

SHINHAN
FINANCIAL GROUP
ANNUAL REPORT
2010

Delivering Tranquility



SHINHAN FINANCIAL GROUP

Share Information

Number of Shares Issued

As of December 31, 2010

| Type of Stock | No. of Shares |
|---|--------------------|
| Registered common stock | 474,199,587 |
| Registered redeemable preferred stock | 28,990,000 |
| Registered convertible redeemable preferred stock | 14,721,000 |
| Total Assets | 517,910,587 |

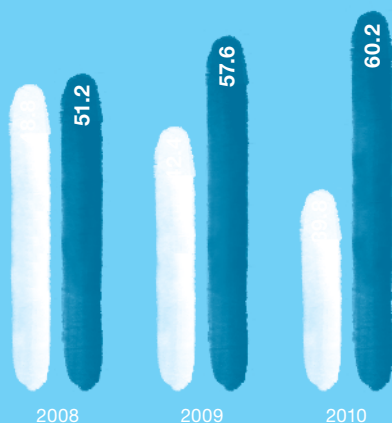
Stock Performance (Common Stock)

| | 2010 | 2009 |
|-----------------------------------|---------------------------|--------------------|
| Average Daily Trading Volume | 1.8 million shares | 3.2 million shares |
| Share Price high | ₩ 53,600 | ₩ 49,550 |
| Share Price Low | ₩ 39,250 | ₩ 20,500 |
| Share Price (Year End) | ₩ 52,900 | ₩ 43,200 |
| Market Capitalization (Year End) | ₩ 25.1 trillion | ₩ 20.5 trillion |
| Weighting in the KOSPI (Year End) | 2.2% | 2.3% |
| Dividend Per Share | ₩ 750 | ₩ 400 |
| Dividend Paid | ₩ 356 billion | ₩ 190 billion |

Share Ownership (%)

 Domestic

 Foreign



Shareholders holding ownership of more than 1%

As of December 31, 2010

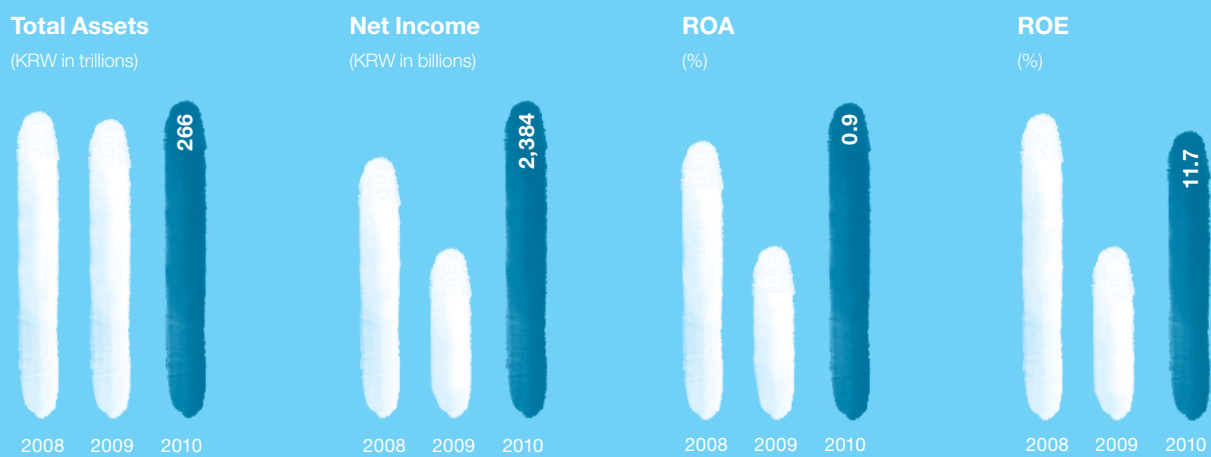
| Name of Shareholder | % Owned |
|--|----------------|
| BNP Paribas Group | 6.35% |
| National Pension Service | 6.11% |
| CITIBANK.N.A (ADR DEPT) | 4.08% |
| SFG Employee Stock Ownership Association | 3.59% |
| Saudi Arabian Monetary Agency | 2.80% |
| The Lazard Fund Inc. | 2.53% |
| Mirae Asset Investments Co., Ltd. | 1.72% |
| The Government of Singapore | 1.35% |
| Mizuho | 1.26% |
| Samsung Life Insurance | 1.14% |
| Daekyo Co., Ltd. | 1.07% |
| Others | 68.00% |
| Total | 100.00% |

Financial Highlights

| | 2010 | 2009 | change amount | % change |
|--|---------|---------|---------------|----------|
| For the Year (KRW in billions) | | | | |
| Operating Income Before Provisioning | 4,342.5 | 3,741.9 | 600.6 | 16.1% |
| Net Income | 2,383.9 | 1,305.3 | 1,078.6 | 82.6% |
| As of Year End (KRW in trillions) | | | | |
| Total Assets | 266.0 | 255.0 | 11.0 | 4.3% |
| Total Loans | 176.9 | 167.0 | 9.9 | 6.0% |
| Total Deposits | 153.1 | 147.7 | 5.3 | 3.6% |
| Total Stockholders' Equity | 22.7 | 20.7 | 2.0 | 9.6% |
| Key Financial Ratios | | | | |
| ROA | 0.9% | 0.5% | 0.4%p | |
| ROE | 11.7% | 6.8% | 4.9%p | |
| Group Net Interet Margin | 3.5% | 3.0% | 0.5%p | |
| Cost-to-Income Ratio | 49.3% | 51.5% | -2.2%p | |
| Cost-to-Income Ratio excluding Goodwill Amortization | 42.7% | 46.0% | -3.3%p | |
| NPL (Substandard and Below Loans) Ratio | 1.4% | 1.3% | 0.1%p | |
| NPL Coverage Ratio | 137% | 157% | -20.0%p | |
| Group BIS Ratio | 12.8% | 12.6% | 0.2%p | |
| Shinhan Bank BIS Ratio | 15.9% | 15.1% | 0.8%p | |
| (Tier 1 Ratio) | 13.2% | 11.6% | 1.6%p | |
| BPS (KRW) | 40,550 | 36,256 | 4,294 | 11.8% |
| EPS (KRW) | 4,461 | 2,324 | 2,137 | 92.0% |

Credit Ratings

| | | S&P | Moody's | Fitch | JCR |
|---------------------|------------|------|---------|-------|-----|
| Shinhan Bank | Long Term | A- | A1 | A | - |
| | Short Term | A2 | P1 | F1 | - |
| Shinhan Card | Long Term | BBB+ | - | A- | A |
| | Short Term | A2 | - | F2 | - |





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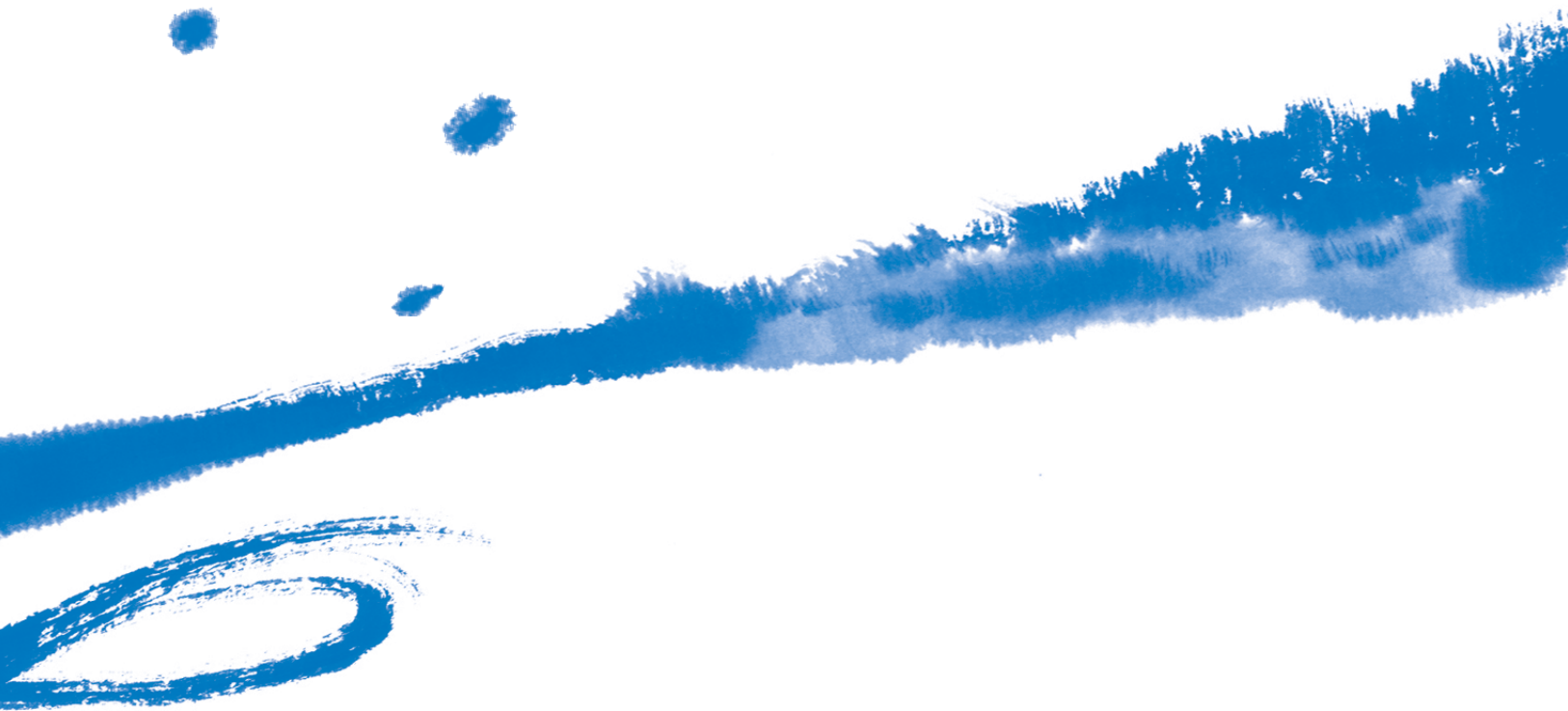
Delivering Tranquility

A value of a company is enhanced when the company is able to deliver customers and shareholders greater satisfaction. That is why Shinhan Financial Group has developed a comprehensive lineup of financial services to meet diversified needs of customers and shareholders. But in 2010, we have learned that beside these products and strong financial performance, our customers and shareholders deserves something more fundamental, that is, a peace of mind and a state of tranquility built upon trust and faith. We will do our best to comfort our customers and shareholders. Shinhan Financial Group will remain steadfast and committed.



To Reassure Customers

We understand why customers choose Shinhan Financial Group as their financial institution. They are in need of a place where they can place their wealth, a safe haven where they can put their minds at ease knowing that it is safe and secured. Aware of the trust and loyalty which Shinhan Financial Group has received, we want to recompense our customers with the very best of products and services. There is nothing second to the happiness of our customers.





To Earn Shareholder & Investor Trust

The track of a pioneer serves as a milestone to those who follow. Our steps, as the top financial brand, will set the future paradigm, and that is why we take the voice of our shareholders importantly, and share our thoughts and opinions to point for a better direction in our journey. Shinhan Financial Group is committed to realizing balanced growth and harmonious operation, for such is the cornerstone for fulfilling obligations toward shareholders and earning trust from them.





To Prepare for New Challenges

Nature brings about relentless change even in places unseen,
like the sprouts that push up through frozen soil. Shinhan Financial Group is also changing
and innovating constantly to find new growth engines that can pave the way for breakthroughs.

New future lies within the quiet changes taking place at Shinhan Financial Group,
like tiny sprouts filled with life-generating vitality.



To Help Shape a Happier, Better World

The true meaning of life can be learned by sharing with neighbors.

Likewise, the true value of a corporation is found among its society.

Shinhan Financial Group has revamped the CSR program to fulfill the role and obligations of a corporate citizen, thereby helping to make our society a happier and better place for all. We aspire to be a shining beacon for our society.



CHAIRMAN'S MESSAGE



Shinhan Financial Group will forge ahead with a new resolve, never forgetting that the interests of customers and shareholders are fundamental to its own sustained growth.

To Our Customers and Shareholders:

It is an honor for me to represent Shinhan Financial Group to our customers and shareholders on our annual reports for 2010.

I assumed the position of chairman in the wake of the greatest crisis for Shinhan Financial Group following the events that unfolded in the autumn of 2010 to right what has been wronged and restore the values of our organization that has enabled its spectacular growth for the past 29 years.

Shinhan has built its reputation as a clean and fair financial institution which respects and serves its customers since founding. Last year's incidents have eroded some of the trust and loyalty of our customers, and I am fully aware of such a loss which would be swiftly dealt with under new management and board directors.

I will personally oversee implementations measures for modernizing our governance structure befitting its stature as Korea's premier financial institution, and at the end of this process, we hope to regain your trust.

Shinhan Financial Group will forge ahead with a new resolve, never forgetting that the interests of customers and shareholders are fundamental to its own sustained growth.

Our 2010 Business Results

Looking back, 2010 was a year where the global economy was on a recovery track, though the pace of recovery varied by region and country.

Emerging economies, as a whole, experienced a stronger pulse and velocity compared to the advanced nations. In fact, the issue for some emerging economies was deciding the right timing to exercise exit strategies, may that be discontinuing government subsidies or raising interest rate, most of which are designed to reduce excessive liquidity that leads to an inflationary pressure.

Korea was one of those emerging countries on the better end. Specifically, the exports sector remained robust and led the recovery. Concerns regarding inflation were escalating within Monetary Board members of the Bank of Korea, and they decided to raise interest rate in late 2010. While there were some constraints, such as burden remaining from the restructuring of distressed companies, the business environment in general was favorable to our operations.

As a result, in 2010, we posted more than KRW 2.38 trillion in net profit, delivering the best performance in the industry and exceeding our peers for three consecutive years. The earnings

KRW
2.38 trillion

We posted more than KRW 2.38 trillion in net profit, delivering the best performance in the industry and exceeding our peers for three consecutive years.

recovery from banking operations was the primary contributor, as they recorded more than KRW 1.66 trillion in net profit, mainly due to solid growth in corporate and household loans with improved interest rate environment for loan pricing. Adding to this, the non-banking business units continued to deliver sound performance for two consecutive years, recording in aggregate KRW 1.54 trillion of net profit.

Based on the reading of the economy (on its recovery mode), our Group took the lead in increasing loans one step ahead of others. Specifically, during the second half of 2010, loans in Korean Won grew by 3.8% totaling 5% growth for 2010, compared to the 1.5% in 2009. This growth topped the industry, allowing us to build a firm footing to continuously increase interest income.

In terms of asset quality, the non-performing loan (NPL) ratio of the Group marked 1.43% as of end of 2010 based on prudent and pre-emptive risk management system of the Group. The established risk management standards were further refined, while bad assets were controlled and appropriately written off from our books.

52:48

Net income contribution of bank vs non-banking subsidiaries stood at 52:48 in 2010, demonstrating once more the strength of our well-diversified business portfolio.

Net income contribution of bank vs non-banking subsidiaries stood at 52:48 in 2010, demonstrating once more the strength of our well-diversified business portfolio. Improved asset quality and profitability in the banking sector led the rebound in profit for the year. The non-banking operations helped to bolster the Group's income structure by focusing on improving competitiveness and growth.

Growth Strategy in Response to Rapid Change

Shinhan has placed efficiency and financial soundness on top of its priority list, and these values were essential to the success of our institution. A sustainable success, however, is a continuum. It is reserved for those who do not fall complacent with their accomplishments and consistently look for areas of further improvement to stay ahead of the competition. As such, it is crucial that we understand the changing needs of customers, develop core competency to produce distinguished product and services, and refine the platform and infrastructure to offer easy access to customers.

We will cultivate the competencies required to remain as the trend-setter in the rapidly evolving financial landscape. Most notably, information and communication technologies are advancing at a blistering pace, giving rise to the new "digital finance" market. Mobile media are being increasingly applied in our industry, and new technologies are entering our ordinary lives.

By closely monitoring these trends, we will assess how they will reshape the financial industry. Based

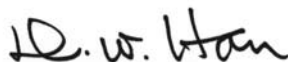
on these readings, we will direct our efforts to strive and emerge as a true market leader in the 21st century. For instance, timely and sufficient investment will be made in the convergence of financial and communication industries, where we see a new growth opportunity to emerge.

Meanwhile, we will continue to expand into overseas markets. Shinhan Financial Group has already made various attempts to expand offshore, and as a result, there are some areas in Asia where we have successfully established a presence. From these cases, we have learned that globalization requires endurance and long-term investment. Therefore, we will select strategic target regions and combine our strength and efforts into those areas to continue our global expansion.

The success of all these endeavors depends primarily on our ability to attract and cultivate people who are both capable on their jobs and ethical in their conduct. We have established in-house human resources development programs, enabling talented employees to realize their career aspirations to the fullest. At the same time, we will scout for talents, seasoned professionals who cover areas that require special expertise.

Most importantly, the management of Shinhan and I will remain open to suggestions, advice and opinion from shareholders and customers. I admit that there were trial and errors in the past, and from here on, there may be some areas that would require more preparation. Your voice will aid us in learning from our past mistakes and establishing a better practice for our Group. Based on recent experience and suggestions, we are in the process of reconfiguring our corporate governance structure and establishing a transparent succession plan to meet higher standards and to align with the long-term interest of shareholders. Also, fully understanding the role we play in our society, we are determined to properly fulfill our social obligations as a healthy corporate citizen.

Every year we are presented with a different set of challenges. However, we have always managed not only to prevail and prosper, but to excel beyond expectations, which I believe is the strength of the people of Shinhan. I have no doubt that the passion for work, deep sense of responsibility, and dedication, together with the unwavering support of our shareholders and customers will help create another chapter in the success story of Shinhan. I ask for your continued support and participation as we take long strides in this journey.



DONG WOO HAN

Chairman & CEO

BOARD OF DIRECTORS & MANAGEMENT

The Board of Directors of Shinhan Financial Group is currently composed of 12 directors: 1 executive director, 1 non-executive director and 10 outside directors. The Chairman of the Board is Mr. Hoon Namkoong, who was appointed by the BOD among the 10 outside directors on March 23, 2011.

Executive Director

DONG WOO HAN

Date of Birth : November 10, 1948

Current Position : Chairman &

CEO, Shinhan Financial Group

Education : LL.B., College of Law,
Seoul National University,
Seoul, Korea

Main Work Experience :

2007 Vice Chairman,
Shinhan Life Insurance
2002 Chief Executive Officer,
Shinhan Life Insurance
1999 Vice President,
Shinhan Bank

Non-Executive Director

JIN WON SUH

Date of Birth : April 20, 1951

Current Position : President &

CEO, Shinhan Bank

Education : BA in Historical
Science, Korea University,
Seoul, Korea

Main Work Experience :

2007 Chief Executive Officer,
Shinhan Life Insurance
2006 Deputy President,
Shinhan Financial Group
2004 Deputy President,
Shinhan Bank

Outside Directors

HOON NAMKOONG

Date of Birth : June 26, 1947

Current Position : Chairman of the

BOD, Shinhan Financial Group

Outside Director, Samsung
Electro-Magnetics Co., Ltd.

Education : M.A. in Public
Administration, University of
Wisconsin at Madison, USA

Main Work Experience :

2009 Outside Director,
KORAMCO (Korea Real
Asset Management
Company)
2005 Chairman, Korea Life
Insurance Association
1999 Chairman and
President, Korea
Deposit Insurance
Corporation

TAE EUN KWON

Date of Birth : January 29, 1941

Current Position : Professor,
Nagoya University of Foreign
Studies

Education : Ph.D. in Business
Administration, Nanzan
University, Nagoya, Japan

Main Work Experience :

1997 Committee member,
Korean Residents'
Union HQ in Japan
1983 Chief Executive Officer,
Nam Bu Ham Co., Ltd

KEE YOUNG KIM

Date of Birth : October 7, 1937

Current Position : President,

Kwangwoon University

Education : Ph.D. in Business
Administration, Washington
University, St. Louis, USA

Main Work Experience :

2004 Outside Director, GS
Holdings Corp
2003 Outside Director, KTB
Networks
2000 Dean, Graduate School
of Information,
Yonsei University

SEOK WON KIM

Date of Birth : April 29, 1947

Current Position : Chairman, Credit
Information Companies
Association

Education : Ph.D. in Economics,
Kyung Hee University,
Seoul, Korea

Main Work Experience :

2006 Chairman, Korea
Federation of Savings
Banks
2005 Outside Director,
Woori Bank
2002 Vice President,
Korea Deposit
Insurance Corporation



Management of the Company includes current Chairman & CEO the Group, Mr. Dong Woo Han, 1 deputy president, and 3 executive vice presidents.

JAEKUN YOO

Date of Birth : August 24, 1941

Current Position : Chairman,
Sankeihonsha Co., Ltd.

Main Work Experience :

- 1998 Non-executive Director,
Shinhan Bank
- 1997 Chairman of Korean-
Japanese Chamber of
Commerce in Tokyo

KE SOP YUN

Date of Birth : May 20, 1945

Current Position : Emeritus
Professor, College of Business
Administration, Seoul
National University

Education : Ph.D. in Business
Administration, Seoul National
University, Seoul, Korea

Main Work Experience :

- 2001 Chairman, Seoul
Economist Club
- 1999 Dean, College of Business
Administration, Seoul
National University
- 1997 Member, Financial
Renovation Committee

JUNG IL LEE

Date of Birth : August 28, 1952

Current Position : CEO, Hirakawa
Shoji Co., Ltd. (Kanagawa, Japan)

Education : BA in Political Science &
Economics, Meiji University,
Tokyo, Japan

Main Work Experience :

- 2009 Outside Director, Shinhan
Financial Group
- 1990 CEO, Hirakawa
Shoji Co., Ltd

SUN TAE HWANG

Date of Birth : October 11, 1948

Current Position : Of Counsel, LOGOS
Law, LLC

Education : LL.M, Graduate School of
Law, Seoul National University,
Seoul, Korea

Main Work Experience :

- 2005 Representative Attorney,
LOGOS Law, LLC
- 2004 Chief Prosecutor, Seoul
Eastern District
Prosecutors' Office

HARUKI HIRAKAWA

Date of Birth : November 7, 1964

Current Position : CEO, Kokusai
Kaihatsu Co., Ltd

Education : BA in Political Science &
Economics, Kinki University,
Osaka, Japan

Main Work Experience :

- 2006 CEO, Shinei Shoji Co., Ltd
- 1994 CEO, Hirakawa Shoji Co.,
Ltd (Osaka, Japan)

PHILIPPE AGUIGNIER

Date of Birth : September 26, 1957

Current Position : Head of Retail
Banking for Asia,
BNP Paribas

Education : Ph.D. in Far Eastern
Studies, Universite Paris III
(Inalco), France

Main Work Experience :

- 2006 Head of Retail Banking
for China, BNP Paribas
- 2002 Head, BNP Paribas Group
Investor Relations and
Financial Information

Deputy President

BUHMSOO CHOI

Date of Birth : August 8, 1956

Current Position : Deputy President &
CFO, Shinhan Financial Group

Education : Advanced Management
Program, Harvard Business School
Ph.D. in Economics,
Yale University, USA

Main Work Experience :

- 2005 Chief Operating Officer,
Korea Credit Bureau
- 2004 Head of Acquisition
Steering Committee,
Kookmin Bank
- 2004 Chairman & Secretary
General, CB Launching
Office

Executive Vice Presidents

JAE GWANG SOH

Date of Birth : August 15, 1961

Current Position : Executive Vice President,
Shinhan Financial Group

Education : MBA, University of Rochester,
New York, USA
BA in Business Administration, Korea
University, Seoul, Korea

Main Work Experience :

- 2009 Deputy President,
Shinhan Card
- 2007 Managing Director,
Shinhan Card
- 2003 Controller, LG Card

JUNG KEE MIN

Date of Birth : March 13, 1959

Current Position : Executive Vice President,
Shinhan Financial Group

Education : Master of Trade Business,
Seoul National University,
Seoul, Korea

Main Work Experience :

- 2009 General Manager of GS Tower
Corporate Finance Center,
Shinhan Bank
- 2008 General Manager of Strategic
Planning Team, Shinhan
Financial Group

DONG HWAN LEE

Date of Birth : September 18, 1959

Current Position : Executive Vice President,
Shinhan Financial Group

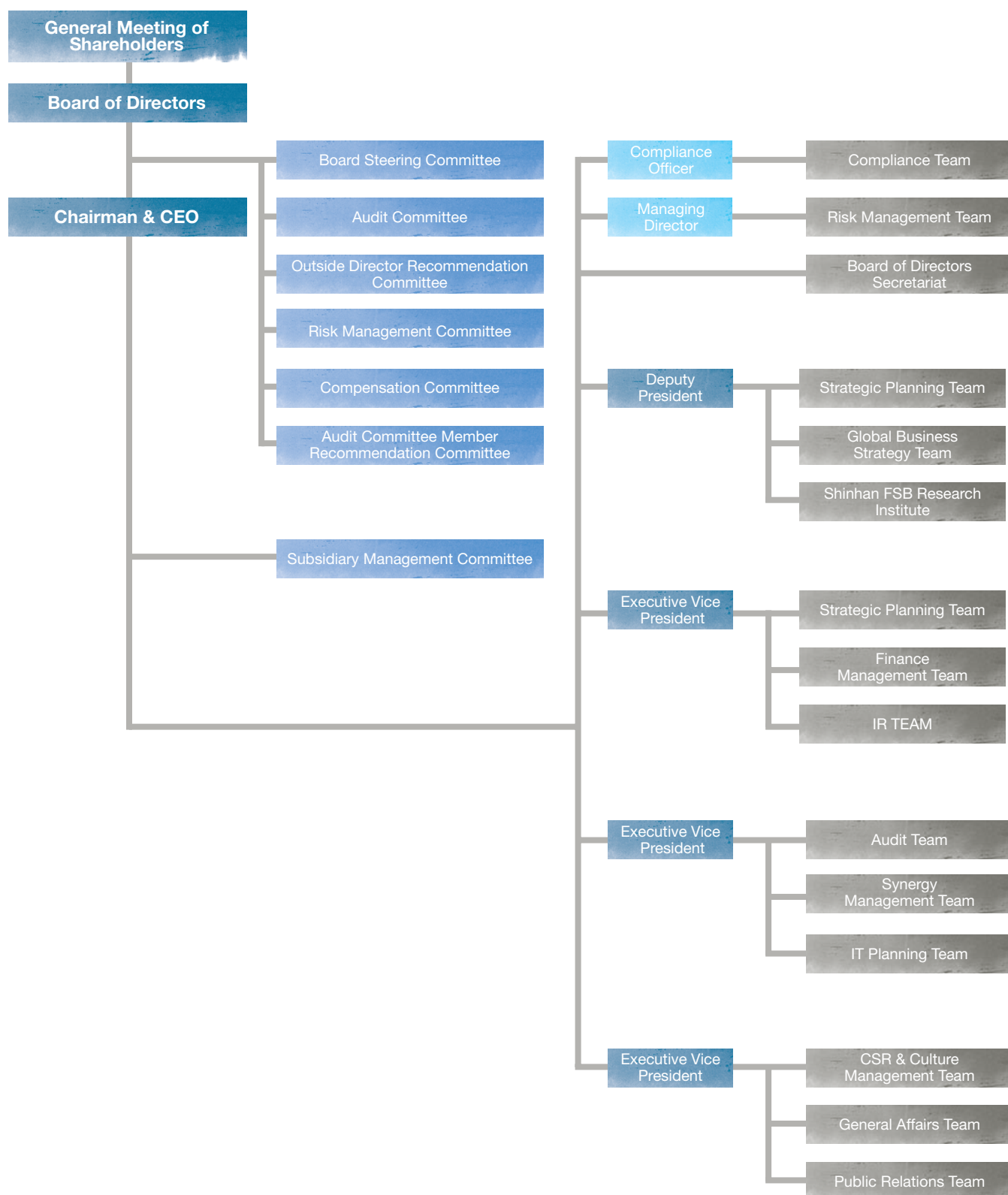
Education : MBA, Duke University,
Durham, USA
BA in Business Administration, Yonsei
University, Seoul, Korea


Main Work Experience :

- 2009 Head of Capital Market Trading
Division, Shinhan Bank
- 2007 General Manager of Yeouido
Financial Center, Shinhan Bank
- 2005 Head of IR, Shinhan Financial
Group

ORGANIZATION

(as of April, 2011)





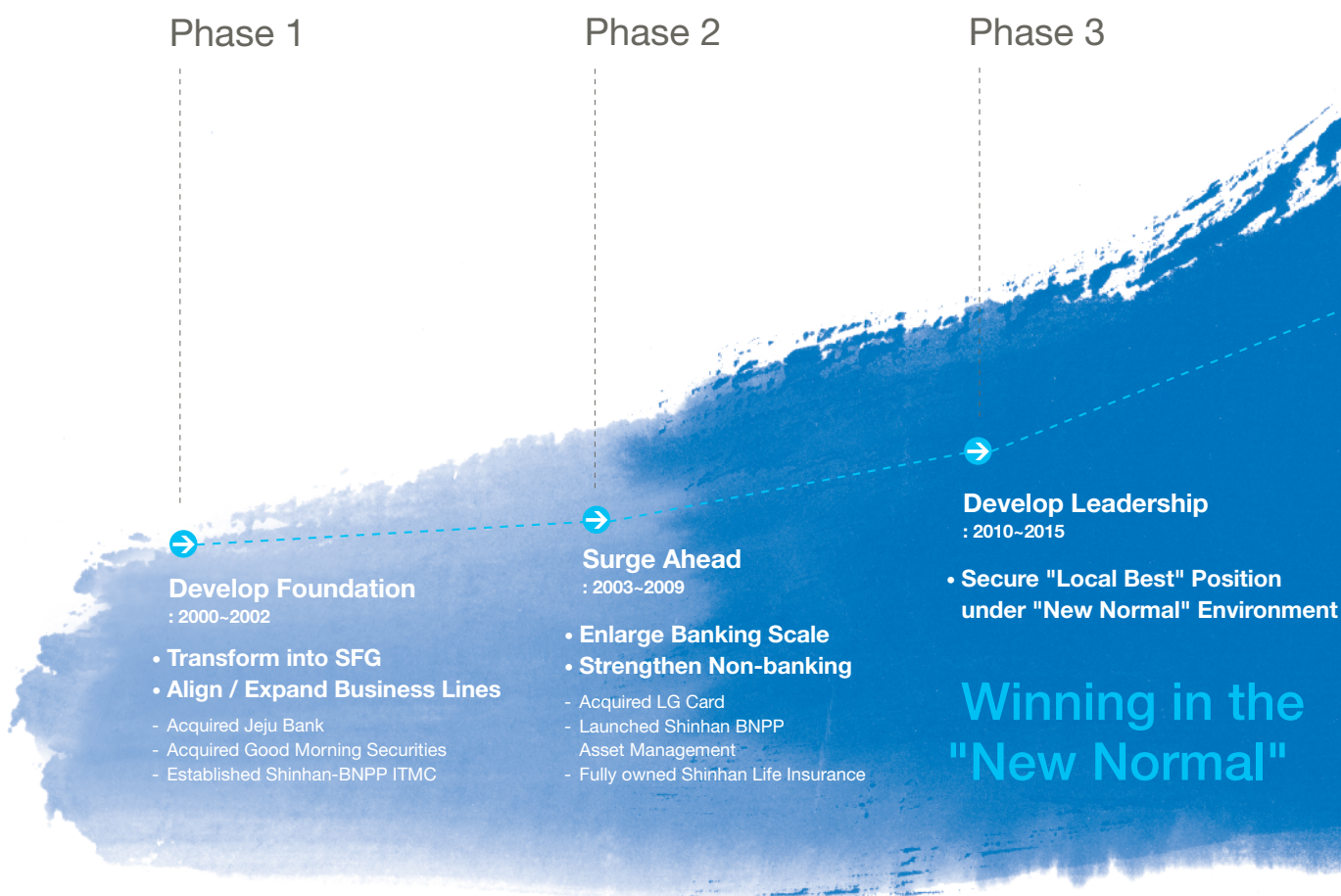
Once an organization and its members align its force in one direction, the growth of a corporation runs in full gear. Based on our leading corporate culture coined “Shinhan Way”, we will find new growth engines, differentiate our business model, and build competencies and systems that meet the global standard. Today, we are making giant strides toward our goal of being a financial group of the highest order.

SFG Overview

VISION & STRATEGY

Since founding, Shinhan Financial Group has strived to accomplish balanced growth in the banking and non-banking sectors, identify new growth engines and further differentiate its business models, in order to achieve its vision of becoming a World Class Financial Group.

Vision 2015





Achieve Vision 2015

No.1

World-class
Financial
Group

Group's Mid to long-term Strategic Direction: "Winning in the New Normal, 2015"

The so-called "new normal" business environment emerged in the wake of the global financial crisis. It is characterized by stricter regulations, greater emphasis on financial soundness, a reduction in liabilities, a stronger movement toward low-growth and low-profitability in advanced markets, and rapid growth in emerging markets, particularly in Asia.

In step with these trends, we have set "Establish Korea's No. 1 Financial Brand" as our strategic goal through 2015, which will help us achieve our corporate vision of "Emerging as a World-class Financial Group." In terms of business performance, our goals are to (1) outperform the market average growth rates (Good Growth), (2) achieve high profitability (ROA of at least 1%) by maintaining financial soundness, and (3) build a balanced portfolio for solid profit generation. As for our competencies, we will strive to (1) stay a step ahead of the market and competition and be the one that sets the rules for the new game, (2) command respect from customers, and (3) be the place where talented people want to work. To achieve these strategic goals, we have set the following key missions:

First, Secure 'Local Best' in Core Business

We aim to be positioned as Korea's best financial institution by achieving quantitative growth befitting our No.1 position and raising our brand recognition qualitatively. Moreover, we will provide an outstanding customer experience which cannot be easily imitated by our competitors. To this end, our banking units will focus on securing the unrivalled No. 1 position, our credit card subsidiary will strengthen market dominance through refined products and services, and our leasing subsidiary will develop a differentiated competitive advantage that will drive sustainable growth.

Second, Strengthen Non-interest Income Portfolio

We will strengthen the portfolio of non-interest income sources, including securities brokerage, asset management and insurance—all areas of great strategic importance. We will establish a virtuous circle of distribution and

SFG OVERVIEW

manufacturing in the securities business by strengthening the asset management function. Moreover, our ability to develop new asset management products will be leveraged to create continuous customer value, positioning our brand as the leader in the asset management area. In the insurance business, meanwhile, we will continue striving to rank among Korea's leaders by achieving solid organic growth and seeking consolidation opportunities.

Third, Create Customer-oriented Synergy for Next Generation

We will upgrade our services and lead the market by generating Group synergy, providing our customers with integrated solutions tailored to their lifestyles. To this end, we will maximize synergy by providing services not just through conventional face-to-face channels but also via electronic channels (online, ATMs, etc.). We will also improve the Group's wealth management competencies by employing a Group-wide CRM approach that customizes services for different customer categories. Moreover, building a shared Group-wide service platform will minimize costs.

Fourth, Gain Competitiveness in Areas of Potential Strategic Importance

The Korean financial industry is maturing and entering the low-growth stage. Therefore, we will select areas of potential strategic importance and remain competitive in them. Moreover, we will reorganize our IB business model to raise competitiveness and continue to implement our global strategy, focusing primarily on the Asian market. In addition, we will continue to find new business opportunities such as markets for converged services with telecommunications.

2011 Management Plan and Strategy

The source of our competitiveness over the past three decades can be labeled "Shinhan 1.0," but now we must upgrade it to "Shinhan 2.0." This refers to a platform for future growth based on sharing, openness and participation. SFG is committed to building this Shinhan 2.0 platform during 2011. The prerequisites for our success in this task are: (1) a sustainable organization that operates in accordance with a systematic

management mechanism, (2) an open and creative corporate culture that embraces diversity, (3) a rational decision-making system that capitalizes on collective intelligence, (4) a community with expanded communication channels and domains, and (5) self-motivation to invigorate the organization. To this end, SFG will carry out the four key missions:

Mission 1. Regain Trust

Regaining trust from our customers, shareholders, business partners, employees and society is one of our priorities. We will strengthen our marketing efforts to retain customers and implement various morale-boosting programs for employees. Moreover, we will consistently pursue a "win-win" policy as a responsible corporate citizen, thereby building up our social capital.

Mission 2. Secure Growth Momentum

Market reorganization is changing the competitive environment and making it fiercer. We will develop new systems, products and services in response so that we can take an early lead in a converging industry and be the first mover in mobile finance. To create customer-oriented synergy, we will establish synergy management models and jointly develop products. In addition, the synergy effect will be maximized by selecting key customers and implementing marketing activities for them.

Mission 3. Invest in the Future

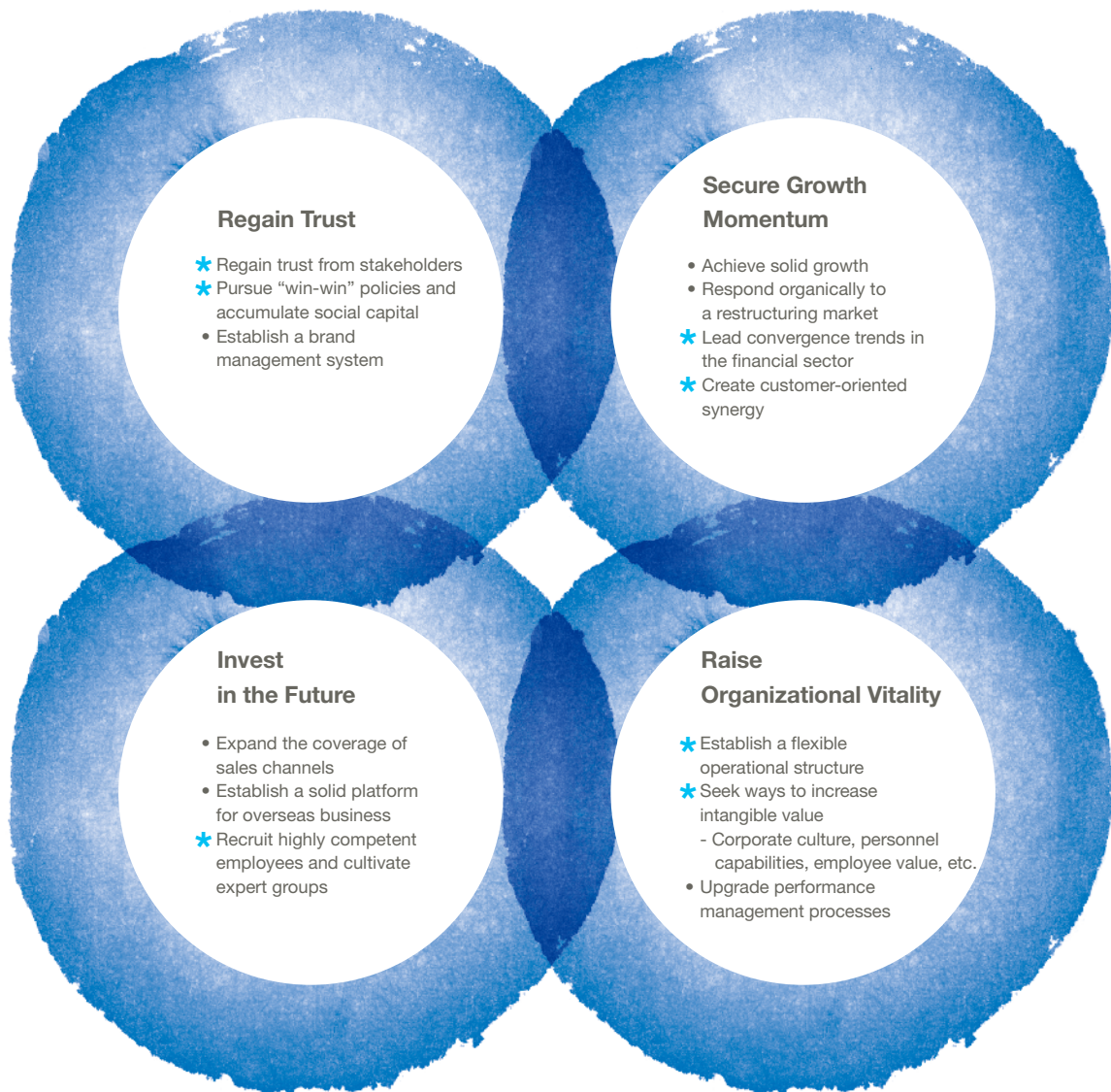
We plan to expand our investment in human resources, recruiting talented employees and cultivating expert groups. We will review the Group-wide globalization strategy to build a solid global business platform. Efforts to strengthen our footholds in key overseas markets such as Japan and Vietnam will be continued.

