			256,565
Realizable temporary differences	190,089			3,414,992
Tax effect of cumulative temporary difference	52,274			767,935
Tax effect of cumulative temporary differences in overseas subsidiaries	1,498			6,262
Tax effects of tax loss carryforwards	156,150			3,454
Net deferred tax assets (liability)	₩ 209,922			777,651

(*) Unrealizable temporary differences consist of ₩7,627 million for the Consolidated Company, ₩(265,902) million for Shinhan Bank, ₩1,676 million for Good Morning Shinhan Securities, ₩(310) million for Shinhan Capital and ₩344 million for Shinhan PE.



(in millions of Won)

	2007			
	Beginning balance	Increase	Decrease	Ending balance
Deductible temporary differences:				
Securities	₩ 14,715	30,951	-	45,666
Impairment loss on securities	222,753	922,662	-	1,145,415
Retirement and severance benefits	202,284	37,419	-	239,703
Provision for loan losses	27,065	107,985	-	135,050
Other allowances	328,952	709,013	-	1,037,965
Stock compensation costs	10,060	-	9,866	194
Restructured loans	787	316	-	1,103
Allowance for losses on guarantees and acceptances	51,825	8,215	-	60,040
Other	3,157,457	-	1,697,049	1,460,408
	4,015,898	1,816,561	1,706,915	4,125,544
Taxable temporary differences:				
Securities	2,148,953	206,646	-	2,355,599
Unrealized gain on securities	40,305	175,996	-	216,301
Accrued income	320,557	163,795	-	484,352
Group retirement and severance benefits	6,124	221,547	-	227,671
Other	2,153,899	-	1,767,868	386,031
	4,669,838	767,984	1,767,868	3,669,954
Net	(653,940)			455,590
Unrealizable temporary differences (*)	(53,857)			(265,501)
Realizable temporary differences	(707,797)			190,089
Tax effect of cumulative temporary difference	(194,644)			52,274
Tax effect of cumulative temporary differences in overseas subsidiaries	1,399			1,498
Tax effects of tax loss carryforwards	307			156,150
Net deferred tax assets (liability)	₩ (192,938)			209,922

(*) Unrealizable temporary differences consist of ₩8,987 million for the Consolidated Company, ₩(48,906) million for Shinhan Bank, ₩306,405 million for Shinhan Card, ₩256 million for Good Morning Shinhan Securities and ₩(1,241) million for Shinhan Capital.

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(28) Earnings per Share

(a) Basic Earnings per Share

Earnings per common share were calculated by dividing net income by the weighted average number of shares of common stock outstanding. Earnings per share for the years ended December 31, 2008 and 2007 were computed as follows:

	(in millions of Won, except shares)	
	2008	2007
Net income	₩ 2,018,627	2,396,377
Dividends on preferred stock	249,319	267,539
Ordinary income available for common stock	1,769,308	2,128,838
Weighted average number of shares outstanding (*)	396,199,058	382,730,606
Earnings per share in Won	₩ 4,466	5,562

(*) Weighted average number of common shares outstanding for the years ended December 31, 2008 and 2007 were as follows:

	2008		
	Number of shares	Number of days	Accumulated number of shares
Outstanding at January 1, 2008	396,199,587	366	145,009,048,842
Effect of treasury stock held	(529)	366	(193,614)
Outstanding at December 31, 2008	396,199,058		145,008,855,228
			366
			396,199,058

	2007		
	Number of shares	Number of days	Accumulated number of shares
Outstanding at January 1, 2007	374,437,647	365	136,669,741,155
Common stock issued	14,631,973	102	1,492,461,246
Disposition of treasury stocks	7,129,967	-	1,534,522,884
Acquisition of treasury stocks	(529)	102	(53,958)
Outstanding at December 31, 2007	396,199,058		139,696,671,327
			365
			382,730,606



(b) Diluted Earnings per Share

Details of diluted earnings per share for the years ended December 31, 2008 and 2007 are as follows:

(in millions of Won, except shares)

	2008	2007
Ordinary income available for common stock	₩ 1,769,308	2,128,838
Plus: dividends on redeemable convertible preferred stock	27,656	25,762
Diluted ordinary income and net earnings	1,796,964	2,154,600
Weighted average number of common shares outstanding and common equivalent shares (*)	411,306,840	397,242,050
Diluted earnings per share in Won	₩ 4,369	5,424

(*) Weighted average number of common shares outstanding and common equivalent shares for the years ended December 31, 2008 and 2007 were as follows:

	2008	2007
Weighted average number of shares outstanding (basic)	396,199,058	382,730,606
Effect of conversion of convertible redeemable preferred stock	14,721,000	13,753,044
Effect of stock option on issue	386,782	758,400
Weighted average number of shares outstanding (diluted)	411,306,840	397,242,050

(c) Securities Applicable to Common Shares

	Exercise period	Exercisable shares
6 th Stock options	March 21, 2010 - March 20, 2014	1,157,898
7 th Stock options	March 20, 2011 - March 19, 2015	702,860

(29) Dividends

(a) Dividends for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won, except per share)

	2008		
	Common stocks	Preferred stocks	Total
Total number of shares issued	396,199,587	62,411,251	458,610,838
Shares excluded (*)	529	-	529
Total number of shares outstanding	396,199,058	62,411,251	458,610,309
Par value per share in Won	5,000	5,000	5,000
Dividend per share in Won (rate per share) (**)	₩ -	3,925 (78.51%)	534 (10.68%)
Dividends	₩ -	244,987	244,987

(*) Dividends on shares held by subsidiaries as of December 31, 2008 were not paid.

(**) A weighted average amount was applied for dividends per share on preferred stock as follows:

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(in millions of Won, except per share)

	Number of shares	Dividends per share in Won	Dividend rate per share (%)	Dividends
Redeemable preferred stock:				
Series 4	9,316,792	730.674	14.61	6,807
Series 5	9,316,793	730.674	14.61	6,807
Series 8	66,666	11,790	235.80	786
Series 10	28,990,000	7,000	140.00	202,930
Series 11	14,721,000	1,878.695	37.574	27,657
	62,411,251			244,987

(in millions of Won, except per share)

	2007		
	Common stocks	Preferred stocks	Total
Total number of shares issued	396,199,587	74,161,377	470,360,964
Shares excluded (*)	529	-	529
Total number of shares outstanding	396,199,058	74,161,377	470,360,435
Par value per share in Won	5,000	5,000	5,000
Dividend per share in Won (rate per share) (**)	₩ 900 (18%)	3,558 (71.16%)	1,319 (26.38%)
Dividends	₩ 356,580	263,862	620,442

(*) Dividends on shares held by subsidiaries as of December 31, 2007 were not paid.

(**) A weighted average amount was applied for dividends per share on preferred stock as follows:

(in millions of Won, except per share)

	Number of shares	Dividends per share in Won	Dividend rate per share (%)	Dividends
Redeemable preferred stock:				
Series 3	9,316,792	730.674	14.61	6,807
Series 4	9,316,792	730.674	14.61	6,807
Series 5	9,316,793	730.674	14.61	6,808
Series 7	2,433,334	11,190	223.80	27,229
Series 8	66,666	11,790	235.80	786
Series 10	28,990,000	6,539.726	130.79	189,587
Series 11	14,721,000	1,755.164	35.10	25,838
	74,161,377			263,862



(b) Payout ratios for the years ended December 31, 2008 and 2007 were calculated as follows:

(in millions of Won, except payout ratio)

	2008			2007		
	Common stocks	Preferred stocks	Total	Common stocks	Preferred stocks	Total
Dividends in Won	₩ -	244,987	244,987	356,580	263,862	620,442
Net earnings in Won	₩ 1,773,640	244,987	2,018,627	2,132,515	263,862	2,396,377
Payout ratios (%)	-		12.14	16.72		25.89

(c) Dividend yields on common shares for the years ended December 31, 2008 and 2007 were calculated as follows:

(in Won, except dividends yields)

	2008	2007
Dividends per share in Won	₩ -	900
Average stock price in Won at the balance sheet date (*)	₩ -	53,900
Dividends yields (%)	-	1.67

(*) In accordance with former Securities and Exchange Act, stock price is the average of the quote prices during the week ending two days prior to the record date.