Mission 4. Raise Organizational Vitality

We will seek out ways to build a more flexible organization so that numerous internal units will act more vigorously and dynamically. Measures to raise intangible value such as corporate culture and personnel capabilities will also be implemented.

2011 Strategic Objectives:

Building New Growth Platform (Shinhan 2.0)



* 2011 Key Tasks for Realizing the Shinhan 2.0

Corporate Governance

Shinhan Financial Group is committed to transparent and accountable corporate governance in the interest of maximizing shareholder values.

Our corporate governance structure places transparency and accountability as its top priority based on the belief that these are the basic principles through which the company may provide more value to stakeholders and shareholders, truly elevating the company to a world-class financial group. For the past year, the board of directors' focus was concentrated on improving the management structure of the group, further enhancing board independence and transparency. As the first step, the Board of Directors adopted the Code of Best Practices for Outside Directors of Financial Institutions, promulgated by the Korea Federation of Banks, and established a company rule named as the "Standard Terms and Conditions for Outside Directors" in February 2010. This will improve the corporate governance structure at the Group level, increase the independence of the Board of Directors, and allow BOD members to exercise their expertise to the full.

Composition of the BOD and Committees

From 2010, in accordance with the new rule, the BOD appoints one of the outside directors, rather than the chief executive officer, as BOD chairman. In 2011, the BOD increased the seats to outside directors from eight to ten, increasing the ratio of outside directors among the total 12 twelve directors from 67% to 83%. Also, the outside directors regularly have a separate session to ensure their independence and authority in monitoring and supporting general business operations.

In 2011, Shinhan Financial Group BOD was restructured to

include only one executive director, rather than two. This change was recommended by the outside directors, who believe it strengthens the management structure.

The BOD committees enable individual directors to be fully incorporated into various BOD activities. Each committee is specifically designed to represent the interests of stakeholders, shareholders in particular, as well as to keep the business operations of executive management in check and offer constructive alternatives to practices and problems. To assist with their fiduciary duties as board members, a BOD secretariat has been established to provide transparent information on corporate management and explain the BOD's agenda.

Board Steering Committee

The four-member Board Steering Committee deliberates on matters relating to the corporate governance structure; nominates BOD committee members; recommends executive director candidates, except for outside directors; deliberates on the appointment and dismissal of executives, except for company directors; and decides on other BOD operation-related matters.

Risk Management Committee

This three-member committee develops basic risk management policies that are in line with management strategies, and approves investment limits as well as loss tolerance limits.

Audit Committee

The Audit Committee is made up of four directors, including one accounting expert. It oversees and audits the company's accounting and audit work. An Audit Team within the holding company assists the committee to raise efficiency.

Compensation Committee

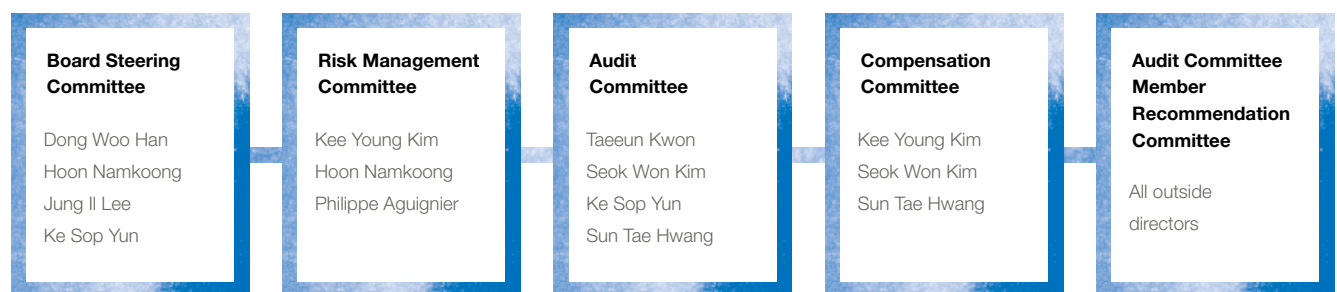
Comprised of three directors, this committee evaluates the company's executive management and decides, deliberates, and adjusts the compensation system.

Outside Director Recommendation Committee^{*}

This ad hoc committee recommends the company's outside director candidates and decides on other necessary matters with regard to such recommendations.

Audit Committee Member Recommendation Committee

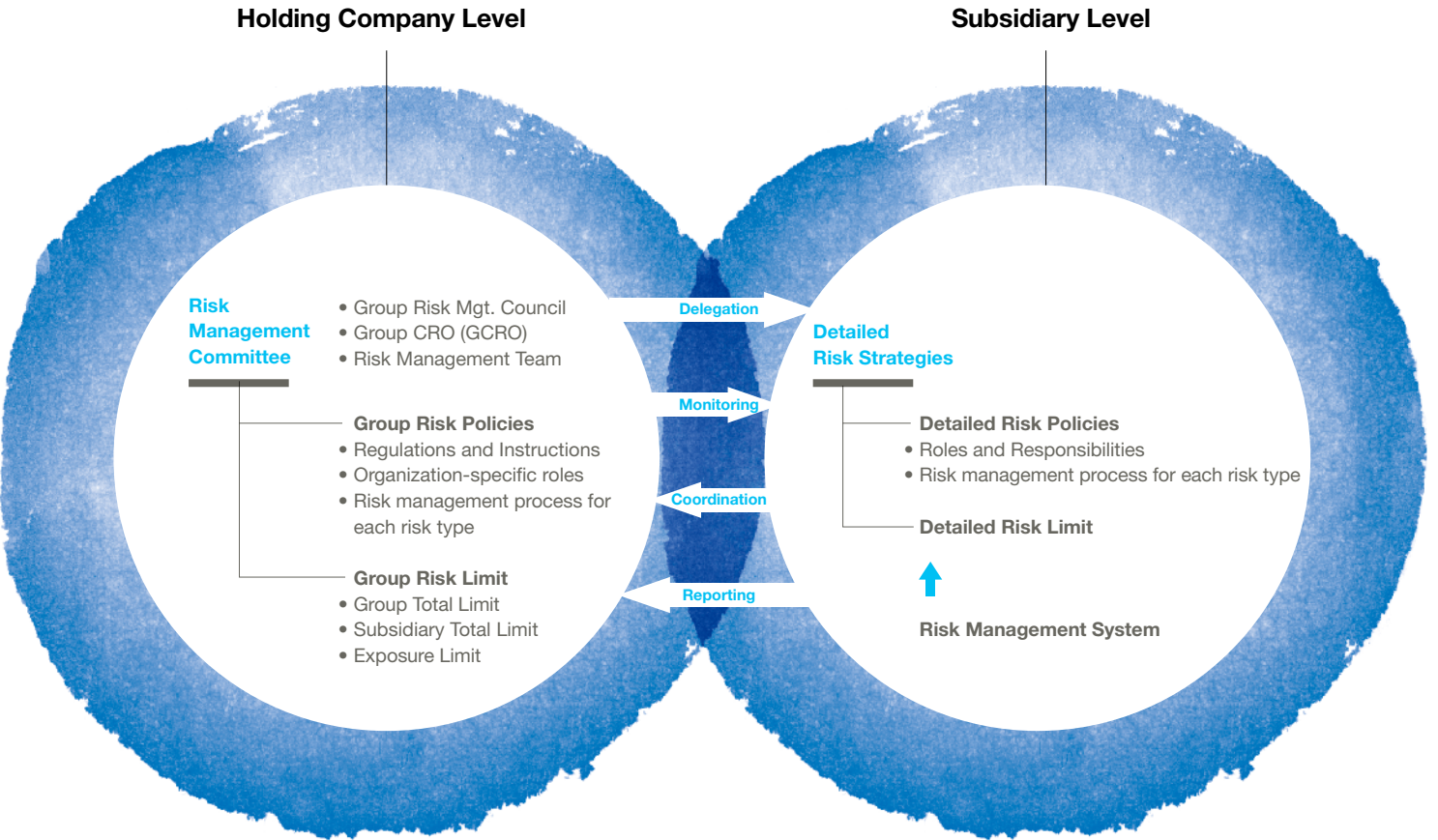
This committee is composed entirely of outside directors and convenes on an ad hoc basis to recommend candidates for the company's audit committee and decide on relevant matters.



^{*} The Outside Director Recommendation Committee meets only when deemed necessary. The members of the Outside Director Recommendation Committee for 2011 were appointed on February 8, 2011. The service term of the appointees ended with the appointment of outside directors at the general shareholders meeting on March 23, 2011.

Risk Management

Our entire workforce is becoming increasingly involved in the risk management process on a daily basis, and this effort has enabled us to maintain the highest asset quality in the industry. However, we will not become complacent and continue to work on ways to improve our risk management expertise and performance going forward.



- Establish Group risk policies and determine the risk limit (Risk Mgt. Committee)
- Delegate specific policies and executions to subsidiaries
- Review the appropriateness of the risk management strategies of subsidiaries (GCRO/ Risk Management Team)

- Establish and execute subsidiary specific risk strategies in line with Group risk policies and limit
- Report risk related issues to Group CRO

Shinhan Financial Group has instituted an organization-wide risk philosophy: “All employees shall maintain a sense of responsibility for managing risks and shall pursue a balance between risk and return in their day-to-day business practices.” This philosophy serves as the basic principle and guides the path in managing the various risks associated with our operations.

In 2010, many Korean financial institutions saw their fiscal soundness weakened significantly by the protracted corporate restructuring and problematic project financing loans to marine shippers, ship builders, and real estate buyers. Our company, however, was able to maintain a relatively better asset quality condition and, as a result, a lighter bad debt provisioning burden than other domestic financial institutions. This was made possible because our employees’ commitment to risk management, and they aggressively and proactively assessed and managed credit risks.

Going forward, in 2011, we will complete the installation of a new system for calculating the amount of risk-weighted assets and the total exposure of the Group. This will allow us to manage the total exposure at the Group level, helping to prevent risk concentration and associated major losses.

Differentiated Group Risk Management Tools

Adhering to the Group Risk Philosophy and Principles

Daily operations are conducted in accordance with the Group’s risk philosophy and seven main risk management principles. Thus, risk management is routinely practiced throughout the organization, starting with the front office.

Setting Risk Tolerance Limits & Managing Risk

Risk tolerance limits are the extent to which annual loss levels are allowed for individual Group subsidiaries and business segments. Subsidiaries operations are managed so that these limits are not exceeded. These risk tolerance limits are reflected in the various loss limit controls that are implemented at each subsidiary. This system enables us to avoid risk concentration so that we do not sustain a major loss from any singular event.

Comprehensive Group-level Risk Monitoring System

We operate a group-level system that comprehensively monitors

external economic indicators, key risk indicators for the Group as well as the Group’s current risk management status. This system enables us to identify and analyze risk factors and major issues facing the Group in a timely manner, as well as analyze their potential effects.

A Group-level Risk Expert Network (REN)

To upgrade our overall risk management competencies, we have assembled a team of risk experts, each of whom has extensive experience and knowledge in specific business areas and risk types. They are responsible for conducting training and workshops to instill our risk philosophy organization-wide and cultivate risk management specialists.

Organization

Group Risk Management Committee

The committee members, who include the chairman and outside directors of the holding company BOD, are tasked with establishing basic policy and strategies for Group risk management.

Group Risk Management Council

The council is made up of the Group CRO, Group Risk Management Team head, and risk officers from the major subsidiaries. They deliberate on risk policies and strategies implemented at the Group as well as subsidiary levels, and they decide the agenda necessary for implementing policies established by the Group Risk Management Committee.

Group Chief Risk Officer (Group CRO)

The Group CRO assists the Group Risk Management Committee and implements the risk policies and strategies established by the Committee. He is also responsible for ensuring that the policy and strategy implementation is consistent among the subsidiaries. Furthermore, the Group CRO evaluates the risk officers at each subsidiary and monitors the risk management practices of each subsidiary. Group Risk Management Team supports the Group CRO.

Finally, the risk management committees and organizations at the subsidiaries implement their respective risk policies and strategies in line with those established at Group level.

Shinhan Way

The Shinhan Way was introduced as a value system for the Shinhan Financial Group in 2010. This new set of values helped bringing employees together onto a common vision for the ways the Group should move forward.

SHWAY



Shinhan Way is a value system shared throughout the Group to encourage employees to think and act as a team with conviction and enthusiasm.

Shinhan Financial Group has sustained remarkable growth since its inception, setting a new standard for the Korean financial sector. However, we must now seek new approaches in order to ensure a sustainable future, given the challenges of change and crisis that we face at home and abroad. Therefore, we declared the “Shinhan Way” in 2010 as the path on which we will not only continue to succeed in current business lines but also secure new momentum for further growth.

Shinhan Way Business Principles

Business principles represent the first component of the Shinhan Way. These principles serve as the basis for the Group’s management decisions.

- We place the top priority on creating value for customers.
- We practice business in the “right way” and faithfully fulfill our social responsibilities.
- We value and nurture talented people.
- We strive to generate Group synergy.

Shinhan Way Core Values

In line with our business principles, we have established five core values that not only highlight the identity and beliefs of the Group but also promote solidarity among all employees.

Customers

We always think and act from the perspective of our customers, based on honesty and trust, so as to grow hand-in-hand with them, while at the same time faithfully fulfilling our social responsibilities towards all members of society.

Respect

We strive to maximize organizational cohesiveness and promote development across the board by fostering mutual respect among all the Group’s subsidiaries, departments and individuals.

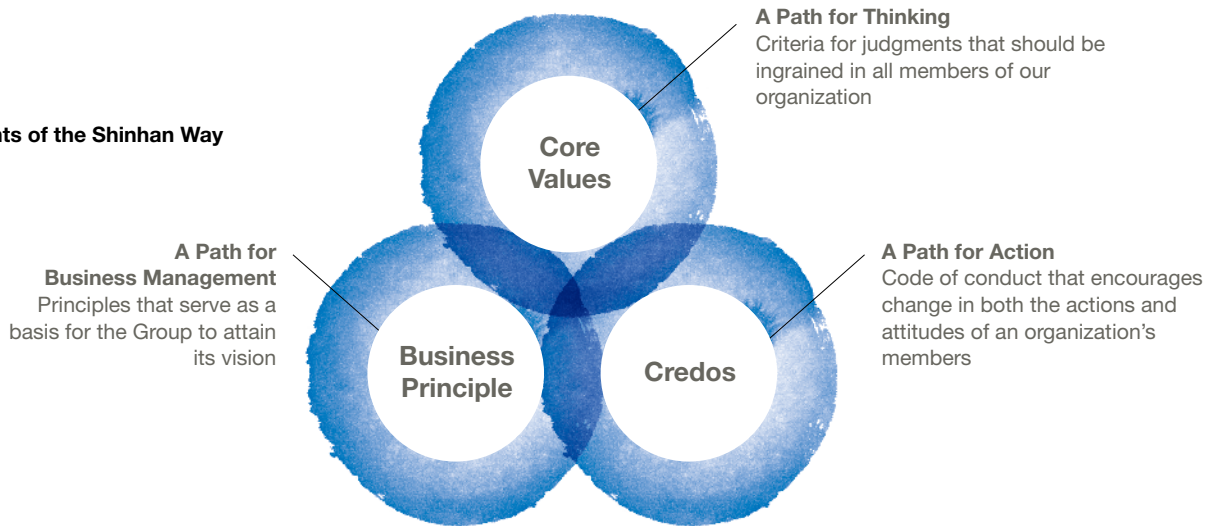
Change

We aim to secure exceptional competitiveness by taking creative approaches that set us apart from our competitors and increase opportunities for sustainable growth.

Excellence

We set challenging goals in order to become the best in what we do and act swiftly and resolutely to attain those goals through expertise, passion, and a pioneering spirit.

Components of the Shinhan Way



Ownership

We carry out our work with a strong sense of responsibility as we believe the organization's growth is closely correlated to our personal growth.

Development of the Shinhan Way

Shinhan Financial Group has identified key tasks to continue transforming institutions and systems as well as established a mid to long-term master plan to realize the ideals of Shinhan Way. We declared 2010 to be the first year of the "Shinhan Way" and accordingly launched various programs to build the appropriate infrastructure and promulgate the spirit of Shinhan Way. As a result, our employees heightened their understanding of the new value system and their resolve to put it into practice.

Progress on the Shinhan Way in 2010

Building Consensus on the Shinhan Way

- Launch a visual communication campaign by creating and distributing various PR packages
- Publish a manual on applying the Shinhan Way identity in a uniform manner

Boosting Resolve to Practice the Shinhan Way

- Hold group-wide training sessions for all employees
- Organize a group-wide training session for new recruits and top management
- Offer a special lecture by the Group CEO

Building Relevant Infrastructure

- Designate a dedicated Shinhan Way Team at the subsidiary level and appoint persons to oversee program implementation
- Improve the systems for hiring and personnel performance evaluation reflecting Shinhan Way
- Organize "Change Agents" and provide relevant training
- Establish the CoP* system and lay the foundation for encouraging its implementation

*CoP refers to "Community of Practice," a voluntary study organization consisting of Group employees


Promoting Group Solidarity & Fostering Pride

- Organize a UCC contest among employees to adopt a Group-wide Shinhan Way song
- Wear the Shinhan Way badge
- Hold a Shinhan Way slogan contest and apply the best ideas from the contest

Business Portfolio

Through continuous organic growth combined with several rounds of noteworthy M&As, SFG has established a well-balanced business platform upon which an array of integrated financial products are provided for customers value maximization. This platform is the key to the differentiating competitiveness that enables higher profitability and sustainable growth.





Diversity is a source of synergy. Shinhan Financial Group has built an efficient business portfolio that includes banking, credit cards, financial investment, insurance, private equity and asset management. We continue to create customer value by offering diverse products and services to satisfy an ever-changing financial environment and customer needs.

Review of Operations

Synergy

We are committed to creating customer-oriented synergy by leveraging our broad customer base and outstanding sales channels. Creating synergy within our well-diversified business platform is the core competitive advantage that differentiates us from industry peers.



Operating Revenue from Synergy Activates

In 2010, operating revenue created through the Group-wide synergy stood at KRW 523.2 billion, up 7.0% year on year.

Shinhan Financial Group aims to create synergy through the Group-wide joint development and marketing of financial products. To do so, we leverage our subsidiaries' customer information and expertise in their respective areas. Our 1,400 sales channels and a customer base of 27 million allow us to create greater synergy than our competitors can.

Specifically, our efforts to generate Group-wide synergy are as follows: 1) cross-selling of various competitive financial products through the channels of our banking and financial investment subsidiaries, 2) joint development and marketing of hybrid financial products, and 3) mediation between customers of one subsidiary and the other subsidiaries to satisfy individual financial needs. For example, our bank branches provide retail customers with various financial products such as credit cards and mutual funds designed to suit their needs, while bank customers also can purchase hybrid financial products jointly developed by multiple SFG subsidiaries. Moreover, an integrated Customer Relationship Management (CRM) system and VIP customer management program (Tops Club) maximize the use of the Group's customer information and enable a systematic approach to managing customers.

Going forward, we will remain committed to creating customer-oriented synergy by leveraging our broad customer base and outstanding sales channel competencies to develop products that proactively respond to changing customer needs and the financial market environment.

Major Achievements in 2010

Our strategic target for 2010 was to "Reinforce Execution Competencies to Generate a Market-driven Synergy." To this end, we identified four core tasks: (1) differentiate marketing for cross selling by target client segment, (2) reinforce market-leading products and services, (3) bolster the Group-wide integrated CRM system, and (4) generate results by expanding the synergy mindset.

In 2010, operating revenues created through the Group-wide synergy stood at KRW 523.2 billion, up 7.0% year on year. To break down this figure by area, revenue from mutual fund sales declined 1.6% because of the increased redemption of mutual funds. Profits generated from financial network accounts (FNAs), a hybrid product of our bank and financial investment firm, also dropped 21.2%, as the stock transaction volume was down. However, our efforts to create synergy for expanding the customer base drove up profits in the credit card (29.1%) and in insurance (19.7%) segments.

Meanwhile, the Group's key synergy mission was to increase the client base for cross-selling. The number of such customers was increased by 1.38 million, which means that some 14.5 million people are now dealing with at least two SFG subsidiaries. This has resulted in a more efficient structure for promoting Group-wide synergy and expanding customer value.

2011 Business Plans

We have set the 2011 Group synergy strategic goal as "Generate Smart Synergy to Lead the Future," with the following four core tasks:

First, we will strengthen specific synergy areas that will help us secure a leading position in the future. To this end, we will build an operation platform that will create synergy to respond to the mobile environment for financial transactions, setting the new

trend going forward. Meanwhile, our subsidiaries will share their resources to manage customer assets, laying the groundwork for the asset management operations specific to SFG.

Second, we will make sure that Shinhan Financial Group is positioned among the leaders in the sector by developing new products and services that establish new markets. To this end, we will launch new products that can sway customers concerned about issues such as the aging society and corporate social responsibility. Moreover, we will seek the convergence of finance with telecommunication services and retailing in cooperation with respective business leaders.

Third, we will upgrade the Group-wide integrated CRM through more elaborate categorization. To optimize the use of Group's customer information, we will execute Group-wide event-based marketing tasks directly linked with the performance of subsidiaries, and build a "CRM Mart for Corporate Customers."

Fourth, we will improve existing synergy programs and strengthen support systems to instill a "synergy mindset" in branch employees. For example, we will improve the "Group synergy points" and "Group synergy forum" programs by centering them on the branches. Joint promotion events and regional sales operations will also be held to generate greater synergy at a branch level.

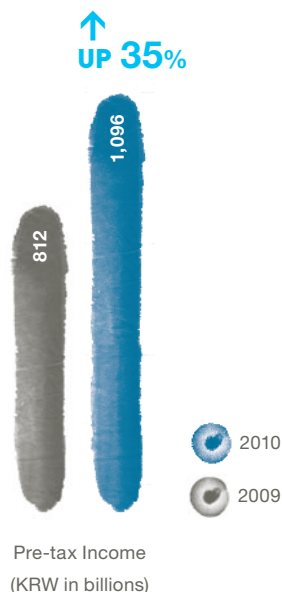
Group Synergy Financial Performance

(KRW in billions)

| | 2006 | 2007 | 2008 | 2009 | 2010 | YoY |
|---------------------------|-------|-------|-------|-------|-------|--------|
| Mutual Funds | 139.8 | 316.8 | 251.8 | 194.2 | 191.1 | -1.6% |
| Credit Card | 46.8 | 71.7 | 128.1 | 148.2 | 191.4 | 29.1% |
| Insurance (Bancassurance) | 58.9 | 61.9 | 79.7 | 42.1 | 50.4 | 19.7% |
| FNA | 40.0 | 61.9 | 43.6 | 54.7 | 43.1 | -21.2% |
| IB | 67.6 | 76.0 | 88.5 | 49.9 | 47.2 | -5.4% |
| Total | 353.1 | 588.3 | 591.7 | 489.1 | 523.2 | 7.0% |

Retail Banking

The Retail Group of Shinhan Bank has a solid network of retail bank branches and puts the priority on field operations. In 2010, the head office and branches came together to share their visions and goals through effective communication. As a result, we outperformed our competitors in terms of profitability, customer base, core businesses and market dominance.



Pre-tax Income of the Retail Group

The pre-tax income of the Retail Group of Shinhan Bank reached KRW 1,096 billion in 2010, a 35 % increase from previous year.

The Shinhan Bank management philosophy for retail banking is “Strong branches make a strong bank.” In line with this view, we divided our branch network into regional units and appointed the top-performing Branch Chief of each region to serve as Regional Head, while our best Deputy Branch Chiefs were given the title “Senior Retail Pioneer” (SRP). These select individuals act as “playing coaches” who impart their expertise to the branch staff and devote themselves to customer relationship management (CRM). Meanwhile, each branch selects its best-performing employees to play an “opinion leader” role, that is, to act as the staff representative who maintains close communication with the head office.

As of the end of 2010, the number of our active retail customers reached 6.7 million, and around 1.8 million customers used Shinhan Bank as their main bank. Shinhan Bank’s retail operations handled KRW 94.1 trillion in total loans, KRW 121.6 trillion in total deposits, and KRW 30.1 trillion in core deposits. A total of 8,862 employees are working in a nationwide network that consists of 809 branches. Our retail banking units are acting as a stable profit source, which will allow the Group to grow on a firm foundation.

Major Achievements in 2010

The outlook for the Korean retail banking business remained bleak in 2010. Uncertainties in the real estate and stock markets continued because governments around the world implemented their exit strategies, which are changes from the policy stances to overcome global financial crisis. Meanwhile, the higher interest rates exacerbated the problems of household debt, employment insecurity, and declines in real wages.

However, we focused on expanding our customer base, maximizing profits, strengthening our fundamentals and innovating our services. As a result, we outperformed our competitors on many fronts such as profitability, customer base, core businesses and market dominance. The pre-tax income of the Retail Group of Shinhan Bank reached KRW 1,096 billion in

2010, a 35% increase from previous year.

We were committed to increasing our number of active clients, and the effort paid off: over a million people began transacting with us in 2010, which was considerably higher than our initial goal of attracting 700,000 additional retail customers. We grew our assets rather smartly by providing the largest amount of household loans among the four major Korean banks, while maintaining the best asset quality in the industry. Moreover, we added KRW 2.7 trillion in core deposits during 2010, surpassing our initial target of KRW 1 trillion. Competition is extremely fierce in the Korean pension fund segment, yet our employees pulled together to take the largest market share. In addition, our market dominance was further strengthened by the timely introduction of innovative products such as monthly compound interest installment savings account and the “My Car” auto loan.

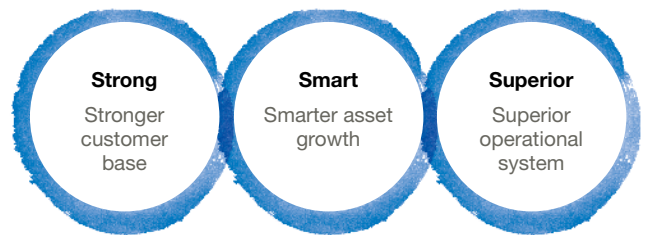
2011 Business Plans

The business environment is likely to remain challenging in 2011. Lackluster real estate and stock markets are expected as a result of sluggish global economic growth. Meanwhile, ongoing interest rate hikes will weaken banks’ asset quality, narrowing the margin for growth.

We see both opportunities and challenges in the transition of the Korean banking sector, where the four largest players have survived and determined the new competitive environment. Fierce competition seems unavoidable in the retail banking sector in particular. Our rivals, who have carefully benchmarked our most successful strategies, have now completed their organizational adjustments and have begun aggressive marketing activities to secure an advantage.

The Shinhan Bank retail banking units have set a strategic goal of “Building a Foundation for Good Growth by Implanting the Retail Revolution 3.0 Program.” To this end, we have determined the “3S’s” as our strategic missions in the coming year, namely to have a Stronger customer base, Smarter asset growth and

3S Strategy for Retail Revolution 3.0



Superior operational system.

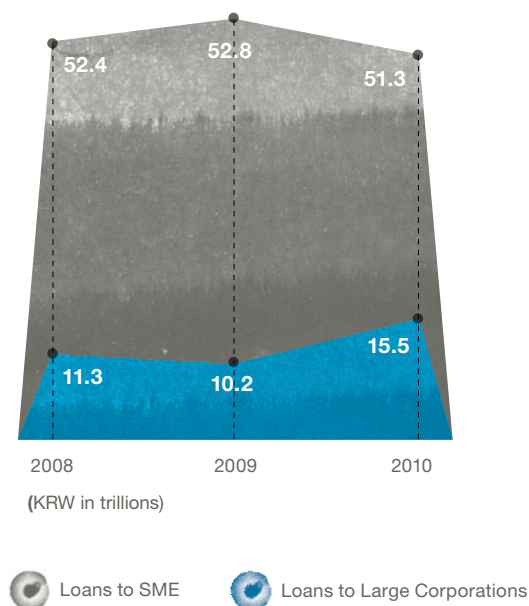
The first mission is to expand the customer base and convince customers to use us as their main retail bank. We will continue to increase the number of our active customers, who serve as the foundation in our effort to emerge as Korea’s No. 1 bank. To this end we will manage our customers thoroughly and cross-sell diverse financial products. Furthermore, we will focus our resources on cultivating regular customers to become preferred customers.

Second is “smart” asset growth. To this end, we will focus our operational competencies on growing our quality assets by balancing profitability and asset quality. We aim to expand our volume of core deposits, which will bolster our “smart” asset increase, and to reinforce our market dominance by developing special products and expanding our share of the pension fund market.

Finally, we will upgrade the way we do business. We will implement the “Retail Revolution 3.0” program, our retail channel innovation strategy, in a growing number of retail branches. In the process we will build a superior system that both raises retail channel productivity and enhances customer management effectiveness.

Corporate Banking

The customer base and asset portfolio for the Corporate Banking Group were improved in 2010 by targeting the best market segments and customer categories. As a result, the overall share of these segments increased, and the platform for future growth was strengthened. The Group is on track to emerge as the top-ranking corporate banking service provider in Korea.



Corporate Loans Of Shinhan Bank

In 2010, loans to large corporations saw the greatest increase (51.7%) with strong demand and appropriate targeting, while loans to SMEs decreased slightly as a result of tighter credit risk management.

The Corporate Banking Group at Shinhan Bank is tasked with providing corporate banking services to large conglomerates, small-and medium-sized enterprises (SMEs), government-run enterprises and financial institutions.

The Corporate Banking Group consists of two departments at the head office and 144 sales branches nationwide. Financial services include electronic settlements, cash management and corporate Internet banking in addition to the traditional corporate deposits, corporate loans and foreign exchange transactions. A total of 379 topnotch relationship managers with extensive expertise in corporate banking services provide corporate clients with the best possible financial solutions.

Major Achievements in 2010

The 2010 economic environment saw risks from a sluggish real estate market as well as opportunities from a recovering global economy. In response, the Corporate Banking Group made “Strengthening the Growth Platform to Secure Leadership in Corporate Banking” as the strategic goal for the year. In line with this overall objective, three strategic directions were pursued during 2010: improve the customer base and asset portfolio, reinforce the growth platform, and expand the foundation for profit generation.

Improving the Customer Base & Asset Portfolio

We targeted specific customer segments and markets, and we stepped up marketing activities towards particular client categories (namely large corporations and quality SMEs). As a result, our overall share of targeted customer segments was 1.1%p higher at the end of December 2010 than the figure posted a year earlier. New products with competitive interest rates and proactive lending to quality corporations fueled loan growth in these targeted segments. As a result, our loan market share to the nation's top 17 conglomerates rose 1.1%p year on year.

Reinforcing the Growth Platform

We selected trainees for our third Relationship Manager (RM) Course, which is designed to improve their core competencies and thereby strengthen the sales force in the Corporate Banking Group. The new “Inside Bank” product, which provides integrated cash management services (CMS), was launched in March 2010. By year’s end, 23,722 corporations were “Inside Bank” users. We also conducted targeted marketing activities to attract retirement pension funds, an important platform for long-term growth. As a result, the balance of pension funds at the Corporate Banking Group stood at KRW 1.84 trillion at the end of 2010, up KRW 1.05 trillion (105%) from a year earlier.

Expanding the Profit Generation Platform

The Corporate Banking Group posted a solid pretax income in 2010 despite the severe competition among Korean banks over the nation’s best corporate clients. We strengthened the deposit-taking business as a part of attempts to maintain a sound loan-to-deposit ratio. As a result, the 2010 average deposit balance rose by KRW 410.3 billion year on year. Meanwhile, more vigorous marketing activities were embarked on to increase the profitability of export-import transactions. As a result, our market share was up 2.6p%p during the year to 16.7% at the end of 2010.

2011 Business Plans

We aim to build on our strong showing in 2010 to become the “Industry’s No. 1 Corporate Banking Service Provider.” To this end, the Corporate Banking Group has set “Be a Reliable Financial Partner and Achieve Value-oriented Growth” as the strategic goals for the coming year. The unit will continue to execute key tasks under three strategic directions, as it did in 2010. These directions are as follows:

“Smart” Asset Growth

We will attract additional quality clients in our bid to lead the corporate banking sector. To this end, targeted marketing campaigns will be launched that leverage new products

customized to specific client categories, and the number of Relationship Managers will be increased. Meanwhile we will continue to promote retirement pension products, our “Inside Bank” program, and provide financial incentives for “green growth industries” to expand assets that will serve as a platform for long-term growth. Significant resources will be dedicated to bolstering our business with large corporations. In line with these efforts to increase quality assets, the Group aims to boost profitability by further differentiating the pricing offered to specific customer categories, and by increasing the revenue from commission fees for export-import and electronic financial transactions.

Intensive Management of Fiscal Soundness

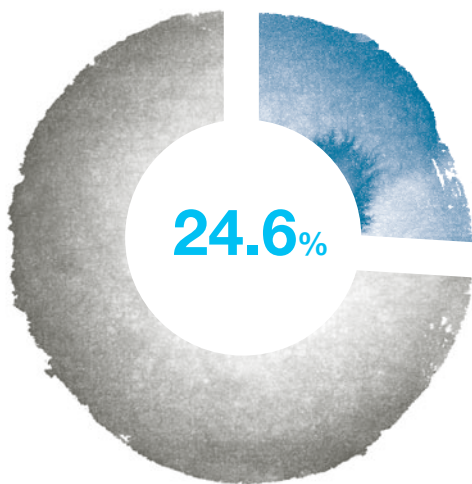
We will strengthen assessment functions and systems to control delinquency ratio and the non-performing loan (NPL) ratio. Regular loan reviews are being conducted, while visits are being increased to branches with problem loans (i.e., either payment is overdue or a high probability of non-payment exists). Such efforts will improve the capability to detect the early signs of distressed companies. Moreover, we will improve our system to ensure quick response to delinquencies, helping to prevent short-term overdue loans from turning into long-term delinquencies or NPLs.

Improving the Competitiveness of the Corporate Banking Group

The Group will further strengthen communication between the head office and branches by improving the Communication Manager (CM) system, whereby one head office employee is assigned exclusive responsibility for interaction with one branch. We will expand the operation of the “Jump” team, an internal consulting group consisting of sales representatives with outstanding track records. They will impart their know-how to other branch staff members, helping to lift the performance of them. The Corporate Banking Group will also strive to boost competitiveness by increasing the use of the “Sales Platform Upgrade to Reach the Top (SPURT)” system, an in-house customer relationship management (CRM) method.

Credit Card

Shinhan Card is firmly positioned as Korea's No. 1 credit card service provider, with the largest client base and broadest franchise network. In 2010, our market share reached 24.6%, earning assets surpassed KRW 19.4 trillion, and net income exceeded KRW 1.1 trillion, widening the lead over our closest rival.



Market Share of Shinhan Card

Our market share for credit purchase transaction reached 24.6% in 2010, 1%p up from 23.6% of the previous year.

Shinhan Card enjoys the benefits of both worlds: a mono-line credit card company and bank affiliated credit card division. We can attract new customers through the nation-wide branch network of Shinhan Bank while operating as a stand-alone credit card company. As such our operations and marketing activities are focused squarely on the credit card business. Another advantage is that we have access to funding from the holding company, Shinhan Financial Group.

Major Achievements in 2010

The effective credit card holder base of Shinhan Card grew to 15.1 million in 2010, achieving a solid economy of scale. We closely analyzed customer lifestyles and consumption patterns to provide customer-oriented products and services, which allowed us to increase our market share for credit purchase transaction by 1%p, from 23.6% in 2009 to 24.6% a year later. Our lead over our peers has widened as a result. Leveraging this competitive advantage, Shinhan Card continued to strengthen sales activities and improve asset quality. As a result, the earning assets stood at an industry-leading KRW 19.4 trillion at year's end, while net income totaled KRW 1.1 trillion.

Meanwhile, we performed as a responsible market leader, giving back to society through various programs such as the donation of expired reward points to charity. We also stepped up marketing through the sponsorship of cultural and sporting events, and improved services at customer access points, bolstering our brand power significantly. Brandstock, a local consultancy, ranked Shinhan Card 17th among Korea's Top 100 brands.

We have reinforced our mobile card business capabilities. We are reviewing the possibilities for participating in a special committee consisting of telecom and financial service providers, which would provide us with an early lead in the new market for converged services and smart phone.

Shinhan Card Net Income

(KRW in billions)

| | 2010 | 2009 | % Change |
|------------|-------|------|----------|
| Net Income | 1,107 | 857 | 29.2% |

Moreover, we jointly participated in efforts to establish Shinhan Vietnam Bank's credit card business. It is expected that by May 2011, the entity will be able to issue credit and debit card in Vietnam, which will be a first by a Korean financial institution.

As part of an effort to seek out new business models, we developed the nation's first conversion card brand (URS) in partnership with JCB International. By paying only the annual fee applicable to local cards, it can be used in overseas markets much like the other international brand cards. More than 1.7 million URS brand cards were issued, and total sales volume of URS brand card was about KRW 2.9 trillion in 2010.

2011 Business Plans

We expect certain factors to negatively affect our profitability in 2011, including weak growth in private consumption and downward pressure on prices from the Korean government's efforts to support low-income customers and small-scale retailers. Weakened purchasing power of households, indicated by rising household debt-asset ratios, is another external risk factor. Moreover, one of our major competitors, KB Card, was spun-off from Kookmin Bank in March 2011 and is likely to engage in aggressive marketing activities. Competition in the market will be extremely fierce as more card-issuers battle over the No. 2 position. Internally, meanwhile, we need to raise our competitive advantage as the market leader, even though we now have attained a comfortable economy of scale.