(30) Statements of Cash Flows

Significant transactions not involving cash inflows or outflows for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008	2007
Reclassification of advance payment to equity method investment securities related to acquisition of former LG Card Co., Ltd.	₩ -	519,254
Acquisition of former LG Card Co., Ltd. shares through share exchange	-	844,265
Changes in other comprehensive income of subsidiaries	1,234,929	153,929
Changes in retained earnings of subsidiaries	20,589	2,527

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December 31, 2008 and 2007

(31) Derivatives

(a) Details of unsettled derivative instruments as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

		2008		
		Trading	Hedge	Total
Currency related:	Forwards	₩ 62,812,242	36,472	62,848,714
	Futures	50,544	-	50,544
	Swap	31,949,697	468,911	32,418,608
	Options bought	14,516,713	-	14,516,713
	Options sold	8,339,285	-	8,339,285
			117,668,481	505,383
Interest rate related:	Futures sold	22,522	-	22,522
	Futures bought	1,131,750	-	1,131,750
	Options bought	7,869,411	-	7,869,411
	Options sold	5,231,200	-	5,231,200
	Swap	104,648,760	13,703,448	118,352,208
	Interest futures	542,615	-	542,615
		119,446,258	13,703,448	133,149,706
Stock price index related:	Futures	177,070	-	177,070
	Options bought	1,199,450	-	1,199,450
	Options sold	893,551	-	893,551
	Swap	2,363,015	-	2,363,015
		4,633,086	-	4,633,086
Stock related:	Futures	194,792	-	194,792
	Swap	97,538	-	97,538
	Options	360,719	-	360,719
		653,049	-	653,049
Other:	Swap	77,000	-	77,000
	Other	713,177	-	713,177
		790,177	-	790,177
		₩ 243,191,051	14,208,831	257,399,882



(in millions of Won)

		2007		
		Trading	Hedge	Total
Currency related:	Forwards	₩ 60,033,299	11,858	60,045,157
	Futures	45,972	-	45,972
	Swap	22,545,785	527,397	23,073,182
	Options bought	16,742,964	-	16,742,964
	Options sold	11,962,045	-	11,962,045
			111,330,065	539,255
Interest rate related:	Futures sold	254,040	-	254,040
	Futures bought	10,585	-	10,585
	Options bought	3,966,600	1,165,000	5,131,600
	Swap	82,321,711	11,705,119	94,026,830
	Interest futures	847	-	847
			86,553,783	12,870,119
Stock price index related:	Futures	22,622	-	22,622
	Options bought	507,523	-	507,523
	Options sold	309,470	-	309,470
	Swap	1,697,892	-	1,697,892
			2,537,507	-
Stock related:	Bought	347,918	-	347,918
	Sold	111,891	-	111,891
		459,809	-	459,809
Commodity related:	Swap and forwards	245,293	-	245,293
		₩ 201,126,457	13,409,374	214,535,831

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(b) Valuation on trading and hedging derivative instruments as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008				
	Valuation gain (losses)			Fair value	
	Trading	Hedge	Total	Assets	Liabilities
Currency related:					
Forwards	₩ 2,006,786	(2,493)	2,004,293	5,558,660	3,542,125
Swap	(2,558,679)	(29,302)	(2,587,981)	2,168,068	4,305,073
Options bought	1,561,030	-	1,561,030	1,810,906	67,305
Options sold	(835,743)	-	(835,743)	24,731	908,047
	173,394	(31,795)	141,599	9,562,365	8,822,550
Interest rate related:					
Options bought	32,342	-	32,342	92,344	-
Options sold	(48,794)	-	(48,794)	-	99,951
Swap	(496,977)	907,174	410,197	2,045,389	2,233,722
Futures	(662)	-	(662)	-	-
	(514,091)	907,174	393,083	2,137,733	2,333,673
Stock price index related:					
Futures	933	-	933	-	-
Options bought	7,560	-	7,560	117,028	-
Options sold	(68,538)	-	(68,538)	-	99,336
Swap	69,759	-	69,759	406,540	332,877
	9,714	-	9,714	523,568	432,213
Stock related:					
Options bought	36,318	(675)	35,643	67,314	-
Options sold	1,614	-	1,614	-	3,116
Options	(6)	-	(6)	-	-
Swap	(31,710)	-	(31,710)	-	35,326
	6,216	(675)	5,541	67,314	38,442
Other:					
Commodity related Swap	(465)	-	(465)	1,874	2,078
Options bought	-	-	-	35,222	35,222
Options sold	(38,867)	-	(38,867)	-	38,867
Futures	10,681	-	10,681	10,681	-
	(28,651)	-	(28,651)	47,777	76,167
	₩ (353,418)	874,704	521,286	12,338,757	11,703,045



(in millions of Won)

	2007					
	Valuation gain (losses)			Fair value		
		Trading	Hedge	Total	Assets	Liabilities
Currency related:						
Forwards	₩	82,087	(574)	81,513	521,763	505,518
Swap		20,830	5,196	26,026	536,748	262,674
Options		53,166	-	53,166	169,709	180,503
		156,083	4,622	160,705	1,228,220	948,695
Interest rate related:						
Options		1,151	-	1,151	29,425	24,468
Swap		(100,359)	(304,538)	(404,897)	607,661	1,208,941
Futures		60	-	60	-	-
		(99,148)	(304,538)	(403,686)	637,086	1,233,409
Stock price index related:						
Futures		106	-	106	-	-
Options bought		(7,038)	-	(7,038)	16,975	-
Options sold		3,735	-	3,735	-	7,158
Swap		1,039	-	1,039	97,366	98,283
		(2,158)	-	(2,158)	114,341	105,441
Stock related:						
Options bought		(1,640)	-	(1,640)	26,991	-
Options sold		(2,440)	-	(2,440)	4,323	3,432
Swap		1,821	-	1,821	3,351	3,729
Options		4,714	-	4,714	20,004	13,230
		2,455	-	2,455	54,669	20,391
Other:						
Commodity related		8,055	-	8,055	8,055	-
Options bought		525	-	525	525	-
Options sold		(449)	-	(449)	9,920	547
Forwards		229	(49)	180	6,316	6,135
		8,360	(49)	8,311	24,816	6,682
	₩	65,592	(299,965)	(234,373)	2,059,132	2,314,618

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(32) Commitments and Contingencies

(a) Guarantees and acceptances and commitments as of December 31, 2008 were as follows:

	(in millions of Won)	
Guarantees and acceptances outstanding	₩	8,231,360
Contingent guarantees and acceptances		7,986,958
Commitments		125,871,394
Endorsed bills		14,872,121
Insurance contracts		63,476,237

(b) The Consolidated Company pledged a note amounting to ₩734 million to financial institutions as collateral for borrowings.

(c) As of December 31, 2008, the Consolidated Company was involved in pending lawsuits as a defendant (total claim amount : ₩269,888 million). As of December 31, 2008, the Consolidated Company recorded a provision of ₩57,034 million with respect to these lawsuits in other liabilities. Management is of the opinion that the foregoing lawsuits and claims will not have a material adverse effect on the Consolidated Company's financial position, operating results or cash flows.

(d) As of December 31, 2008, Shinhan Bank and Jeju Bank guaranteed repayment of principal and, in certain cases, minimum interest earnings on trust account assets for a total amount of ₩3,528,067 million. Additional losses might be recorded based upon the results of future operations of these guaranteed trust accounts.

(e) Credit-linked derivatives

Details of credit-linked derivatives held by Shinhan Bank as of December 31, 2008 were as follows:

	Credit Guarantee Contracts Sold		
	Overseas	Domestic	Total
Credit Default Swap	50,300	-	50,300
KTB Swap	-	28,755	28,755
CDS on CDO	37,725	-	37,725
Total	88,025	28,755	116,780

With regard to guarantee contracts sold, Shinhan Bank accepts risk of loss due to the credit risk of the respective reference entity.

(f) Potential recovery of bad debts

The Consolidated Company has receivables which were written-off as they were deemed to be uncollectible. However, for certain receivables, the Consolidated Company still retains the legal right for recovery under Commercial Law as the receivables have not been repaid or legally terminated. As of December 31, 2008 and 2007, such receivables amounted to ₩3,472,712 million and ₩3,342,872 million, respectively.

(g) Shinhan Card established a US\$2,000,000 thousand Euro-Medium Term Note Programme on April 7, 2008. As of December 31, 2008, Shinhan Card has not issued a bond in connection to the Euro-Medium Term Note Programme.



(h) As of December 31, 2008, Good Morning Shinhan Securities entered into a guarantee contract with Franklin Templeton Investment Trust Management Co., Ltd. to provide for contingent losses that may result from beneficiary certificates including guaranteed bonds issued by financially troubled companies, such as the Daewoo Group. Good Morning Shinhan Securities' time deposit of ₩1,834 million was pledged as collateral to Franklin Templeton Investment Trust Management Co., Ltd. for the potential losses.

(i) Good Morning Shinhan Securities entered into a credit default swap with Good Invest 2nd, an SPC. The CDS requires Good Morning Shinhan Securities to acquire common stocks of Daewoo Engineering and Constructions, Inc. at ₩57 billion in the event of underlying asset's credit default.

(j) Contingency gain from lawsuit against Samsung Motors Co., Ltd.

On September 1999, the creditors of Samsung Motors Co., Ltd., 14 financial institutions including Shinhan Bank, received 3.5 million non-listed shares of Samsung Life Insurance valued at ₩700,000 per share, under an agreement that the shares would be listed by the end of 2000, in lieu of the debt outstanding when Samsung Motors Co., Ltd. went into court receivership. If the proceeds from disposal of the shares were less than ₩2,450 billion, Samsung Group was to reimburse the shortage by investing in the creditors' equity or buying subordinated bonds issued by the creditors. Otherwise, Samsung Group was to make repayment of principal and interest based on the bank's delinquent interest rate.

On December 9, 2005, Shinhan Bank, with the other creditors, filed a lawsuit against Samsung Group CEO Gun-hee, Lee and 28 Samsung affiliates for violation of the agreement as the listing of Samsung Life Insurance never took place and claimed payment of ₩2,450 billion in principal and ₩2.28 billion in interest. The Seoul Central District Court ruled in favor of the creditors on January 31, 2008. Per the ruling, Samsung Group is to reimburse 2.3 million in shares, not the original 3.5 million as one of the creditors sold the difference and the delinquent interest rate is to be reduced from the 19% demanded by creditors to 6% in accordance with the Commercial Law.

However, the final decision of the lawsuit and the effects to the consolidated financial statements can not be reasonably estimated as Samsung Group may appeal.

(k) The effects of the sub-prime mortgage crisis

As of December 31, 2008, the sub-prime mortgage crisis in the U.S. and the resulting credit crunch worldwide resulted in impairment losses on financial instruments related to sub-prime mortgage securities. Further losses due to this global financial crisis are expected.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(33) Related Party Transactions

(a) Details of transactions

Significant transactions with the related parties for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won)

Revenue earned	Expense incurred	Account	2008	2007
Controlling company and subsidiaries included in consolidation:				
Shinhan Financial Group	Shinhan Bank	Interest income	₩ 7,329	26,454
"	"	Fee and commission income	90,911	-
"	SH Asset Management	Fee and commission income	178	-
"	Good Morning Shinhan Securities	Interest income	9,290	9,315
"	"	Fee and commission income	9,266	-
"	Shinhan Life Insurance	Fee and commission income	13,542	-
"	Shinhan Data System	Fee and commission income	94	-
"	Shinhan Capital	Interest income	53,877	30,152
"	"	Fee and commission income	1,354	-
"	Jeju Bank	Fee and commission income	962	-
"	Shinhan Credit Information	Fee and commission income	143	-
"	Shinhan Card	Interest income	53,310	7,613
"	"	Fee and commission income	18,825	-
"	Shinhan PE	Interest income	425	140
"	"	Fee and commission income	14	-
"	Shinhan BNP Paribas ITMC	Fee and commission income	192	-
"	SH&C Life Insurance	Interest income	12	-
"	"	Fee and commission income	232	-
"	Shinhan Macquarie	Fee and commission income	59	-
Shinhan Bank	Shinhan Financial Group	Rental income	735	38
"	Shinhan Card	Interest income	5,093	21,196
"	"	Fee and commission income	117,324	37,198
"	"	Rental income	3,006	1,124
"	"	Gain on derivatives	22,452	2,739
"	Good Morning Shinhan Securities	Interest income	1,104	892
"	"	Rental income	1,315	1,154
"	"	Gain on derivatives	4,174	220
"	Shinhan Life Insurance	Interest income	7,032	4,998
"	"	Fee and commission income	14,857	10,903
"	"	Rental income	4,349	3,743
"	"	Gain on derivatives	29,703	2,732
"	Shinhan Capital	Interest income	10	41
"	"	Fee and commission income	8	40
"	"	Rental income	792	672



(in millions of Won)

Revenue earned	Expense incurred	Account	2008	2007
Shinhan Bank	Shinhan Capital	Gain on derivatives	₩ 1,730	489
"	Jeju Bank	Interest income	764	85
"	Shinhan Credit Information	Rental income	147	154
"	Shinhan PE	Fee and commission income	131	-
"	Shinhan BNP Paribas ITMC	Fee and commission income	381	568
"	"	Rental income	1	-
"	SH&C Life Insurance	Fee and commission income	22,633	27,048
"	Shinhan Macquarie	Fee and commission income	2,000	-
"	Shinhan Bank (Trust)	Fees and commission from trust account	75,205	83,302
"	"	Fee and commission income	11	-
"	SH Asset Management	Fee and commission income	9	-
"	Shinhan Data System	Rental income	132	-
"	Shinhan Asia	Interest income	-	2,151
"	Shinhan Bank America	Interest income	1,333	3,367
"	Shinhan Europe	Interest income	540	2,181
"	Shinhan China	Interest income	483	-
Shinhan Bank (Trust)	Shinhan Bank	Interest income	73,724	55,421
SH Asset Management	"	Interest income	970	1,080
"	Shinhan Life Insurance	Fee and commission income	74	-
Shinhan Data System	Shinhan Financial Group	Fee and commission income	3	-
"	Shinhan Bank	Interest income	188	-
"	"	Fee and commission income	15,518	-
"	SH Asset Management	Fee and commission income	1	-
"	Shinhan Card	Fee and commission income	1,428	-
"	Good Morning Shinhan Securities	Fee and commission income	880	-
"	Shinhan Life Insurance	Interest income	17	-
"	"	Fee and commission income	503	-
"	Shinhan Capital	Fee and commission income	138	-
"	Jeju Bank	Fee and commission income	16	-
"	Shinhan Credit Information	Fee and commission income	308	-
"	Shinhan BNP Paribas ITMC	Fee and commission income	1	-
"	SH&C Life Insurance	Fee and commission income	394	-
"	Shinhan Bank	Fee and commission income	159	-
Shinhan Aitas	SH Asset Management	Fee and commission income	176	-
"	Good Morning Shinhan Securities	Fee and commission income	6	-
"	Shinhan BNP Paribas ITMC	Fee and commission income	121	-
Shinhan Corporate Restructuring Fund 7 th	Shinhan Bank	Interest income	-	20

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(in millions of Won)

Revenue earned	Expense incurred	Account	2008	2007
Shinhan Card	Shinhan Bank	Interest income	₩ 547	1,699
"	"	Fee and commission income	7,862	849
"	"	Gain on derivatives	98,983	8,215
"	Shinhan Data System	Fee and commission income	3	-
"	Good Morning Shinhan Securities	Interest income	9	-
"	"	Fee and commission income	-	913
"	Shinhan Life Insurance	Interest income	390	179
"	"	Fee and commission income	25,577	6,037
"	Jeju Bank	Fee and commission income	228	96
"	Shinhan Credit Information	Fee and commission income	7	-
"	SH&C Life Insurance	Fee and commission income	3,004	642
Good Morning Shinhan Securities	Shinhan Financial Group	Fee and commission income	655	6,841
"	Shinhan Bank	Interest income	8,610	409
"	"	Fee and commission income	106	-
"	"	Rental income	550	163
"	"	Gain on derivatives	1,390	387
"	SH Asset Management	Rental income	596	-
"	Shinhan Card	Fee and commission income	118	-
"	"	Rental income	1,053	262
"	Shinhan Life Insurance	Interest income	68	62
"	"	Fee and commission income	121	17
"	"	Rental income	22	25
"	Shinhan Capital	Fee and commission income	101	-
"	Jeju Bank	Interest income	836	-
"	Shinhan BNP Paribas ITMC	Rental income	574	294
Good Morning Shinhan USA	Good Morning Shinhan Securities	Fee and commission income	2,515	3,404
Good Morning Shinhan Europe	"	Fee and commission income	809	1,037
Good Morning Shinhan Asia	"	Fee and commission income	2,013	-
Shinhan Life Insurance	Shinhan Financial Group	Insurance income	15	-
"	Shinhan Bank	Insurance income	1,507	1,814
"	"	Interest income	4,268	12,656
"	"	Fee and commission income	602	487
"	"	Gain on derivatives	204	1
"	Shinhan Data System	Insurance income	12	-
"	"	Fee and commission income	4	-
"	Shinhan Card	Insurance income	254	74
"	"	Interest income	442	-
"	"	Fee and commission income	531	1,938