Our priority in 2011 is to transition toward a more customer-oriented business model, allowing us to protect our profitability in the short term and strengthen our competitiveness over the long

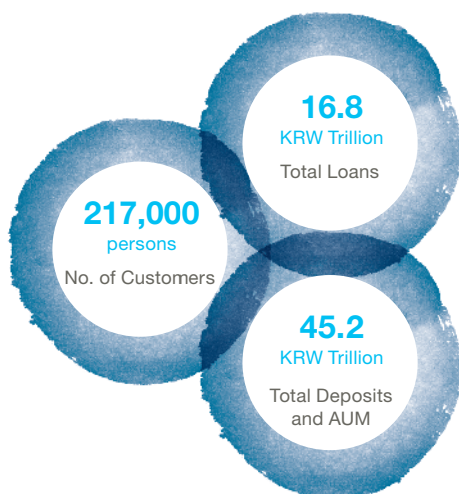
term. Therefore, our strategic goal for the year has been defined as "Improve Profitability by Transforming into a Customer-based Business Structure." To this end, we will carry out the five following strategic tasks:

Five Key Strategic Tasks for 2011

| Strategic Tasks | Action Plans |
|---|--|
| Innovate Platform for Service Competition | Build service platform based on customer value, develop and implement a differentiated marketing model and solidify customer base by raising loyalty |
| Improve Intangible Competitiveness | Exceed customers' expectations through better understanding and analysis of their needs, improve financial competitiveness through cost rationalization and fulfill corporate social responsibilities as the market leader |
| Optimize Risk Management | Manage credit risks astutely by balancing profit and risk and minimize credit cost by improving debt recovery strategies |
| Lead Group-wide Synergy | Offer distinctive, Group-based products, bolster joint marketing and continue to develop market-leading synergy models |
| Build the Platform to Execute Mid to Long-term Strategies | Seek out new growth engines and take an early lead, respond proactively to changing trends in the future and upgrade business infrastructure |

Wealth Management

The WM Group provides outstanding asset management services that cater to the needs of high net worth individual (HNWI) customers. We are recognized as a premium brand in asset management services with our extensive pool of real estate, tax and legal specialists.



Shinhan Bank Wealth Management

Business Performance

As of the end of 2010, we served some 217,000 customers, who contributed 64% of the total deposits and 46% of the net profit of the Shinhan Bank's retail business.

The Wealth Management (WM) Group of Shinhan Bank consists of the WM, Private Banking (PB), and Real Estate Divisions. The WM Division, which was established in 2009, offers asset management consultation, investment portfolio advice, information on taxation and real estate, and other services to "TOPS Premier" customers (otherwise known as the "WM" customers)¹. This select group represents the very best of our preferred customers, and all Shinhan Bank branches reserve a separate "Premier" space to serve them exclusively. The private bankers at the PB Division are dedicated to providing financial portfolio management and other services especially to top class WM customers, who have deposited at least KRW 500 million in Shinhan Bank accounts. Finally, the Real Estate Division focuses on providing VIP clients with specialized services for real estate brokerage and management. The Division also conducts various types of market research.

Major Achievements in 2010

The WM Division posted the highest performance among all Korean financial institutions that served the HNWI customer segment in 2010. Throughout the year, our Group led campaigns to cross-sell financial products of sister subsidiaries, employed an advanced CRM-based marketing process, produced new and exclusive products to "Premier" class customers, and solicited Shinhan Card premium users to become Shinhan Bank customers. As of the end of the year, the number of WM customers exceeded 217,000, an 8.8% increase year on year. Their contributions to Shinhan Bank's retail performance in 2010 included 64% of the total deposits and 46% of the net profit.

¹. Shinhan Financial Group is offering a program for providing preferential services to its select customers, aptly termed "TOPS Club." In this program, customers are assigned different points according to transactions volume incurred on the deposit, loan, fund purchase, and credit card services of Shinhan Financial Group. Those who are given above 350 pts are classified into 4 groups, namely, "Premier, Ace, Best, and Classic" according to their point values. Customers belonging to each group are provided with preferential services befitting each class. Among the groups, "Premier" class covers customers with the highest points, and these customers are serviced by the WM Division.

The PB Division added a Private Banking Center in Seoul's Mokdong district, increasing the PB network to 20 Centers (16 in the Greater Seoul Metropolitan Area and 4 in other major cities) by year's end. The net assets of the Division reached KRW 11 trillion and the customer base exceeded 4,100 HNWIs, strengthening its leadership in the domestic PB market.

The Real Estate Division has issued "Review & Prospect," a monthly report designed to help sales representatives provide clients with sound advice on real estate investment. The Division also organized employee training program on property by operating the "Real Estate School" and "Open Lecture for Real Estate."

2011 Business Plans

The WM Division set the 2011 strategic goal as: "Lay the Foundation to Become the Leader in the Top-tier Customer Market." The three major action plans were also drawn-up in line with this goal.

First, we will lead the top-tier client market by attracting additional customers and preventing the attrition of existing clients. To this end, joint marketing will be conducted among the Shinhan Bank business units, and cooperation will be stepped up with other SFG subsidiaries.

Second, the Division aims to secure a competitive advantage in asset management by segmenting premier client categories. The "S'cort" program, whereby private bankers visit customers in person to provide financial consulting, will be expanded. Moreover, we will improve our special services for WM customers by optimizing their asset portfolio.

Finally, we will create greater customer value for our preferred clients by strengthening the Shinhan "Premier" brand. We will aggressively market the Shinhan "Premier" brand, foster additional asset management experts, and upgrade our training program for consulting with WM customers.

As Korea's leading private banking service provider, the PB Division lives by the motto of "Korea's Private Banking Market Leader." In line with this, the Division will implement the following three strategies in 2011.

First, to secure new growth engines, the Division plans to expand PB channels in high-income residential areas that do not have a Shinhan PB Center. The Gold PB Centers, which provide exceptional services to VVIP customers, will be expanded. A new system will be implemented that allows PB Center team chiefs and the PB Head Office to jointly manage customer portfolios for greater satisfaction.

Second, for higher competitiveness in key PB areas, the Division aims to develop various products that meet diverse customer needs, including customized private equity funds and interest payment funds.

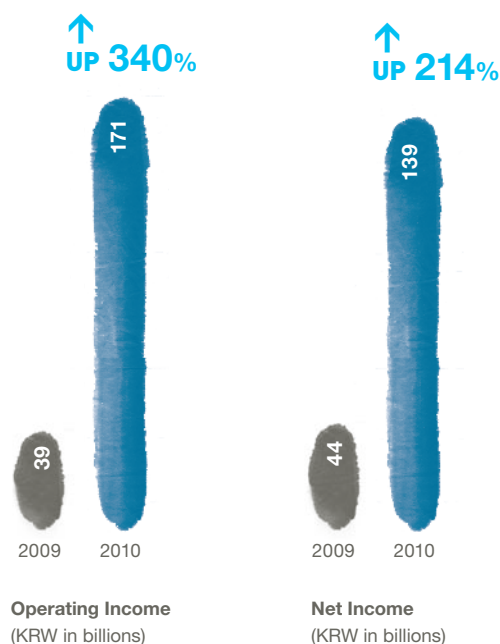
Finally, to improve brand recognition and reinforce in-house PB expertise, the Division will increase involvement in media advertisement and adopt a multifaceted assessment system for evaluation of the competencies of PB team chiefs.

Awards Given to the WM Group of Shinhan Bank

- Ranked first in the PB category of the Korea Standard-Premium Brand Index (KS-PBI) (three years in a row, organized by the Korean Standards Association, Chosun Ilbo, and Seoul National University)
 - Ranked first in the PB category of the Korea Consulting Awards (for 2 consecutive years, organized by Hankyung Business)
 - Ranked first in the "The Proud" (index of top Korean products organized by the Korea Management Association Consulting)
 - Won Grand Prize in the Asia PB Awards (Head of Financial Supervisory Service Prize, organized by The Asia Economic Daily)
-

Brokerage

Shinhan Investment Corp. is one of Korea's leading securities brokerage houses with a strong client focus. We aim for high capital efficiency, industry-leading client satisfaction and sustainable growth over the long term. In 2010, we enjoyed high growth rates in all areas by evolving our asset management business and strengthening our stature in the IPO market.



Operating Income and Net Income of Shinhan Investment Corp.

In 2010, our operating income reached KRW 171.4 billion, a 340 % year on year increase, while net income rose 214% from the 2009 figure to total KRW 138.9 billion.

As of the end of 2010, the network channel of Shinhan Investment spans 106 domestic branches, 3 overseas subsidiaries and 3 overseas offices, offering comprehensive securities services to both individual and institutional clients.

Major Achievements in 2010

Shinhan Investment posted growth across the board, to include the asset management, wholesale banking and investment banking sectors. We also reinforced our retirement pension fund and overseas derivatives businesses, which we see as new growth engines. In 2010, our operating income reached KRW 171.4 billion, a 340% year on year increase, while net income rose 214% from the 2009 figure to total KRW 138.9 billion.

Evolving Our Competencies for Better

Asset Management Services

Our year-end balance of financial products sold to client stood at KRW 16.5 trillion, up 26% from the 2009 figure of KRW 13.1 trillion. Total revenue from financial product sales increased 42%, from KRW 32.8 billion in 2009 to KRW 46.4 billion a year later. These achievements can be attributed to our ongoing efforts to expand the client base and reinforce our operational infrastructure, including the development of a unique wealth management system that we call "Dr. S."

A Stronger Position in the IPO Market

The domestic IPO market, which experienced robust growth in 2009, remained strong in 2010. We managed eleven highly successful initial public offerings during the year and were one of the lead underwriters for Samsung Life Insurance, which launched Korea's largest IPO in 2010. We underwrote newly issued shares worth KRW 946.6 billion, ranking us second in this market segment.

Contracted Stock Brokerage Market and Lowered Profits

Stock market transactions in Korea amounted to KRW 4,665 trillion in 2010, up KRW 176 trillion (or 4%) from a year earlier, while the domestic brokerage market (not including equity linked

2010 Performance of Shinhan Investment Corp.

| | 2010 | 2009 | % Change |
|---|-------|------|----------|
| Balance of Financial Products [*] (KRW in trillions) | 16.5 | 13.1 | 26% |
| Operating Income (KRW in billions) | 171.4 | 39.0 | 340% |
| Net Income (KRW in billions) | 138.9 | 44.2 | 214% |

^{*} Balance of financial products sold to clients such as beneficiary certificates, mutual funds, trust accounts, Wrap accounts, ELS, RPs and bonds.

warranties and the commodity trading by financial investors) shrank by KRW 254 trillion (6%) year on year to KRW 3,695 trillion. As a result, in 2010, Shinhan Investment recorded KRW 308.4 billion in brokerage commissions, a 15% drop year on year.

2011 Business Plans

Korea's financial investment industry is likely to see fiercer competition in the brokerage and asset management segments, as well as in new business areas such as derivatives, pension funds and wrap accounts. We understand the growing importance of reinventing our business model if we are to further expand our client base and profit generation platform, which is our stated strategic goal for the coming year. To this end we will work to improve our asset management business and increase our capital efficiency. Specifically, we will implement the following six key tasks:

The first task is to continue evolving our competencies to provide a better suite of asset management services. Sales activities and our capabilities to manage existing customers will be further enhanced, while offering customers highly competitive products to include wrap account services, trust facilities and equity-linked securities.

Second is to elevate our ability to compete in electronic channels. The competitiveness of our services via smart-phones,

tablet PCs and other new media will be enhanced. Our current online Customer Care Program will be also upgraded.

Third is to enhance our trading capabilities in order to attract more customer assets. To this end, we will diversify our asset portfolio and develop new products.

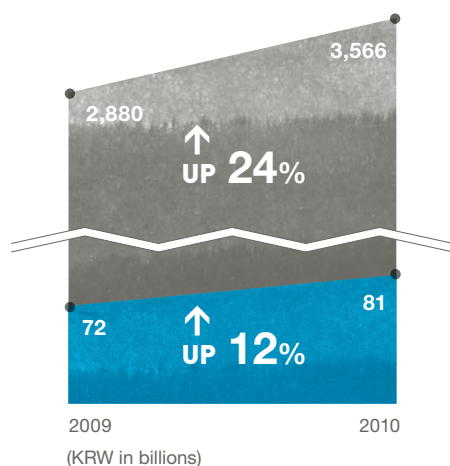
Fourth is to expand profits from the conventional IB segment. We will strengthen our competencies regarding conventional services, including IPO underwriting, M&A consulting and corporate bond issuance, while expanding our involvement in new IB services to diversify profit sources.

Fifth is to expand profit sources by launching new businesses. We obtained a license for futures trading in November 2009 and will firm up the profit platform for this new business. Moreover, our priorities include arranging overseas initial public offerings, improving the profitability of pension fund management, maintaining the No. 1 position in Korea for overseas stock brokerage, diversifying our global market portfolio overseas, and reorganizing existing business models.

Sixth is to strengthen our corporate culture, human resources and research organization. We will continue to improve the corporate culture in line with the "Shinhan Way." Professional training programs will be provided to hone the skills of our employees while our research strategies will also be revised.

Insurance

Among the major strengths of Shinhan Life Insurance are its operational efficiency and diversified sales channels, including sales representatives, telemarketing, agency marketing and bancassurance. Utilizing these advantages, net profit of Shinhan Life reached KRW 201.6 billion in 2010, up 21% from a year earlier, breaking through the KRW 200 billion mark for the first time since the firm's establishment in 1990.



Total Premium Income



Monthly Initial Premiums

Shinhan Life Insurance Performance

Total premium income and monthly initial premiums increased 24% and 12% respectively in 2010 due to an expanded sales network and rise in sales via the bancassurance channel.

Shinhan Life Insurance's industry-leading profitability is mainly attributable to the strong and diversified sales force. Not only do they excel in basic sales capability but they leverage the synergy opportunity presented within the wider organization by utilizing the SFG network. As of December 2010, our sales network consists of 175 branches, 8,539 sales representatives, and 1,071 dedicated office workers.

Major Achievements in 2010

We reported solid growth despite fierce competition in the industry and an overall slowdown in new policies written. The number of our available sales representatives¹ increased 5.2% from a year earlier, while most competitors either had to reduce their sales force or managed only to maintain their current organizations amid fierce competition over recruitment.

Monthly initial premium income stood at KRW 80.7 billion in 2010, up 12% year on year, and total premium income reached KRW 3.5 trillion, which was 24% higher than the year before, largely thanks to the rise of about 90% in sales via the bancassurance channel. Total assets stood at slightly less than KRW 12 trillion at year's end, while net profit topped KRW 201.6 billion, up 21% from 2009, breaking through the KRW 200 billion mark for the first time since the firm's establishment in 1990. Noteworthy is that we maintained a solid No. 1 position in telemarketing sales, and posted the industry's best performance in sales of juvenile insurance plans.

In addition to the quantitative growth, we increased our operational efficiency. The improper sales rate dropped more than 3% year on year, and the persistency ratio for the 13th month² continued to rise (up 5.1% YoY). Our market share in the

1. "Available sales representatives" refer to those who sold at least one new policy within the previous one-month period.

2. "Persistency ratio for the 13th month" refers to the ratio of premium payments in the 13th month to total premiums paid in the first month. This is an important indicator to assess the persistency rate of an insurance policy.

Shinhan Life Insurance Performance

(KRW in billions)

| | 2010 | 2009 | % Change |
|-----------------------------|--------|--------|----------|
| Monthly Initial Premiums | 81 | 72 | 11.5% |
| Total Premium Income | 3,566 | 2,880 | 23.8% |
| Net Income | 211 | 174 | 21.1% |
| Total Assets | 11,958 | 10,055 | 18.9% |
| * Solvency Margin Ratio (%) | 396.6% | 262.7% | 133.9%p |

* Solvency Margin Ratio is based on the RBC standard.

coverage insurance segment reached 39.6%, up 5.6%p year on year, while our competitors stayed at a standstill, strengthening our profit-generation platform still further. We continued to maintain the industry's highest risk-based capital (RBC) ratio, which stood at 396.6% at year's end. Our insurance financial strength rating (IFSR) also remained "AAA" for the third consecutive year.

2011 Business Plans

Shinhan Life Insurance has set "Powerful Advance! Build the Platform to Emerge as a Top-tier Insurer!" as the 2011 strategic goal. This means we will begin by balancing quantitative with qualitative growth to firm up our market position and then improve brand competitiveness to rise among the ranks of Korean life insurers. To this end, we will implement the following key tasks:

Outgrowing the Market to Become the Local Best

We will outperform the market average by at least 20%. This will be accomplished by building growth roadmaps optimized for various sales channels and by raising our market dominance through the development of market-leading products.

Increase Customer Value and Trust

We will strengthen our management of policyholders, while expanding access to our outstanding customer services in cooperation within the SFG network. We will also enhance our operational system and processes to earn greater customer trust.

Build Future Growth Engines

We will develop new strategic products in response to the aging of society, and foster new growth channels. Moreover, we will advance overseas in stages, thereby finding new growth engines for the long term.

Create a Platform for Sustainable Growth

We will optimize our asset portfolio, enhance the risk management system, strengthen brand recognition and improve employee competencies.

Investment Banking

The Investment Banking Group of Shinhan Bank provides an extensive range of financial services and serves as a new growth engine for the Shinhan Financial Group. We provided customer-oriented and professional financial services, which resulted in pre-tax income of KRW 137.7 billion and an operating profit margin for new deals of 5.79%.



Pre-tax Income of the IB Group

The IB Group of Shinhan Bank realized pre-tax income of 137.7 billion in 2010, up 21% year on year on the back of increased deal sourcing and enhanced risk management.

The IB Group has become a major player in the domestic investment banking sector. Our financial services range from merger & acquisition financing, ship & aircraft financing, loans for new facilities, and real estate project financing, to funding for infrastructure projects inside and outside Korea, asset-backed securitization, and equity investment.

In 2008, we created the Corporate Investment Banking (CIB) Business Division, an integrated marketing organization that combines conventional lending services with consulting services. The CIB Division now provides branches with the best possible solutions for corporate customers. Division operations include providing loans for structured finance, identifying quality SMEs, supporting branches in IB deals, conducting marketing activities to large enterprises and public corporations, and offering consultation services to corporate customers.

Major Achievements in 2010

In 2010, we focused on “Laying the Foundation to Become Korea’s No. 1 IB Player” by pursuing the following business strategies: (1) expand our deal sourcing and enhance our mediation role, (2) maximize profits, (3) establish an innovative risk management system, and (4) build the strongest possible IB infrastructure. As a result, the IB Group posted pre-tax income of KRW 137.7 billion and an operating margin for new deals of 5.79%. Moreover, we maintained solid growth by keeping the delinquency rate for AUM under 1.3% and NPL ratio at less than 2.3%.

The CIB Division continued to strengthen relationship management capabilities, engage in targeted marketing efforts and raise customer loyalty through corporate consulting. As a result, the Division helped the branches provide corporate customers with loans totaling KRW 6.6 trillion in 2010, up KRW 2.6 trillion year on year. Meanwhile, the profit-generation platform was strengthened in the corporate financial market.

2011 Business Plans

We made “Positioning the IB Group as the Leader in Korea’s IB Sector” as our strategic goal for 2011. In line with this goal, we devised the following marketing plans:

In the IB segment, we aim to bolster our lead in the acquisition financing market and diversify profit sources. To this end, we will strengthen our relationships with market players and run a mezzanine fund, which we jointly established with other Shinhan subsidiaries, as our corporate clients are expected to step up their M&A activities in 2011.

We aim to lead the asset-backed securitization market by leveraging our extensive experience as the first Korean financial institution to launch asset-backed commercial paper (ABCP) conduits. To do so, we will expand our involvement in structural finance to include acquisition finance, real estate development, infrastructure projects and principal investment. We will also develop products that allow us to respond preemptively to rule changes such as the adoption of the International Financial Reporting Standards in Korea in 2011, and strengthen our consulting services, including asset-backed securitization for

corporations that are advancing into overseas markets.

Turning to project finance, we plan to diversify our project portfolio for real estate financing, which has been heavily weighted toward apartment development, to include industrial complexes, hypermarkets, commercial office buildings and high-rise mixed-use buildings known locally as “officetels.” Meanwhile, we will expand our strategic investment to emerge as a leader in projects that are expected to be highly lucrative over the mid-/long term. Moreover, we will run a global infrastructure fund, which was established jointly with other Shinhan subsidiaries in 2010, and enter into the overseas project financing market in cooperation with major constructors, public corporations and other institutions with high credit ratings.

Finally, the Hong Kong IB Center will strengthen its arrangement, consulting and brokerage roles to channel overseas funds to quality domestic companies in cooperation with Shinhan Bank branches in Korea. Meanwhile, the Center will build a network with other global financial institutions and use it to promote the fund business as well as to expand opportunities to arrange and participate in global quality syndicated loan deals.

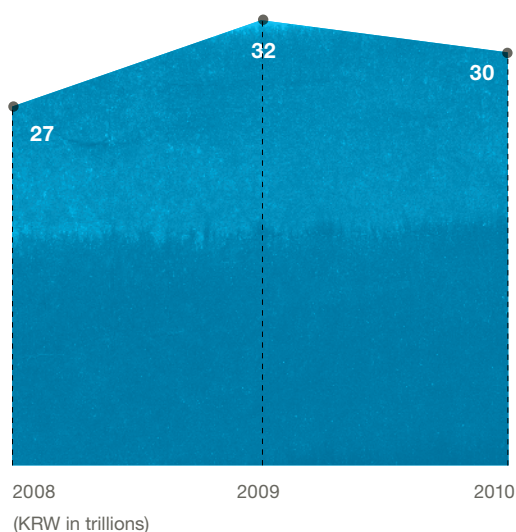
Shinhan Banking IB Ranking in the Korea Syndicated Loans Market

★ Source: Bloomberg

| Mandated Arranger | 2010 | 2009 |
|--------------------------|-------------|-------------|
| Rank | 3 | 4 |
| Market Share | 8.9% | 6.4% |
| Amount (USD in millions) | 1,859 | 962 |
| Book Runner | 2010 | 2009 |
| Rank | 3 | 4 |
| Market Share | 10.3% | 9.0% |
| Amount (USD in millions) | 1,314 | 877 |

Asset Management

Shinhan BNPP AM is emerging as a market leader by leveraging both BNP Paribas' expertise in global asset management and SFG's strong domestic sales network. Net profit stood at KRW 39.7 billion for 2010, surpassing the initial performance target.



AUM

Our assets under management (AUM), including discretionary investment management assets, totalled KRW 30 trillion in 2010. As of February 2011, we rank third among the 80 Korean asset management firms in terms of AUM.

Shinhan BNP Paribas Asset Management, a joint venture between Shinhan Financial Group (65%) and BNP Paribas (35%), is the major player in SFG's asset management business. Shinhan BNPP AM provides various global and domestic investment opportunities, including funds based on real estate, structured vehicles and other special asset products as well as the traditional stocks and bonds.

Our assets under management (AUM), including discretionary investment management assets, totalled KRW 30 trillion in 2010. As of February 2011, we rank third among the 80 Korean asset management firms in terms of AUM.

Major Achievements in 2010

The Korean asset management industry faced difficulties in 2010, as investors kept redeeming their funds, especially domestic and global equity funds. Shinhan BNPP AM, however, posted net profit of KRW 39.7 billion, surpassing the initial target. Our flagship "Good Morning Hope" equity fund and other value-/growth-oriented funds were among the industry's top performers for the year.

Our industry-leading in-house research team carries out in-depth analysis and research by using unique valuation models and by scrutinizing individual companies. Coupled with the outstanding operating skills of our fund managers, these analysis and research activities help ensure consistency and continuity in asset management practices at the subsidiary level and translate into robust performance.

2011 Business Plans

This year marks the third year since the merger of Shinhan BNP Paribas Investment Trust Management and SH Asset Management as Shinhan BNPP AM. We have set "Become a Name of Choice" as our 2011 strategic goal under the mid to long-term vision of becoming the best asset manager in Korea.

To achieve this goal, we have identified the following key business strategies: (1) remain among Korea's top asset management performers, (2) gain momentum to emerge as a leading player in the domestic and foreign equity fund segments, (3) expand external business channels, and (4) focus on products to raise corporate brand value. We will continue to maintain our stature as the leading Korean asset manager in overseas investments by upgrading our capabilities to develop and manage overseas products.

2010 Awards

- Received the "Best Institutional House in Korea" award for the second year in a row at the 2010 Best of the Best Country Awards, held by Asia Asset Management, a renowned Hong Kong-based investment magazine
- Received the "Asset Management Company of the Year" award at the Triple "A" Investment Awards 2010, held by The Asset, a Hong Kong-based investment magazine
- Named "Best Fund for Overseas Investment" at the 2010 Korea Fund Awards, hosted by the Korea Economic Daily (Hankyung) newspaper
- Received the "Best Prize for Overseas Investment Fund" at the 2010 Asian Fund Awards, hosted held by the Asia Economic Daily
- Received the Grand Prize in the Fund Management category at the 2010 Brands of the Year Awards, co-organized by the Korea Consumers Forum and Korea Economic Daily (Hankyung) newspaper

Net Income of Shinhan BNP Paribas Asset Management

(KRW in billions)

| | 2010 | 2009 | % Change |
|------------|------|------|----------|
| Net Income | 39.7 | 31.7 | 25.3% |

SPECIAL FEATURE

Shinhan Bank was founded in 1982, followed by the formation of the Shinhan Financial Group in 2001 to play a leading role in the paradigm shift within Korea's financial industry. This year we mark the 10th anniversary of the Group. As we look forward to the next ten years, we envision a steady improvement in value for our customers.



A Look Back on the 10th Anniversary of SFG



2001

Shinhan Financial Group Established

Our solution, to confront the global trend of consolidation and service integration in the financial industry, was the establishment of Shinhan Financial Group, the first privately held financial holding company in Korea. This transition enabled us to cross-sell products from the subsidiaries via integrated group networks, providing customers with a complete range of high-quality financial services. In addition, despite the general belief that expanded operational scale was a prerequisite for the higher competitiveness of financial institutions, SFG chose to differentiate itself by pursuing service integration first and seeking scale expansion through M&A later.

2002

Good Morning Securities & Jeju Bank Joined SFG; Shinhan Card Established

Good Morning Securities, which inherited the reputation of Ssanyoung Investment as the "military academy" of the Korean securities business, merged with Shinhan Securities to create Good Morning Shinhan Securities in 2002 (renamed Shinhan Investment Corp. in 2009). SFG also acquired Jeju Bank, which had the largest network in Jeju Island and enjoyed strong loyalty among local residents. Finally, Shinhan Bank's credit card unit was spun off as an independent credit card company for enhanced strategic efficiencies. These developments enabled the Group to establish a full lineup of products and services spanning banking, credit cards, securities, insurance and asset management. Subsequent expansion of the client base and sales channels provided the foundation for a new spurt of growth in the 21st century.



2003

SFG Listed on New York Stock Exchange

On September 16, 2003 we became Korea's first financial holding company to be listed on the New York Stock Exchange. This move helped to raise the transparency of our operations and expand the platform for attracting new investors. The holding company took on the stature of a world-class financial institution.

2005

Shinhan Life Insurance Joined SFG

In the history of the insurance industry of Korea, Shinhan Life has been a shining example of success with its record fast turnaround and unrivalled profitability. Since joining SFG, the company has maintained a solid fiscal standing and healthy growth in net income, positioning itself as a reliable profit contributor for the Group.

2006

Consolidation of Bank Subsidiaries

A new era unfolded when Chohung Bank(CHB) was merged with Shinhan Bank on April 1, 2006. When Shinhan Financial Group acquired CHB, the oldest bank in Korea, back in 2003, the Group decided to spend 3 years with "dual banks" in order to achieve cultural and operational integration in advance of the legal merger of the two banks. This entire procedure turned out to be an unprecedented success story in the Korean financial industry, and now, Shinhan Bank is committed to becoming the industry leader with optimal scale and efficiencies.



2007

LG Card Acquired & Integrated to Launch Shinhan Card

In October, 2007, LG Card, with over ten million credit cardholders, joined Shinhan Finance Group to launch the new integrated Shinhan Card. Industry-leading brand power and marketing capabilities had enabled LG Card to put a credit card in the hands of virtually every eligible person in Korea. That synergy provided the driving force to make Shinhan Card No. 1 in Asia and one of the Top 10 worldwide.

2009


Shinhan BNP Paribas Asset Management Launched

In January 2009, SFG's two asset management firms were merged to establish Shinhan BNP Paribas Asset Management. The union combined the strengths of SH Asset Management in domestic equity and fixed-income funds with the excellent know-how possessed by Shinhan BNP Paribas Investment Trust Management in overseas equity funds. This new company is well positioned to provide the very best customer service in Korea's asset management industry.

2010

Shinhan Way Proclaimed to Revitalize the Organizational Culture

Shinhan Financial Group started out as Shinhan Bank in 1982, growing exponentially ever since to open a new chapter in the history of the Korean financial sector. A project was launched in August 2009 to make over the SFG corporate culture in order to cope more effectively with the changing times and new challenges. This project culminated in the Group-level announcement of the "Shinhan Way" in January 2010. This set of shared core values aim to revolutionize the SFG organizational culture and reestablish the value system. Looking Ahead, the Shinhan Way will continue to expand with structural changes in the system and organizational units, providing a new growth impetus and a better future for the Shinhan Financial Group.

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Corporations must fulfill their role and obligations as a member of a society in order to earn the trust of customers, shareholders and society at large. The CSR activities at Shinhan Finance Group cover diverse areas under three major themes: “coexistence” (welfare), “sympathy” (culture) and “symbiosis” (environment). At the same time, we have elevated operational transparency by creating a Code of Ethics and running programs designed to put corporate ethics into practice.

Social Stewardship

Corporate Social Responsibility

Since its founding, Shinhan Financial Group has recognized the importance of fulfilling corporate social responsibilities and has consistently engaged in various CSR activities. In 2010, we selected “coexistence” (welfare), “sympathy” (culture) and “symbiosis” (environment) as our key CSR areas and carried out various relevant programs. Moreover, we were the first financial institution to announce plans to establish “win-win” partnerships with suppliers and to support underprivileged families, thereby leading the CSR trends in our industry.

To achieve sustainable growth, we closely examine our impact on the environment and society, and seek out ways that will allow all members of society to grow together from a long-term perspective. Under this commitment, Shinhan Bank became the first Korean financial institution to publish a CSR report in 2005 and joined the UN Global Compact in 2008. Moreover, the Bank was named “Best Enterprise” in the Banking category on the Dow Jones Sustainability Index (DJSI) Korea in 2009 and 2010.

Shinhan Financial Group was also the first financial holding company to publish a CSR report. We have been a Carbon Disclosure Project (CDP) signatory since 2007, and in 2010 the CDP Korea Advisory Committee named us the leader in the financial industry and the most improved from a year earlier.

Shinhan Financial Group, however, has not been complacent with these achievements. In August 2010, we became the first Korean financial institution to announce plans to support underprivileged people and small and medium-sized enterprises (SMEs). These plans call for a donation totaling KRW 220 billion by the end of 2013. We will continue to spare no effort to bring up our CSR activities in line with those of other global companies.

Major Activities in 2010

During 2010, we leveraged our advantages as a financial group to engage in various activities of the following three key areas: coexistence (welfare), sympathy (culture) and symbiosis (environment).

- **Activities Leveraging our Advantages as a Financial Group**
 - Expansion of the Shinhan Smile Microcredit Bank: The Shinhan Smile Microcredit Bank was established in December 2009 with KRW 50 billion in capital. We decided to increase the capital to KRW 70 billion and open additional branches to provide more convenient micro credit services. Seven branches are now in operation.
 - Support for SMEs to create jobs (Job S.O.S 4U): Under this program, 5,000 SME hires will receive KRW 300,000 each in their installment deposits annually for three years. A total of KRW 54 billion will be provided.
 - Support for SMEs and low-income families to reduce financial costs: We provided facility loans to SMEs at lowered interest rates and reduced the interest rate of “Shinhan Hope Loans,” which are offered to low-income families with lower credit ratings. In addition, we exempted basic livelihood security recipients from bank transaction fees.

- **Coexistence (Welfare)**

- Shinhan Mentoring Program: A new project launched in 2010. We match high school students from low-income families with university student volunteers, who help them with their studies and provide them with academic and career counseling.
- SFG Volunteer Corps: We organized the “SFG Volunteer Corps,” which covers all Group employees and provides community services at the Group level.
- Donation of KRW 5 billion to the Community Chest of Korea.
- Winter assistance for social organizations: We donated to some 250 social organizations to help pay heating bills and buy equipment.
- Sponsorship for the “Love Basketball Team,” a squad of mentally-challenged players, and the basketball championship for the mentally challenged, which was hosted by the Seoul Metropolitan Government.

- **Sympathy (Culture)**

- Protection of cultural assets: We mobilized our nationwide branch network and staff to protect cultural heritages across the country, and our employees volunteered to join the project to rebuild Sungnyemun Gate in Seoul.
- Protection of intangible cultural assets: We provided children from low-income families with field trips to palace compounds and other diverse cultural programs for the socially underprivileged.
- Shinhan Music Awards: Our employees voluntarily raise a fund to bestow awards and prize money, thereby identifying and supporting talented young classical music artists.

- **Symbiosis (Environment)**

- Establishment of greenhouse gas inventory system: We became Korea's first holding company that established an integrated GHG inventory system group-wide. DNV, an international organization for GHG inventory verification, inspected our system and certified it on 26 November 2010.
- It was a first among Korea's financial institutions.
- The “Youth Environment Camp” and photo contest to raise awareness about the environment.
- Support for community service centers to use energy in an eco-friendlier way: We helped community service centers to build photovoltaic power generation facilities, LED lighting equipment and rainwater collection systems. The money saved by using these items is used to run the community centers.



1. Hosting Children's Arts and Economics Training Camp
2. Sharing Briquette with our neighbors for the winter
3. Participating in the 1st Korea Grand Volunteer Festival

Ethical Management

Shinhan Financial Group has consistently run systematic ethical management programs to emerge as a top-tier financial institution that earns trust from customers, shareholders and society. All SFG subsidiaries have their own ethical management programs that are in line with their business characteristics. Ethical training sessions are provided for employees at each rank of the organization.

Ethical management serves as one of the main pillars in our management philosophy, which enhances the transparency of our management practices and fulfills our corporate social responsibilities. We have instituted and implemented codes of conduct and ethics, which serve as the standards that all employees must follow. At the same time, our subsidiaries have put their own ethical management programs into practice to reflect the nature of their respective businesses. All ethical management affairs are strictly supervised by compliance officers at the holding company and subsidiaries. In February 2010, we appointed a Chief Compliance Officer (CCO), who oversees the Group's internal control system and helps strengthen overall ethical management practices. This move was in line with the amendment of the Financial Service Modernization Act.

Establishing and Implementing Code of Ethics

We have enacted the "Code of Ethics for Financial Staff," to ensure transparent and accurate accounting and uphold the integrity of our financial information. Furthermore, all subsidiaries have adopted their own codes of ethics, which reflect their respective businesses, to prevent bribery and corruption and protect proprietary information. These codes cover the ethical values that any financial expert or responsible corporate citizen should embrace, serving as basic guidelines for our employees to follow in their day-to-day business activities. Since August 2010, SFG has run the Group Ethical Management Community of Practice (CoP), which consists of the ethical management officials at each subsidiary. The CoP helps to secure consistency in the various codes of ethics at the subsidiaries and to enhance employees' ethical awareness.

Creating Diverse Ethical Management Programs

We have established various action plans and programs that are designed to support the Group's management philosophy and subsidiaries' ethical codes so that ethical management is practiced in all daily operations. We are upgrading these programs annually to make sure that they remain relevant. In addition, every year all employees at each subsidiary are required to sign a business ethics pledge, which contains the gist of their organization's respective code of ethics. A total of 13,799 employees at Shinhan Bank signed the pledge in 2010, while those at Shinhan Card endorsed the "Promise of Shinhan Card Employees."

We also operate a Financial Transaction Report Program, designed to prevent conflicts of interest between our employees and outside organizations. Moreover, our Compliance Program (CP) aims to prevent unfair competition. In 2010, Shinhan Bank held two training sessions for

staff at head office departments, which face a relatively higher risk of violating fair transaction principles.

Improving the Transparency of Financial Practices

Shinhan Financial Group has a program that allows customers to report ethical or legal violations on the part of our employees. In addition, the Whistleblower Compensation Program rewards employees who report any violation of laws, bylaws or the code of ethics. These programs help prevent financial accidents. Regular on-/off-line training sessions are conducted to raise employee awareness about fair promotion opportunities, lawful stock trading & sound investment practices, and the ban on giving or receiving holiday gifts.

Enhancing Ethics and Compliance through Training

The Group organizes regular training programs to encourage strict compliance with ethical standards and laws in the conduct of all business activities. Every employee is required to attend at least one training session per year regarding ethics guidelines and legal compliance. The sessions include management strategy meetings, rank-based programs, and online courses.

Shinhan Bank sets every third week of the month as “Compliance Education Week” (ABC Week) to ensure training remains relevant and up to date. During the week, “Compliance Letters” are sent to employees, who introduce the most recent financial scandals, the latest financial laws, and best practices for business ethics and legal compliance.

Shinhan Card holds an annual online course on financial ethics for all employees. This program helps to raise employee awareness on legal compliance and prevent financial scandals. In 2010, a total of 3,285 employees completed the course. Moreover, the company conducts self-assessment of its legal compliance twice a year.

Shinhan Life Insurance has strengthened in-house training on ethics and compliance by publishing a code of ethics guidebook and compliance reference manual, compiling legal case studies, and regularly issuing memos on business ethics and compliance.

Shinhan Investment conducts an annual employee survey to assess their awareness on business ethics and compliance. The results are shared by employees and used to decide on the direction of ethical management going forward.

We remain committed to conducting our business ethically and fulfilling our social responsibilities as a corporate citizen, thereby ensuring our sustainability as a financial institution.



Financial Section

Profit generation based on sound asset quality is one of the core competitiveness of the financial services industry. Shinhan Financial Group has followed a policy of adhering to the basics, which resulted in improved profitability and asset quality amid a global financial crisis. For the past three years, we have achieved the best performance in the Korean financial industry and have laid the groundwork for a sustainable growth.

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Management's Discussion and Analysis

I. 2010 REVIEW

In 2010, the global economy started to recover from the deep recession brought on by the global financial crisis. However, some European countries continued to suffer fiscal crises, and tensions developed internationally over foreign exchange rates. These uncertainties acted as barriers to a full recovery.

The domestic financial market also saw some positive factors, including better-than-expected growth for the Korean economy, stronger demand for loans to finance new facilities and working capital, and higher interest revenue from interest rate hikes in the second half of the year. However, the market continued to be plagued by complex problems such as growing tensions between North and South Korea, stricter regulation of financial institutions, and ongoing concerns over fiscal soundness in some industries.

To overcome these problems, financial institutions worked closely with the Korean government to continue restructuring industries that were distressed by weak competitiveness and poor business prospects. Moreover, financial institutions adopted industry-wide "Guidelines for project financing (PF) business review and asset qualification" to address troubled PF loans for real estate. They also implemented stricter standards for classifying asset quality.

Shinhan Financial Group was among the first financial institutions in Korea to recover profitability and financial soundness. Solid loan growth also resumed, helping the Group to regain market confidence. Shinhan Financial Group implemented a strict risk management program and adhered to the basics, thereby posting the highest performance among

Korean financial holding companies for the third straight year. Such results provide the momentum for Shinhan Financial Group secure sustainable growth ahead of the competition in the post-crisis era.

The Group's 2010 net profit stood at KRW 2.38 trillion on a consolidated basis, up 82.6% from the 2009 figure of KRW 1.31 trillion.

Most of the improvement came from the recovery of the banking segment. Interest income of Shinhan Bank (SHB) rose 20.3% year on year due to higher net interest margin and resumed loan growth. Moreover, the restructuring of distressed enterprises and industries dropped in terms of scale compared with 2009, when the structural adjustment began. As a result, loan loss provisioning of SHB was reduced 17.4% year on year, raising banking subsidiaries' combined net income by 119.3% from 2009 to reach KRW 1.66 trillion in 2010.

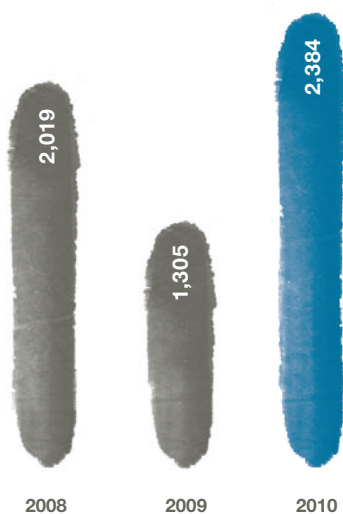
Non-banking subsidiaries recorded a combined net income of KRW 1.54 trillion in 2010, up 35.2% from the previous year. Their contribution to the Group's net income returned to the pre-crisis level of 48% from the excessive 60% posted in 2009, as banking subsidiaries' net income rebounded. To break down the total by subsidiary, Shinhan Card posted KRW 1.1 trillion in net income, and Shinhan Life Insurance realized KRW 210.6 billion. Furthermore, net income for Shinhan Investment was KRW 138.9 billion; Shinhan Capital, KRW 56.1 billion. Shinhan BNP Paribas Asset Management also contributed KRW 25.8 billion.

In 2010, total Group assets increased 4.3% year on year. The

Group's total loan grew by 6.0% as demand for loans from large enterprises and household mortgage loans began to increase again, and credit card assets were up 13.4% as a result of active marketing.

The Group's non-performing loan(NPL) ratio remained low at 1.43% at year's end, thanks to the quality growth strategy, tighter credit risk management, and massive NPL write-off and disposal. At the end of 2010, NPL ratio stood at 1.31% for Shinhan Bank and 1.62% for Shinhan Card. The NPL coverage ratio was 137% for the Group, 133% for Shinhan Bank and 201% for Shinhan Card, all significantly better than the industry average. Thus, the Group is in a stronger position to deal with potential bad loans in the future.

Net Income of Shinhan Financial Group
(KRW in billions)



II. SUMMARY OF THE REPORTED INCOME STATEMENTS (PROFITABILITY AND MARKET POSITION)

1. SHINHAN FINANCIAL GROUP

SFG Condensed Income Statements

(KRW in billions)

| | 2010 | 2009 | % Chg |
|--------------------------------|----------------|---------|-------|
| Total Operating Income | 8,561.1 | 7,710.8 | 11.0 |
| Interest income | 7,784.9 | 6,507.3 | 19.6 |
| Non-interest income | 776.2 | 1,203.5 | -35.5 |
| SG&A Expense | 4,218.5 | 3,968.8 | 6.3 |
| Pre-provision Operating Income | 4,342.5 | 3,741.9 | 16.1 |
| Non-operating Income | -146.4 | -118.4 | n.a |
| Pre-provision Income | 4,196.1 | 3,623.5 | 15.8 |
| Loan Loss Provision | 1,107.4 | 1,644.0 | -32.6 |
| Pre-tax Income | 3,088.8 | 1,979.5 | 56.0 |
| Income Tax Expense | 717.6 | 666.7 | 7.6 |
| Consolidated Net Income | 2,383.9 | 1,305.3 | 82.6 |

Shinhan Financial Group posted KRW 2.38 trillion in consolidated net income for 2010, up 82.6% from the previous year to post the industry's best performance for the third year in a row. This was made possible because SFG improved asset quality by implementing proactive risk management. The Group's credit cost ratio was improved despite additional provisions for distressed PF loans, constructors, shipbuilders,

Management's Discussion and Analysis

shipping companies and real estate owners. The banking subsidiaries saw their profitability recover as their net interest margin (NIM) rebounded, while loan growth was resumed. In addition, the net income from non-banking subsidiaries also increased.

The Group was committed to solidifying the core competences of each subsidiary by capitalizing on the nationwide distribution channel network and strong customer base as well as a balanced business portfolio between the banking and non-banking subsidiaries. The banks focused on recovering profitability in core business areas, while the non-banking subsidiaries, in particular the credit card and life insurance firms, strove to expand their profit-generation platforms. Importantly, all of our major 6 non-banking subsidiaries posted sound double-digit net income growth rates in 2010.

To look at the results by operating income category, interest income increased 19.6%, as the Group NIM rose by 46 basis points in 2010 from the previous year. However, the increase in fees and commission expenses Shinhan Card had to pay lowered non-interest income by 35.5% year on year despite the rise in fee income from the sales of mutual funds and bancassurance products and the gain on sale of available-for-sale stocks.

Meanwhile, SG&A expenses rose 6.3% because of the raise in basic salary for bank and credit card employees, increase in advertising expenses, and additional expense for goodwill amortization. Shinhan Bank and other subsidiaries set aside additional provisions for bad debt expenses as a result of the

3rd round of corporate restructuring of enterprises with credit line of more than KRW 50 billion, continued restructuring of construction, shipbuilding and shipping companies, and the application of real estate PF guidelines. Despite these additional provisions, the sum of provisions for loan losses was reduced by 32.6% year on year due to improvement of overall asset qualities. As a result, the credit cost ratio for the Group was stabilized at 60 basis points.

Subsidiaries Income*

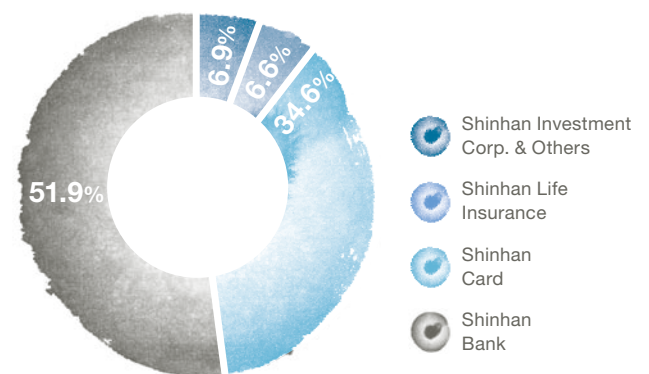
(KRW in billions)

| | 2010 | 2009 | % Chg |
|----------------------------|----------------|---------|-------|
| Banking (a) | 1,661.5 | 757.5 | 119.3 |
| Shinhan Bank | 1,648.4 | 748.7 | 120.2 |
| Jeju Bank | 13.1 | 8.8 | 47.8 |
| Non-Banking (b) | 1,539.7 | 1,138.7 | 35.2 |
| Shinhan Card | 1,107.0 | 856.8 | 29.2 |
| Shinhan Investment Corp. | 138.9 | 44.2 | 214.3 |
| Shinhan Life Insurance | 210.6 | 174.0 | 21.1 |
| Shinhan Capital | 56.1 | 38.4 | 46.1 |
| Shinhan BNPP AM | 25.8 | 20.6 | 25.3 |
| Shinhan Credit Information | 1.0 | 1.1 | -11.5 |
| Shinhan Private Equity | 0.2 | 3.6 | -93.9 |
| Total Income (a+b) | 3,201.2 | 1,896.2 | 68.8 |
| Consolidated Net Income | 2,383.9 | 1,305.3 | 82.6 |

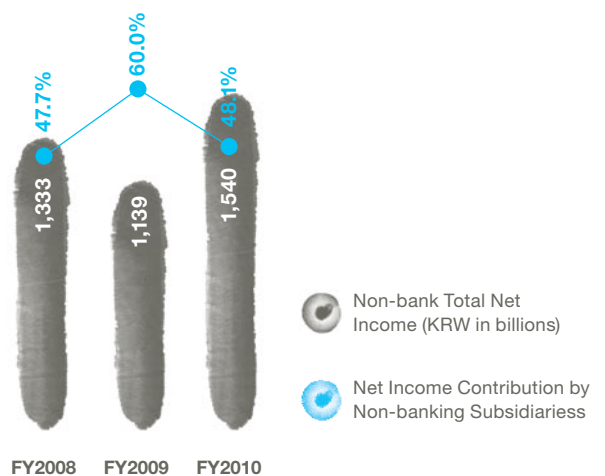
* Reflecting ownership by SFG

Breaking down Group performance by individual units, the banking subsidiaries enjoyed a 119.3% increase in net income thanks to the recovery of NIM and reduced loan loss provisions, while Shinhan Card, Shinhan Investment, Shinhan Life Insurance and other non-banking subsidiaries also collectively posted a 35.2% increase in net income. Shinhan Card saw a 29.2% increase in profits, as the company stably increased credit purchases, maintained a proper margin rate by acquiring stable access to funding, and realized one-off gains from a corporate tax refund. The net income of Shinhan Investment surged 214.3% year on year thanks to the reduction of provisioning for losses from real estate project financing. Meanwhile, Shinhan Life Insurance maintained solid growth with a 21.1% year-on-year rise in profits thanks to higher insurance margin, as the initial premium payment volume rose, and the insurance retention rates remained stable.

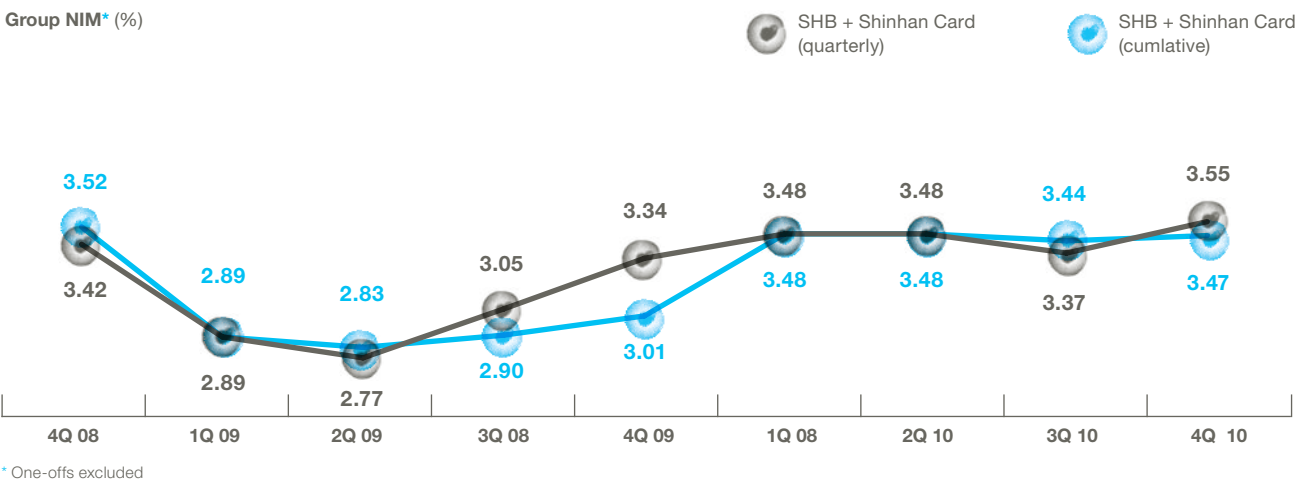
Net Income Contribution by Subsidiaries



Net Income Contribution by Non-banking Subsidiaries
(KRW in billions)



Management's Discussion and Analysis



2. SHINHAN BANK

1) Overview

Net income at Shinhan Bank soared by 120.2% year on year to reach KRW 1.65 trillion in 2010. The bank's interest income reached KRW 4.48 trillion, up 20.3% thanks to a 41bps-increase in the annual net interest margin. Non-interest income stood at KRW 1.28 trillion, up 13.7%. Commissions from mutual fund and bancassurance sales were increased, and incomes related to securities were up thanks to the sales of Hynix and Daewoo International shares. However, loss on foreign exchange translation for securities under the equity method and loss on disposal of loans offset the gains mentioned above.

The bank's SG&A expenses rose 1.2%. This increase is attributable to wage hikes and higher administrative expenses

that typically rise as operation picks up. The bank's annual loan loss provision was lowered by 17.4% to stand at KRW 1.08 trillion in 2010. This resulted from the reversal of bad debt provisions for exposure to Kumho Group and decreased provision volume for loan losses regarding the construction, shipbuilding and shipping industries despite additional loan loss provisioning for distressed PF loans and 3rd round of corporate restructuring.

2) Interest Income & Net Interest Margin (NIM)

Shinhan Bank's interest income was up 20.3% year on year, as the loan asset balance grew 5.0% and the net interest margin (NIM) was raised by 41 basis points to reach 2.13% at the end of 2010. The main reason for the NIM improvement can be attributed to both the operation and funding sides. The Bank offered differentiated interest rates in consideration of the credit

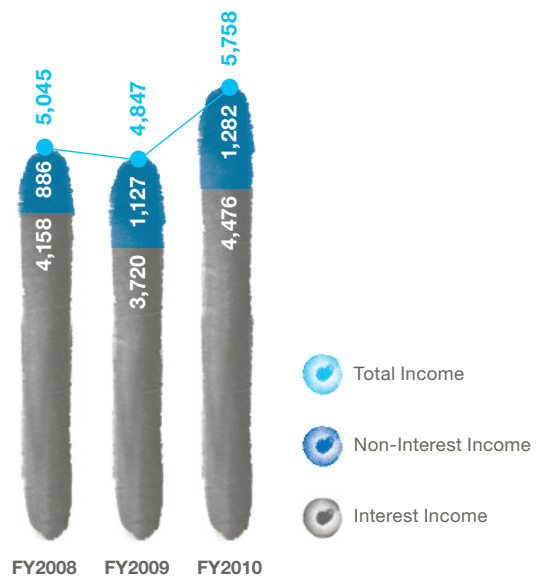
risks for individual loans. At the same time, re-pricing of loan was taking place in response to escalating market interest rates starting 2nd half of 2010. For the funding side, Shinhan Bank was able to curb the rise in funding cost by attracting low-cost deposits and retaining low interest-bearing time deposits. Such efforts to secure appropriate margins paid off, and the NIM returned to the pre-crisis level.

SHB Condensed Income Statements

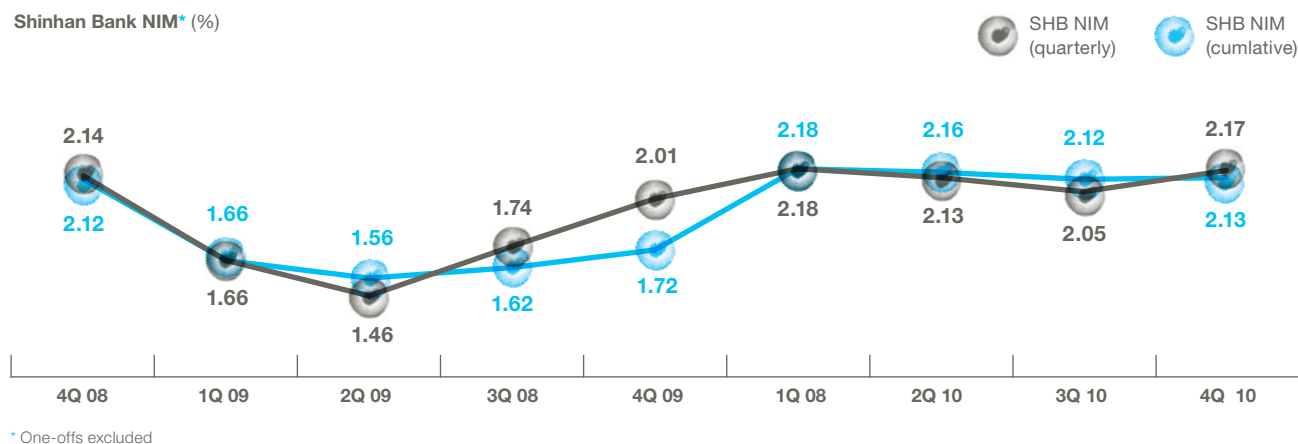
(KRW in billions)

| | 2010 | 2009 | % Chg |
|----------------------|----------------|---------|-------|
| Total Income | 5,758.0 | 4,847.3 | 18.8 |
| Interest income | 4,476.4 | 3,720.1 | 20.3 |
| Non-interest income | 1,281.6 | 1,127.2 | 13.7 |
| SG&A Expense | 2,394.3 | 2,366.0 | 1.2 |
| Operating Income | 3,363.7 | 2,481.3 | 35.6 |
| Non-operating Income | -171.8 | -104.7 | n.a. |
| Pre-provision Income | 3,192.0 | 2,376.6 | 34.3 |
| Loan Loss Provision | 1,075.1 | 1,301.6 | -17.4 |
| Pre-tax Income | 2,116.8 | 1,075.0 | 96.9 |
| Net Income | 1,648.4 | 748.7 | 120.2 |

SHB Interest Income, Non-Interest Income, and Total Income
(KRW in billions)



Management's Discussion and Analysis



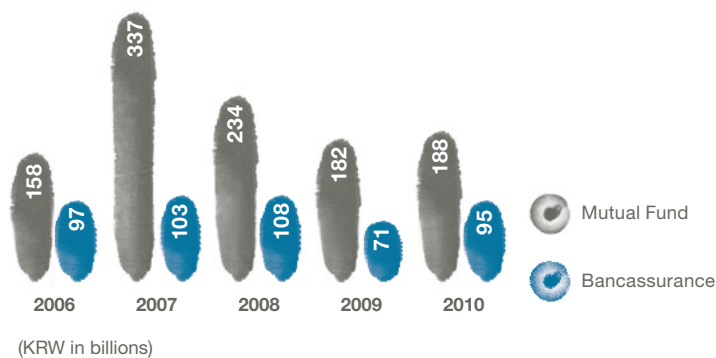
3) Non-interest Income

| | (KRW in billions) | | |
|---------------------|-------------------|---------|-------|
| | 2010 | 2009 | % Chg |
| Non-Interest Income | 1,281.6 | 1,127.2 | 13.7 |
| Fees & commissions | 836.0 | 773.8 | 8.0 |
| (Mutual fund) | 188.3 | 182.3 | 3.3 |
| (Bancassurance) | 94.7 | 71.1 | 33.1 |
| Trust fees | 34.7 | 41.0 | -15.5 |
| Securities related | 719.4 | 326.1 | 120.6 |
| Others | -308.5 | -13.7 | n.a. |

Shinhan Bank's non-interest income grew by 13.7% year on year to reach KRW 1.28 trillion in 2010. Commissions from mutual fund and bancassurance sales increased 3.3% and 33.1%, respectively. Securities related income, including gain

on sales of Hynix and Daewoo International shares were also up by KRW 393.3 billion or 120.6%. However, the weaker Won currency translated into a valuation loss on foreign-currency-denominated securities under the equity method and losses were also incurred on the disposal of loans.

Fees and Commissions from Mutual Fund/ Bancassurance Sales



Insurance fees on deposits and contribution to credit guarantee fund increased as balances of deposits and loans grew. All of these losses and expenses amounted to KRW 308.5 billion and somewhat offset the above-mentioned gains.

4) Sales, General and Administrative Expenses

Overall SG&A expenses were up only 1.2% in 2010 from the previous year despite a payroll hike after a three-year wage freeze and an increase in other administrative expenses such as advertising, IT expenses, rental costs and service outsourcing fees. However, the increase in expenses was kept to a minimum partially because one-time items in 2009 such as costs incurred in an early retirement program and expenses recognized by the change of accounting method were off the 2010 income statements.

Shinhan Bank's cost-to-income ratio remained at 40.6% in 2010, down 6.8%p from 2009 despite higher expenses. This was made possible by ongoing efforts to control unnecessary expenses coupled with higher operating income in 2010.

| SG&A Expenses | | (KRW in billions) | |
|----------------|----------------|-------------------|-------|
| | 2010 | 2009 | % Chg |
| SG&A Expenses | 2,394.3 | 2,366.0 | 1.2 |
| Labor costs | 976.2 | 1,209.7 | -19.3 |
| Admin expenses | 1,147.3 | 823.1 | 39.4 |
| D&A costs | 174.0 | 234.6 | -25.8 |
| Taxes & dues | 96.7 | 98.6 | -1.9 |

3. SHINHAN CARD

1) Overview

In 2010, the global economy began to recover from the global financial crisis, and the Korea economy showed signs of a faster-than-expected recovery. As a result, private consumption picked up throughout the year, boosting credit card usage, especially credit purchases. Total transaction volume amounted to KRW 517.4 trillion in 2010, up 9.9% from the 2009 figure of KRW 470.8 trillion.* The number is similar to a pre-crisis level of KRW 517.3 trillion recorded in 2003. The business climate was favorable to the Korean credit card industry, thus the industry showed solid financial performance. Domestic mono-line credit card firms, including Shinhan Card, have continued to increase their market dominance since 2009, as these companies typically are faster in responding to and making decisions for market changes, quicker in implementing marketing strategies, and more active in creating new fields for credit card usage.

Shinhan Card is the leading credit card company in Korea in terms of transaction volume and number of effective cardholders. Preemptive risk management methods adopted in the wake of the financial crisis continued to improve customer credit portfolio and asset quality in 2010. With this intact, the operating income increased thanks to the recovering economy and aggressive marketing, funding cost were saved due to the low interest rate environment, burden on loan loss provisioning was mitigated due to asset quality improvement, and there were one-off gains from tax return. As a result, Shinhan Card recorded net income of KRW 1.1 trillion in 2010.

* Financial Supervisory Service Press Release, "2010 Operational Results of (Korean) Credit Card Companies" (Mar. 10, 2011)

Management's Discussion and Analysis

In 2011, we expect more bank affiliated credit card companies to be converted into mono-line credit card companies, raising the level of competition over market dominance. Meanwhile, various factors are expected to have an adverse effect on profitability and financial stability. For example, Korea's economic growth rate will slow; the government is expected to tighten regulations governing merchant discount fees, and rising interest rates will place a greater burden on credit cardholders. Therefore, Shinhan Card will refrain from aggressive competition over market share, focusing instead on steady profitability and risk management.

2) Income Statement Analysis

Condensed Income Statements of Shinhan Card* (KRW in billions)

| | 2010 | 2009 | % Chg |
|-------------------------|----------------|---------|-------|
| Operating Revenue | 4,113.7 | 3,774.8 | 9.0 |
| Interest Expenses | 738.6 | 683.0 | 8.1 |
| SG&A Expenses | 726.3 | 668.0 | 8.7 |
| Fees and Other Expenses | 1,495.9 | 1,240.2 | 20.6 |
| Operating Income | 1,152.8 | 1,183.7 | -2.6 |
| Non-operating Income | -5.4 | -10.0 | n.a. |
| Pre-provision Income | 1,147.4 | 1,173.7 | -2.2 |
| Loan loss Provision | -32.6 | 73.1 | n.a. |
| Pre-tax Income | 1,180.1 | 1,100.6 | 7.2 |
| Income Tax | 73.0 | 243.8 | -70.0 |
| Net Income | 1,107.0 | 856.8 | 29.2 |

* On a managed basis

Increased transaction volume and aggressive marketing served to boost operating revenue 9.0% year on year in 2010. Shinhan Card's total transaction volume topped KRW 125 trillion, up 17% from 2009.

Interest expense paid in 2010 was 8.1% or KRW 55.6 billion higher than a year earlier because the average asset balance increased with the pick-up in the business activity and accordingly total funding also increased to fuel the asset growth. The average balance of operational assets in 2010 stood at KRW 18.5 trillion, which was KRW 2 trillion higher than the KRW 16.5 trillion posted a year earlier. On the other hand, the interest expense ratio (interest paid divided by average operating assets) dropped 0.1p%, from 4.1% in 2009 to 4.0% in 2010, well reflecting the favorable funding conditions of 2010.

Higher advertising expenses, early retirement program implementation, and wage hikes combined to raise SG&A expenses 8.7% year on year. A 20.6% increase in fee expenses & other operating expenses was mainly due to the increased transaction volume. Marketing expenses, cardholder recruitment commission expenses, and credit card transaction processing expenses rose across the board.

Shinhan Card's gain on recovery from written-off assets totaled KRW 367.1 billion in 2010, down KRW 14.2 billion from the KRW 381.3 billion in 2009. The gain on recovery is mainly reflected as a reduction of the loan loss provisioning in the income statements. An encouraging point is that the stream of recovery remains healthy, even though the assets are aging. This can be attributed to the advanced recovery system and method Shinhan Card have placed and further refined. As of the end of 2010, the

ending balance of Shinhan Card's written-off assets is 6.3 trillion, and the recovery is expected to remain as the company's key source of income for several more years going forward. Despite the lessened recovery from written-off assets in 2010, steady improvement in asset soundness during the year allowed the current provision for loan losses to be decreased significantly, thereby resulting a reversal of loan loss provisioning for the full year.

Pretax income was higher in 2010 than in the previous year. However, a one-time income tax refund of KRW 195.5 billion received at year's end actually lowered the amount of income tax expense by 70% or KRW 170.8 billion. Altogether, Shinhan Card recorded more than KRW 1.1 trillion in net profit for 2010, an increase of 29.2% from the year before.

4. SHINHAN INVESTMENT CORP.

Expanded global liquidity from US quantitative easing and expectations about the global economic recovery directed capital flow into emerging markets despite lingering uncertainties regarding the European fiscal crisis and worries over possible Chinese austerity measures. Domestically, Korea's benchmark index KOSPI broke through the 2000 mark; the low-interest rates persisted through year's end in the bond market, and the market for advisory wrap accounts grew rapidly. As such, the business environment for the securities business saw major changes, almost all of which were positive.

Operating income for Shinhan Investment stood at KRW 171.4 billion in 2010, a 339.5% increase from the previous year, while net income also rose 214.4% year on year to reach KRW 138.9 billion.

Condensed Income Statements of Shinhan Investment Corp.

(KRW in billions)

| | CY2010 | CY2009 | % Chg |
|------------------------|--------------|--------|-------|
| Operating Revenue | 574.6 | 594.3 | -3.3 |
| Commissions received | 400.1 | 436.0 | -8.2 |
| Net trading gain | 77.4 | 101.9 | -24.0 |
| Other operating income | 97.1 | 56.5 | 71.9 |
| Operating Expenses | 403.2 | 555.3 | -27.4 |
| SG&A expense | 353.2 | 341.6 | 3.4 |
| Commission expense | 46.9 | 56.6 | -17.1 |
| Loan loss provision | 3.1 | 157.1 | -98.0 |
| Operating Income | 171.4 | 39.0 | 339.5 |
| Net Income | 138.9 | 44.2 | 214.4 |

Breaking down the operating revenue by category, commissions received were down 8.2% as the company's offline market share dropped from 0.75% in 2009 to 0.57% a year later. The decline can be attributed to two factors: first, foreign investors lead the market and the weight of transactions by individual investors in the overall market fell. Second, a high percentage of market transactions was for equity-linked warrants, which pay a low commission rate.

As for financial products, individual investors continued to redeem their investments throughout the year, causing commissions received on beneficiary certificate sales to drop 1.4% year on year. By contrast, hybrid sales commissions,

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wrap account fees and trust management commissions was much higher in 2010 than a year earlier. At the same time, IB related commissions, to include underwriting commissions and consulting fees, rose 8.6%. Major deals such as the IPO of Samsung Life Insurance were highly successful, bolstering the stature of the traditional investment banking business.

Net trading gains include the net gains on sales and valuation of trading securities and derivatives. The net trading gains totaled KRW 77.4 billion in 2010, a 24% drop from the KRW 101.9 billion of the previous year. Gains on equity trades fell as a result of less favorable market condition compared to 2009, and gains on fixed income and derivatives, either from sales or valuation of such securities, fell as interest rate started to hike in the 2nd half of 2010.

| Commissions Received (KRW in billions) | | | |
|---|---------------|--------|-------|
| | CY2010 | CY2009 | % Chg |
| Commissions received | 400.1 | 436.0 | -8.2 |
| Brokerage commissions | 308.4 | 361.8 | -14.8 |
| Commissions on hybrid sales | 20.8 | 8.5 | 144.7 |
| Commission on BC/MF Sales | 13.7 | 13.9 | -1.4 |
| Wrap account fees | 2.9 | 2.5 | 16.0 |
| Commission on trust mgt. and RP sales | 8.9 | 7.8 | 14.1 |
| IB related commission* | 40.5 | 37.3 | 8.6 |
| Other commissions | 4.8 | 4.2 | 14.3 |

* Including fees and commissions from underwriting, IPO, M&A consulting, and project financing advisory

Interest income was up 29.2% year on year to reach KRW 87.1 billion in 2010. The improved performance is attributable to increased interest income from loans to customers. Additionally, there was a growth in interest income on margin deposits made at the Korea Securities Finance Corporation. Turning to operating expenses, SG&A expenses rose 3.4%, from KRW 341.6 billion in 2009 to KRW 353.2 billion in 2010 as a result of higher advertising expenses and education taxes. The provision for loan losses ballooned in the wake of the global financial crisis but was reduced by 98% (KRW 3.1 billion) in 2010 with the normalization of the operation and recovery of provisions related to Kumho Group exposure.

| SG&A Expenses (KRW in billions) | | | |
|--|---------------|--------|-------|
| | CY2010 | CY2009 | % Chg |
| SG&A Expenses | 353.2 | 341.6 | 3.4 |
| Salary | 219.3 | 224.9 | -2.5 |
| Other general expenses | 119.4 | 102.8 | 16.1 |
| Depreciation | 14.5 | 13.9 | 4.1 |

Trading Volume & Market Share

The volume of stocks traded through Shinhan Investment Corp. reached KRW 250 trillion in 2010, up 3.9% from the previous year. These stocks represented 5.4% of the market, the same level as in 2009. Meanwhile, the company traded KRW1, 445 trillion worth of futures an increase of 13.9% year on year, while the share of the futures market actually declined 0.9%p to 7.4%. Finally, the options trading volume amounted to KRW 41 trillion in 2010, a 14.4% decline from the year before, and the company's share of the options market also fell 3%p to 6.5%.

Trading Volume

(KRW in trillions)

| | CY2010 | CY2009 | % (%p) Chg |
|---------|--------|--------|------------|
| Stocks | 250 | 241 | 3.9 |
| Futures | 1,445 | 1,269 | 13.9 |
| Options | 41 | 48 | -14.4 |

Market Share

| | CY2010 | CY2009 | % (%p) Chg |
|---------|--------|--------|------------|
| Stocks | 5.4% | 5.4% | - |
| Futures | 7.4% | 8.3% | -0.9 |
| Options | 6.5% | 9.5% | -3.0 |

5. SHINHAN LIFE INSURANCE

Shinhan Life Insurance posted KRW 210.6 billion in net income for 2010, up 21.0% from the previous year. Insurance margin increased 38.1% year on year on the back of higher premiums written. This rise, in turn, was due to an expanded sales network and an increase in monthly initial premiums (up 11.5% YoY).

Investment income was 21.2% higher in 2010 than in the previous year. This growth is attributable to two major factors. First, interest income rose (up KRW 62.0 billion YoY) with the management of a stable asset portfolio weighted towards mid to long-term bonds. Second, gains on sales of securities were

improved (up KRW 44.5 billion YoY) with the realization of gains from bond trading under a low interest rate environment.

Therefore, total operating income increased 36.6% year on year. On the other hand, the provision of policy reserves increased by 38.8% to accommodate the expanded business in force, allowing pre-tax income to rise KRW 23.9% over 2009.

Condensed Income Statements of Shinhan Life Insurance

(KRW in billions)

| | CY2010 | CY2009 | % Chg |
|-----------------------------------|---------|---------|-------|
| Insurance margin | 1,597.3 | 1,157.0 | 38.1 |
| Premiums income | 3,565.6 | 2,879.8 | 23.8 |
| Insurance claims paid(-) | 1,255.9 | 1,124.3 | 11.7 |
| Net reinsurance income | -0.1 | -0.9 | n.a. |
| Operating expenses(-) | 712.3 | 597.6 | 19.2 |
| Net Investment Income | 519.3 | 428.5 | 21.2 |
| Others | -15.6 | -19.1 | n.a. |
| General Account Operating income | 2,101.0 | 1,566.4 | 34.1 |
| Separate Account Operating income | -46.7 | -62.2 | n.a. |
| Total Operating income | 2,054.3 | 1,504.2 | 36.6 |
| Provision of Policy Reserve(-) | 1,776.2 | 1,279.8 | 38.8 |
| Pre-tax Income | 278.1 | 224.4 | 23.9 |
| Net Income | 210.6 | 174.0 | 21.0 |

Management's Discussion and Analysis

III. BALANCE SHEET REVIEW & ASSET QUALITY

1. SHINHAN FINANCIAL GROUP

1) Total Assets

| SFG Condensed Balance Sheets | | | |
|---|-------------------|----------------|------------|
| | (KRW in billions) | | |
| | 2010 | 2009 | % Chg |
| Cash and due from banks | 14,687 | 15,855 | -7.4 |
| Securities | 54,824 | 51,292 | 6.9 |
| Loans | 176,927 | 166,964 | 6.0 |
| (Loan loss allowances) | 3,649 | 3,597 | 1.4 |
| Properties, premises and equipments | 2,362 | 2,324 | 1.6 |
| Other assets | 17,233 | 18,583 | -7.3 |
| Total Assets | 266,032 | 255,018 | 4.3 |
| Deposits | 153,083 | 147,737 | 3.6 |
| Borrowings | 19,901 | 18,098 | 10.0 |
| Debentures | 39,716 | 39,905 | -0.5 |
| Other liabilities | 30,134 | 28,155 | 7.0 |
| Total liabilities | 242,834 | 233,895 | 3.8 |
| Paid-in capital | 2,852 | 2,852 | - |
| Capital surplus | 9,925 | 9,925 | - |
| Capital Adjustment | -391 | -417 | -6.3 |
| Accumulated other comprehensive income | 1,382 | 1,183 | 16.9 |
| Retained earnings | 8,956 | 7,183 | 24.7 |
| Non-controlling interest | 473 | 397 | 19.1 |
| Total shareholders' equity | 23,198 | 21,123 | 9.8 |
| Total Liabilities and Shareholders' Equity | 266,032 | 255,018 | 4.3 |

Total assets for the Shinhan Financial Group on a consolidated basis stood at KRW 266 trillion at the end of 2010, which was 4.3% or KRW 11 trillion higher than the figure posted for the previous year. By category, loans were up KRW 10 trillion, while cash and due from banks fell by KRW 1.2 trillion. The Group's total deposits at the end of 2010 were 3.6% higher year on year. Reliance on wholesale funding (i.e. raising capital by issuing CDs and bonds) continued to be reduced in 2010, while the percentage of retail funding from deposits was further increased to ensure stable liquidity for the Group.

The Group's total assets calculated by adding up bank trust accounts and AUM of Shinhan BNPP Asset Management, came to KRW 309 trillion at the end of 2010, which was KRW 4.9 trillion (1.6%) higher than at the end of 2009. The increase was slight because the balanced growth in assets achieved

| Asset Breakdown by Subsidiary | | | |
|-------------------------------|-------------------|----------------|------------|
| | (KRW in billions) | | |
| | 2010 | 2009 | % Chg |
| Banks | 237,343 | 236,493 | 0.4 |
| Shinhan Bank | 234,315 | 233,537 | 0.3 |
| Jeju Bank | 3,028 | 2,956 | 2.4 |
| Non-Banks | 67,901 | 63,764 | 6.5 |
| Shinhan Card | 21,097 | 17,573 | 20.1 |
| Shinhan Investment Corp. | 9,611 | 7,552 | 27.3 |
| Shinhan Life Insurance | 11,956 | 10,055 | 18.9 |
| Shinhan Capital | 3,782 | 3,684 | 2.6 |
| Shinhan BNPP AM | 21,456 | 24,900 | -13.8 |
| Total Assets* | 308,753 | 303,902 | 1.6 |

* Including bank trust accounts and AUM of Shinhan BNPP AM

by Shinhan Card, Shinhan Investment Corp. and Shinhan Life Insurance was offset by the drop in AUM at Shinhan BNPP Asset Management resulting from continued mutual fund redemption throughout the year.

2) Total Deposits

| Total Deposits (KRW in billions) | | | |
|---|----------------|---------|-------|
| | 2010 | 2009 | % Chg |
| Total Deposits | 153,083 | 147,737 | 3.6 |
| Shinhan Bank | 143,729 | 139,235 | 3.2 |
| Low-cost deposits | 44,022 | 42,184 | 4.4 |
| Time deposits | 82,661 | 73,945 | 11.8 |
| Installment deposits | 99 | 144 | -31.1 |
| CDs | 2,848 | 7,357 | -61.3 |
| RPs & bills sold | 389 | 681 | -42.9 |
| Deposits in FC | 3,913 | 5,018 | -22.0 |
| Trust accounts | 9,796 | 9,905 | -1.1 |
| Shinhan Investment Corp. | 926 | 921 | 0.5 |
| Jeju Bank | 2,398 | 2,349 | 2.0 |
| Others | 6,484 | 5,696 | 13.9 |
| Intra Transactions (-) | 454 | 464 | -2.2 |

Group deposits totaled KRW 153 trillion at the end of 2010, an increase of KRW 5.3 trillion (3.6%) year on year fueled by the KRW 4.5 trillion (3.2%) growth in deposits at Shinhan Bank. As in 2009, customers continued their flight to quality from the mutual fund market to time deposits at banks in search of safer assets in 2010. At the same time, the banks worked to expand

the percentage of deposits in their portfolios to stabilize the loan to deposit ratio. These developments combined to drive time deposits up KRW 8.7 trillion (11.8%) from 2009.

3) Total Loans

| Total Loans (KRW in billions) | | | |
|--------------------------------------|----------------|---------|-------|
| | 2010 | 2009 | % Chg |
| Total Loans | 176,927 | 166,964 | 6.0 |
| SHB | 144,679 | 136,596 | 5.9 |
| Bank accounts | 144,152 | 135,973 | 6.0 |
| Trust accounts | 527 | 623 | -15.4 |
| Shinhan Card | 19,623 | 17,158 | 14.4 |
| Shinhan Investment | 849 | 941 | -9.8 |
| Shinhan Life | 2,592 | 2,520 | 2.9 |
| Shinhan Capital | 3,205 | 3,250 | -1.4 |
| Jeju Bank | 2,198 | 2,211 | -0.6 |
| Others | 3,843 | 4,323 | -11.1 |
| Intra-transactions (-) | 62 | 35 | 74.3 |

The Group's total loans were KRW 10 trillion (6.0%) higher at the end of 2010 than they were the year before, reaching KRW 176.9 trillion. Most of this increase was at Shinhan Bank, where home mortgage loans and loans to large corporations saw the greatest increase. Asset growth at the credit card subsidiary was primarily in credit card purchases and card loans—areas that pose relatively low risk. Finally, Shinhan Life Insurance realized modest growth in assets through the increase of new life insurance contracts.

Management's Discussion and Analysis

4) Group Asset Quality

As of the end of 2010, the Group's non-performing loan (NPL) ratio went up 13 basis points (bp) from the previous year to record 1.43%. The increase was due to higher NPL ratios at Shinhan Bank, Shinhan Investment and Shinhan Capital. These subsidiaries downgraded the quality of certain assets by implementing the 3rd round of corporate restructuring for distressed companies and by following the real estate PF guidelines.

Except for the one-off fluctuation, Group subsidiaries' asset quality ratios were mostly improved at the end of 2010 compared with the figures posted year earlier. Importantly, the NPL ratio of 1.31% at Shinhan Bank was the lowest among Korean banks.