(in millions of Won)

Revenue earned	Expense incurred	Account	2008	2007
Shinhan Life Insurance	Good Morning Shinhan Securities	Insurance income	₩ 36	71
"	"	Fee and commission income	9	8
"	Jeju Bank	Insurance income	20	-
"	Shinhan BNP Paribas ITMC	Insurance income	5	-
"	"	Fee and commission income	6	-
"	SH&C Life Insurance	Fee and commission income	1	-
Shinhan Capital	Shinhan Bank	Interest income	773	2,196
"	"	Gain on derivatives	49,132	387
Jeju Bank	"	Interest income	24	61
"	Shinhan Card	Fee and commission income	84	47
"	Shinhan Life Insurance	Fee and commission income	238	166
"	"	Rental income	5	6
"	Jeju Bank (Trust)	Fees and commission from trust account	1,388	1,158
"	SH&C Life Insurance	Fee and commission income	34	94
Jeju Bank (Trust)	Jeju Bank	Interest income	199	186
Shinhan Credit Information	Shinhan Bank	Interest income	31	95
"	"	Fee and commission income	6,275	6,332
"	Shinhan Card	Fee and commission income	13,658	4,594
"	Good Morning Shinhan Securities	Fee and commission income	18	28
"	Shinhan Life Insurance	Fee and commission income	137	60
"	Shinhan Capital	Fee and commission income	108	43
"	Jeju Bank	Fee and commission income	11	119
Shinhan PE	Shinhan Bank	Interest income	-	38
"	Good Morning Shinhan Securities	Interest income	46	33
"	Shinhan PEF 1 st	Fee and commission income	2,736	2,771
"	Shinhan PEF 2 nd	Fee and commission income	2,336	-
Shinhan BNP Paribas ITMC	Shinhan Bank	Interest income	2,027	659
"	Shinhan Life Insurance	Interest income	55	-
SH&C Life Insurance	Shinhan Bank	Interest income	4	3
"	Shinhan Life Insurance	Interest income	8	-
Shinhan Macquarie	Shinhan Bank	Interest income	190	227
			₩ 916,274	405,113

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(in millions of Won)

Revenue earned	Expense incurred	Account	2008	2007
Subsidiaries accounted for under the equity method:				
Shinhan Financial Group	SHC Management	Interest income	₩ -	16,542
Shinhan Bank	Shinhan Data System	Rental income	-	134
"	SHC Management	Interest income	-	395
"	"	Fee and commission income	-	80,595
"	"	Rental income	-	2,283
"	"	Gain on derivatives	-	2,867
Shinhan Data System	Shinhan Bank	Interest income	-	63
"	"	Fee and commission income	-	16,795
Macquarie	"	Interest income	363	59
Shinhan Infrastructure Asset Management	"			
Shinhan Corporate Restructuring Fund 6 th	"	Interest income	4	20
Shinhan Corporate Restructuring Fund 7 th	"	Interest income	4	-
Shinhan Corporate Restructuring Fund 8 th	"	Interest income	23	134
Daewoo capital	"	Interest income	-	1
Good Morning Shinhan Securities	SHC Management	Rental income	-	503
"	"	Fee and commission income	-	66
Shinhan Card	"	Interest income	-	123
"	"	Fee and commission income	250	-
SHC Management	Shinhan Bank	Interest income	958	253
"	"	Fee and commission income	-	1,974
"	Shinhan Card	Interest income	2,756	11,371
"	Good Morning Shinhan Securities	Interest income	12	73
"	Jeju Bank	Fee and commission income	-	268
"	Shinhan Life Insurance	Fee and commission income	-	10,391
"	SH&C Life Insurance	Fee and commission income	-	3,620
Shinhan Credit Information	SHC Management	Fee and commission income	-	9,596
			4,370	158,126
			₩ 920,644	563,239



(b) Account balances

Significant balances with the related parties as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

Revenue earned	Expense incurred	Account	2008	2007
Controlling company and subsidiaries included in consolidation:				
Shinhan Financial Group	Shinhan Bank	Due from banks	₩ 305,771	1,910
"	"	Guarantee deposits	9,982	9,915
"	"	Accounts receivables	9,912	-
"	"	Accrued interest income	235	5
"	"	Deposit for severance benefit insurance	1,531	1,189
"	SH Asset Management	Accounts receivables	14	-
"	Shinhan Data System	Accounts receivables	36	-
"	Shinhan Card	Loans in Won	1,180,000	650,000
"	"	Accounts receivables	891	-
"	"	Accrued interest income	6,988	4,021
"	Good Morning Shinhan Securities	Loans in Won	170,000	170,000
"	"	Accounts receivables	995	-
"	"	Accrued interest income	1,544	1,569
"	Shinhan Life Insurance	Accounts receivables	355	-
"	Shinhan Capital	Loans in Won	1,040,000	590,000
"	"	Accounts receivables	1,145	-
"	"	Accrued interest income	5,316	2,820
"	Shinhan Credit Information	Accounts receivables	97	-
"	Shinhan PE	Loans in Won	10,000	5,000
"	SH&C Life Insurance	Loans in Won	10,000	-
"	"	Accrued interest income	12	-
"	Shinhan Macquarie	Accounts receivables	59	-
Shinhan Bank	Shinhan Card	Loans in Won	112,200	502,300
"	"	Securities	39,654	50,126
"	"	Derivative assets	11,487	7,240
"	Good Morning Shinhan Securities	Guarantee deposits	11,128	9,674
"	"	Derivative assets	4,174	-
"	Shinhan Life Insurance	Accrued interest income	1,770	-
"	"	Derivative assets	30,019	3,084
"	"	Deposit for severance benefit insurance	142,851	133,192
"	Shinhan Capital	Derivative assets	-	1,938
"	Jeju Bank	Due from banks	3,200	-
"	"	Loans in Won	9,484	-
"	"	Loans in foreign currency	-	3,908

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(in millions of Won)

Revenue earned	Expense incurred	Account	2008	2007
Shinhan Bank	Jeju Bank	Accrued interest income	₩ 165	4
"	Shinhan BNP Paribas ITMC	Accounts receivables	-	124
"	SH&C Life Insurance	Accrued interest income	1,052	1,344
"	Shinhan Asia	Due from banks	265	72
"	"	Loans in foreign currency	22,006	29,967
"	"	Accrued interest income	-	687
"	Shinhan Bank America	Loans in foreign currency	1,332	-
"	"	Call loan	-	60,983
"	Shinhan Europe	Due from banks	941	30,420
"	"	Loans in foreign currency	50,300	66,885
"	Shinhan Khmer	Due from banks	19	52
"	Shinhan China	Loans in foreign currency	93,684	-
"	"	Call loan	12,575	-
"	"	Due from banks	116	-
Shinhan Bank (Trust)	Shinhan Bank	Due from bank account	253,528	313,566
Shinhan China	"	Loans in foreign currency	31,531	-
SH Asset Management	"	Due from banks	33,754	21,565
"	"	Accrued interest income	850	-
"	"	Deposit for severance benefit insurance	53	-
"	Good Morning Shinhan Securities	Guarantee deposits	2,961	-
"	SH&C Life Insurance	Accrued interest income	124	-
Shinhan Data System	Shinhan Bank	Due from banks	4,494	-
"	"	Guarantee deposits	110	-
"	"	Accrued interest income	93	-
"	Shinhan Card	Accounts receivables	171	-
"	Good Morning Shinhan Securities	Accounts receivables	183	-
"	Shinhan Life Insurance	Accounts receivables	40	-
"	Jeju Bank	Accounts receivables	2	-
Shinhan Aitas	Shinhan Bank	Due from banks	81	-
"	SH Asset Management	Accrued interest income	172	-
"	Shinhan BNP Paribas ITMC	Accrued interest income	119	-
Shinhan Corporate	Shinhan Bank	Due from banks	226	355
Restructuring Fund 7 th	"	Accounts receivables	3	-
Shinhan Card	Shinhan Financial Group	Accounts receivables	152	156
"	Shinhan Bank	Due from banks	604,659	603,323
"	"	Guarantee deposits	5,013	3,394
"	"	Accounts receivables	4,093	4,372
"	"	Accrued interest income	-	61
"	"	Prepaid expense	-	7,021