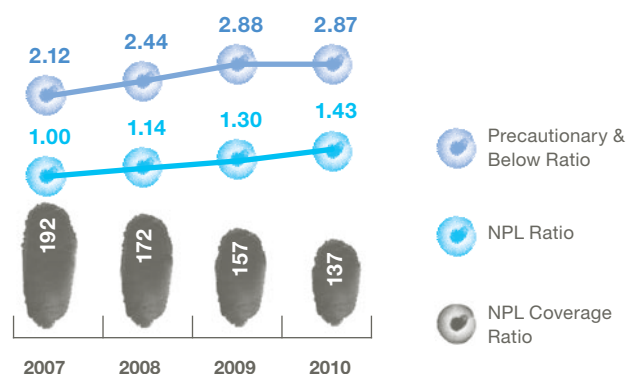
Group Asset Quality

(KRW in billions)

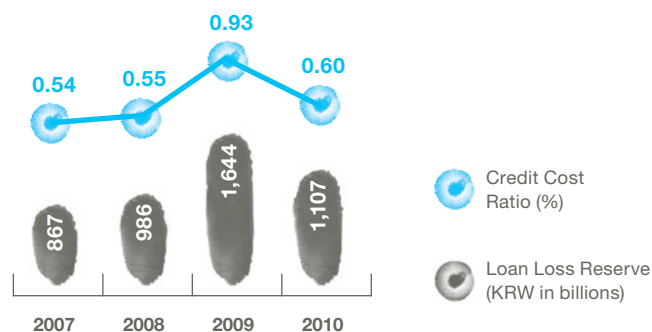
| | 2010 | 2009 | % (%p) Chg |
|---------------------|---------|---------|------------|
| Total Loans* | 183,718 | 176,737 | 4.0 |
| Normal | 178,445 | 171,642 | 4.0 |
| Precautionary | 2,651 | 2,795 | -5.2 |
| Substandard | 1,502 | 1,148 | 30.8 |
| Doubtful | 614 | 524 | 17.2 |
| Estimated Loss | 507 | 628 | -19.4 |
| Substandard & below | 2,622 | 2,300 | 14.0 |
| NPL Ratio | 1.43% | 1.30% | 0.13 |
| Loan Loss Reserve | 3,599 | 3,620 | -0.6 |
| NPL Coverage Ratio | 137% | 157% | -20 |

* Sum of loans of Shinhan Bank, Shinhan Card, Shinhan Investment Corp., Shinhan Life Insurance, Shinhan Capital and Jeju Bank

Group NPL Ratio & Coverage Ratio (%)



Group Credit Cost Ratio



SFG, since the global financial crisis, has taken the deteriorating macroeconomic indicators into account and tightened its management of asset quality. The Group's NPL coverage ratio was 137% at the end of 2010, down 20%p from the year before, but reserves for bad debt remain high.

Although the slumping real estate market has prompted some uneasiness over the soundness of loans to households, the asset quality of these loans remained stable in 2010. Meanwhile, the quality of loans in the credit card sector continued to improve. Concerns also persisted over the possibility of more deterioration in loans to small- and medium-sized enterprises (SMEs), but the overall quality of Group's loans was controlled within a very comfortable range.

2. SHINHAN BANK

1) Loans in Korean Won

| | (KRW in billions) | | |
|--------------------|-------------------|---------|-------|
| | 2010 | 2009 | % Chg |
| Loans in KRW | 127,632 | 121,596 | 5.0 |
| Retail | 60,859 | 58,553 | 3.9 |
| Mortgage | 42,535 | 38,174 | 11.4 |
| Others | 18,323 | 20,379 | -10.1 |
| Corporate | 66,774 | 63,043 | 5.9 |
| SMEs | 51,266 | 52,824 | -2.9 |
| (SOHO) | 19,984 | 18,456 | 8.3 |
| Large corporations | 15,508 | 10,220 | 51.7 |

Shinhan Bank's total loans in Korean Won increased 5% year on year in 2010, with most of the growth was contributed by mortgage loans to households and loans to large corporations. In the corporate sector, exporter in the automotive, chemical and IT industries exhibited strong demand both for operating capital and new facility investment. Demand for SME loans also rose especially during the second half of the year, but the total SME loan volume for the year slightly decreased as a result of

the write-off and sales of NPLs in the sector.

Retail loans, meanwhile, were up 3.9% for the year, and the growth was mainly driven by mortgage loans. Mortgage loans posted a stable 11.4% year-on-year growth, despite the loan-to-value ratio (LTV) and debt-to-income ratio (DTI) regulations. The average loan-to-value ratio stood at a 47% for mortgage loans at year's end.

2) Asset Quality

| | (KRW in billions) | | |
|---------------------|-------------------|---------|------------|
| | 2010 | 2009 | % (%p) Chg |
| Total Loans | 155,005 | 150,175 | 3.2 |
| Normal | 150,803 | 146,504 | 2.9 |
| Precautionary | 2,169 | 2,172 | -0.2 |
| Substandard | 1,406 | 1,039 | 35.3 |
| Doubtful | 407 | 258 | 57.7 |
| Estimated loss | 222 | 202 | 9.6 |
| Substandard & Below | 2,034 | 1,499 | 35.7 |
| NPL Ratio | 1.31% | 1.00% | 0.31 |
| Loan Loss Reserve | 2,708 | 2,468 | 9.7 |
| NPL Coverage Ratio | 133% | 165% | -32 |

Shinhan Bank's NPL ratio was 1.31% at the end of 2010, maintaining the best asset quality among Korean banks, even after taking into account of the PF asset reclassification as a result of application of real estate PF guidelines. The NPL coverage ratio, an indicator of the buffer for potential future losses, stood at 133%.

Management's Discussion and Analysis

Moreover, NPLs with a total face value of KRW 1.32 trillion were either written-off or sold in 2010. As a result, the delinquency ratio stood at 0.48% at year's end, a quite stable level for the second straight year. Household and SME loans posted delinquency ratios of 0.30% and 0.86%, respectively. The delinquency ratio in the SOHO segment, known to be the most vulnerable to economic fluctuations among SME loans, was kept to 0.54%, lower than that of the average delinquency ratio of SMEs.

The delinquency ratio for SME loans was relatively high because of increased delinquency in real estate project financing, especially for those projects located in Korea's provincial areas. As a result, the delinquency ratio in the real estate and leasing industries rose from 0.66% in 2009 to 1.36% in 2010. Delinquency ratio in the manufacturing sector also rose from 0.54% at the end of 2009 to 0.63% a year.

For those sectors or companies that lacks competitiveness or are highly cyclical, Shinhan Bank's level of monitoring has been stepped up to prepare for the possibility of additional delinquencies. Although the overall delinquency ratio of SME loans remains relatively high, it is within a controllable level. Moreover, given the average collateralization ratio for SME loans of 58%, the expected loss will not be substantially high.

3. SHINHAN CARD

1) Cardholders

During the credit card bubble in 2002, the effective cardholders of the former LG Card reached approximately 11.85 million. The number dropped, however, to around 9.5 million by the middle of 2005 through continued cleansing of cardholders. By the end of 2007, the figure rebounded to roughly 13.3 million,

thanks to the company's active retention programs, new credit card issuance to high quality customers and the merger with the former Shinhan Card in October 2007. As a result, the number of effective card holders has surpassed the 15 million mark for the first time in the industry as of the end of 2010.

For reference, the ratio of credit card transactions to private consumption in Korea bottomed out at 38.4% at the end of 2004 in the wake of a crisis in the credit card industry. Since then, however, the number has improved steadily and increased to reach 56.1% at the end of September 2010, which was 3.5%p higher than the figure recorded at the end of 2009.*

* Report on the current status of the credit card industry, posted on the Credit Finance Association homepage (Sept. 2010)

2) Earning Assets

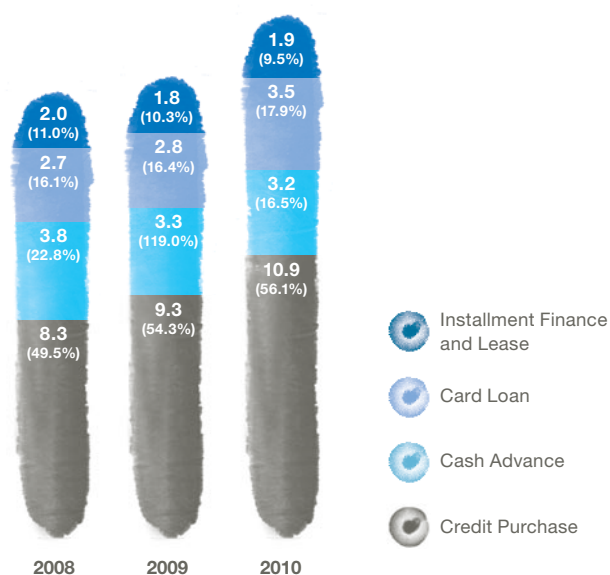
| | (KRW in billions) | | |
|--------------------------|-------------------|--------|-------|
| | 2010 | 2009 | % Chg |
| Earning Assets (Managed) | 19,460 | 17,158 | 13.4 |
| Credit purchase | 10,915 | 9,312 | 17.2 |
| Cash advances | 3,219 | 3,263 | -1.4 |
| Card loan | 3,479 | 2,815 | 23.6 |
| (Re-aged loans) | 211 | 298 | -29.2 |
| Installment finance | 1,159 | 1,106 | 4.8 |
| Leasing | 688 | 661 | 4.1 |

In 2010, transaction volume surged as a result of the recovering economy and increase in consumer spending coupled

with active marketing. Except for cash advance, the whole spectrum of earning assets grew evenly during 2010. In particular credit purchase grew 17.2% year on year and card loans also increased by 23.6%, while preserving asset quality.

For the second year in a row, Shinhan Card's earning asset portfolio remained heavily weighted (56.1%) in favor of relatively low-risk credit purchase receivables, while the percentage of cash advance services, a high-risk asset category, continued to decline. Card loans in the portfolio grew by 1.5%p, but the balance of re-aged loans, another high-risk category, dropped 29.2% (KRW8.7 billion). Thus the quality of card loan assets continued to improve.

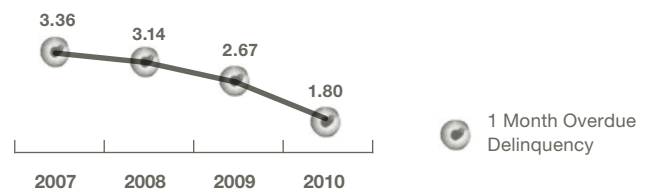
Earning Asset Breakdown by Products
(KRW in trillions)



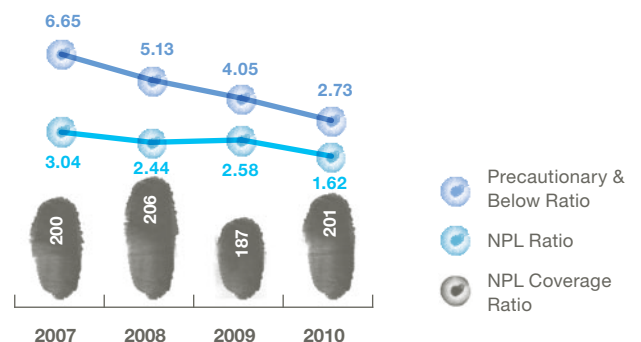
3) Asset Quality

Preemptive risk management and a turnaround in economic activity enabled Shinhan Card to improve the one-month overdue delinquency ratio 0.87%p, from 2.67% at the end of 2009 to a historically-low 1.80% a year later. The ratio of precautionary & below loans fell from 4.05% to 2.37%, while that for substandard & below loans or NPL ratio also dropped from 2.58% to 1.62%. The NPL coverage ratio also rose from 187% at the end of 2009 to 201% a year later. The enhanced figures are attributable to a strict risk management policy that focused on asset quality improvement and conservative provisioning. Write-off of NPLs for 2010 amounted to KRW 478.8 billion, similar to KRW 469.3 billion in 2009.

Delinquency Ratio of Shinhan Card (%)



NPL Ratio of Shinhan Card (%)



Management's Discussion and Analysis

4. SHINHAN INVESTMENT CORP.

Condensed Balance Sheets of Shinhan Investment Corp.

(KRW in billions)

| | CY2010 | CY2009 | % Chg |
|--|--------|--------|-------|
| Assets | | | |
| Cash and Deposit | 2,203 | 1,572 | 40.1 |
| Securities | 5,843 | 4,366 | 33.8 |
| (Trading securities) | 5,101 | 3,892 | 31.1 |
| Derivatives | 104 | 82 | 26.8 |
| Loans | 849 | 931 | -8.8 |
| (Broker's loans) | 718 | 616 | 16.6 |
| Tangible fixed assets | 165 | 172 | -4.1 |
| Other assets | 375 | 430 | -12.8 |
| Total Assets | 9,540 | 7,552 | 26.3 |
| Liabilities | | | |
| Deposits | 948 | 945 | 0.3 |
| (Customers' deposits) | 926 | 921 | 0.5 |
| Borrowings | 6,395 | 4,573 | 39.8 |
| (Call money) | 411 | 497 | -17.3 |
| (Borrowings) | 68 | 278 | -75.5 |
| (Bonds sold under repurchase agreements) | 3,271 | 2,387 | 37.0 |
| (Derivatives combined securities sold) | 2,128 | 1,088 | 95.5 |
| Other liabilities | 298 | 267 | 11.6 |
| Total Liabilities | 7,641 | 5,785 | 32.1 |
| Total Stockholders' Equity | 1,898 | 1,766 | 7.5 |
| Total Liabilities & Stockholders' Equity | 9,540 | 7,552 | 26.3 |

Shinhan Investment's total assets jumped 26.3% from the previous year to exceed KRW 9.54 trillion as of the end of 2010. Of the total assets, securities, including trading securities, posted more than KRW 5.84 trillion, accounting for 61.2% of total assets. Cash and deposits amounted to KRW 2.2 trillion, or 23.1% of the total.

Cash and deposits were 40.1% higher at the end of 2010 than the year before. Most of this growth came from the reserve for claims of customers' deposits as well as from long-term deposits stemming from the increasing issuance of equity-linked securities. Securities also increased 33.8% year on year, boosted mainly by a 31.1% surge in trading securities, which account for most of the securities portfolio. Of the trading securities, bonds accounted for 95% of the total. Loans fell 8.8% to KRW 849 billion at the end of 2010. The rising stock market drove up brokers loans, which includes securities-backed loans, from KRW 616 billion at the end of 2009 to KRW 718 billion a year later. However, that increase was offset by a sharp reduction in real estate PF loans.

Total liabilities rose by 32.1% year-on-year to KRW 7.64 trillion at the end of 2010. The growth in liabilities is attributable to an increase in the sales of financial products. Bonds sold under repurchase agreements were up 37% year on year. Over the same period, the total of derivatives-combined securities sold rose 95.5%.

Total stockholder's equity rose by 7.5% year on year to reach just under KRW 1.9 trillion at the end of 2010, reflecting the higher net income for the year.

IV. FUNDING

1. SHINHAN BANK

Shinhan Bank's deposits in Korean Won (including CDs) increased by 5.0% or KRW 6.1 trillion year on year in 2010. Over the past two years, the bank has continued to focus on increasing deposits within the funding portfolio, thus time savings rose 11.9% during 2010. Low-cost deposits were also up by 4.4%. These increases have helped to ensure a stable funding source. By contrast, certificates of deposit (CDs), which had maintained significant growth for several years until 2007, began to decline in volume from 2008 and in 2010 they plummeted by 61.3% year on year.

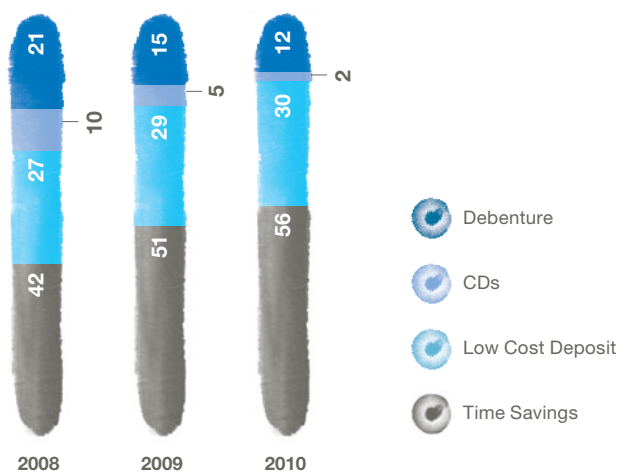
Low-cost deposits represent a very solid portion (30%) of the total funding portfolio at Shinhan Bank, thanks to the bank's nationwide retail network and stable court-related deposits. The percentage of time savings in the mix reached 56% at the end of 2010, while bank debentures were 12% and CDs were just 2%.

SHB Deposits and Debentures

(KRW in billions)

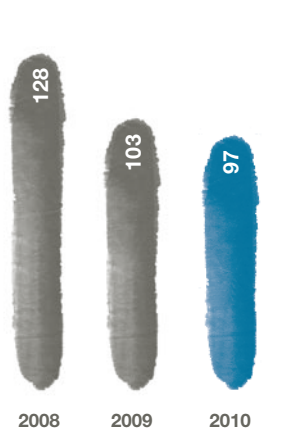
| | 2010 | 2009 | % Chg |
|-------------------------|----------------|---------|-------|
| Total Deposits In KRW | 129,432 | 123,311 | 5.0 |
| Low Cost Deposits | 44,022 | 42,184 | 4.4 |
| Demands | 14,517 | 13,380 | 8.5 |
| Savings | 29,504 | 28,805 | 2.4 |
| Time Savings | 82,562 | 73,770 | 11.9 |
| Time deposits | 77,117 | 67,586 | 14.1 |
| Accumulative / Others | 5,444 | 6,184 | -12.0 |
| Certificates of Deposit | 2,848 | 7,357 | -61.3 |
| | 17,501 | 20,760 | -15.7 |

SHB Funding Composition (%)



Management's Discussion and Analysis

SHB Loan-to-Deposit Ratio (%)



2. SHINHAN CARD

As a monoline credit card company in the past, the former LG Card depended heavily on wholesale funding as its main funding source. However, its incorporation with Shinhan Financial Group ensured other stable funding sources for the company.

Shinhan Card raises its required funds via diverse channels, including corporate bonds, asset-backed securities and commercial paper. As of December 2010, the funding balance stood at KRW 13.6 trillion, up 13.8% from the KRW 11.9 trillion at the end of 2009.

The table below summarizes the maturity and composition of Shinhan Card's funding portfolio. During 2010, abundant liquidity in the market improved funding conditions, boosting the percentage of corporate bonds in the mix. The percentage of ABS fell as a result of lack of the market.

Funding Composition (%)

| | Debentures | ABS | CP | Others |
|------|------------|-----|----|--------|
| 2010 | 75 | 8 | 6 | 11 |
| 2009 | 71 | 16 | 4 | 9 |

Debt Maturity Profile (%)

| | 1 year or under | Over 1 year to 2 years | More than 2 years |
|------|-----------------|------------------------|-------------------|
| 2010 | 37 | 27 | 36 |
| 2009 | 38 | 34 | 28 |

V. CAPITAL MANAGEMENT

1. SHINHAN FINANCIAL GROUP

As of the end of 2010, the Group's BIS ratio stood at 12.8%, up 0.2%p from the previous year. Given Shinhan Bank's BIS ratio of 15.9%, the figure is considered relatively low. Two main factors may be cited to explain this. First, goodwill amounting to KRW 3.1 trillion related to various past mergers and acquisitions is deducted from the Tier 1 capital when the Group's BIS ratio is calculated. Second, the bank follows the Basel II Internal Ratings-Based (IRB) approach, while the Group adheres to the BIS Basel I criteria, resulting in larger risk-weighted assets. In 2010, the Group's net income generation has raised Tier 1 capital 16.8% year on year. Going forward, continued growth in profit is expected to enhance the Group's capital adequacy particularly the Tier 1 capital ratio.

Group BIS Ratio

(KRW in billions)

| | 2010 | 2009 | % (%p) Chg |
|----------------------|----------------|---------|------------|
| Risk weighted Assets | 185,695 | 179,083 | 3.7 |
| Capital | 23,712 | 22,572 | 5.1 |
| Tier 1 | 16,456 | 14,088 | 16.8 |
| Tier 2 | 8,492 | 9,520 | -10.8 |
| BIS Ratio | 12.8% | 12.6% | 0.2 |
| Tier 1 | 8.9% | 7.9% | 1.0 |
| Tier 2 | 4.6% | 5.3% | -0.7 |

2. SHINHAN BANK

Shinhan Bank's Tier 1 ratio was maintained at a very sound 13.2% during 2010. The BIS ratio at Shinhan Bank improved significantly thanks to a major increase in retained earnings, which in turn was the result of higher profits. Additionally, risk management programs resulted in a reduction in risk-weighted assets, which enabled the most efficient asset management performance.

Shinhan Bank obtained approval from the Financial Supervisory Service regarding the use of the Basel II Internal Ratings-Based (IRB) approach in April 2008. Accordingly, the Bank has been calculating its BIS capital adequacy ratio on this basis since the second quarter of 2008.

SHB BIS Ratio

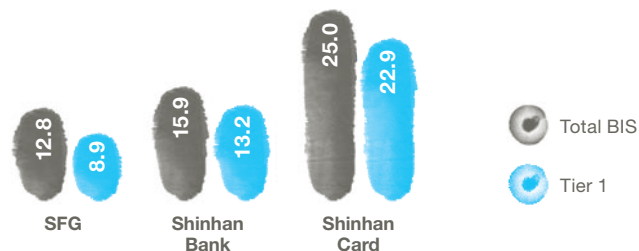
(KRW in billions)

| | 2010 | 2009 | % (%p) Chg |
|----------------------|----------------|---------|------------|
| Risk weighted Assets | 117,263 | 121,138 | -3.2 |
| Capital | 18,677 | 18,323 | 1.9 |
| Tier 1 | 15,488 | 14,059 | 10.2 |
| Tier 2 | 3,189 | 4,264 | -25.2 |
| BIS Ratio | 15.9% | 15.1% | 0.8 |
| Tier 1 | 13.2% | 11.6% | 1.6 |
| Tier 2 | 2.7% | 3.5% | -0.8 |

3. SHINHAN CARD

As of the end of 2010, Shinhan Card's equity capital stood at KRW 5.6 trillion, resulting in a capital adequacy ratio of 25.0%. The company has managed to maintain a CAR above 20% for four consecutive years on the back of continuing stream of profit generation.

BIS Ratio (%)



Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders

Shinhan Financial Group Co., Ltd.:

We have audited the accompanying consolidated statements of financial position of Shinhan Financial Group Co., Ltd. and its subsidiaries (collectively the "Consolidated Company") as of December 31, 2010 and 2009 and the related consolidated statements of income, changes in 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, 2010 and 2009 and the results of its operations, the changes in its equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.



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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 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 audit such consolidated 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.

KPMG Samjong Accounting Corp.

Seoul, Korea

March 18, 2011

This report is effective as of March 18, 2011, 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 Statements of Financial Position

As of December 31, 2010 and 2009

(in millions of Korean Won)

| | Notes | 2010 | 2009 |
|---|---------|---------------|-------------|
| Assets | | | |
| Cash and due from banks | 4,19,20 | ₩ 14,686,812 | 15,855,307 |
| Securities | 5,19 | 54,823,501 | 51,291,635 |
| Loans, net | 6 | 176,926,781 | 166,963,829 |
| Property and equipment, net | 8,19,20 | 2,361,956 | 2,323,874 |
| Goodwill, net | 9 | 3,496,580 | 4,074,710 |
| Other assets, net | 10 | 13,736,122 | 14,508,732 |
| Total assets | | ₩ 266,031,752 | 255,018,087 |
| Liabilities | | | |
| Deposits | 11 | ₩ 153,083,073 | 147,737,458 |
| Borrowings | 12 | 19,901,208 | 18,097,872 |
| Debentures, net | 13 | 39,715,634 | 39,904,757 |
| Provision for retirement and severance benefits, net of deposits for severance benefit insurance and plan assets | 14 | 160,449 | 176,766 |
| Other liabilities | 15 | 29,973,352 | 27,978,208 |
| Total liabilities | | 242,833,716 | 233,895,061 |
| Stockholders' equity | | | |
| Capital stock of ₩5,000 par value | 22 | 2,370,998 | 2,370,998 |
| Authorized—1,000,000,000 shares | | | |
| Common stock | | | |
| Issued and outstanding : | | | |
| 474,199,587 shares in 2010 and 2009 | | | |
| Preferred stock | | 481,475 | 481,475 |
| Issued and outstanding : | | | |
| 43,711,000 shares in 2010 and 53,094,459 shares in 2009 | | | |
| Capital surplus | | 9,924,851 | 9,924,852 |
| Capital adjustments | | (390,916) | (417,142) |
| Accumulated other comprehensive income | 26 | 1,382,007 | 1,182,574 |
| Retained earnings | | 8,956,338 | 7,182,853 |
| Non-controlling interest in consolidated subsidiaries | | 473,283 | 397,416 |
| Total stockholders' equity | | 23,198,036 | 21,123,026 |
| Total liabilities and stockholders' equity | | ₩ 266,031,752 | 255,018,087 |

Consolidated Statements of Income

For the years ended December 31, 2010 and 2009
(in millions of Korean Won)

| | Notes | 2010 | 2009 |
|--|-------|-------------------|-------------------|
| Interest income and dividends: | | | |
| Interest on due from banks | ₩ | 158,600 | 196,204 |
| Interest and dividends on securities | | 2,330,453 | 2,268,007 |
| Interest on loans | | 11,954,049 | 11,458,486 |
| Other | | 68,651 | 57,025 |
| Total interest income and dividends | | 14,511,753 | 13,979,722 |
| Interest expense: | | | |
| Interest on deposits | | 4,099,253 | 4,345,358 |
| Interest on borrowings | | 387,115 | 663,673 |
| Interest on debentures | | 1,930,314 | 2,181,083 |
| Other | | 61,374 | 95,852 |
| Total interest expense | | 6,478,056 | 7,285,966 |
| Net interest income | | 8,033,697 | 6,693,756 |
| Provision for loan losses, net | | 1,027,689 | 1,578,802 |
| Net interest income after provision for loan losses | | 7,006,008 | 5,114,954 |
| Non-interest income: | | | |
| Fees and commission income | | 1,393,760 | 1,378,019 |
| Insurance income | | 3,302,778 | 2,869,727 |
| Gain on sale of trading securities | | 229,965 | 444,593 |
| Unrealized gain on trading securities | | 156,249 | 32,902 |
| Gain on sale of available-for-sale securities | | 643,491 | 337,553 |
| Reversal of impairment loss on available-for-sale securities | | 1,830 | 9,317 |
| Reversal of impairment loss on held-to-maturity securities | | 24,069 | 28,400 |
| Equity in income of equity method accounted investees | | 20,783 | 16,997 |
| Gain on disposition of equity method accounted investments | | - | 15,077 |
| Gain from sale of loans | | 32,272 | 76,379 |
| Gain on foreign currency transactions and translation | | 1,578,518 | 9,913,637 |
| Gain on derivatives | | 10,993,992 | 20,999,520 |
| Others | | 818,306 | 1,164,209 |
| Total non-interest income | ₩ | 19,196,013 | 37,286,330 |

See accompanying notes to consolidated financial statements

Consolidated Statements of Income, Continued

For the years ended December 31, 2010 and 2009

(in millions of Korean Won)

| | Notes | 2010 | 2009 |
|---|-------|--------------------|--------------------|
| Non-interest expense: | | | |
| Fees and commission expense | ₩ | 1,509,873 | 1,223,507 |
| Insurance expense | | 3,548,330 | 3,069,947 |
| Loss on sale of trading securities | | 139,418 | 373,408 |
| Unrealized loss on trading securities | | 191,515 | 120,931 |
| Loss on sale of available- | | 42,872 | 73,143 |
| Impairment loss on available-for-sale securities | | 34,332 | 35,207 |
| Impairment loss on held-to-maturity securities | | 1,220 | 1,635 |
| Equity in loss of equity method accounted investees | | 6,947 | 3,984 |
| Impairment loss on equity method accounted investments | | 79,933 | - |
| Loss on disposition of equity method accounted investments | | - | 6,242 |
| Loss on sale of loans | | 42,469 | 46,619 |
| General and administrative expenses | 27 | 4,218,546 | 3,968,837 |
| Loss on foreign currency transactions and translation | | 2,082,655 | 9,179,118 |
| Loss on derivatives | | 10,342,131 | 21,306,909 |
| Other | | 873,029 | 1,012,322 |
| Total non-interest expense | | 23,113,270 | 40,421,809 |
| Net non-interest expense | | (3,917,257) | (3,135,479) |
| Income from continuing operations before income taxes | | 3,088,751 | 1,979,475 |
| Income taxes | 24 | 717,608 | 666,682 |
| Income from continuing operations | | 2,371,143 | 1,312,793 |
| Income from discontinued operations (net of income tax: ₩2,485 million in 2009) | | - | 15,460 |
| Consolidated net income | ₩ | 2,371,143 | 1,328,253 |
| Net income in controlling interest | | 2,383,936 | 1,305,311 |
| Net income in non-controlling interest | | (12,793) | 22,942 |
| | ₩ | 2,371,143 | 1,328,253 |
| Earnings per share | 25 | | |
| Basic earnings per share from continuing operations | ₩ | 4,531 | 2,273 |
| Basic earnings per share | | 4,531 | 2,303 |
| Diluted earnings per share from continuing operations | | 4,451 | 2,261 |
| Diluted earnings per share | | 4,451 | 2,290 |

Consolidated Statements of Changes in Equity

For the years ended December 31, 2010 and 2009

(in millions of Korean Won)

| | Capital stock | Capital surplus | Capital adjustments | Accumulated other comprehensive income | Retained earnings | Non- controlling interest | Total |
|--|-------------------|--------------------|------------------------|---|----------------------|---------------------------------|-------------------|
| Balance at January 1, 2009 | ₩2,462,473 | 9,032,572 | (432,887) | 242,333 | 6,299,623 | 348,041 | 17,952,155 |
| Dividends | - | - | - | - | (244,987) | - | (244,987) |
| Redemption of redeemable preferred stocks | - | - | - | - | (172,793) | - | (172,793) |
| Common stock issuance | 390,000 | 885,260 | - | - | - | - | 1,275,260 |
| Net income for year | - | - | - | - | 1,305,311 | 22,942 | 1,328,253 |
| Changes in other capital surplus | - | 7,020 | - | - | - | - | 7,020 |
| Changes in other capital adjustments | - | - | 15,745 | - | - | (929) | 14,816 |
| Changes in retained earnings of subsidiaries | - | - | - | - | (4,301) | - | (4,301) |
| Changes in valuation gain on available-for-sale securities | - | - | - | 1,074,279 | - | (858) | 1,073,421 |
| Changes in unrealized holding gains(losses) of equity method accounted investees | - | - | - | (15,015) | - | 10 | (15,005) |
| Changes in adjustment for foreign currency translation | - | - | - | (154,111) | - | (364) | (154,475) |
| Changes in valuation gain on derivatives | - | - | - | 35,088 | - | - | 35,088 |
| Other changes in non-controlling interest | - | - | - | - | - | 28,574 | 28,574 |
| Balance at December 31, 2009 | ₩2,852,473 | 9,924,852 | (417,142) | 1,182,574 | 7,182,853 | 397,416 | 21,123,026 |
| Balance at January 1, 2010 | ₩2,852,473 | 9,924,852 | (417,142) | 1,182,574 | 7,182,853 | 397,416 | 21,123,026 |
| Dividends | - | - | - | - | (427,860) | - | (427,860) |
| Redemption of redeemable preferred stocks | - | - | - | - | (182,794) | - | (182,794) |
| Net income for year | - | - | - | - | 2,383,936 | (12,793) | 2,371,143 |
| Changes in other capital surplus | - | (1) | - | - | - | - | (1) |
| Changes in other capital adjustments | - | - | 26,226 | - | - | (1) | 26,225 |
| Changes in retained earnings of subsidiaries | - | - | - | - | 203 | - | 203 |
| Changes in valuation gain on available-for-sale securities | - | - | - | 173,264 | - | 946 | 174,210 |
| Changes in unrealized holding gains(losses) of equity method accounted investees | - | - | - | 22,884 | - | 13 | 22,897 |
| Changes in adjustment for foreign currency translation | - | - | - | 2,859 | - | (327) | 2,532 |
| Changes in valuation gain on derivatives | - | - | - | 426 | - | - | 426 |
| Other changes in non-controlling interest | - | - | - | - | - | 88,029 | 88,029 |
| Balance at December 31, 2010 | ₩2,852,473 | 9,924,851 | (390,916) | 1,382,007 | 8,956,338 | 473,283 | 23,198,036 |

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009
(in millions of Korean Won)

| | 2010 | 2009 |
|--|--------------------|----------------|
| Cash flows from operating activities | | |
| Net income | ₩ 2,371,143 | 1,328,253 |
| Adjustments for: | | |
| Depreciation and amortization | 773,578 | 729,362 |
| Provision for loan losses, net | 1,027,689 | 1,578,798 |
| Accrual for retirement and severance benefits | 116,872 | 108,002 |
| Unrealized loss on trading securities, net | 35,266 | 87,870 |
| Impairment loss on available-for-sale securities | 34,332 | 35,207 |
| Reversal of impairment loss on available-for-sale securities | (1,830) | (9,317) |
| Impairment loss on held-to-maturity securities | 1,220 | 1,635 |
| Reversal of impairment loss on held-to-maturity securities | (24,069) | (28,400) |
| Equity in income of equity method accounted investees, net | (13,836) | (13,013) |
| Impairment loss on equity method accounted investments | 79,933 | - |
| Gain on disposition of the equity method accounted investments | - | (20,915) |
| Loss (gain) on foreign currency transactions, net | 285,849 | (971,881) |
| Valuation gain on derivatives, net | (22,899) | (598,092) |
| Stock compensation costs, net | 32,307 | 51,780 |
| Policy reserves and other insurance expense | 1,932,294 | 1,467,108 |
| Other, net | 411,839 | 301,221 |
| Changes in assets and liabilities: | | |
| Increase in trading securities | (4,145,823) | (348,904) |
| Decrease in available-for-sale securities | 792,938 | 1,512,132 |
| Decrease (increase) in held-to-maturity securities | 296,447 | (4,080,623) |
| Dividend received from equity method accounted investments | 9,520 | 6,977 |
| Decrease (increase) in loans | (11,010,865) | 2,149,630 |
| Increase in loan origination fee | 84,848 | 133,037 |
| Decrease in other assets | 3,686,463 | 12,487,271 |
| Decrease in other liabilities | (3,755,306) | (15,185,870) |
| Retirement and severance benefits paid | (19,884) | (233,594) |
| Increase in deposit for severance benefit insurance | (117,970) | (78,973) |
| Net cash provided by (used in) operating activities | (7,139,944) | 408,701 |
| Cash flows from investing activities | | |
| Cash provided by investing activities: | | |
| Decrease in equity method accounted investments | 9,111 | 137,473 |
| Proceeds from disposal of property and equipment | 32,567 | 69,583 |
| Decrease in other assets | 95,050 | 204,606 |
| | ₩ 136,728 | 411,662 |

For the years ended December 31, 2010 and 2009
(in millions of Korean Won)

| | 2010 | 2009 |
|---|---------------------|---------------------|
| Cash used in investing activities: | | |
| Acquisition of equity method accounted investments | ₩ (108,402) | (36,260) |
| Purchase of property and equipment | (240,516) | (240,043) |
| Increase in other assets | (191,370) | (234,287) |
| | (540,288) | (510,590) |
| Net cash used in investing activities | (403,560) | (98,928) |
| Cash flows from financing activities | | |
| Cash provided by financing activities: | | |
| Increase in deposits | 10,196,492 | 27,861,051 |
| Proceeds from borrowings | 15,091,715 | 18,569,767 |
| Proceeds from debentures | 13,209,325 | 9,967,114 |
| Increase in other liabilities | 742,924 | 255,745 |
| Issuance of common stock | - | 1,310,400 |
| Disposition of stock of subsidiary | - | 22,885 |
| Increase in non-controlling interest | 103,227 | 66,988 |
| Disposition of treasury stock | - | 26 |
| | 39,343,683 | 58,053,976 |
| Cash used in financing activities: | | |
| Decrease in deposits | (5,289,934) | (6,642,465) |
| Repayment of borrowings | (13,451,443) | (28,005,759) |
| Repayment of debentures | (13,457,008) | (18,081,164) |
| Debentures issuance costs paid | (69,726) | (216,890) |
| Decrease in other liabilities | (77,885) | (2,130,271) |
| Stock issuance costs paid | - | (35,157) |
| Dividends paid | (427,571) | (245,035) |
| Redemption of redeemable preferred stocks | (182,794) | (172,793) |
| Acquisition of stock of subsidiaries | (2,490) | (3,303) |
| Decrease in non-controlling interest | (12,695) | (29,597) |
| | (32,971,546) | (55,562,434) |
| Net cash provided by financing activities | 6,372,137 | 2,491,542 |
| Increase (decrease) in cash and due from banks due to change in consolidation scope | 2,872 | (24,815) |
| Net increase (decrease) in cash and due from banks | (1,168,495) | 2,776,500 |
| Cash and due from banks at beginning of year | 15,855,307 | 13,078,807 |
| Cash and due from banks at end of year | ₩ 14,686,812 | 15,855,307 |

See accompanying notes to consolidated financial statements

Note to Consolidated Financial Statements

December 31, 2010 and 2009

(1) General Description on Shinhan Financial Group Co., Ltd. and Subsidiaries (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 AMC (formerly Shinhan BNP Paribas 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 Depositary Shares were listed on the New York Stock Exchange.

As of December 31, 2010, Shinhan Financial Group has 34 subsidiaries which are consolidated and its capital stock amounted to ₩2,370,998 million in common stock and ₩481,475 million in redeemable and convertible preferred stock, respectively.

(b) Subsidiaries included in Consolidation

a. Shinhan Bank

Chohung Bank was established on October 1, 1943 through the merger of Han Sung Bank, established on February 19, 1897, and Dong Il 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, 2010, Shinhan Bank operated through 847 domestic branches, 104 depositary offices and 7 overseas branches, and its capital stock amounted to ₩7,928,078 million.

b. Shinhan Card Co., Ltd.

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

As of December 31, 2010, Shinhan Card had 48 branches, approximately 2.55 million merchants in its network, 15.18 million active credit card holders, and its capital stock amounted to ₩626,847 million.

c. Shinhan Investment Corp.

Shinhan Investment Corp. ("Shinhan Investment") 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, 2010, it operated through 88 branches and its capital stock amounted to ₩1,296,998 million (including ₩19,116 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, 2010, Shinhan Life Insurance operated through 172 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. As of December 31, 2010, its capital stock amounted to ₩180,000 million.

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. As of December 31, 2010, its capital stock amounted to ₩110,644 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. As of December 31, 2010, its capital stock 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. As of December 31, 2010, its capital stock amounted to ₩10,000 million.

i. Shinhan BNP Paribas Asset Management Co., Ltd.

On August 1, 1996, Shinhan Investment Trust Management Co., Ltd. was established and obtained a license to engage in the business of investment and trust of securities and advisory services under the Investment and Trust of Securities Law. Under the joint venture agreement with BNP Paribas Asset Management Group on October 2002, Shinhan Investment Trust Management Co., Ltd. was renamed Shinhan BNP Paribas Investment Trust Management Co., Ltd. As of December 31, 2010, its capital stock amounted to ₩75,374 million.

j. 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.

k. Shinhan Asia Limited

Shinhan Asia Limited ("Shinhan Asia") engages in merchant banking activities in Hong Kong. As of December 31, 2010, its capital stock amounted to US\$ 100 million.

l. 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, 2010, its capital stock amounted to US\$ 123 million.

m. Shinhan Bank Europe GmbH

Shinhan Bank Europe GmbH ("Shinhan Europe") was established in 1994. As of December 31, 2010, its capital stock amounted to EUR 23 million.

n. Shinhan Khmer Bank

Shinhan Khmer Bank ("Shinhan Khmer") was established on August 10, 2007. As of December 31, 2010, its capital stock amounted to US\$ 20 million.