(in millions of Won)

Creditor	Debtor	Account		2008	2007
Shinhan Card	Shinhan Bank	Derivative assets	₩	64,003	8,513
"	"	Deposit for severance benefit insurance		43,220	40,281
"	SH Asset Management	Accounts receivables		83	-
"	Shinhan Data System	Accounts receivables		29	-
"	Shinhan Life Insurance	Accounts receivables		1,790	1,926
"	"	Accrued interest income		-	38
"	"	Deposit for severance benefit insurance		14,826	5,340
"	Shinhan Capital	Accounts receivables		187	73
"	Good Morning Shinhan Securities	Due from banks		238	-
"	"	Guarantee deposits		3,974	3,974
"	"	Accounts receivables		975	1,702
"	Jeju Bank	Due from banks		280	343
"	Shinhan Credit Information	Accounts receivables		51	97
"	Shinhan PE	Accounts receivables		34	25
"	Shinhan BNP Paribas ITMC	Accounts receivables		55	-
"	SH&C Life Insurance	Accounts receivables		68	342
"	"	Accrued interest income		127	-
Good Morning Shinhan Securities	Shinhan Bank	Due from banks		90,443	30,566
"	"	Guarantee deposits		16,284	19,317
"	"	Accrued interest income		534	253
"	"	Deposit for severance benefit insurance		162	677
"	"	Derivative assets		1,468	236
"	Shinhan Life Insurance	Deposit for severance benefit insurance		151	614
"	Jeju Bank	Due from banks		17,164	10,023
"	"	Accrued interest income		12	-
Good Morning Shinhan USA	Good Morning Shinhan Securities	Accrued interest income		60	764
Good Morning Shinhan Europe	"	Accrued interest income		-	283
Good Morning Shinhan Asia	"	Accrued interest income		1,451	-
Shinhan Life Insurance	Shinhan Bank	Due from banks		62,984	15,790
"	"	Available-for-sale securities		3,823	5,785
"	"	Held-to-maturity securities		55,000	54,999
"	"	Guarantee deposits		9,861	9,637
"	"	Accrued interest income		8,278	4,528
"	"	Derivative assets		-	123

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in millions of Won)

Creditor	Debtor	Account	2008	2007
Shinhan Life Insurance	Shinhan Bank	Deposit for severance benefit insurance	₩ 12,975	8,721
"	Shinhan Card	Securities	25,205	-
"	Good Morning Shinhan Securities	Guarantee deposits	228	228
"	Jeju Bank	Due from banks	241	211
Shinhan Capital	Shinhan Financial Group	Prepaid expense	8,492	-
"	Shinhan Bank	Due from banks	16,116	21,850
"	"	Guarantee deposits	660	663
"	"	Accrued interest income	2	39
"	"	Derivative assets	46,187	-
"	"	Deposit for severance benefit insurance	-	1,009
Jeju Bank	Shinhan Life Insurance	Accrued interest income	-	8
"	SH&C Life Insurance	Accrued interest income	2	4
"	Jeju Bank (Trust)	Accrued interest income	-	1,001
Jeju Bank (Trust)	Jeju Bank	Due from bank account	458	508
Shinhan Credit Information	Shinhan Bank	Cash and cash equivalents	-	528
"	"	Due from banks	5,721	4,618
"	"	Guarantee deposits	855	1,569
"	"	Accounts receivables	477	870
"	"	Accrued interest income	-	13
"	"	Deposit for severance benefit insurance	-	180
"	Shinhan Card	Accrued interest income	881	-
"	Good Morning Shinhan Securities	Accounts receivables	8	3
"	Shinhan Life Insurance	Accrued interest income	-	3
"	Shinhan Capital	Accrued interest income	2	-
"	Jeju Bank	Guarantee deposits	-	60
"	"	Accounts receivables	-	7
Shinhan PE	Shinhan Financial Group	Prepaid expenses	361	135
"	Shinhan Bank	Due from banks	713	-
"	"	Deposit for severance benefit insurance	169	-
"	Good Morning Shinhan Securities	Securities under repurchase agreement	-	388
Shinhan BNP Paribas ITMC	Shinhan Bank	Due from banks	37,501	26,289
"	"	Accrued interest income	-	281
"	Good Morning Shinhan Securities	Guarantee deposits	3,000	4,976



(in millions of Won)

Creditor	Debtor	Account	2008	2007
Shinhan BNP Paribas ITMC	Shinhan Life Insurance	Deposit for severance benefit insurance	₩ 593	629
SH&C Life Insurance	Shinhan Bank	Due from banks	1,796	1,531
"	"	Guarantee deposits	35	35
"	Shinhan Life Insurance	Deposit for severance benefit insurance	267	197
"	Jeju Bank	Due from banks	2	1
Shinhan Macquarie	Shinhan Bank	Due from banks	5,254	6,626
"	"	Accrued interest income	254	-
			4,811,787	3,591,672
Subsidiaries accounted for under the equity method:				
Shinhan Financial Group	SHC Management	Accounts receivables	12	-
Shinhan Data System	Shinhan Bank	Due from banks	-	4,923
"	"	Guarantee deposits	-	112
"	"	Accrued interest income	-	46
"	Shinhan Credit Information	Accounts receivables	-	422
"	Shinhan Life Insurance	Deposit for severance benefit insurance	-	1,443
Shinhan Corporate Restructuring Fund 6 th	Shinhan Bank	Due from banks	-	270
Shinhan Card	SHC Management	Accrued interest income	26	-
Shinhan Credit Information	Shinhan Data System	Advance payments	-	275
SHC Management	Shinhan Bank	Due from banks	4,200	-
"	"	Accrued interest income	189	-
"	Good Morning Shinhan Securities	Due from banks	79	-
"	Shinhan Card	Accounts receivables	-	614,100
Macquarie	Shinhan Bank	Due from banks	7,335	19,748
Shinhan Infrastructure Asset Management	"			
Shinhan Corporate Restructuring Fund 8 th	"	Due from banks	1,000	922
Daewoo Capital	"	Due from banks	23,314	493
"	"	Accounts receivables	570	-
			36,725	642,754
			₩ 4,848,512	4,234,426

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(c) Guarantees and acceptances

The guarantees and acceptances provided between the related parties as of December 31, 2008 were as follows:

(in millions of Won)

Creditor	Debtor	Account	Amount of guarantees and acceptances	
Shinhan Bank	Shinhan Capital	Guarantees for letter of credit	₩	4,942
"	"	Letter of guarantees		1,346
"	Daewoo Capital	Guarantees for letter of credit		118,540
"	"	Guarantees for debenture issuance		33,953
"	SHC Management	Performance guarantees		94
			₩	158,875

(34) Segment Information

(a) The Consolidated Company has four reportable operating segments – providing corporations, governments, institutions and investors with commercial banking and financial products and services (the Banking business segment), credit card services and related businesses (the Credit Card business segment), securities trading, underwriting and brokerage services (the Securities business segment), life insurance and related businesses services (the Life Insurance segment). The following table provides information for each operating segment as of and for the years ended December 31, 2008 and 2007:

(in millions of Won)

	2008							Total
	Banking	Credit Card	Securities	Life Insurance	Others	Adjustment for Consolidation		
Gross operating revenue (*)	₩ 50,180,180	4,145,875	1,873,920	2,940,007	1,292,340	(656,716)	59,775,606	
Inter-segment transaction	151,532	136,610	12,005	7,928	332,476	(640,551)	-	
Net operating revenue	50,028,648	4,009,265	1,861,915	2,932,079	959,864	(16,165)	59,775,606	
Operating income	1,955,698	1,278,992	191,905	196,817	(52,817)	(538,238)	3,032,357	
Gross assets	222,152,906	17,075,577	7,314,651	9,786,645	30,525,474	(22,839,966)	264,015,287	



(in millions of Won)

	2007							Total
	Banking	Credit Card	Securities	Life Insurance	Others	Adjustment for Consolidation		
Gross operating revenue (*)	₩ 18,431,146	3,693,046	2,033,591	2,773,467	598,730	(890,458)	26,639,522	
Inter-segment transaction	411,741	31,589	12,726	17,049	117,397	(590,502)	-	
Net operating revenue	18,019,405	3,661,457	2,020,865	2,756,418	481,333	(299,956)	26,639,522	
Operating income	2,954,935	1,151,464	239,021	195,666	(137,063)	(666,608)	3,737,415	
Gross assets	182,079,996	16,880,921	6,686,033	8,776,599	28,789,258	(20,975,963)	222,236,844	

(*) Based on presentation in the Korean language consolidated financial statements, operating revenue and expense mainly consist of the following:

Operating revenue	Operating expense
Interest and dividend income	Interest expense
Gain on valuation and disposition of securities	Provision for credit losses
Gain on valuation and disposition of loans	Loss on valuation and disposition of securities
Gain on foreign currency transactions	Loss on valuation and disposition of loans
Commission income	Loss on foreign currency transactions
Fees and commissions from trust accounts	Selling and administrative expense
Gain on derivatives	Loss on derivatives

(b) The Consolidated Company conducts business globally and is managed geographically. The following table provides information for each geographical segment as of and for the years ended December 31, 2008 and 2007.

(in millions of Won)

	2008			
	Domestic	Oversees	Adjustment for consolidation	Total
Gross operating revenue	₩ 58,436,433	1,979,667	(640,494)	59,775,606
Inter-segment transaction	632,858	7,693	(640,551)	-
Net operation revenue	57,803,575	1,971,974	57	59,775,606
Operating income	3,442,829	127,766	(538,238)	3,032,357
Gross assets	278,315,802	8,539,451	(22,839,966)	264,015,287

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in millions of Won)

	2007			
	Domestic	Oversees	Adjustment for consolidation	Total
Gross operating revenue	₩ 26,694,205	538,247	(592,930)	26,639,522
Inter-segment transaction	567,934	22,568	(590,502)	-
Net operation revenue	26,126,271	515,679	(2,428)	26,639,522
Operating income	3,632,193	107,650	(2,428)	3,737,415
Gross assets	216,859,250	5,615,471	(237,877)	222,236,844

(35) Results of Operations for the Last Interim Period

(in millions of Won)

	2008		2007
		4 th Quarter	4 th Quarter
Operating revenue (*)	₩	23,148,507	7,287,140
Operating income (*)		512,121	248,752
Net income for the period		289,932	239,200
Net income – majority interest		283,724	225,728
Earnings per share		561	392
Diluted earnings per share in Won		558	391

(*) Based on presentation in the Korean language consolidated financial statements



(36) Events after the Balance Sheet Date

On December 15, 2008, the Consolidated Company acquired 9,000,000 shares or 100% of SH Asset Management stock from Shinhan Bank, a subsidiary of the Consolidated Company, at ₩158,511 million, in accordance with a resolution of the Board of Directors' meeting held on September 24, 2008. Effective January 1, 2009, SH Asset Management, a subsidiary of the Consolidated Company, was merged into Shinhan BNP Paribas ITMC, another subsidiary of the Consolidated Company, in accordance with a resolution of the extraordinary shareholders' meeting held on November 5, 2008. In connection with the merger, Shinhan BNP Paribas ITMC issued common stock to the Consolidated Company in exchange for SH Asset Management stock in the ratio of 0.786083. As a result, the Consolidated Company's ownership interest in Shinhan BNP Paribas ITMC increased from 50.00% to 73.47%. SH Asset Management merger was accounted for as a business combination between entities under common control, and had no effect on the Consolidated Company's results of operations. Furthermore, on January 2, 2009, the Consolidated Company disposed 1,276,162 shares of Shinhan BNP Paribas ITMC at ₩18,023 per share. As a result, the Consolidated Company's ownership interest in Shinhan BNP Paribas ITMC decreased to 65%.

On January 30, 2009, the Consolidated Company subscribed to and acquired 5,549,055 shares of Jeju Bank at ₩5,000 per share by way of rights issue. As a result, the Company's ownership interest in Jeju Bank increased from 62.42% to 68.88%.

In accordance with a resolution of the Board of Directors' meeting held on February 2, 2009, the Consolidated Company decided to issue 78,000,000 new common shares by way of rights issue. 15,600,000 shares (20% of the total new common shares to be issued) will be first offered to members of Employee Stock Ownership Association, and the remaining 62,400,000 shares (80% of the total new common shares to be issued) will be offered to existing shareholders as of the record date, which is February 18, 2009, in the ratio of 0.145244351 shares to 1 existing share.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(37) Condensed Financial Statements of the Consolidated Company

(a) Balance sheets

Condensed balance sheets of the consolidated company as of December 31, 2008 and 2007 were as follows:

(in millions of Won)

	2008		
	Total assets	Total liabilities	Total stockholders' equity
Controlling company and subsidiaries included in consolidation:			
Shinhan Financial Group	₩ 25,913,566	8,307,683	17,605,883
Shinhan Bank	213,569,099	201,621,217	11,947,882
Shinhan Bank (Trust)	3,727,077	3,727,077	-
Shinhan Asia	248,220	82,867	165,353
Shinhan Bank America	1,174,510	1,023,885	150,625
Shinhan Europe	367,794	291,461	76,333
Shinhan Khmer	70,387	44,813	25,574
Shinhan Kazakhstan	53,044	480	52,564
Shinhan Canada	31,149	-	31,149
Shinhan China	1,375,994	1,004,419	371,575
Shinhan Data System	6,733	1,806	4,927
Shinhan Aitas	14,874	2,161	12,713
Shinhan Card	17,075,577	13,420,864	3,654,713
Good Morning Shinhan Securities	7,315,710	5,605,646	1,710,064
Good Morning Shinhan Europe	7,655	109	7,546
Good Morning Shinhan USA	7,479	589	6,890
Good Morning Shinhan Asia	6,373	123	6,250
Shinhan Life Insurance	8,517,262	7,913,023	604,239
Shinhan Capital	4,007,727	3,643,671	364,056
Jeju Bank	2,887,688	2,715,839	171,849
Jeju Bank (Trust)	16,979	16,979	-
Shinhan Credit Information	16,344	2,077	14,267
Shinhan PE	21,834	10,822	11,012
Shinhan PEF 1 st	244,449	37,821	206,628
Shinhan PEF 2 nd	141,208	511	140,697
Symphony Energy	55,313	37,821	17,492
SHC Management (*)	12,419	3,520	8,899
SH Asset Management	98,169	7,729	90,440
Shinhan BNP Paribas ITMC	89,745	28,063	61,682
SH&C Life Insurance	1,269,383	1,194,741	74,642
Shinhan Macquarie	13,297	16,840	(3,543)
	₩ 288,357,058	250,764,657	37,592,401

(*) Subsidiary accounted for under the equity method.



(in millions of Won)

	2007		
	Total assets	Total liabilities	Total stockholders' equity
Controlling company and subsidiaries included in consolidation:			
Shinhan Financial Group	₩ 25,327,528	7,349,727	17,977,801
Shinhan Bank	175,105,888	163,786,456	11,319,432
Shinhan Bank (Trust)	3,744,459	3,744,459	-
SH Asset Management	98,169	7,729	90,440
Shinhan Asia	162,647	79,591	83,056
Shinhan Bank America	860,976	767,899	93,077
Shinhan Europe	289,014	245,809	43,205
Shinhan Khmer	34,261	22,936	11,325
Shinhan Corporate Restructuring Fund 7 th	6,283	152	6,131
Shinhan Card	16,880,921	12,774,539	4,106,382
Good Morning Shinhan Securities	6,685,978	5,101,887	1,584,091
Good Morning Shinhan Europe	8,086	58	8,028
Good Morning Shinhan USA	6,013	1,023	4,990
Good Morning Shinhan Asia	4,495	2	4,493
Shinhan Life Insurance	7,410,857	6,906,130	504,727
Shinhan Capital	2,963,306	2,644,916	318,390
Jeju Bank	2,772,223	2,627,781	144,442
Jeju Bank (Trust)	362,017	362,017	-
Shinhan Credit Information	16,785	4,420	12,365
Shinhan PE	15,826	5,217	10,609
Shinhan PEF 1 st	380,283	-	380,283
Symphony Energy	49,484	33,234	16,250
SHC Management (*)	1,213,708	127,058	1,086,650
Shinhan BNP Paribas ITMC	89,745	28,063	61,682
SH&C Life Insurance	1,365,741	1,315,411	50,330
Shinhan Macquarie	18,017	10,950	7,067
	₩ 245,872,710	207,947,464	37,925,246

(*) Subsidiary accounted for under the equity method.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(b) Statements of Income

Condensed statements of income of the Consolidated Company for the years ended December 31, 2008 and 2007 were as follows:

(in millions of Won)