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

o. Shinhan Kazakhstan Bank

Shinhan Kazakhstan Bank ("Shinhan Kazakhstan") was established on March 21, 2008. As of December 31, 2010, its capital stock amounted to KZT 5,029 million.

p. Shinhan Canada Bank

Shinhan Canada Bank ("Shinhan Canada") was established on August 22, 2008. As of December 31, 2010, its capital stock amounted to CAD 30 million.

q. Shinhan Bank China Limited

Shinhan Bank China Limited ("Shinhan China") was established on April 30, 2008. As of December 31, 2010, its capital stock amounted to CNY 2,000 million.

r. SBJ Bank

SBJ Bank was established on September 14, 2009. As of December 31, 2010, its capital stock amounted to JPY 15,000 million.

s. Shinhan Bank Vietnam

Shinhan Bank Vietnam ("Shinhan Vietnam") was established on October 13, 2009. As of December 31, 2010, its capital stock amounted to VND 3,000,000 million.

t. Shinhan Aitas Co., Ltd.

Shinhan Aitas Co., Ltd. ("Shinhan Aitas") was established in June, 2000 to engage in the business of bookkeeping services on trust assets. As of December 31, 2010, its capital stock amounted to ₩2,372 million.

u. Shinhan Investment Corp. Europe Ltd.

Shinhan Investment Corp. Europe Ltd. ("Shinhan Investment 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, 2010, its capital stock amounted to GBP 3,400 thousand.

v. Shinhan Investment Corp. America Inc.

Shinhan Investment Corp. America Inc. ("Shinhan Investment America") was established in 1993 and provides securities trading, underwriting and derivative brokerage services under the Federal Securities Act of USA. As of December 31, 2010, its capital stock amounted to US\$ 4,200 thousand.

w. Shinhan Investment Corp. Asia Ltd.

Shinhan Investment Corp. Asia Ltd. ("Shinhan Investment 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, 2010, its capital stock amounted to HKD 40,000 thousand.

x. Shinhan Maritime Private Equity Fund.

Shinhan Maritime Private Equity Fund ("Shinhan Maritime PEF") was established on September 16, 2010. As of December 31, 2010, its capital stock amounted to ₩78,451 million.

y. SS Triton A S.A

SS Triton A S.A ("SS Triton A") was established on October 15, 2010. As of December 31, 2010, its capital stock amounted to US\$ 17,457 thousand.

z. SS Triton B S.A

SS Triton B S.A ("SS Triton B") was established on October 15, 2010. As of December 31, 2010, its capital stock amounted to US\$ 17,457 thousand.

aa. Petra Private Equity Fund

Petra Private Equity Fund ("Petra PEF") was established on December 3, 2009. As of December 31, 2010, its capital stock amounted to ₩41,000 million.

bb. 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, 2010, its capital stock amounted to ₩222,000 million.

cc. Shinhan Private Equity Fund 2nd

Shinhan Private Equity Fund 2nd ("Shinhan PEF 2nd") was established on August 11, 2008. As of December 31, 2010, its capital stock amounted to ₩211,600 million.

dd. 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, 2010, its capital stock amounted to ₩6,074 million.

ee. SHPE Holdings One Limited

SHPE Holdings One Limited ("SHPE Holdings One") was established on October 31, 2008, based on the Act on Capital Market and Financial Investment Business and has been engaged in investments by private funding. As of December 31, 2010, its capital stock amounted to ₩6,200 million.

ff. SHPE Holdings Two Limited

SHPE Holdings Two Limited ("SHPE Holdings Two") was established on December 4, 2009, based on the Act on Capital Market and Financial Investment Business and has been engaged in investments by private funding. As of December 31, 2010, its capital stock amounted to ₩30,010 million.

gg. HKC&T Co., Ltd.

HKC&T Co., Ltd. ("HKC&T"), a tower crane maker, was established in November, 2009. As of December 31, 2010, its capital stock amounted to ₩3,001 million.

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(in millions of Korean Won)

Ownership of Shinhan Financial Group and its consolidated subsidiaries as of December 31, 2010 and 2009 were as follows:

| Investor | Investee | 2010 | | 2009 | |
|-------------------------|----------------------------|------------------|---------------|------------------|---------------|
| | | Number of shares | Ownership (%) | Number of shares | Ownership (%) |
| Shinhan Financial Group | Shinhan Bank | 1,585,615,506 | 100.0 | 1,585,615,506 | 100.0 |
| " | Shinhan Card | 125,369,403 | 100.0 | 125,369,403 | 100.0 |
| " | Shinhan Investment | 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 | 15,241,424 | 68.9 | 15,241,424 | 68.9 |
| " | Shinhan Credit Information | 600,000 | 100.0 | 600,000 | 100.0 |
| " | Shinhan PE | 2,000,000 | 100.0 | 2,000,000 | 100.0 |
| " | Shinhan BNP Paribas AMC | 9,798,586 | 65.0 | 9,798,585 | 65.0 |
| " | Shinhan Macquarie (*) | - | - | 102,000 | 51.0 |
| Shinhan Bank | Shinhan Asia | 999,999 | 99.9 | 999,999 | 99.9 |
| " | Shinhan Bank America | 3,514,283 | 100.0 | 2,657,141 | 100.0 |
| " | Shinhan Europe | Limited | 100.0 | Limited | 100.0 |
| " | Shinhan Khmer | 18,000,000 | 90.0 | 16,020,000 | 80.1 |
| " | Shinhan Kazakhstan | 502,872 | 100.0 | 502,872 | 100.0 |
| " | Shinhan Canada | Limited | 100.0 | Limited | 100.0 |
| " | Shinhan China | Limited | 100.0 | Limited | 100.0 |
| " | SBJ Bank | 30,000,000,000 | 100.0 | 20,000,000,000 | 100.0 |
| " | Shinhan Vietnam | Limited | 100.0 | Limited | 100.0 |
| " | Shinhan Aitas | 421,358 | 89.6 | 421,358 | 89.6 |
| " | Shinhan PEF 1st | 592 | 26.7 | 592 | 26.7 |
| " | Shinhan PEF 2nd | 55,200 | 26.1 | 43,440 | 26.1 |
| Shinhan Investment | Shinhan Investment Europe | 3,400,000 | 100.0 | 3,400,000 | 100.0 |
| " | Shinhan Investment America | 15,000 | 100.0 | 15,000 | 100.0 |
| " | Shinhan Investment Asia | 40,000,000 | 100.0 | 40,000,000 | 100.0 |
| " | Shinhan Maritime PEF | 5,603,616,755 | 7.1 | - | - |
| Shinhan Maritime PEF | SS Triton A S.A | 17,456,750 | 100.0 | - | - |
| " | SS Triton B S.A | 17,456,750 | 100.0 | - | - |
| Shinhan Life Insurance | Shinhan PEF 1st | 74 | 3.3 | 74 | 3.3 |
| " | Shinhan PEF 2nd | 9,200 | 4.4 | 7,240 | 4.4 |
| Shinhan Capital | Petra PEF | 10,000,000,000 | 23.8 | 10,000,000,000 | 23.8 |
| Jeju Bank | Shinhan PEF 1st | 37 | 1.7 | 37 | 1.7 |
| Shinhan PE | Shinhan PEF 1st | 111 | 5.0 | 111 | 5.0 |
| " | Shinhan PEF 2nd | 4,600 | 2.2 | 3,620 | 2.2 |
| Shinhan PEF 1st | Symphony Energy | 9,424,193 | 77.6 | 9,424,193 | 77.6 |
| Shinhan PEF 2nd | SHPE Holdings One | Limited | 100.0 | Limited | 100.0 |
| " | SHPE Holdings Two | Limited | 100.0 | - | - |
| SHPE Holdings Two | HKC&T | 600,200 | 100.0 | - | - |

(*) The controlling company disposed all investments in Shinhan Macquarie Financial Advisory Co.,Ltd. ("Shinhan Macquarie") at August 20, 2010 through the retirement of shares.

(c) Other Equity Method Investees

Details of ownerships in the equity method accounted investees as of December 31, 2010 and 2009 were as follows:

| Investor | Investee | Ownership (%) | |
|-------------------------|---|---------------|-------|
| | | 2010 | 2009 |
| Shinhan Financial Group | SHC Management Co., Ltd. | 100.0 | 100.0 |
| " | Shinhan Data System | 100.0 | - |
| Shinhan Bank | Cardif Life Insurance | 15.0 | 15.0 |
| " | Shinhan Data System | - | 100.0 |
| " | Shinhan Corporate Restructuring Fund 7 th | 58.8 | 58.8 |
| " | Shinhan Corporate Restructuring Fund 8 th | 14.4 | 14.4 |
| " | Macquarie Shinhan Infrastructure Management Co., Ltd. | 14.0 | 35.2 |
| " | Aju Capital Co., Ltd. | 12.9 | 14.4 |
| " | Shinhan Vina Bank | 50.0 | 50.0 |
| " | Westend Corporate Restructuring Fund | 17.2 | 17.2 |
| " | UAMCO., Ltd. | 17.5 | 17.5 |
| Shinhan Card | High Technology Investment, Ltd. | - | 28.6 |
| " | Shinhan KT Mobile Card | 50.0 | 50.0 |
| Shinhan Investment | APC Fund | 21.9 | 21.9 |
| Shinhan Capital | KTB Corporate Restructuring Fund 18 th | 47.2 | 47.2 |
| " | Macquarie Shinhan Infrastructure Management Co., Ltd. | 14.8 | 14.8 |
| " | Shinhan Corporate Restructuring Fund 5 th | 45.0 | 45.0 |
| " | Shinhan Corporate Restructuring Fund 7 th | 29.4 | 29.4 |
| " | Shinhan Corporate Restructuring Fund 8 th | 11.4 | 11.4 |
| " | DCC Corporate Restructuring Fund 1st | 24.1 | 24.1 |
| " | HTIC Corporate Restructuring Fund 2 nd | 20.0 | 20.0 |
| " | PT Clemont Finance Indonesia | 30.0 | 30.0 |
| " | Haejin Shipping Co. Ltd. | 24.0 | 24.0 |
| " | APC Fund | 3.3 | 3.3 |
| " | Westend Corporate Restructuring Fund | 10.3 | 10.3 |
| " | TSYoon 2nd Corporate Restructuring Fund | 23.3 | 23.3 |
| " | SHC-IMM New Growth Fund | 64.5 | 64.5 |
| " | SHC-AJU 1st Investment Fund | 19.2 | 19.2 |
| " | Now IB Fund 6 th | 25.0 | - |
| " | QCP New Technology Fund 20 th | 47.2 | - |
| " | SHC 1st New Technology Fund | 42.5 | - |
| " | Mirae Asset Good Company Investment Fund 3rd | 50.0 | - |
| " | Now IB Fund 8 th | 38.5 | - |
| " | AJU-SHC WIN-WIN Company Fund 2nd | 25.0 | - |
| " | AJU-SHINHAN Small but Great Company Fund 1st | 60.0 | - |
| " | Stonebridge New Growth Fund | 23.3 | - |
| " | AJU M&A 1st Investment Fund | 40.0 | - |
| Jeju Bank | Shinhan Corporate Restructuring Fund 7 th | 4.9 | 4.9 |
| Symphony Energy | Korea Solec Energy Co., Ltd. | 100.0 | 100.0 |

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(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 equity or cash flows, is not presented in the accompanying consolidated financial statements.

(b) Investments in Securities

Classification

Upon acquisition, the Consolidated Company classifies debt and equity securities (excluding investments in subsidiaries, associates and joint ventures) into the following categories: held-to-maturity, available-for-sale or trading securities. This classification is reassessed at the end of each reporting period.

Investments in debt securities where the Consolidated Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are acquired principally for the purpose of selling in the short term are classified as trading securities. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

Initial recognition

Investments in securities (excluding investments in subsidiaries, associates and joint ventures) are initially recognized at cost. Equity securities and debt securities are recorded by the moving average method and the individual identification method, respectively.

Subsequent measurement and income recognition

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.

Fair value information

The fair value of marketable securities is determined using quoted market prices as of the period end. Non-marketable equity securities are recorded at fair value calculated by the valuation model using reliable data of independent professional institutes. 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. Non-marketable beneficiary certificates are recorded at fair value using the standard trading yield rate determined by fund management companies.

Impairment

The Consolidated Company audits 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 there is no clear evidence that impairment is not necessary. Impairment, if any, is recorded as a reduction in the carrying amount of the securities and included in the consolidated income statement in the period in which they arise. Recovery 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.

(c) 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 in its post-acquisition profits or losses of 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.

If an associate uses accounting policies or estimates other than those of the Consolidated Company for like transactions and events in similar circumstances, the Consolidated Company makes appropriate adjustments to conform the associate's accounting policies to those of the Consolidated Company when the associate's financial statements are used by the Consolidated Company in applying the equity method.

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 audits goodwill for impairment and records any impairment loss immediately in the consolidated statement of income.

(d) 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.

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. The prescribed minimum levels of provision per the FSS guidelines are as follows:

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(d) Allowance for Loan Losses, Continued

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

(*) 0.9% for construction, real estate and rental services, retail and wholesale, and 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.

(e) 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 is amortized using the effective interest method, resulting in recognition of interest income.

(f) 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.

(g) 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 including any related allowance from the consolidated statement of financial position 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 statement of financial position when the Consolidated Company obtains control of financial assets.

(h) 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-balanc | 4~6 years |
| Furniture, fixtures and other | " | " |
| Leasehold | Straight-line | 5 years |

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

(i) 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.

(j) 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.

(k) 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 (accreted) based on the effective interest method over the life of the debentures. The amount amortized (accreted) is included in interest expense.

(l) Retirement and Severance Benefits

The Consolidated Company introduced a pension plan. Under the Retirement Benefits Regulation, consideration of service requirements under the plan begins from the date the plan is effective; the period of service prior to the effective date of the plan will continue to be covered by the existing retirement benefits plan.

The Consolidated Company introduced a defined benefit pension plan, where each eligible employee receives a fixed amount of pension after retirement. The Consolidated Company accrued, as a liability for retirement and severance benefits, lump-sum payments payable to employees who are currently in service, assuming that they left the Consolidated Company as of the end of the reporting period. All employees with a minimum of one year of service are eligible to participate and must elect to participate in the plan. The benefits vest after employees have completed five years of vesting service or reached age 65, if earlier.

The Consolidated Company sponsors a defined contribution plan in which contributions in the amount of 1/12 of employee's annual salary is made by the Consolidated Company. The amount of benefit payments depends on the performance of the plan assets and is not guaranteed. The benefits vest after employees have completed five years of vesting service or reached age 65, if earlier. Contributions to the plan are expensed as retirement and severance benefits when remitted to the plan.

The combined provision for retirement and severances benefits under the pension plan and those under the existing retirement benefit plan is recorded as the liability for retirement and severance benefits. Pension plan assets, together with the existing retirement and severance benefit deposit and the deposit previously made to the National Pension Fund under the old National Pension Law, as referred to above, is reflected in the accompanying consolidated statements of financial position as a reduction of the liability for retirement and severance benefits.

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(m) 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 and 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.

(n) 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 records it as other liabilities with the respective changes recorded as other non-interest expense.

(o) 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.

(p) 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.

(q) 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, premium and policy reserves approved by the Financial Supervisory Commission of the Republic of Korea, of which the 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 for subsequent periods, but collected before the reporting date.

iii) Reserve for outstanding claims

Reserve for outstanding claims is an estimate of losses for insured events that have occurred prior to the reporting date but the corresponding actual claims 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.

(r) Translation of Foreign Currency Denominated Assets and Liabilities

Assets and liabilities denominated in foreign currencies are translated into Korean Won at the reporting 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 W1,138.9 and W1,167.6 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 2010 and 2009, 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 reporting 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.

(s) Share-Based Payments

The Consolidated Company has granted share options or performance share to its employees. 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.

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(t) 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.

(u) 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.

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.

(v) 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.

(w) 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.

(x) 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 consolidated 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 end of reporting period.

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.

Changes in deferred taxes due to a change in the tax rate except for those related to items initially recognized outside profit or loss (either in other comprehensive income or directly in equity) are recognized as income in the current period.

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

The Consolidated Company has filed with the Korean tax authorities a national income tax return under the consolidated corporate tax system, which allows national income tax payments based on the combined profits or losses of the Consolidated Company and its wholly owned domestic subsidiaries. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected combined profits or losses of eligible companies in accordance with the consolidated corporate tax system. Consolidated corporate tax amounts, once determined, are allocated to each of the subsidiaries and are used as a basis for the income taxes to be recorded in their separate financial statements.

(y) Cash Management Account ("CMA")

The Consolidated Company offers Cash Management Accounts services, of which investments consist of eligible securities for open market operations, bills discounted, trade bills, etc. The trust money received from the CMA depositor is presented as trust of cash management account in liabilities and invested in securities, bills discounted, etc., and such assets under custody in cash management is accounted for both cash management account assets and other trading securities. As the Consolidated Company renders the investment yield to the depositor, such earnings are recognized as interest on deposits in operating expenses. As the Consolidated Company receives commission from the depositor with regard to withdrawal of the trust money or arrival to maturity, such commissions are recognized as commissions income in operating revenues.

(z) Income from Discontinued Operations

Operating and non-operating income, net of income tax effect is reported as income from discontinued operations in the income statement for the period in which an initial disclosure event occurred. The prior period financial statements, presented comparatively, are reclassified to show the income (loss) from discontinued operations separately from continuing operations.

(aa) 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.

(bb) 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 accounted investments of Shinhan Financial Group are 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 and 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 non-controlling interests in the consolidated statement of financial position 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 the purpose of preparing the consolidated financial statements.

(4) Cash and Due from Banks

(a) Cash and due from banks as of December 31, 2010 and 2009 consisted of the following:

| | 2010 | | 2009 |
|--------------------------------------|-------------|-------------------|-------------------|
| Cash and cash equivalents | ₩ | 2,609,007 | 1,846,790 |
| Due from banks in won | | 9,383,817 | 10,863,038 |
| Due from banks in foreign currencies | | 2,540,531 | 2,889,235 |
| Due from banks invested in gold | | 153,457 | 256,244 |
| | ₩ | 14,686,812 | 15,855,307 |

(b) The maturities of due from banks as of December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | Due from banks in | | | Total |
|-------------------------------------|--------------------------|---------------------------|----------------|-------------------|
| | Won | Foreign currencies | Gold | |
| Due in 3 months or less | ₩ 7,903,473 | 2,036,477 | 153,457 | 10,093,407 |
| Due after 3 months through 6 months | 289,343 | 300,536 | - | 589,879 |
| Due after 6 months through 1 year | 932,132 | 92,996 | - | 1,025,128 |
| Due after 1 year through 3 years | 7,290 | 36,808 | - | 44,098 |
| Thereafter | 251,579 | 73,714 | - | 325,293 |
| | ₩ 9,383,817 | 2,540,531 | 153,457 | 12,077,805 |

| At December 31, 2009 | Due from banks in | | | Total |
|-------------------------------------|--------------------------|---------------------------|----------------|-------------------|
| | Won | Foreign currencies | Gold | |
| Due in 3 months or less | ₩ 10,023,528 | 2,349,637 | 256,244 | 12,629,409 |
| Due after 3 months through 6 months | 316,528 | 340,046 | - | 656,574 |
| Due after 6 months through 1 year | 224,949 | 79,319 | - | 304,268 |
| Due after 1 year through 3 years | 46,370 | 40,645 | - | 87,015 |
| Thereafter | 251,663 | 79,588 | - | 331,251 |
| | ₩ 10,863,038 | 2,889,235 | 256,244 | 14,008,517 |

(c) Cash and due from financial institutions as of December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | Due from banks in | | | Total |
|-----------------------------|--------------------------|---------------------------|----------------|-------------------|
| | Won | Foreign currencies | Gold | |
| Bank of Korea | ₩ 3,659,331 | 858,689 | - | 4,518,020 |
| Banking institutions | 1,995,416 | 1,640,236 | 153,457 | 3,789,109 |
| Other | 3,331,582 | - | - | 3,331,582 |
| | ₩ 8,986,329 | 2,498,925 | 153,457 | 11,638,711 |

| At December 31, 2009 | Due from banks in | | | Total |
|-----------------------------|--------------------------|---------------------------|----------------|-------------------|
| | Won | Foreign currencies | Gold | |
| Bank of Korea | ₩ 6,205,780 | 855,250 | - | 7,061,030 |
| Banking institutions | 1,569,828 | 2033,429 | 256,244 | 3,859,501 |
| Other | 3,087,430 | 556 | - | 3,087,986 |
| | ₩ 10,863,038 | 2889,235 | 256,244 | 14,008,517 |

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(in millions of Korean Won)

(d) Restricted due from banks as of December 31, 2010 and 2009 were as follows:

| Due from banks in won: | 2010 | 2009 | Restrictions |
|---------------------------------------|--------------------|------------------|--|
| Reserve deposits at the Bank of Korea | ₩ 3,659,331 | 6,205,780 | General banking account |
| Due from banks for customer accounts | 1,083,537 | 708,736 | Reserve for customer deposits |
| Other | 19,964 | 226,264 | Deposit for severance benefit insurance and security deposit |
| | 4,762,832 | 7,140,780 | |
| Due from banks in foreign currencies | 602,020 | 682,414 | General banking account |
| | ₩ 5,364,852 | 7,823,194 | |

(5) Securities

(a) Securities as of December 31, 2010 and 2009 consisted of the following:

| | 2010 | 2009 |
|-------------------------------------|---------------------|-------------------|
| Trading securities | ₩ 13,305,262 | 9,229,061 |
| Available-for-sale securities | 28,677,329 | 29,005,672 |
| Held-to-maturity securities | 12,534,241 | 12,802,041 |
| Equity method accounted investments | 306,669 | 254,861 |
| | ₩ 54,823,501 | 51,291,635 |

(b) Trading Securities

i) Trading securities as of December 31, 2010 and 2009 consisted of the following:

| | 2010 | 2009 |
|----------------------------------|---------------------|------------------|
| Equity securities | ₩ 535,922 | 524,699 |
| Debt securities: | | |
| Government bonds | 837,557 | 1,393,438 |
| Finance debentures | 4,323,114 | 3,434,866 |
| Corporate bonds | 2,384,371 | 1,250,760 |
| | 7,545,042 | 6,079,064 |
| Beneficiary certificates | 246,542 | 164,558 |
| Securities in foreign currencies | 10,278 | 15,821 |
| Other | 4,967,478 | 2,444,919 |
| | ₩ 13,305,262 | 9,229,061 |

ii) Details of equity securities as of December 31, 2010 and 2009 were as follows:

| | 2010 | | |
|---------------------------|------------------|------------|------------|
| | Acquisition cost | Fair value | Book value |
| Trading equity securities | ₩ 551,587 | 535,922 | 535,922 |

| | 2009 | | |
|---------------------------|------------------|------------|------------|
| | Acquisition cost | Fair value | Book value |
| Trading equity securities | ₩ 499,666 | 524,699 | 524,699 |

iii) Details of debt securities classified as trading securities as of December 31, 2010 and 2009 were as follows:

| | 2010 | | | |
|--------------------|-------------|------------------|---|---|
| | Face value | Acquisition cost | Fair value including accrued income(*1) | Book value excluding accrued income(*2) |
| Government bonds | ₩ 851,870 | 820,366 | 853,600 | 837,557 |
| Finance debentures | 4,324,400 | 4,310,562 | 4,333,753 | 4,323,114 |
| Corporate bonds | 2,388,740 | 2,373,634 | 2,392,437 | 2,384,371 |
| | ₩ 7,565,010 | 7,504,562 | 7,579,790 | 7,545,042 |

| | 2009 | | | |
|--------------------|-------------|------------------|---|---|
| | Face value | Acquisition cost | Fair value including accrued income(*1) | Book value excluding accrued income(*2) |
| Government bonds | ₩ 1,396,928 | 1,392,566 | 1,409,142 | 1,393,438 |
| Finance debentures | 3,456,521 | 3,437,308 | 3,445,226 | 3,434,866 |
| Corporate bonds | 1,245,809 | 1,250,618 | 1,260,398 | 1,250,760 |
| | ₩ 6,099,258 | 6,080,492 | 6,114,766 | 6,079,064 |

(*1) Debt securities are measured at fair value by applying the lesser of two quoted bond prices provided by two bond pricing agencies as of the latest trading date from the end of reporting period.

(*2) Accrued income is recorded as other assets.

iv) Details of beneficiary certificates as of December 31, 2010 and 2009 were as follows:

| | 2010 | | |
|--------------------------|------------------|------------|------------|
| | Acquisition cost | Fair value | Book value |
| Beneficiary certificates | ₩ 241,093 | 246,542 | 246,542 |

| | 2009 | | |
|--------------------------|------------------|------------|------------|
| | Acquisition cost | Fair value | Book value |
| Beneficiary certificates | ₩ 161,413 | 164,558 | 164,558 |

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

v) Trading securities denominated in foreign currencies as of December 31, 2010 and 2009 were as follows:

(In millions of won and thousands of US dollars)

| | 2010 | | | 2009 | | |
|-----|-------------|----------------|-----------|-------------|----------------|-----------|
| | U.S. dollar | Won equivalent | Ratio (%) | U.S. dollar | Won equivalent | Ratio (%) |
| USD | \$ - | ₩ - | - | \$ 10,024 | ₩ 11,705 | 73.98 |
| HKD | 9,025 | 10,278 | 100.00 | 3,525 | 4,116 | 26.02 |
| | \$ 9,025 | ₩ 10,278 | 100.00 | \$ 13,549 | ₩ 15,821 | 100.00 |

vi) Details of other trading securities as of December 31, 2010 and 2009 were as follows:

| | 2010 | | |
|------------------|------------------|------------|------------|
| | Acquisition cost | Fair value | Book value |
| Commercial paper | ₩ 3,703,967 | 3,704,620 | 3,704,620 |
| Other | 1,262,737 | 1,263,190 | 1,262,858 |
| | ₩ 4,966,704 | 4,967,810 | 4,967,478 |

| | 2009 | | |
|------------------|------------------|------------|------------|
| | Acquisition cost | Fair value | Book value |
| Commercial paper | ₩ 2,186,637 | 2,185,980 | 2,185,980 |
| Other | 296,961 | 258,939 | 258,939 |
| | ₩ 2,483,598 | 2,444,919 | 2,444,919 |

vii) Details of securities classified by major categories as of December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | | In won | In foreign currency | Total | Ratio (%) |
|----------------------|---|------------|---------------------|------------|-----------|
| Equity securities | ₩ | 535,922 | 10,278 | 546,200 | 4.11 |
| Floating rate note | | 2,237,115 | - | 2,237,115 | 16.81 |
| Fixed rate note | | 5,307,927 | - | 5,307,927 | 39.89 |
| Other | | 5,214,020 | - | 5,214,020 | 39.19 |
| | ₩ | 13,294,984 | 10,278 | 13,305,262 | 100.00 |

| At December 31, 2009 | | In won | In foreign currency | Total | Ratio (%) |
|----------------------|---|-----------|---------------------|-----------|-----------|
| Equity securities | ₩ | 524,699 | 4,116 | 528,815 | 5.73 |
| Floating rate note | | 553,414 | - | 553,414 | 6.00 |
| Fixed rate note | | 5,525,650 | 11,705 | 5,537,355 | 60.00 |
| Other | | 2,609,477 | - | 2,609,477 | 28.27 |
| | ₩ | 9,213,240 | 15,821 | 9,229,061 | 100.00 |

viii) Details of securities classified by industry as of December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | | In won | In foreign currency | Total | Ratio (%) |
|-----------------------------|---|-------------------|----------------------------|-------------------|------------------|
| Government | ₩ | 1,334,408 | - | 1,334,408 | 10.03 |
| Financial institutions | | 4,721,129 | - | 4,721,129 | 35.48 |
| Other | | 7,239,447 | 10,278 | 7,249,725 | 54.49 |
| | ₩ | 13,294,984 | 10,278 | 13,305,262 | 100.00 |

| At December 31, 2009 | | In won | In foreign currency | Total | Ratio(%) |
|-----------------------------|---|------------------|----------------------------|------------------|-----------------|
| Government | ₩ | 1,861,347 | - | 1,861,347 | 20.17 |
| Financial institutions | | 5,230,350 | - | 5,230,350 | 56.67 |
| Other | | 2,121,543 | 15,821 | 2,137,364 | 23.16 |
| | ₩ | 9,213,240 | 15,821 | 9,229,061 | 100.00 |

(c) Available-for-Sale securities

i) Available-for-sale securities as of December 31, 2010 and 2009 consisted of the following:

| | | 2010 | 2009 |
|----------------------------------|---|-------------------|-------------------|
| Equity securities: | | | |
| Stocks | ₩ | 4,310,968 | 4,621,017 |
| Investment in special funds | | 463,394 | 489,470 |
| | | 4,774,362 | 5,110,487 |
| Debt securities: | | | |
| Government bonds | | 6,037,235 | 5,711,947 |
| Finance debentures | | 9,445,352 | 9,810,432 |
| Corporate bonds | | 5,438,122 | 4,095,747 |
| | | 20,920,709 | 19,618,126 |
| Beneficiary certificates | | 1,177,860 | 1,971,584 |
| Securities in foreign currencies | | 1,661,659 | 2,114,780 |
| Other | | 142,739 | 190,695 |
| | ₩ | 28,677,329 | 29,005,672 |

ii) Details of available-for-sale equity securities as of December 31, 2010 and 2009 were as follows

| | | | 2010 |
|-----------------------------|---|-------------------------|-------------------|
| | | Acquisition cost | Fair value |
| | | | Book value |
| Stocks | ₩ | 2,913,991 | 4,310,968 |
| Investment in special funds | | 487,283 | 463,394 |
| | ₩ | 3,401,274 | 4,774,362 |

| | | | 2009 |
|-----------------------------|---|-------------------------|-------------------|
| | | Acquisition cost | Fair value |
| | | | Book value |
| Stocks | ₩ | 3,375,037 | 4,621,017 |
| Investment in special funds | | 507,839 | 489,470 |
| | ₩ | 3,882,876 | 5,110,487 |

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

iii) Details of debt securities classified as available-for-sale securities as of December 31, 2010 and 2009 were as follows:

| | 2010 | | | |
|--------------------|--------------|------------------|--|--|
| | Face value | Acquisition cost | Fair value including accrued income ^(*) | Book value excluding accrued income ^(*) |
| Government bonds | ₩ 6,040,673 | 5,863,227 | 6,142,951 | 6,037,235 |
| Finance debentures | 9,347,264 | 9,362,143 | 9,495,113 | 9,445,352 |
| Corporate bonds | 5,467,124 | 5,456,737 | 5,464,794 | 5,438,122 |
| | ₩ 20,855,061 | 20,682,107 | 21,102,858 | 20,920,709 |

| | 2009 | | | |
|--------------------|--------------|------------------|--|--|
| | Face value | Acquisition cost | Fair value including accrued income ^(*) | Book value excluding accrued income ^(*) |
| Government bonds | ₩ 5,807,045 | 5,654,234 | 5,831,817 | 5,711,947 |
| Finance debentures | 9,804,811 | 9,780,544 | 9,882,777 | 9,810,432 |
| Corporate bonds | 4,214,883 | 4,187,796 | 4,117,535 | 4,095,747 |
| | ₩ 19,826,739 | 19,622,574 | 19,832,129 | 19,618,126 |

(*) Debt securities are measured at fair value by applying the lesser of two quoted bond prices provided by two bond pricing agencies as of the latest trading date from the end of reporting period.

(*) Accrued income is recorded as other assets.

iv) Details of beneficiary certificates as of December 31, 2010 and 2009 were as follows:

| | 2010 | | |
|--------------------------|------------------|------------|------------|
| | Acquisition cost | Fair value | Book value |
| Beneficiary certificates | ₩ 1,108,908 | 1,177,860 | 1,177,860 |

| | 2009 | | |
|--------------------------|------------------|------------|------------|
| | Acquisition cost | Fair value | Book value |
| Beneficiary certificates | ₩ 1,879,342 | 1,971,584 | 1,971,584 |

v) Available-for-sale securities denominated in foreign currencies as of December 31, 2010 and 2009 were as follows:

(In millions of won and thousands of US dollars)

| | 2010 | | | 2009 | | |
|-----|---------------------|--------------------|---------------|---------------------|--------------------|---------------|
| | U.S. dollar | Won equivalent | Ratio (%) | U.S. dollar | Won equivalent | Ratio (%) |
| USD | \$ 1,352,288 | ₩ 1,540,121 | 92.69 | \$ 1,654,123 | ₩ 1,931,354 | 91.33 |
| JPY | 46,729 | 53,220 | 3.20 | 109,837 | 128,246 | 6.06 |
| SGD | 14,749 | 16,798 | 1.01 | 7,830 | 9,142 | 0.43 |
| EUR | 492 | 560 | 0.03 | 528 | 617 | 0.03 |
| INR | 37,016 | 42,158 | 2.54 | 31,915 | 37,264 | 1.76 |
| GBP | 1,462 | 1,666 | 0.10 | 1,334 | 1,557 | 0.07 |
| CHF | 6,266 | 7,136 | 0.43 | 5,653 | 6,600 | 0.32 |
| | \$ 1,459,002 | ₩ 1,661,659 | 100.00 | \$ 1,811,220 | ₩ 2,114,780 | 100.00 |

vi) Details of other available-for-sale securities as of December 31, 2010 and 2009 were as follows:

| | 2010 | | | 2009 | | |
|--|------------------|----------------|----------------|------------------|----------------|----------------|
| | Acquisition cost | Fair value | Book value | Acquisition cost | Fair value | Book value |
| Entrusted assets to investment service companies | ₩ 64,802 | 71,038 | 71,038 | ₩139,583 | 145,239 | 145,239 |
| Other | 46,824 | 71,701 | 71,701 | 45,117 | 45,456 | 45,456 |
| | ₩ 111,626 | 142,739 | 142,739 | ₩184,700 | 190,695 | 190,695 |

vii) Available-for-sale securities restricted for sale for certain periods as of December 31, 2010 were as follows:

| | Book value | Restricted until |
|--|------------------|------------------------------|
| Hynix Semiconductor Inc. | ₩ 341,403 | Merger & Acquisition |
| Hyundai Engineering & Construction Co., Ltd. | 204,688 | Merger & Acquisition |
| Ssangyong Cement Industrial Co., Ltd. | 62,490 | Merger & Acquisition |
| Hanchang Paper Co., Ltd. | 2,113 | December 31, 2012 |
| Ssangyong Engineering & Construction Co., Ltd. | 12,228 | Joint-sale by creditors |
| Taesan LCD., inc | 26,803 | December 31, 2013 |
| Pantech Co., Ltd. | 21,882 | December 31, 2011 |
| Daewoo Electronics Co., Ltd. | 5,289 | Joint-sale by creditors |
| Daehan Shipbuilding Co., Ltd. | 769 | December 31, 2013 |
| HJC Corp. | 20,292 | December 31, 2010 |
| Credit Recovery Fund | 105,585 | Board of Directors' approval |
| Korean private carbon fund 1st | 4,779 | August 12, 2023 |
| Isamt Co., Ltd. | 13,100 | June 30, 2013 |
| Kumhoindustrial Co., Ltd. | 25,168 | December 31, 2014 |
| Daewoo Capital CRV | 8,362 | Joint-sale by creditors |
| Jysolutec Co., Ltd. | 2,014 | December 31, 2012 |
| Kumho Tire Co., Ltd. | 2,003 | December 31, 2014 |
| Wizit Co., Ltd. | 905 | December 31, 2012 |
| YGS Co., Ltd. | 142 | December 31, 2012 |
| Visa Inc. | 90,504 | March 25, 2011 |
| | ₩ 950,519 | |

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

viii) Details of impairment loss and reversal of impairment loss of available-for-sale securities for the years ended December 31, 2010 and 2009 were as follows:

| | 2010 | | 2009 | |
|-----------------------------|------------|----------|------------|----------|
| | Impairment | Reversal | Impairment | Reversal |
| Equity securities | ₩ 5,015 | 317 | 11,423 | 1,918 |
| Investment in special funds | - | - | 295 | - |
| Debt securities | - | 1,510 | 842 | 7,343 |
| Other securities | 29,317 | 3 | 22,647 | 56 |
| | ₩ 34,332 | 1,830 | 35,207 | 9,317 |

ix) The maturity of debt securities as of December 31, 2010 and 2009 as follows:

| At December 31, 2010 | Government bonds | Finance debentures | Corporate bonds | Total |
|-------------------------------------|------------------|--------------------|-----------------|------------|
| Due in 3 months or less | ₩ 80,371 | 303,903 | 240,550 | 624,824 |
| Due after 3 months through 6 months | 111,247 | 1,735,910 | 166,222 | 2,013,379 |
| Due after 6 months through 1 year | 536,566 | 3,210,073 | 560,892 | 4,307,531 |
| Due after 1 year through 3 years | 2,018,431 | 2,272,537 | 2,462,622 | 6,753,590 |
| Thereafter | 3,290,620 | 1,922,929 | 2,007,836 | 7,221,385 |
| | ₩ 6,037,235 | 9,445,352 | 5,438,122 | 20,920,709 |

| At December 31, 2009 | Government bonds | Finance debentures | Corporate bonds | Total |
|-------------------------------------|------------------|--------------------|-----------------|------------|
| Due in 3 months or less | ₩ 65,287 | 2,753,602 | 377,336 | 3,196,225 |
| Due after 3 months through 6 months | 352,205 | 1,497,854 | 195,732 | 2,045,791 |
| Due after 6 months through 1 year | 170,463 | 1,767,233 | 406,491 | 2,344,187 |
| Due after 1 year through 3 years | 2,198,574 | 2,226,233 | 1,774,098 | 6,198,905 |
| Thereafter | 2,925,418 | 1,565,510 | 1,342,090 | 5,833,018 |
| | ₩ 5,711,947 | 9,810,432 | 4,095,747 | 19,618,126 |

x) Details of securities classified by major categories as of December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | In won | In foreign currency | Total | Ratio(%) |
|----------------------|--------------|---------------------|------------|----------|
| Equity securities | ₩ 4,310,968 | 355,905 | 4,666,873 | 16.27 |
| Floating rate note | 714,648 | 231,526 | 946,174 | 3.30 |
| Fixed rate note | 20,206,061 | 998,136 | 21,204,197 | 73.94 |
| Other | 1,783,993 | 76,092 | 1,860,085 | 6.49 |
| | ₩ 27,015,670 | 1,661,659 | 28,677,329 | 100.00 |

| At December 31, 2009 | In won | In foreign currency | Total | Ratio(%) |
|----------------------|--------------|---------------------|------------|----------|
| Equity securities | ₩ 4,621,017 | 382,223 | 5,003,240 | 17.25 |
| Floating rate note | 196,512 | 635,082 | 831,594 | 2.87 |
| Fixed rate note | 19,421,614 | 1,033,409 | 20,455,023 | 70.52 |
| Other | 2,651,749 | 64,066 | 2,715,815 | 9.36 |
| | ₩ 26,890,892 | 2,114,780 | 29,005,672 | 100.00 |

xi) Details of securities classified by industry as of December 31, 2010 and 2009 were as follows:

| | At December 31, 2010 | | | | At December 31, 2009 | | | |
|------------------------|----------------------|---------------------|-------------------|---------------|----------------------|---------------------|-------------------|---------------|
| | In won | In foreign currency | Total | Ratio(%) | In won | In foreign currency | Total | Ratio(%) |
| Government | ₩ 7,375,669 | 150,706 | 7,526,375 | 26.24 | 8,104,940 | 83,936 | 8,188,876 | 28.23 |
| Financial institutions | 10,052,711 | 752,017 | 10,804,728 | 37.68 | 10,145,181 | 889,802 | 11,034,983 | 38.04 |
| Other | 9,587,290 | 758,936 | 10,346,226 | 36.08 | 8,640,771 | 1,141,042 | 9,781,813 | 33.73 |
| | ₩ 27,015,670 | 1,661,659 | 28,677,329 | 100.00 | 26,890,892 | 2,114,780 | 29,005,672 | 100.00 |

xii) Structured notes as of December 31, 2010 consisted of the following:

| | Par value | Book value | Inherent risk |
|------------------------|-----------|------------|--|
| Credit linked notes(*) | ₩ 137,167 | 54,637 | Loss from occurrence of a credit event |

(*) If one or more credit events occur including bankruptcy, payment defaults, default on obligation, refusal of payment or restructuring, the Consolidated Company will receive the underlying bonds issued or guaranteed by reference company or cash equivalent to the market value at the time of the credit event from the counterparty.