Subsidiaries	2008				
	Operating revenue	Operating expense	Operating income (loss)	Ordinary income (loss)	Net income (loss)
Controlling company and subsidiaries included in consolidation:					
Shinhan Financial Group	₩ 2,455,917	442,907	2,013,010	2,013,975	2,020,398
Shinhan Bank	49,507,280	47,601,469	1,905,811	1,903,136	1,446,727
Shinhan Bank (Trust)	241,719	234,505	7,214	-	-
Shinhan Asia	18,010	15,586	2,424	2,719	1,936
Shinhan Bank America	81,376	81,071	305	228	288
Shinhan Europe	31,069	20,751	10,318	10,502	7,152
Shinhan Khmer	4,250	2,875	1,375	1,612	1,591
Shinhan China	57,095	57,972	(877)	4,020	3,215
Shinhan Data System	21,914	20,432	1,482	1,586	1,283
Shinhan Aitas	16,802	13,011	3,791	4,118	2,011
Shinhan Card	4,145,875	2,866,883	1,278,992	1,324,375	940,575
Good Morning Shinhan Securities	1,872,657	1,681,118	191,539	209,409	156,301
Good Morning Shinhan Europe	1,518	1,788	(270)	(278)	(278)
Good Morning Shinhan USA	2,970	2,573	397	398	177
Good Morning Shinhan Asia	2,111	1,873	238	238	238
Shinhan Life Insurance	2,859,518	2,667,093	192,425	186,394	139,234
Shinhan Capital	638,879	549,933	88,946	88,292	66,132
Jeju Bank	218,625	186,382	32,243	30,767	22,124
Jeju Bank (Trust)	2,050	2,050	-	-	-
Shinhan Credit Information	26,429	24,699	1,730	2,401	1,902
Shinhan PE	5,277	3,198	2,079	1,051	394
Shinhan PEF 1 st	174,514	198,562	(24,048)	(24,153)	(25,586)
Shinhan PEF 2 nd	758	3,003	(2,245)	10,977	10,977
Symphony Energy	127,535	121,449	6,086	(1,539)	(2,016)
SHC Management (*)	9,212	1,897	7,315	26,256	18,968
SH Asset Management	40,441	20,005	20,436	19,949	14,330
Shinhan BNP Paribas ITMC	95,092	56,178	38,914	38,910	28,155
SH&C Life Insurance	81,363	81,373	(10)	4,138	4,600
Shinhan Macquarie	11,668	23,791	(12,123)	(11,704)	(9,790)
	₩ 62,751,924	56,984,427	5,767,497	5,847,777	4,851,038

(*) Subsidiary accounted for under the equity method.



(in millions of Won)

Subsidiaries	2007				
	Operating revenue	Operating expense	Operating income (loss)	Ordinary income (loss)	Net income (loss)
Shinhan Financial Group	₩ 2,749,536	375,344	2,374,192	2,373,715	2,396,377
Shinhan Bank	17,797,848	14,886,630	2,911,218	2,854,911	2,051,302
Shinhan Bank (Trust)	189,651	185,413	4,238	-	-
SH Asset Management	35,097	12,204	22,893	22,505	16,449
Shinhan Asia	15,150	7,575	7,575	7,431	7,017
Shinhan Bank America	53,112	46,762	6,350	6,415	3,965
Shinhan Europe	19,682	13,879	5,803	5,803	3,387
Shinhan Khmer	262	797	(535)	(871)	(871)
Shinhan Corporate Restructuring Fund 7 th	277	156	121	176	176
Shinhan Card	2,877,869	1,958,967	918,902	1,059,939	1,487,612
Good Morning Shinhan Securities	2,028,956	1,790,645	238,311	252,697	176,776
Good Morning Shinhan Europe	1,201	1,236	(35)	(35)	(35)
Good Morning Shinhan USA	3,335	2,277	1,058	1,063	600
Good Morning Shinhan Asia	99	412	(313)	(313)	(313)
Shinhan Life Insurance	2,681,556	2,506,318	175,238	183,498	132,033
Shinhan Capital	265,097	204,078	61,019	65,015	49,157
Jeju Bank	188,220	169,714	18,506	18,393	14,291
Jeju Bank (Trust)	1,890	1,838	52	-	-
Shinhan Credit Information	27,902	24,888	3,014	3,369	2,110
Shinhan PE	2,771	2,132	639	301	174
Shinhan PEF 1 st	1,797	15,184	(13,387)	(13,387)	(13,387)
Symphony Energy	36,910	35,361	1,549	1,409	1,317
SHC Management (*)	807,588	587,698	219,890	235,045	169,100
Shinhan BNP Paribas ITMC	73,680	44,479	29,201	29,349	21,303
SH&C Life Insurance	91,871	71,542	20,329	15,629	10,567
Shinhan Macquarie	28,335	17,847	10,488	10,641	7,641
	₩ 29,979,692	22,963,376	7,016,316	7,132,698	6,536,748

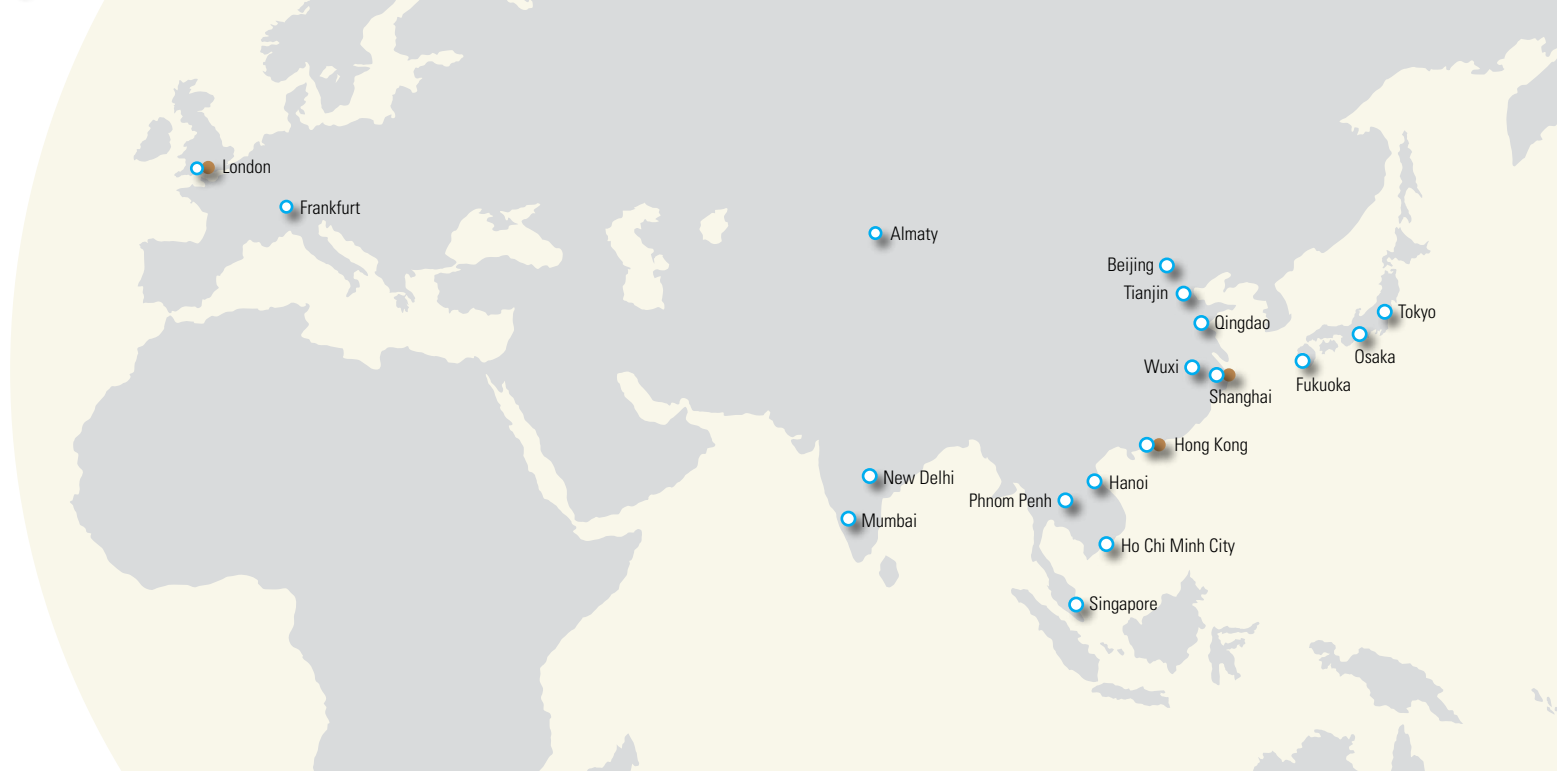
(*) Subsidiary accounted for under the equity method.