(d) Held-to-maturity securities

i) Held-to-maturity securities as of December 31, 2010 and 2009 consisted of the following:

| | 2010 | 2009 |
|----------------------------------|---------------------|-------------------|
| Government bonds | ₩ 6,151,908 | 5,706,571 |
| Finance debentures | 2,892,970 | 4,521,243 |
| Corporate bonds | 3,209,183 | 2,446,809 |
| Securities in foreign currencies | 280,170 | 127,418 |
| Other | 10 | - |
| | ₩ 12,534,241 | 12,802,041 |

ii) Details of debt securities classified as held-to-maturity securities as of December 31, 2010 and 2009 consisted of the following:

| | 2010 | | | |
|--------------------|---------------------|-------------------|-------------------|-------------------|
| | Face value | Acquisition cost | Fair value (*) | Book value |
| Government bonds | ₩ 6,380,716 | 6,095,999 | 6,529,837 | 6,151,908 |
| Finance debentures | 2,891,020 | 2,889,067 | 2,953,861 | 2,892,970 |
| Corporate bonds | 3,198,342 | 3,209,507 | 3,309,961 | 3,209,183 |
| | ₩ 12,470,078 | 12,194,573 | 12,793,659 | 12,254,061 |

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

| | 2009 | | | |
|--------------------|--------------|------------------|----------------|------------|
| | Face value | Acquisition cost | Fair value (*) | Book value |
| Government bonds | ₩ 5,792,019 | 5,682,426 | 5,836,532 | 5,706,571 |
| Finance debentures | 4,526,001 | 4,518,631 | 4,588,036 | 4,521,243 |
| Corporate bonds | 2,446,725 | 2,442,410 | 2,487,564 | 2,446,809 |
| | ₩ 12,764,745 | 12,643,467 | 12,912,132 | 12,674,623 |

(*) Debt securities are measured at fair value by applying the lesser of two quoted bond prices provided by two bond pricing agencies as of the latest trading date from the end of reporting period.

iii) Details of other held-to-maturity securities as of December 31, 2010 consisted of the following:

| | 2010 | | |
|-------|------------------|------------|------------|
| | Acquisition cost | Fair value | Book value |
| Other | ₩ 10 | 10 | 10 |

iv) Held-to-maturity securities in foreign currencies as of December 31, 2010 and 2009, were as follows:

(In millions of won and thousands of US dollars)

| | 2010 | | | 2009 | | |
|-----|-------------|----------------|-----------|-------------|----------------|-----------|
| | U.S. dollar | Won equivalent | Ratio (%) | U.S. dollar | Won equivalent | Ratio (%) |
| USD | \$ 26,245 | ₩ 29,890 | 10.67 | \$ 35,746 | ₩ 41,737 | 32.76 |
| JPY | 210,927 | 240,225 | 85.74 | 64,863 | 75,734 | 59.44 |
| INR | 8,829 | 10,055 | 3.59 | 8,519 | 9,947 | 7.80 |
| | \$ 246,001 | ₩ 280,170 | 100.00 | \$ 109,128 | ₩ 127,418 | 100.00 |

v) Changes in impairment loss and reversal of impairment loss on held-to-maturity securities for the years ended December 31, 2010 and 2009 were as follows:

| | 2010 | | 2009 | |
|-----------------|------------|----------|------------|----------|
| | Impairment | Reversal | Impairment | Reversal |
| Debt securities | ₩ 1,220 | 24,069 | 1,635 | 28,400 |

vi) The maturity of debt securities as of December 31, 2010 and 2009 as follows:

| At December 31, 2010 | Government bonds | Finance debentures | Corporate bonds | Total |
|-------------------------------------|-------------------------|---------------------------|------------------------|-------------------|
| Due in 3 months or less | ₩ 113,898 | 29,993 | 70,011 | 213,902 |
| Due after 3 months through 6 months | 140,746 | 139,563 | 19,945 | 300,254 |
| Due after 6 months through 1 year | 402,677 | 449,434 | 256,053 | 1,108,164 |
| Due after 1 year through 3 years | 1,765,251 | 912,412 | 1,371,368 | 4,049,031 |
| Thereafter | 3,729,336 | 1,361,568 | 1,491,806 | 6,582,710 |
| | ₩ 6,151,908 | 2,892,970 | 3,209,183 | 12,254,061 |

| At December 31, 2009 | Government bonds | Finance debentures | Corporate bonds | Total |
|-------------------------------------|-------------------------|---------------------------|------------------------|-------------------|
| Due in 3 months or less | ₩ 11,101 | 306,639 | 86,072 | 403,812 |
| Due after 3 months through 6 months | 179,987 | 309,758 | 89,868 | 579,613 |
| Due after 6 months through 1 year | 130,508 | 1,183,637 | 79,964 | 1,394,109 |
| Due after 1 year through 3 years | 1,464,130 | 1,262,873 | 1,104,825 | 3,831,828 |
| Thereafter | 3,920,845 | 1,458,336 | 1,086,080 | 6,465,261 |
| | ₩ 5,706,571 | 4,521,243 | 2,446,809 | 12,674,623 |

vii) Details of securities classified by major categories as of December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | In won | In foreign currency | Total | Ratio(%) |
|-----------------------------|---------------------|----------------------------|-------------------|-----------------|
| Floating rate note | ₩ 215,000 | - | 215,000 | 1.72 |
| Fixed rate note | 12,039,061 | 271,061 | 12,310,122 | 98.21 |
| Other | 10 | 9,109 | 9,119 | 0.07 |
| | ₩ 12,254,071 | 280,170 | 12,534,241 | 100.00 |

| At December 31, 2009 | In won | In foreign currency | Total | Ratio(%) |
|-----------------------------|---------------------|----------------------------|-------------------|-----------------|
| Floating rate note | ₩ 185,000 | 30,067 | 215,067 | 1.68 |
| Fixed rate note | 12,489,623 | 97,351 | 12,586,974 | 98.32 |
| | ₩ 12,674,623 | 127,418 | 12,802,041 | 100.00 |

viii) Details of securities classified by industry as of December 31, 2010 and 2009 were as follows:

| | 2010 | | | | 2009 | | | |
|------------------------|--------------------|----------------------------|-------------------|-----------------|--------------------|----------------------------|-------------------|-----------------|
| | In won | In foreign currency | Total | Ratio(%) | In won | In foreign currency | Total | Ratio(%) |
| Government | ₩ 6,786,029 | 62,740 | 6,848,769 | 54.64 | ₩7,713,751 | 45,829 | 7,759,580 | 60.61 |
| Financial institutions | 2,094,423 | 129,304 | 2,223,727 | 17.74 | 4,697,818 | 57,725 | 4,755,543 | 37.15 |
| Other | 3,373,619 | 88,126 | 3,461,745 | 27.62 | 263,054 | 23,864 | 286,918 | 2.24 |
| | ₩12,254,071 | 280,170 | 12,534,241 | 100.00 | ₩12,674,623 | 127,418 | 12,802,041 | 100.00 |

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(e) Equity Method Accounted Investments

Details of equity method accounted investments as of December 31, 2010 and 2009 were as follows:

| Investees | | | | | | | 2010 |
|---|-------------------|--------------------------------------|-----------------------------|--|-----------------|----------------|------|
| | Beginning balance | Acquisition (dividend/disposal), net | Equity method income (loss) | Accumulated other comprehensive income | Impairment loss | Ending balance | |
| SHC Management Co., Ltd. | ₩ 8,655 | - | (345) | - | - | 8,310 | |
| Cardif Life Insurance | 4,398 | 6,000 | 321 | 3,105 | - | 13,824 | |
| Shinhan Data System | 5,606 | - | 316 | - | - | 5,922 | |
| Aju Capital Co., Ltd. | 86,877 | - | 745 | 27,216 | (79,933) | 34,905 | |
| Macquarie Shinhan infrastructure Management Co., Ltd. | 4,405 | (5,748) | 5,624 | - | - | 4,281 | |
| Shinhan Vina Bank | 53,185 | - | 5,956 | (1,307) | - | 57,834 | |
| Shinhan KT Mobile Card | 248 | - | (248) | - | - | - | |
| Shinhan Corporate Restructuring Fund 5th | 5,365 | (374) | (3,326) | (453) | - | 1,212 | |
| Shinhan Corporate Restructuring Fund 7th | 5,375 | (5,123) | 4 | - | - | 256 | |
| Shinhan Corporate Restructuring Fund 8th | 24,192 | - | 1,214 | - | - | 25,406 | |
| DCC Corporate Restructuring Fund 1st | 1,549 | (724) | 1,032 | 165 | - | 2,022 | |
| KTB Corporate Restructuring Fund 18th | 407 | (175) | (221) | - | - | 11 | |
| High Technology Investment, Ltd. | 143 | (56) | (5) | (82) | - | - | |
| HTIC Corporate Restructuring Fund 2nd | 3,891 | (5,209) | 1,318 | - | - | - | |
| PT Clemont Finance Indonesia | 4,906 | - | 1,163 | 99 | - | 6,168 | |
| Haejin Shipping Co. Ltd. | 876 | - | (33) | 17 | - | 860 | |
| APC Fund | 14,395 | 7,092 | (1,126) | (363) | - | 19,998 | |
| Westend Corporate Restructuring Fund | 7,942 | (552) | 820 | - | - | 8,210 | |
| TSYoon 2nd Corporate Restructuring Fund | 5,001 | (671) | 86 | (262) | - | 4,154 | |
| SHC-IMM New Growth Fund | 2,954 | - | (222) | - | - | 2,732 | |
| SHC-AJU 1st Investment Fund | 2,499 | - | 127 | - | - | 2,626 | |
| Now IB Fund 6 th | - | 2,500 | 169 | - | - | 2,669 | |
| QCP New TechnologyFund 20 th | - | 2,500 | (1,336) | - | - | 1,164 | |
| SHC 1st NewTechnology Fund | - | 2,250 | (15) | - | - | 2,235 | |
| UAMCO., Ltd. | 11,992 | 72,800 | 1,689 | - | - | 86,481 | |
| Miraeasset 3rdInvestment Fund | - | 4,560 | (48) | - | - | 4,512 | |
| Now IB Fund 8 th | - | 1,000 | 36 | - | - | 1,036 | |
| SHC-AJU 2ndInvestment Fund | - | 2,000 | (16) | - | - | 1,984 | |
| Aju-Shinhan 1stInvestment Fund | - | 3,000 | 162 | - | - | 3,162 | |
| Stonebridge New growth Investment Fund | - | 700 | 1 | - | - | 701 | |
| Aju M&A1st Investment Fund | - | 4,000 | (6) | - | - | 3,994 | |
| | ₩ 254,861 | 89,770 | 13,836 | 28,135 | (79,933) | 306,669 | |

2009

| Investees | | Beginning balance | Acquisition (dividend/ disposal), net | Equity method income (loss) | Accumulated other comprehensive income | Ending balance |
|--|---|----------------------|---|--------------------------------------|---|-------------------|
| SHC Management Co., Ltd. | ₩ | 8,899 | - | (244) | - | 8,655 |
| Cardif Life Insurance | | - | 4,788 | (168) | (222) | 4,398 |
| Shinhan Data System | | - | 4,927 | 679 | - | 5,606 |
| Shinhan Finance Ltd. | | 105,345 | (107,154) | (470) | 2,279 | - |
| Aju Capital Co., Ltd. | | 89,537 | (6,242) | 993 | 2,589 | 86,877 |
| Macquarie Shinhan infrastructure Management Co., Ltd. | | 4,675 | (6,741) | 6,471 | - | 4,405 |
| Shinhan Vina Bank | | 50,627 | - | 6,177 | (3,619) | 53,185 |
| Shinhan KTF Mobile Card | | 708 | - | (460) | - | 248 |
| Shinhan Corporate Restructuring Fund 5th | | 4,610 | (242) | 1,076 | (79) | 5,365 |
| Shinhan Corporate Restructuring Fund 7th | | 3,794 | - | 572 | 1,009 | 5,375 |
| Shinhan Corporate Restructuring Fund 8th | | 24,401 | (235) | 26 | - | 24,192 |
| DCC Corporate Restructuring Fund 1st | | 3,437 | (1,979) | 32 | 59 | 1,549 |
| Nawoo IB Fund 2nd | | 3,208 | (3,369) | 161 | - | - |
| KTB Corporate Restructuring Fund 18th | | 708 | - | (301) | - | 407 |
| High Technology Investment, Ltd. | | 2,476 | (1,498) | (41) | (794) | 143 |
| KTIC 16th Corporate Restructuring Fund | | - | (230) | (588) | 818 | - |
| HTIC 2nd Corporate Restructuring Fund | | 3,928 | - | (37) | - | 3,891 |
| PT Clemont Finance Indonesia | | 3,772 | - | 809 | 325 | 4,906 |
| Haejin Shipping Co. Ltd. | | 1,052 | - | (134) | (42) | 876 |
| APC Fund | | 8,628 | 8,510 | (1,178) | (1,565) | 14,395 |
| Westend Corporate Restructuring Fund | | - | 8,000 | (58) | - | 7,942 |
| TSYoon 2nd Corporate Restructuring Fund | | - | 5,000 | 1 | - | 5,001 |
| SHC-IMM New Growth Fund | | - | 3,000 | (46) | - | 2,954 |
| SHC-AJU 1st Investment Fund | | - | 2,500 | (1) | - | 2,499 |
| UAMCO., Ltd. | | - | 12,250 | (258) | - | 11,992 |
| SHPE Holdings One | | 137,150 | (137,150) | - | - | - |
| | ₩ | 456,955 | (215,865) | 13,013 | 758 | 254,861 |

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(6) Loans

(a) Loans outstanding as of December 31, 2010 and 2009 consisted of the following:

| | | 2010 | 2009 |
|---|---|--------------------|--------------------|
| Loans in won | ₩ | 136,068,946 | 132,552,321 |
| Loans in foreign currency | | 10,088,171 | 9,583,926 |
| Loans in gold banking | | 6,058 | 4,894 |
| Call loans | | 736,601 | 859,602 |
| Domestic import usance bills | | 3,837,410 | 2,956,722 |
| Bills bought in won | | 918,072 | 915,548 |
| Bills bought in foreign currency | | 4,818,381 | 3,402,056 |
| Bonds purchased under repurchase agreements | | 1,475,066 | 421,100 |
| Factoring receivables | | 175,458 | 147,371 |
| Advances for customers | | 30,971 | 22,243 |
| Privately placed bonds | | 2,072,647 | 2,706,954 |
| CMA assets | | 827,700 | 676,349 |
| Financing leases | | 1,522,740 | 1,495,419 |
| Credit card accounts | | 16,726,335 | 13,640,262 |
| Other | | 1,389,541 | 1,343,730 |
| | | 180,694,097 | 170,728,497 |
| Less: | | | |
| allowance for loan losses | | (3,649,189) | (3,597,397) |
| present value discount | | (6,152) | (9,219) |
| deferred loan origination fees | | (111,975) | (158,052) |
| | ₩ | 176,926,781 | 166,963,829 |

(b) Loan maturities as of December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | Loans in won | Loans in foreign currencies | Other loans | Total |
|-------------------------------------|----------------------|-----------------------------|-------------------|--------------------|
| Due in 3 months or less | ₩ 28,088,094 | 1,998,769 | 21,781,150 | 51,868,013 |
| Due after 3 months through 6 months | 22,185,893 | 1,947,919 | 4,508,508 | 28,642,320 |
| Due after 6 months through 1 year | 32,353,039 | 2,178,562 | 3,628,979 | 38,160,580 |
| Due after 1 year through 3 years | 19,459,520 | 1,891,790 | 3,508,566 | 24,859,876 |
| Thereafter | 33,982,400 | 2,071,131 | 1,109,777 | 37,163,308 |
| | ₩ 136,068,946 | 10,088,171 | 34,536,980 | 180,694,097 |

| At December 31, 2009 | Loans in won | Loans in foreign currencies | Other loans | Total |
|-------------------------------------|----------------------|-----------------------------|-------------------|--------------------|
| Due in 3 months or less | ₩ 29,075,137 | 1,525,723 | 17,122,138 | 47,722,998 |
| Due after 3 months through 6 months | 20,533,015 | 20,930,546 | 1,726,438 | 3,525,231 |
| Due after 6 months through 1 year | 32,702,789 | 2,453,581 | 2,850,043 | 38,006,413 |
| Due after 1 year through 3 years | 18,574,542 | 1,676,865 | 3,812,568 | 24,063,975 |
| | ₩ 132,552,321 | 9,583,926 | 28,592,250 | 170,728,497 |

(c) Loans in financial institutions as of December 31, 2010 and 2009 were as follows :

| At December 31, 2010 | Loans in | | | |
|---|---------------|----------------------|-----------|-----------|
| | Bank of Korea | Banking Institutions | Other | Total |
| Loans in won | ₩ - | 635,564 | 2,732,625 | 3,368,189 |
| Loans in foreign currencies | - | 49,922 | 143,357 | 193,279 |
| Billis bought in won | - | - | 183,961 | 183,961 |
| Call loans | - | 736,601 | - | 736,601 |
| Bonds purchased under repurchase agreements | 1,200,000 | - | 269,300 | 1,469,300 |
| Private placement bonds | - | - | 463,767 | 463,767 |
| Other | - | 1,975 | 625,796 | 627,771 |
| | ₩ 1,200,000 | 1,424,062 | 4,418,806 | 7,042,868 |

| At December 31, 2009 | Loans in | | | |
|---|---------------|----------------------|-----------|-----------|
| | Bank of Korea | Banking Institutions | Other | Total |
| Loans in won | ₩ - | 213,019 | 588,420 | 801,439 |
| Loans in foreign currencies | - | 308,300 | 135,792 | 444,092 |
| Billis bought in won | - | - | 154,316 | 154,316 |
| Call loans | - | 473,986 | 385,616 | 859,602 |
| Bonds purchased under repurchase agreements | 300,000 | - | 90,800 | 390,800 |
| Private placement bonds | - | - | 482,629 | 482,629 |
| Other | - | - | 1,072,800 | 1,072,800 |
| | ₩ 300,000 | 995,305 | 2,910,373 | 4,205,678 |

(d) Loans classified by country as of December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | Loans in | | | | |
|----------------------|---------------|-----------------------------|------------|-------------|----------|
| | Loans in won | Loans in foreign currencies | Other | Total | Ratio(%) |
| Korea | ₩ 136,068,946 | 3,439,644 | 33,276,191 | 172,784,781 | 95.62 |
| U.S.A. | - | 1,229,571 | 49,738 | 1,279,309 | 0.71 |
| U.K. | - | 47,458 | 190,214 | 237,672 | 0.13 |
| Japan | - | 1,939,156 | 175,892 | 2,115,048 | 1.17 |
| Germany | - | 65,989 | 218,654 | 284,643 | 0.16 |
| Vietnam | - | 288,841 | 60,785 | 349,626 | 0.19 |
| China | - | 1,061,923 | 393,839 | 1,455,762 | 0.81 |
| Other | - | 2,015,589 | 171,667 | 2,187,256 | 1.21 |
| | ₩ 136,068,946 | 10,088,171 | 34,536,980 | 180,694,097 | 100.00 |

| At December 31, 2009 | Loans in | | | | |
|----------------------|---------------|-----------------------------|------------|-------------|----------|
| | Loans in won | Loans in foreign currencies | Other | Total | Ratio(%) |
| Korea | ₩ 132,528,882 | 4,328,186 | 27,998,116 | 164,855,184 | 96.56 |
| U.S.A. | 19,839 | 1,285,650 | 54,080 | 1,359,569 | 0.80 |
| U.K. | - | 22,623 | 116,760 | 139,383 | 0.08 |
| Japan | - | 620,094 | 69,455 | 689,549 | 0.40 |
| Germany | - | 17,418 | 3,889 | 21,307 | 0.01 |
| Vietnam | - | 52,612 | 82,902 | 135,514 | 0.08 |
| China | - | 870,505 | 76,409 | 946,914 | 0.55 |
| Other | 3,600 | 2,386,838 | 190,639 | 2,581,077 | 1.51 |
| | ₩ 132,552,321 | 9,583,926 | 28,592,250 | 170,728,497 | 100.00 |

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(e) Loans classified by industry as of December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | Loans in won | Loans in foreign currencies | Other | Total | Ratio(%) |
|----------------------------------|---------------|-----------------------------|------------|-------------|----------|
| Manufacturing | ₩ 21,787,018 | 3,368,816 | 7,589,477 | 32,745,311 | 18.12 |
| Retail and wholesale | 12,216,603 | 814,288 | 1,861,594 | 14,892,485 | 8.24 |
| Real estate and rental services | 16,742,638 | 1,357,500 | 318,291 | 18,418,429 | 10.19 |
| Construction | 5,555,513 | 45,451 | 554,345 | 6,155,309 | 3.41 |
| Lodging and restaurant | 4,308,646 | 271,096 | 104,507 | 4,684,249 | 2.59 |
| Financial services and insurance | 3,419,713 | 442,407 | 3,673,620 | 7,535,740 | 4.17 |
| Other corporate loans | 7,662,856 | 3,586,516 | 1,465,153 | 12,714,525 | 7.04 |
| Household loans | 64,375,959 | 202,097 | 18,969,993 | 83,548,049 | 46.24 |
| | ₩ 136,068,946 | 10,088,171 | 34,536,980 | 180,694,097 | 100.00 |

| At December 31, 2009 | Loans in won | Loans in foreign currencies | Other | Total | Ratio(%) |
|----------------------------------|---------------|-----------------------------|------------|-------------|----------|
| Manufacturing | ₩ 19,576,255 | 3,313,740 | 7,074,414 | 29,964,409 | 17.55 |
| Retail and wholesale | 11,293,599 | 711,116 | 1,330,166 | 13,334,881 | 7.81 |
| Real estate and rental services | 16,858,445 | 1,248,396 | 192,416 | 18,299,257 | 10.72 |
| Construction | 5,857,791 | 40,854 | 774,970 | 6,673,615 | 3.91 |
| Lodging and restaurant | 3,627,311 | 239,009 | 108,925 | 3,975,245 | 2.33 |
| Financial services and insurance | 4,241,347 | 444,094 | 1,434,339 | 6,119,780 | 3.58 |
| Other corporate loans | 9,210,576 | 3,446,620 | 2,154,169 | 14,811,365 | 8.68 |
| Household loans | 61,886,997 | 140,097 | 15,522,851 | 77,549,945 | 45.42 |
| | ₩ 132,552,321 | 9,583,926 | 28,592,250 | 170,728,497 | 100.00 |

(f) Loans classified by customer as of December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | Loans in won | Loans in foreign currencies | Other | Total | Ratio(%) |
|----------------------|---------------|-----------------------------|------------|-------------|----------|
| Corporate | ₩ 68,942,715 | 9,860,105 | 15,161,015 | 93,963,835 | 52.00 |
| Household | 64,375,959 | 202,097 | 18,969,993 | 83,548,049 | 46.24 |
| Public and other | 2,750,272 | 25,969 | 405,972 | 3,182,213 | 1.76 |
| | ₩ 136,068,946 | 10,088,171 | 34,536,980 | 180,694,097 | 100.00 |

| At December 31, 2009 | Loans in won | Loans in foreign currencies | Other | Total | Ratio(%) |
|----------------------|---------------|-----------------------------|------------|-------------|----------|
| Corporate | ₩ 68,448,287 | 9,443,365 | 12,935,675 | 90,827,327 | 53.20 |
| Household | 61,886,997 | 140,097 | 15,522,851 | 77,549,945 | 45.42 |
| Public and other | 2,217,037 | 464 | 133,724 | 2,351,225 | 1.38 |
| | ₩ 132,552,321 | 9,583,926 | 28,592,250 | 170,728,497 | 100.00 |

(g) Changes in allowance for losses on loans, accounts receivable and accrued income for the year ended December 31, 2010 and 2009 were as follows:

| | | | 2010 |
|------------------------------|---|---------------------------|------------------|
| | | Beginning balance | Ending balance |
| | | Increase(*) (decrease) | |
| Shinhan Financial Group | ₩ | 375 | 78 |
| Shinhan Bank | | 2,632,279 | 2,827,226 |
| Shinhan Bank (Trust account) | | 7,340 | 896 |
| Shinhan Asia | | 946 | 688 |
| Shinhan Bank America | | 32,344 | 46,761 |
| Shinhan Europe | | 1,460 | 1,405 |
| Shinhan Canada | | 593 | 1,245 |
| Shinhan Khmer | | 309 | 362 |
| Shinhan China | | 12,516 | 13,582 |
| SBJ | | 25,520 | 34,515 |
| Shinhan Vietnam | | 17,278 | 16,838 |
| Shinhan Card | | 793,470 | 605,116 |
| Shinhan Investment | | 182,287 | 117,768 |
| Shinhan Life Insurance | | 37,943 | 38,318 |
| Shinhan Capital | | 72,323 | 61,537 |
| Jeju Bank | | 33,088 | 39,727 |
| Shinhan PE | | 470 | 3,756 |
| Shinhan BNP Paribas AMC | | 110 | 119 |
| Shinhan Macquarie | | 2 | - |
| | ₩ | 3,850,653 | 3,809,937 |

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

| | | | 2009 |
|------------------------------|---|---------------------------|------------------|
| | | Beginning balance | Ending balance |
| | | Increase(*) (decrease) | |
| Shinhan Financial Group | ₩ | 38 | 375 |
| Shinhan Bank | | 2,659,345 | 2,632,279 |
| Shinhan Bank (Trust account) | | 7,830 | 7,340 |
| SHC Management | | 32 | - |
| Shinhan Asia | | 1,019 | 946 |
| Shinhan Bank America | | 9,004 | 32,344 |
| Shinhan Europe | | 1,220 | 1,460 |
| Shinhan Canada | | - | 593 |
| Shinhan Khmer | | - | 309 |
| Shinhan China | | 12,863 | 12,516 |
| SBJ Bank | | - | 25,520 |
| Shinhan Vietnam | | - | 17,278 |
| Shinhan Card | | 773,961 | 793,470 |
| Shinhan Investment | | 62,217 | 182,287 |
| Shinhan Life Insurance | | 30,204 | 37,943 |
| Shinhan Capital | | 52,394 | 72,323 |
| Jeju Bank | | 26,464 | 33,088 |
| Shinhan PE | | - | 470 |
| Shinhan BNP Paribas AMC | | 60 | 110 |
| Cardif Life Insurance | | 59 | - |
| Shinhan Macquarie | | 15 | 2 |
| | ₩ | 3,636,725 | 3,850,653 |

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

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(h) As of December 31, 2010 and 2009, details of loan balances including accounts receivable and other suspense receivable and the related allowance for credit losses by asset credit risk classification were as follows:

| | | 2010 | | |
|-------------------|----------------|--------------------|------------------|---------------------|
| | | Balance | Allowance | Provision ratio (%) |
| Corporate loans | Normal | ₩ 92,806,507 | 1,013,677 | 1.09 |
| | Precautionary | 2,199,032 | 286,122 | 13.01 |
| | Substandard | 1,472,329 | 497,666 | 33.80 |
| | Doubtful | 432,201 | 271,800 | 62.89 |
| | Estimated loss | 195,979 | 195,979 | 100.00 |
| | | 97,106,048 | 2,265,244 | 2.33 |
| Household loans | Normal | 66,297,729 | 646,655 | 0.98 |
| | Precautionary | 238,100 | 23,546 | 9.89 |
| | Substandard | 133,153 | 27,871 | 20.93 |
| | Doubtful | 96,762 | 58,219 | 60.17 |
| | Estimated loss | 55,970 | 55,970 | 100.00 |
| | | 66,821,714 | 812,261 | 1.22 |
| Credit card loans | Normal | 16,232,315 | 269,402 | 1.66 |
| | Precautionary | 198,188 | 35,441 | 17.88 |
| | Substandard | 22 | 5 | 22.73 |
| | Doubtful | 72,436 | 43,462 | 60.00 |
| | Estimated loss | 223,374 | 223,374 | 100.00 |
| | | 16,726,335 | 571,684 | 3.42 |
| Other | | 1,535,012 | 160,748 | 10.47 |
| | ₩ | 182,189,109 | 3,809,937 | 2.09 |

| | | 2009 | | |
|-------------------|----------------|--------------------|------------------|---------------------|
| | | Balance | Allowance | Provision ratio (%) |
| Corporate loans | Normal | ₩ 88,757,084 | 1,011,742 | 1.14 |
| | Precautionary | 2,571,409 | 325,193 | 12.65 |
| | Substandard | 1,053,105 | 308,357 | 29.28 |
| | Doubtful | 290,097 | 213,297 | 73.53 |
| | Estimated loss | 199,553 | 199,553 | 100.00 |
| | | 92,871,248 | 2,058,142 | 2.22 |
| Household loans | Normal | 63,635,535 | 621,953 | 0.98 |
| | Precautionary | 185,887 | 17,980 | 9.67 |
| | Substandard | 131,916 | 26,669 | 20.22 |
| | Doubtful | 117,076 | 65,305 | 55.78 |
| | Estimated loss | 56,551 | 56,551 | 100.00 |
| | | 64,126,965 | 788,458 | 1.23 |
| Credit card loans | Normal | 12,995,329 | 295,348 | 2.27 |
| | Precautionary | 235,559 | 68,549 | 29.10 |
| | Substandard | 9 | 2 | 22.22 |
| | Doubtful | 56,168 | 33,701 | 60.00 |
| | Estimated loss | 353,197 | 353,197 | 100.00 |
| | | 13,640,262 | 750,797 | 5.50 |
| Other | | 2,986,103 | 253,256 | 8.48 |
| | ₩ | 173,624,578 | 3,850,653 | 2.22 |

(i) Deferred loan origination fees

Changes in deferred loan origination fees for the years ended December 31, 2010 and 2009 were as follows:

| | 2010 | 2009 |
|-------------------|------------------|----------------|
| Beginning balance | ₩ 158,052 | 176,759 |
| Increase | 84,848 | 149,531 |
| Dcrease | (130,925) | (168,238) |
| Ending balance | ₩ 111,975 | 158,052 |

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(j) Restructured loans due to commencement of bankruptcy proceedings, debt restructuring proceedings by creditors or workout programs for the years ended December 31, 2010 and 2009 were as follows:

| | | | 2010 |
|-----------------------------------|-----------------|-----------------|---------------|
| | Corporate loans | Household loans | Total |
| Convertible to equity securities: | | | |
| Balance before restructuring | ₩ 75,603 | - | 75,603 |
| Balance after restructuring | 40,881 | - | 40,881 |
| Loss resulting from restructuring | 34,722 | - | 34,722 |
| Modification of terms: | | | |
| Balance before restructuring | 418,633 | 24,889 | 443,522 |
| Balance after restructuring | 361,521 | 17,343 | 378,864 |
| Loss resulting from restructuring | ₩ 57,112 | 7,546 | 64,658 |
| | | | 2009 |
| | Corporate loans | Household loans | Total |
| Convertible to equity securities: | | | |
| Balance before restructuring | ₩ 114,269 | - | 114,269 |
| Balance after restructuring | 40,072 | - | 40,072 |
| Loss resulting from restructuring | 74,197 | - | 74,197 |
| Modification of terms: | | | |
| Balance before restructuring | 530,797 | 29,977 | 560,774 |
| Balance after restructuring | 487,658 | 21,117 | 508,775 |
| Loss resulting from restructuring | ₩ 43,139 | 8,860 | 51,999 |

(k) Cash Management Assets

Cash management assets as of December 31, 2010 and 2009 consisted of the following:

| | 2010 | 2009 |
|-----------------|--------------------|------------------|
| Bill discounted | ₩ 827,700 | 676,349 |
| Securities(*) | 759,570 | 512,704 |
| | ₩ 1,587,270 | 1,189,053 |

(*) recorded as trading securities.

(l) Details of loans transferred for the years ended December 31, 2010 and 2009 were as follows:

| Loans sold to | 2010 | 2009 |
|--|------------------|------------------|
| Korea Asset Management Corporation | ₩ 107,265 | 405,915 |
| Shinhan Mortgage 2nd ABS Specialty Co., Ltd. | - | 605,589 |
| Pine Tree Partners Co. Ltd | - | 114,484 |
| Korea Development Financing Corp. | - | 100,391 |
| Shinhan Chang-i ABS Specialty Co., Ltd. | 168,700 | - |
| Shinhan 8th ABS Specialty Co., Ltd. | 87,875 | - |
| Credit Recovery Fund | 172,549 | - |
| Others | 124,840 | 108,159 |
| | ₩ 661,229 | 1,334,538 |

(7) Lease Assets

(a) As of December 31, 2010 and 2009, details of operating lease assets were as follows:

| | 2010 | 2009 |
|---|-----------------|---------------|
| Operating lease assets | ₩ 154,606 | 254,548 |
| Accumulated depreciation | (109,259) | (168,730) |
| Allowance for loss on disposition of operating lease assets | (464) | (464) |
| | ₩ 44,883 | 85,354 |

(b) Future lease receivables as of December 31, 2010 are as follows:

| | Operating lease | Financing lease | Total |
|--|------------------------|------------------------|------------------|
| 2011.1.1 ~ 2011.12.31 | ₩ 22,475 | 690,208 | 712,683 |
| 2012.1.1 ~ 2012.12.31 | 13,013 | 525,153 | 538,166 |
| 2013.1.1 ~ 2013.12.31 | 65 | 333,927 | 333,992 |
| 2014.1.1 ~ 2014.12.31 | - | 55,403 | 55,403 |
| Thereafter | - | 81,388 | 81,388 |
| | 35,553 | 1,686,079 | 1,721,632 |
| Unrealized interest income on financing leases | - | (163,339) | (163,339) |
| | ₩ 35,553 | 1,522,740 | 1,558,293 |

(8) Property and Equipment

(a) Property and equipment as of December 31, 2010 and 2009 consisted of the following:

| | 2010 | 2009 |
|--------------------------------|--------------------|------------------|
| Property and equipment: | | |
| Land | ₩ 1,225,112 | 1,137,463 |
| Buildings | 1,273,502 | 1,232,771 |
| Leasehold improvements | 309,679 | 272,656 |
| Vehicles and equipment | 1,518,655 | 1,590,404 |
| Construction in progress | 4,360 | 29,018 |
| | 4,331,308 | 4,262,312 |
| Less: accumulated depreciation | (1,964,046) | (1,933,132) |
| accumulated impairment loss | (5,306) | (5,306) |
| | ₩ 2,361,956 | 2,323,874 |

Note to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(b) The officially declared value of land used in domestic branches at December 31, 2010 and 2009, as announced by the Minister of Construction and Transportation, was as follows:

| | Book value | | Declared value ^(*) | |
|----------------------|------------|-----------|-------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Land (domestic only) | ₩1,223,378 | 1,135,753 | 1,459,233 | 1,424,522 |

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

(9) Goodwill (Negative Goodwill)

Changes in goodwill and negative goodwill for the years ended December 31, 2010 and 2009 were as follows:

| | 2010 | | | | |
|------------------------|-------------------|---------------------|-------------------------|------------|----------------|
| | Beginning balance | Increase (decrease) | Amortization (reversal) | Impairment | Ending Balance |
| Shinhan Bank | ₩ 471,961 | - | (61,560) | - | 410,401 |
| Shinhan Card | 3,281,834 | - | (417,690) | - | 2,864,144 |
| Shinhan Capital | 7,667 | - | (976) | - | 6,691 |
| Shinhan Investment | 42,512 | - | - | (42,512) | - |
| Shinhan Life Insurance | 247,334 | - | (41,803) | - | 205,531 |
| Shinhan Aitas | 17,734 | - | (2,107) | - | 15,627 |
| Symphony Energy | 7,211 | - | (994) | - | 6,217 |
| | 4,076,253 | - | (525,130) | (42,512) | 3,508,611 |
| Jeju Bank | (1,543) | - | 686 | - | (857) |
| HKC&T | - | (11,227) | 53 | - | (11,174) |
| | (1,543) | (11,227) | 739 | - | (12,031) |
| | ₩4,074,710 | (11,227) | (524,391) | (42,512) | 3,496,580 |

| | 2009 | | | |
|------------------------|-------------------|---------------------|-------------------------|----------------|
| | Beginning balance | Increase (decrease) | Amortization (reversal) | Ending balance |
| Shinhan Bank | ₩ 531,217 | decrease) | (61,472) | 471,961 |
| Shinhan Card | 3,584,041 | 2,216 | (303,291) | 3,281,834 |
| Shinhan Capital | 8,373 | 1,084 | (709) | 7,667 |
| Shinhan Investment | 59,517 | 3 | (17,005) | 42,512 |
| Shinhan Life Insurance | 289,136 | - | (41,802) | 247,334 |
| Shinhan Bank America | 20,893 | - | (20,893) | - |
| Shinhan Aitas | 29,012 | - | (11,278) | 17,734 |
| Symphony Energy | 8,205 | - | (994) | 7,211 |
| | 4,530,394 | 3,303 | (457,444) | 4,076,253 |
| Jeju Bank | (2,228) | - | 685 | (1,543) |
| | ₩4,528,166 | 3,303 | (456,759) | 4,074,710 |

(10) Other Assets

Other assets as of December 31, 2010 and 2009 consisted of the following:

| | 2010 | 2009 |
|-----------------------------|--------------|------------|
| Security deposits paid | ₩ 1,298,141 | 1,280,009 |
| Accounts receivable | 2,249,800 | 2,801,888 |
| Accrued income | 1,317,928 | 1,257,042 |
| Advance payments | 288,356 | 193,181 |
| Prepaid expense | 193,819 | 157,982 |
| Prepaid income taxes | 2,972 | 2,903 |
| Derivative assets (note 31) | 3,838,655 | 4,679,081 |
| Deferred income tax assets | 254,048 | 447,603 |
| Other intangible assets | 173,100 | 188,116 |
| Operating lease assets, net | 44,883 | 85,354 |
| Sundry assets | 4,234,704 | 3,668,365 |
| | 13,896,406 | 14,761,524 |
| Less: allowance for losses | (160,284) | (252,792) |
| | ₩ 13,736,122 | 14,508,732 |