Directory

“
Operating the 2nd largest overseas network
among Korean financial institutions
with 11 subsidiaries and 36 branches in 13 countries.
”

○ Shinhan Bank

● Good Morning Shinhan Securities



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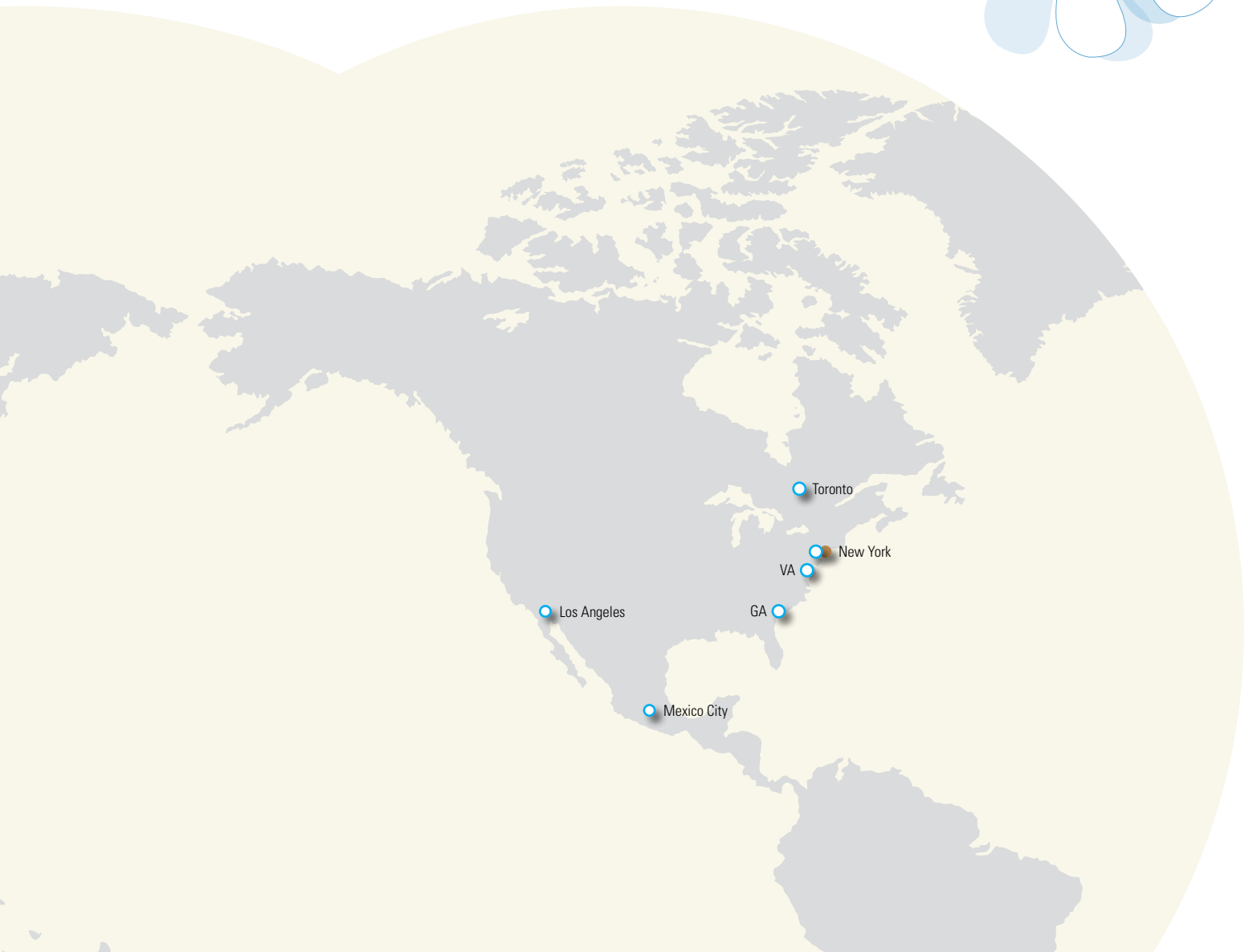
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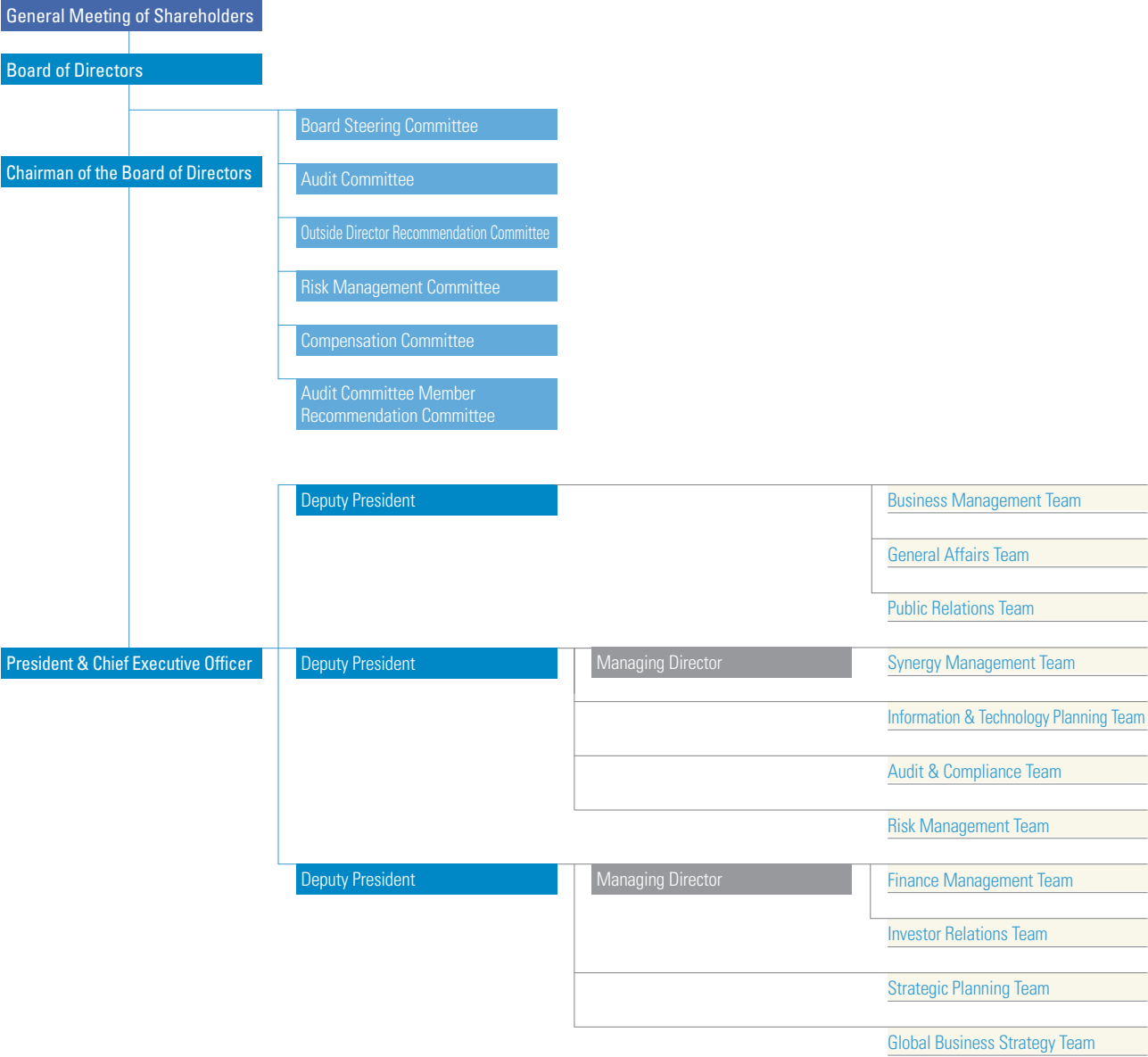
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Forward-Looking Statements

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Shinhan Financial Group's 2008 Annual Report may contain forward-looking statements to provide value-added account of Shinhan Financial Group's businesses and results of operations. These forward-looking statements reflect our current views with respect to future events and performance, and are generally identified by the use of forward-looking terminology, such as "expect", "plan", "intend", and similar expressions. You are cautioned not to place undue reliance in these forward-looking statements, which reflect management's current analysis of future events. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.



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