(11) Deposits

(a) Deposits as of December 31, 2010 and 2009 consisted of the following:

| | 2010 | 2009 |
|-------------------------------------|---------------|-------------|
| Demand deposits: | | |
| Deposits in won | ₩ 44,544,544 | 42,657,106 |
| Deposits in foreign currency | 3,381,048 | 2,755,245 |
| | 47,925,592 | 45,412,351 |
| Time deposits: | | |
| Deposits in won | 87,137,101 | 78,339,080 |
| Deposits in foreign currency | 7,311,710 | 8,348,518 |
| | 94,448,811 | 86,687,598 |
| Negotiable certificates of deposits | 3,461,484 | 7,761,281 |
| Other | 7,247,186 | 7,876,228 |
| | ₩ 153,083,073 | 147,737,458 |

(b) The maturities of deposits as of December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | Demand deposits | Time deposits | Negotiable certificate of deposits | Other | Total |
|-------------------------------------|-----------------|---------------|------------------------------------|-----------|-------------|
| Due in 3 months or less | ₩ 12,045,473 | 23,203,437 | 1,055,303 | 6,334,939 | 42,639,152 |
| Due after 3 months through 6 months | - | 11,307,807 | 577,756 | 1,962 | 11,887,525 |
| Due after 6 months through 1 year | - | 49,037,316 | 1,588,799 | 8,707 | 50,634,822 |
| Due after 1 year through 3 years | 1,893,804 | 5,869,281 | 222,844 | 16,465 | 8,002,394 |
| Thereafter | 33,986,315 | 5,030,970 | 16,782 | 885,113 | 39,919,180 |
| | ₩ 47,925,592 | 94,448,811 | 3,461,484 | 7,247,186 | 153,083,073 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

| At December 31, 2009 | Demand deposits | Time deposits | Negotiable certificate of deposits | Other | Total |
|-------------------------------------|---------------------|-------------------|------------------------------------|------------------|--------------------|
| Due in 3 months or less | ₩ 10,508,376 | 15,212,876 | 2,703,625 | 6,979,428 | 35,404,305 |
| Due after 3 months through 6 months | 318 | 10,943,827 | 1,586,818 | 7,780 | 12,538,743 |
| Due after 6 months through 1 year | - | 50,161,226 | 2,519,312 | 13,168 | 52,693,706 |
| Due after 1 year through 3 years | 1,943,730 | 5,875,774 | 931,083 | 22,306 | 8,772,893 |
| Thereafter | 32,959,927 | 4,493,895 | 20,443 | 853,546 | 38,327,811 |
| | ₩ 45,412,351 | 86,687,598 | 7,761,281 | 7,876,228 | 147,737,458 |

(c) Deposits from financial institutions as of December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | Banking institutions | Other | Total |
|------------------------------------|----------------------|-------------------|-------------------|
| Demand deposits | ₩ 594,748 | 2,831,274 | 3,426,022 |
| Time deposits | 2,711,721 | 11,670,518 | 14,382,239 |
| Negotiable certificate of deposits | - | 686,801 | 686,801 |
| Deposits on bills issued | 1,744,829 | 2,495,131 | 4,239,960 |
| Deposits on CMA | 3,236 | 1,459,682 | 1,462,918 |
| | ₩ 5,054,534 | 19,143,406 | 24,197,940 |

| At December 31, 2009 | Banking institutions | Other | Total |
|------------------------------------|----------------------|-------------------|-------------------|
| Demand deposits | ₩ 402,836 | 5,589,597 | 5,992,433 |
| Time deposits | 1,934,720 | 19,701,456 | 21,636,176 |
| Negotiable certificate of deposits | 2,298 | 1,286,368 | 1,288,666 |
| Deposits on bills issued | 1,703,072 | 3,112,959 | 4,816,031 |
| Deposits on CMA | 4,349 | 1,165,901 | 1,170,250 |
| | ₩ 4,047,275 | 30,856,281 | 34,903,556 |

(12) Borrowings

(a) Borrowings as of December 31, 2010 and 2009 consisted of the following:

| | 2010 | 2009 |
|--|---------------------|-------------------|
| Call money | ₩ 1,333,618 | 2,347,547 |
| Bills sold | 49,140 | 68,659 |
| Bonds sold with repurchase agreements | 3,610,503 | 3,003,358 |
| Borrowings in won | 7,390,717 | 6,837,134 |
| Borrowings in foreign currencies | 7,298,639 | 5,643,590 |
| Due to the Bank of Korea in foreign currencies | 218,591 | 197,584 |
| | ₩ 19,901,208 | 18,097,872 |

(b) The maturities of borrowings by remaining periods as of December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | Borrowings in Won | Borrowings in foreign currencies | Other | Total |
|-------------------------------------|------------------------------|---|------------------|-------------------|
| Due in 3 months or less | ₩ 3,502,570 | 3,201,965 | 4,306,774 | 11,011,309 |
| Due after 3 months through 6 months | 521,453 | 2,066,768 | 840,518 | 3,428,739 |
| Due after 6 months through 1 year | 652,039 | 1,234,733 | 64,560 | 1,951,332 |
| Due after 1 year through 3 years | 1,123,730 | 721,254 | - | 1,844,984 |
| Thereafter | 1,590,925 | 73,919 | - | 1,664,844 |
| | ₩ 7,390,717 | 7,298,639 | 5,211,852 | 19,901,208 |

| At December 31, 2009 | Borrowings in Won | Borrowings in foreign currencies | Other | Total |
|-------------------------------------|------------------------------|---|------------------|-------------------|
| Due in 3 months or less | ₩ 1,968,434 | 2,115,909 | 5,133,704 | 9,218,047 |
| Due after 3 months through 6 months | 1,049,794 | 1,670,743 | 287,571 | 3,008,108 |
| Due after 6 months through 1 year | 1,082,659 | 724,395 | 195,813 | 2,002,867 |
| Due after 1 year through 3 years | 1,317,813 | 844,968 | 58 | 2,162,839 |
| Thereafter | 1,418,434 | 287,575 | 2 | 1,706,011 |
| | ₩ 6,837,134 | 5,643,590 | 5,617,148 | 18,097,872 |

(c) Borrowings from financial institutions as of December 31, 2010 and 2009 were as follows :

| At December 31, 2010 | Bank of Korea | Banking Institutions | Other | Total |
|----------------------------------|--------------------------|---------------------------------|------------------|-------------------|
| Borrowings in won | ₩ 777,407 | 1,936,765 | 526,218 | 3,240,390 |
| Borrowings in foreign currencies | - | 6,673,924 | 624,715 | 7,298,639 |
| Call money | - | 767,018 | 566,600 | 1,333,618 |
| Other | 416,691 | 92,501 | 209,304 | 718,496 |
| | ₩ 1,194,098 | 9,470,208 | 1,926,837 | 12,591,143 |

| At December 31, 2009 | Bank of Korea | Banking Institutions | Other | Total |
|----------------------------------|--------------------------|---------------------------------|------------------|-------------------|
| Borrowings in won | ₩ 1,236,146 | 36,306 | 2,157,529 | 3,429,981 |
| Borrowings in foreign currencies | - | 5,506,334 | 137,256 | 5,643,590 |
| Call money | - | 1,332,247 | 1,015,300 | 2,347,547 |
| Other | 395,684 | 31,097 | 562,341 | 989,122 |
| | ₩ 1,631,830 | 6,905,984 | 3,872,426 | 12,410,240 |

(13) Debentures

(a) Debentures as of December 31, 2010 and 2009 consisted of the following:

| | 2010 | 2009 |
|----------------------------------|---------------------|-------------------|
| Debentures in won | ₩ 34,560,635 | 35,166,709 |
| Debentures in foreign currencies | 5,154,999 | 4,738,048 |
| | ₩ 39,715,634 | 39,904,757 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(b) Details of debentures in won as of December 31, 2010 and 2009 were as follows:

| | 2010 | | 2009 | |
|------------------------------|---------------------|-------------------|-------------------|-------------------|
| | Face value | Interest rate (%) | Face value | Interest rate (%) |
| Discounted debentures | ₩ 60,000 | 3.37~8.75 | 420,000 | 2.75~5.39 |
| Compound interest debentures | 994,492 | 4.22~6.86 | 410,000 | 5.68~7.65 |
| Coupon debentures | 28,189,505 | 2.34~10.00 | 28,461,353 | 2.76~9.00 |
| Subordinated debentures | 3,534,072 | 4.56~7.70 | 3,661,792 | 4.56~8.00 |
| Hybrid securities | 1,700,300 | 5.95~7.80 | 1,702,572 | 5.70~7.30 |
| Other | - | | 540,000 | 5.19~7.18 |
| | 34,478,369 | | 35,195,717 | |
| Loss on fair value hedge | 116,402 | | 11,275 | |
| Bond discounts | (34,136) | | (40,283) | |
| | <u>₩ 34,560,635</u> | | <u>35,166,709</u> | |

(c) Details of debentures in foreign currencies as of December 31, 2010 and 2009 were as follows:

(In millions of won and thousands of US dollars)

| | 2010 | | | 2009 | | |
|---------------------------|---------------------|--------------------|-------------------|---------------------|--------------------|-------------------|
| | U.S. dollars | Won equivalent | Interest rate (%) | U.S. dollars | Won equivalent | Interest rate (%) |
| GMTN | \$ 1,837,998 | ₩ 2,093,296 | 1.30~8.13 | \$ 1,203,099 | ₩ 1,404,738 | 2.75~8.13 |
| Hybrid securities | 650,000 | 740,285 | 5.66~6.82 | 650,000 | 758,940 | 5.66~6.82 |
| Non-guaranteed debentures | 1,630,081 | 1,856,499 | 3.38~5.80 | 1,316,000 | 1,719,931 | 3.92~5.80 |
| Subordinated debentures | 300,000 | 341,670 | 5.75 | 650,000 | 758,940 | 5.13~5.75 |
| | <u>\$ 4,418,079</u> | 5,031,750 | | <u>\$ 3,819,099</u> | 4,642,549 | |
| Loss on fair value hedge | | 137,825 | | | 106,988 | |
| Bond discount | | (14,576) | | | (11,489) | |
| | | <u>₩ 5,154,999</u> | | | <u>₩ 4,738,048</u> | |

(d) The maturities of debentures by remaining period as of December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | Debentures in won | | Debentures in foreign currencies | Total |
|-------------------------------------|-------------------|-------------------|----------------------------------|-------------------|
| Due in 3 months | ₩ | 2,380,687 | 79,723 | 2,460,410 |
| Due after 3 months through 6 months | | 2,174,733 | 212,475 | 2,387,208 |
| Due after 6 months through 1 year | | 5,167,492 | 499,835 | 5,667,327 |
| Due after 1 year through 3 years | | 13,882,858 | 2,078,210 | 15,961,068 |
| Due thereafter | | 10,989,001 | 2,299,332 | 13,288,333 |
| | ₩ | <u>34,594,771</u> | <u>5,169,575</u> | <u>39,764,346</u> |

| At December 31, 2009 | Debentures in won | | Debentures in foreign currencies | Total |
|-------------------------------------|--------------------------|-------------------|---|-------------------|
| Due in 3 months | ₩ | 3,511,647 | 58,380 | 3,570,027 |
| Due after 3 months through 6 months | | 2,955,629 | 315,252 | 3,270,881 |
| Due after 6 months through 1 year | | 3,768,700 | 971,604 | 4,740,304 |
| Due after 1 year through 3 years | | 13,643,504 | 1,615,969 | 15,259,473 |
| Due thereafter | | 11,327,512 | 1,788,332 | 13,115,844 |
| | ₩ | 35,206,992 | 4,749,537 | 39,956,529 |

(e) Debentures from financial institutions as of December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | Bank of Korea | Banking institutions | Other | Total |
|-------------------------------|----------------------|-----------------------------|-------------------|-------------------|
| Debenture in won | - | 1,472,559 | 29,739,975 | 31,212,534 |
| Debenture in foreign currency | - | 3,627,721 | 1,541,854 | 5,169,575 |
| | - | 5,100,280 | 31,281,829 | 36,382,109 |

| At December 31, 2009 | Bank of Korea | Banking institutions | Other | Total |
|-------------------------------|----------------------|-----------------------------|-------------------|-------------------|
| Debenture in won | ₩ 150 | - | 8,924,936 | 8,925,086 |
| Debenture in foreign currency | - | - | 1,520,041 | 1,520,041 |
| | ₩ 150 | - | 10,444,977 | 10,445,127 |

(14) Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2010 and 2009 were as follows:

| | 2010 | 2009 |
|--|------------------|----------------|
| Estimated retirement and severance benefits at beginning of year | ₩ 402,249 | 528,923 |
| Net transfer from acquisition and disposal of subsidiaries | (356) | (2,259) |
| Adjustment due to foreign exchange rate | 64 | (2) |
| Payments | (19,884) | (229,396) |
| Retirement benefit payable | (263) | (3,764) |
| Transfer to retirement pension | - | (4,096) |
| Provision (*) | 123,548 | 112,843 |
| Estimated retirement and severance benefits at end of year | 505,358 | 402,249 |
| Deposit for severance benefit insurance | (1,454) | (123,686) |
| Plan assets | (342,545) | (100,833) |
| Transfer to National pension | (910) | (964) |
| Net balance at end of year | ₩ 160,449 | 176,766 |

(*) Includes retirement benefit payment of ₩6,676 million (₩4,841million in 2009) recorded as insurance expense etc. by Shinhan Life Insurance and the payments of ₩15,687 million on severance benefits for employees and directors under the defined contribution pension plan.

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(15) Other Liabilities

Other liabilities as of December 31, 2010 and 2009 consisted of the following:

| | 2010 | 2009 |
|--|--------------|------------|
| Allowance for losses on guarantees and acceptances (note 16) | ₩ 138,177 | 105,792 |
| Other allowances (note 17) | 1,223,588 | 1,160,000 |
| Borrowings from trust accounts | 1,281,531 | 1,014,310 |
| Foreign exchange remittances pending | 170,762 | 246,906 |
| Securities sold | 624,358 | 27,966 |
| Accounts payable | 2,913,748 | 3,215,232 |
| Accrued expenses | 3,325,995 | 3,223,154 |
| Income tax payable | 251,251 | 456,092 |
| Dividend payable | 3,742 | 4,120 |
| Advance receipts | 124,740 | 85,665 |
| Unearned revenues | 113,482 | 135,329 |
| Taxes withheld | 311,443 | 216,913 |
| Security deposits received | 722,688 | 588,298 |
| Derivatives liabilities (note 30) | 3,318,235 | 4,260,046 |
| Deferred tax liabilities | 3,281 | 458 |
| Domestic exchange remittances pending | 2,438,815 | 2,376,853 |
| Policy reserves (note 18) | 8,963,989 | 7,459,293 |
| Other | 4,043,527 | 3,401,781 |
| | ₩ 29,973,352 | 27,978,208 |

(16) Guarantees and Acceptances

(a) The guarantees and acceptances as of December 31, 2010 and 2009 were as follows:

| | 2010 | 2009 |
|--|--------------|--------------|
| Guarantees and acceptances outstanding | | |
| Guarantees and acceptances in won: | | |
| Performance guarantees | ₩ 1,106,821 | ₩ 1,216,181 |
| Guarantees on loan collateral | 112,789 | 120,781 |
| Financial guarantees | 116,497 | 129,111 |
| Guarantees on debentures | 103,658 | 110,084 |
| Guarantees on electronic payments | 342,739 | 325,527 |
| Guarantees on letter of credit | - | 7,744 |
| | 1,782,504 | 1,909,428 |
| Guarantees and acceptances in foreign currencies: | | |
| Performance guarantees | 5,194,789 | 5,109,649 |
| Financial guarantees | 491,471 | 521,593 |
| Acceptances on letter of credit | 967,055 | 702,342 |
| Acceptances for letters of guarantee for importers | 99,803 | 117,226 |
| | 6,753,118 | 6,450,810 |
| Contingent guarantees and acceptances | | |
| Letters of credit | 3,805,944 | 3,337,948 |
| Performance guarantees | 2,488,603 | 3,281,031 |
| Financial guarantees | 272,620 | 246,166 |
| Other | 504,160 | 583 |
| | 7,071,327 | 6,865,728 |
| | ₩ 15,606,949 | ₩ 15,225,966 |

(b) Guarantees and acceptances classified by country as of December 31, 2010 and 2009 were as follows:

| | 2010 | | | | | |
|---------|---|---------------|--------------------|---------------|-----------------------|---------------|
| | Guarantees and acceptances outstanding in | | | | Contingent guarantees | |
| | Won | | Foreign currencies | | and acceptances | |
| | Balance | Ratio(%) | Balance | Ratio(%) | Balance | Ratio(%) |
| Korea | ₩1,782,504 | 100.00 | 6,258,742 | 92.68 | 6,955,045 | 98.35 |
| U.S.A. | - | - | 52,927 | 0.78 | 12,027 | 0.17 |
| Japan | - | - | 84,150 | 1.25 | 101 | 0.00 |
| U.K. | - | - | 1,962 | 0.03 | 573 | 0.01 |
| China | - | - | 185,140 | 2.74 | 13,991 | 0.20 |
| Vietnam | - | - | 16,453 | 0.24 | 38,768 | 0.55 |
| Other | - | - | 153,744 | 2.28 | 50,822 | 0.72 |
| | ₩1,782,504 | 100.00 | 6,753,118 | 100.00 | 7,071,327 | 100.00 |

| | 2009 | | | | | |
|---------|---|---------------|--------------------|---------------|-----------------------|---------------|
| | Guarantees and acceptances outstanding in | | | | Contingent guarantees | |
| | Won | | Foreign currencies | | and acceptances | |
| | Balance | Ratio(%) | Balance | Ratio(%) | Balance | Ratio(%) |
| Korea | ₩1,909,428 | 100.00 | 6,119,617 | 94.87 | 6,827,926 | 99.45 |
| U.S.A. | - | - | 35,845 | 0.56 | 13,311 | 0.19 |
| U.K. | - | - | 270 | 0.00 | 440 | 0.01 |
| China | - | - | 62,643 | 0.97 | 6,185 | 0.09 |
| Vietnam | - | - | - | - | 191 | 0.00 |
| Other | - | - | 232,435 | 3.60 | 17,675 | 0.26 |
| | ₩1,909,428 | 100.00 | 6,450,810 | 100.00 | 6,865,728 | 100.00 |

(c) Guarantees and acceptances classified by industry as of December 31, 2010 and 2009 were as follows:

| | 2010 | | | | | |
|----------------------|---|---------------|--------------------|---------------|-----------------------|---------------|
| | Guarantees and acceptances outstanding in | | | | Contingent guarantees | |
| | Won | | Foreign currencies | | and acceptances | |
| | Balance | Ratio(%) | Balance | Ratio(%) | Balance | Ratio(%) |
| Manufacturing | ₩ 562,793 | 31.57 | 5,213,647 | 77.20 | 5,547,463 | 78.45 |
| Retail and wholesale | 417,980 | 23.45 | 331,298 | 4.91 | 845,068 | 11.95 |
| Construction | 131,753 | 7.39 | 507,609 | 7.52 | 224,567 | 3.18 |
| Other corporate | 669,978 | 37.59 | 700,564 | 10.37 | 454,229 | 6.42 |
| | ₩1,782,504 | 100.00 | 6,753,118 | 100.00 | 7,071,327 | 100.00 |

| | 2009 | | | | | |
|----------------------|---|---------------|--------------------|---------------|-----------------------|---------------|
| | Guarantees and acceptances outstanding in | | | | Contingent guarantees | |
| | Won | | Foreign currencies | | and acceptances | |
| | Balance | Ratio(%) | Balance | Ratio(%) | Balance | Ratio(%) |
| Manufacturing | ₩ 767,125 | 40.17 | 5,322,202 | 82.51 | 5,587,559 | 81.38 |
| Retail and wholesale | 396,741 | 20.78 | 260,672 | 4.04 | 707,021 | 10.30 |
| Construction | 156,143 | 8.18 | 311,766 | 4.83 | 156,107 | 2.27 |
| Other corporate | 589,419 | 30.87 | 556,170 | 8.62 | 415,041 | 6.05 |
| | ₩1,909,428 | 100.00 | 6,450,810 | 100.00 | 6,865,728 | 100.00 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(d) Customers of guarantees and acceptances as of December 31, 2010 and 2009 consisted of only corporations.

(e) The allowance for losses on guarantees and acceptances as of December 31, 2010 and 2009 were as follows:

| | | | | | | | 2010 |
|--|---|------------|---------------|-------------|----------|----------------|------------|
| | | Normal | Precautionary | Substandard | Doubtful | Estimated loss | Total |
| Guarantees and acceptances outstanding: | | | | | | | |
| Balance | ₩ | 8,136,940 | 291,980 | 74,579 | 2,069 | 30,054 | 8,535,622 |
| Allowances | | 49,390 | 28,132 | 17,949 | 1,034 | 14,640 | 111,145 |
| Ratio (%) | | 0.61 | 9.63 | 24.07 | 49.98 | 48.71 | 1.30 |
| Contingent guarantees and acceptances: | | | | | | | |
| Balance | ₩ | 6,766,897 | 183,166 | 103,649 | 2,812 | 14,803 | 7,071,327 |
| Allowances | | 11,979 | 6,525 | 5,045 | 428 | 2,946 | 26,923 |
| Ratio (%) | | 0.18 | 3.56 | 4.87 | 15.22 | 19.90 | 0.38 |
| Total | | | | | | | |
| Balance | ₩ | 14,903,837 | 475,146 | 178,228 | 4,881 | 44,857 | 15,606,949 |
| Allowances(*) | | 61,369 | 34,657 | 22,994 | 1,462 | 17,586 | 138,068 |
| Ratio (%) | | 0.41 | 7.29 | 12.90 | 29.95 | 39.20 | 0.88 |

(*) Allowance for endorsed bills in the amount of ₩109 million excluded.

| | | | | | | | 2009 |
|--|---|------------|---------------|-------------|----------|----------------|------------|
| | | Normal | Precautionary | Substandard | Doubtful | Estimated loss | Total |
| Guarantees and acceptances outstanding: | | | | | | | |
| Balance | ₩ | 8,246,664 | 86,387 | 18,893 | 7 | 8,287 | 8,360,238 |
| Allowances | | 57,506 | 8,571 | 2,964 | 2 | 7,004 | 76,047 |
| Ratio (%) | | 0.70 | 9.92 | 15.69 | 28.57 | 84.52 | 0.91 |
| Contingent guarantees and acceptances: | | | | | | | |
| Balance | ₩ | 6,646,119 | 137,338 | 66,446 | 4,196 | 11,629 | 6,865,728 |
| Allowances | | 14,371 | 4,946 | 7,076 | 576 | 2,325 | 29,294 |
| Ratio (%) | | 0.22 | 3.60 | 10.65 | 13.73 | 20.00 | 0.43 |
| Total | | | | | | | |
| Balance | ₩ | 14,892,783 | 223,725 | 85,339 | 4,203 | 19,916 | 15,225,966 |
| Allowances(*) | | 71,878 | 13,517 | 10,040 | 578 | 9,329 | 105,342 |
| Ratio (%) | | 0.48 | 6.04 | 11.76 | 13.75 | 46.84 | 0.69 |

(*) Allowance for endorsed bills in the amount of ₩450 million excluded.

(f) As of December 31, 2010, 2009 and 2008, the ratios of allowances for loss on guarantees and acceptances were as follows:

| | 2010 | 2009 | 2008 |
|---|--------------|------------|------------|
| Guarantees and acceptances | ₩ 15,606,949 | 15,225,966 | 16,218,318 |
| Allowances for loss on guarantees and acceptances | 138,068 | 105,342 | 113,637 |
| Ratio (%) | 0.88% | 0.69% | 0.70% |

(17) Other Allowances

Other allowances as of December 31, 2010 and 2009 consisted of the following:

| | 2010 | 2009 |
|---|-------------|-----------|
| Allowance for unused credit commitments | ₩ 792,378 | 757,247 |
| Allowance for bonus card points program | 288,151 | 274,142 |
| Allowance for expected loss related to litigation | 101,378 | 109,223 |
| Other | 41,681 | 19,388 |
| | ₩ 1,223,588 | 1,160,000 |

(18) Policy Reserves

As of December 31, 2010 and 2009, details of policy reserves provided by insurance type were as follows:

| | 2010 | | | 2009 | | |
|--|-------------|--------|-----------|------------|--------|-----------|
| | Individual | Group | Total | Individual | Group | Total |
| Premium reserve | ₩ 8,388,671 | 57,860 | 8,446,531 | 6,962,248 | 58,161 | 7,020,409 |
| Unearned premium reserve | 786 | 438 | 1,224 | 882 | 2,329 | 3,211 |
| Reserve for outstanding claims | 449,892 | 37,657 | 487,549 | 374,154 | 36,981 | 411,135 |
| Reserve for participating policyholders' dividends | 24,307 | 5 | 24,312 | 22,747 | 6 | 22,753 |
| Dividend reserve for policyholders' income participation | 5,714 | - | 5,714 | 3,378 | - | 3,378 |
| Reserve for reinsurance premium | (1,341) | - | (1,341) | (1,593) | - | (1,593) |
| | ₩ 8,868,029 | 95,960 | 8,963,989 | 7,361,816 | 97,477 | 7,459,293 |

(19) Pledged Assets

Assets pledged as collateral as of December 31, 2010 and 2009 were as follows:

| Accounts | 2010 | 2009 | Pledged for |
|--------------------|--------------|------------|--|
| Due from banks | ₩ 2,111 | 72,806 | Credit card loans and beneficiary certificates |
| Securities | 10,799,741 | 9,997,747 | Borrowings and derivatives trading |
| Land and buildings | - | 199,489 | Borrowings |
| Other assets | 1,000 | - | KB Futures |
| | ₩ 10,802,852 | 10,270,042 | |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(20) Insured Assets

Details of insured assets as of December 31, 2010 and 2009 were as follows:

| Assets insured | 2010 | | 2009 | |
|---|------|-----------|------|-----------|
| Cash | ₩ | 16,510 | ₩ | 7,417 |
| Property and equipment used in operations | | 1,250,709 | | 1,249,502 |
| Fire Insurance | | 409,858 | | 383,913 |
| | ₩ | 1,677,077 | ₩ | 1,640,832 |

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.

(21) Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2010 and 2009 were as follows:

| | Foreign currency | | Won equivalent | |
|-------------------------|----------------------|-------------------|---------------------|-------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Assets: | | | | |
| Cash and due from banks | \$ 2,510,106 | 2,706,297 | ₩ 2,858,760 | 3,159,868 |
| Securities | 1,788,537 | 1,996,854 | 2,036,967 | 2,331,524 |
| Loans | 17,347,027 | 14,536,289 | 19,756,530 | 16,972,551 |
| Other assets | 606,173 | 1,119,783 | 690,370 | 1,307,457 |
| | \$ 22,251,843 | 20,359,223 | ₩ 25,342,627 | 23,771,400 |
| Liabilities: | | | | |
| Deposits | \$9,444,539 | 9,633,435 | ₩ 10,756,386 | 11,247,999 |
| Borrowings | 7,275,484 | 5,679,468 | 8,286,049 | 6,631,338 |
| Debentures | 4,526,296 | 4,057,943 | 5,154,999 | 4,738,048 |
| Other liabilities | 1,193,185 | 1,115,028 | 1,358,918 | 1,301,907 |
| | \$ 22,439,504 | 20,485,874 | ₩ 25,556,352 | 23,919,292 |

(22) Capital Stock

(a) Details of preferred stock as of December 31, 2010 were as follows:

| | Number of shares | Predetermined dividend rate (%) (*1) | Redeemable period |
|---|-------------------|--------------------------------------|-------------------------------------|
| Redeemable preferred stock: | | | |
| Series 10 (*2) | 28,990,000 | 7.00 | January 25, 2012 - January 25, 2027 |
| Convertible redeemable preferred stock: | | | |
| Series 11 (*3) | 14,721,000 | 3.25 | January 25, 2012 - January 25, 2027 |
| | 43,711,000 | | |

(*1) Based on initial issuance price

(*2) 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.

(*3) 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, 2010. As a result, the amount of capital stock differs from the total par value of the outstanding capital stock.

| Redemption year | Redeemable preferred stock | Number of shares | Redemption amount |
|-----------------|----------------------------|-------------------|--------------------|
| 2010 | Series 5 | 9,316,793 | ₩ 172,793 |
| | Series 8 | 66,666 | 10,001 |
| 2009 | Series 4 | 9,316,792 | 172,793 |
| 2008 | Series 3 | 9,316,792 | 172,812 |
| | Series 7 | 2,433,334 | 365,022 |
| 2007 | Series 2 | 9,316,792 | 172,812 |
| 2006 | Series 1 | 9,316,792 | 172,831 |
| | Series 6 | 3,500,000 | 525,033 |
| | | 52,583,961 | ₩ 1,764,097 |

(b) Details of changes in capital stock for the years ended December 31, 2010 and 2009 were as follows:

| | Number of shares | Common stock | Preferred stock |
|-------------------------------|------------------|--------------|-----------------|
| Balance at January 1, 2009 | 458,610,838 | ₩ 1,980,998 | 481,475 |
| Issuance of common stocks | 78,000,000 | 390,000 | - |
| Repayment of preferred stocks | (9,316,792) | - | - |
| Balance at December 31, 2009 | 527,294,046 | 2,370,998 | 481,475 |
| Repayment of preferred stocks | (9,383,459) | - | - |
| Balance at December 31, 2010 | 517,910,587 | ₩ 2,370,998 | 481,475 |

(c) Details of preferred stock which was redeemed by appropriation of retained earnings for the years ended December 31, 2010 and 2009 were as follows:

| At December 31, 2010 | Number of shares | Redemption date | Redemption price per share | Redemption amount |
|-------------------------------------|------------------|-----------------|----------------------------|-------------------|
| Series 5 redeemable preferred stock | 9,316,792 | August 18, 2010 | ₩ 18,546.425 | ₩ 172,793 |
| Series 8 redeemable preferred stock | 66,666 | August 18, 2010 | 150,009,452 | 10,001 |
| At December 31, 2010 | 9,383,459 | | | ₩ 182,794 |

| At December 31, 2009 | Number of shares | Redemption date | Redemption price per share | Redemption amount |
|-------------------------------------|------------------|-----------------|----------------------------|-------------------|
| Series 4 redeemable preferred stock | 9,316,792 | August 19, 2008 | ₩ 18,546.425 | ₩ 172,793 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(23) Share-Based Payment

(a) Details of stock options granted as of December 31, 2010 were as follows:

| | 4 th grant(*) | 5 th grant(*) | 6 th grant(**) | 7 th grant(**) |
|--|---|---|---|---|
| Grant date | March 30, 2005 | March 21, 2006 | March 20, 2007 | March 19, 2008 |
| Exercise price | ₩ 28,006 | ₩ 38,829 | ₩ 54,560 | ₩ 49,053 |
| Number of shares granted | 2,695,200 | 3,296,200 | 1,301,050 | 808,700 |
| Exercise 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 | Within four years after three years from grant date |
| Changes in number of shares granted: | | | | |
| Balance at January 1, 2010 | 1,767,408 | 2,646,289 | 1,110,427 | 674,238 |
| Exercised or canceled | 184,924 | 449,386 | 27,958 | 12,434 |
| Balance at December 31, 2010 | 1,582,484 | 2,526,903 | 1,082,469 | 661,804 |
| Assumptions used to determine the fair value of options: | | | | |
| Risk-free interest rate | | | 2.99% | 3.14% |
| Expected exercise period | | | 1.7 years | 2.3 years |
| Expected stock price volatility | | | 26.59% | 42.31% |
| Expected dividend yield | | | 1.10% | 0.55% |
| Weighted average fair value per share | | | ₩ 6,969 | ₩ 14,473 |

(*) The Consolidated Company has a present obligation to settle in cash.

(**) The Consolidated Company has the option to settle cash or equity in respect to share-based payments.

For the seventh grant, the Company recognized compensation costs as expenses and accrued expenses.

(b) Details of performance shares granted as of December 31, 2010 was as follows:

| | Grant in 2010 |
|---|--|
| Terms: | |
| Service period | 2010~2012 |
| Performance conditions | Increase rate of stock price (33.4%) and achievement of target ROE (66.6%) |
| Number of shares estimated at December 31, 2010 | 203,044 |

The amount of cash payment for the Consolidated Company's cash-settled share-based payment arrangements with performance conditions is determined at the fourth anniversary date from the grant date based on the share price which is an arithmetic mean of weighted average share prices of the past two-months, past one-month and past one-week. The fair value of cash payment is estimated using the closing share price at the end of reporting period.

(c) Changes in stock compensation costs for the year ended December 31, 2010 were as follows:

| Stock options granted | Stock compensation cost | Employee of | | Total |
|-----------------------|-------------------------------------|-------------------------|--------------|---------|
| | | Shinhan Financial Group | Subsidiaries | |
| 4 th | Recorded at beginning of the period | ₩ 6,253 | 35,526 | 41,779 |
| | Incurred during the period | 1,440 | 5,884 | 7,324 |
| 5 th | Recorded at beginning of the period | 2,791 | 14,874 | 17,665 |
| | Incurred during the period | 1,951 | 9,703 | 11,654 |
| 6 th | Recorded at beginning of the period | 1,392 | (7,289) | (5,897) |
| | Incurred during the period | (110) | (1,027) | (1,137) |
| 7 th | Recorded at beginning of the period | 1,210 | 4,884 | 6,094 |
| | Incurred during the period | 758 | 2,697 | 3,455 |
| Performance share | Recorded at beginning of the year | - | - | - |
| | Incurred during the period | 1,618 | 9,123 | 10,741 |
| Total | Recorded at beginning of the period | ₩ 11,646 | 47,995 | 59,641 |
| | Incurred during the period | 5,657 | 26,380 | 32,037 |

(24) Income Taxes

(a) The components of income tax expense for the years ended December 31, 2010 and 2009 were as follows:

| | 2010 | 2009 |
|---|-----------|-----------|
| Current income tax expense (*) | ₩ 578,568 | 647,730 |
| Changes in deferred tax arising from temporary differences | 192,864 | 330,234 |
| Deferred tax expense adjusted to equity | (53,824) | (308,308) |
| Change in deferred tax arising from loss carryforwards | - | (489) |
| Income tax expense (benefit) allocated directly to discontinued operations income | - | (2,485) |
| | ₩ 717,608 | 666,682 |

(*) Included income tax expense (benefit) resulting from final tax adjustments for the prior period.

(b) The reconciliation of income tax expenses for the financial reporting purposes and the tax purposes for the years ended December 31, 2010 and 2009 were as follows:

| | 2010 | 2009 |
|--|-------------|-----------|
| Income before income taxes | ₩ 3,088,751 | 1,979,475 |
| Income taxes calculated at the statutory tax rate | 747,388 | 479,033 |
| Adjustments: | | |
| Non taxable income | (8,316) | (3,655) |
| Non deductible expense | 152,466 | 246,601 |
| Tax credit | (9,151) | (2,568) |
| Change in statutory tax rate | - | (48,152) |
| Changes in unrealizable temporary differences | (2,233) | (61,386) |
| Other | 30,181 | 56,541 |
| Adjustment under the consolidated corporate tax system | - | - |
| Income tax addition (refund) | (192,727) | 268 |
| Income tax expense | ₩ 717,608 | 666,682 |
| Effective tax rate | 23.23% | 33.68% |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(c) The deferred tax assets and liabilities that were directly charged or credited to equity for the year ended December 31, 2010 are as follows:

| | | Temporary difference | Deferred tax asset (liability) |
|---|---|-------------------------|-----------------------------------|
| Unrealized gain on available-for-sale securities, net | ₩ | 221,058 | (47,794) |
| Gain (loss) on valuation of derivatives | | 502 | (76) |
| Unrealized holding gain (loss) of equity method accounted investees | | 27,518 | (4,634) |
| Foreign currency translation adjustments | | 4,179 | (1,320) |
| | ₩ | 253,257 | (53,824) |

(d) Changes in significant accumulated temporary differences and tax effects for the years ended December 31, 2010 and 2009 were as follows:

| | | Beginning balance | Increase | Decrease | 2010 Ending balance |
|--|---|----------------------|------------------|------------------|---------------------------|
| Temporary differences: | | | | | |
| Accrued income | ₩ | (59,084) | (427,708) | (38,307) | (448,485) |
| Trading securities | | 3,908 | (98,416) | 3,908 | (98,416) |
| Available-for-sale securities | | 1,839,836 | (1,568,110) | (1,559,106) | (1,848,840) |
| Impairment loss on securities | | 1,401,356 | 464,405 | 702,453 | 1,163,308 |
| Equity method accounted investments | | 7,185,098 | (1,498,059) | 360,240 | (9,043,397) |
| Allowance for losses on guarantees and acceptances | | 105,791 | 138,501 | 106,115 | 138,177 |
| Retirement and severance benefits | | 296,072 | 65,063 | 77,478 | 283,657 |
| Group retirement and severance benefits | | (291,572) | (67,205) | (76,354) | (282,423) |
| Adjustments of dividends | | 25,316 | 21,212 | 577 | 45,951 |
| Provision for loan losses | | 147,216 | 22,870 | 142,547 | 27,539 |
| Other allowances | | 954,146 | 1,181,434 | 955,565 | 1,180,015 |
| Stock compensation costs | | 4,507 | 3,638 | 1,820 | 6,325 |
| Valuation gain(loss) on derivatives | | (5,776) | 22,324 | 123,213 | (106,665) |
| Other | | 1,156,904 | 822,147 | 1,071,968 | 907,083 |
| | | (5,286,150) | (917,904) | 1,872,117 | (8,076,171) |
| Unrealizable temporary differences(*1) | | 7,131,747 | | | 9,130,591 |
| Realizable temporary differences | | 1,845,597 | | | 1,054,420 |
| Tax effect of temporary difference | | 426,988 | | | 240,448 |
| Tax effect of temporary differences in overseas subsidiaries | | 15,906 | | | 10,319 |
| Tax effects of tax loss carryforwards | | 4,251 | | | - |
| Net deferred tax assets(*2) | ₩ | 447,145 | | | 250,767 |

(*1) Unrealizable temporary differences consist of ₩9,076,460 million for the controlling company, ₩53,017 million for Shinhan Bank, ₩3,489 million for Shinhan Investment, ₩790 million for Shinhan Capital and ₩(3,165) million for Shinhan PE.

(*2) Deferred tax assets decreased by ₩5,001 million and increased by ₩1,487 million due to exclusion of consolidation and foreign currency translation adjustment, respectively.

| | 2009 | | | |
|--|--------------------|--------------------|------------------|--------------------|
| | Beginning balance | Increase | Decrease | Ending balance |
| Temporary differences: | | | | |
| Accrued income | ₩ (294,117) | (59,167) | (294,200) | (59,084) |
| Trading securities | 201,343 | 3,049 | 200,484 | 3,908 |
| Available-for-sale securities | (320,118) | (1,817,612) | (297,894) | (1,839,836) |
| Impairment loss on securities | 1,412,622 | 471,238 | 482,504 | 1,401,356 |
| Equity method accounted investments | (361,428) | (4,378,988) | 2,444,682 | (7,185,098) |
| Allowance for losses on guarantees and acceptances | 129,560 | 91,110 | 114,879 | 105,791 |
| Retirement and severance benefits | 341,062 | 63,864 | 108,854 | 296,072 |
| Group retirement and severance benefits | (339,658) | (58,953) | (107,039) | (291,572) |
| Adjustments of dividends | 24,367 | 1,087 | 138 | 25,316 |
| Provision for loan losses | 169,295 | 147,602 | 169,681 | 147,216 |
| Other allowances | 829,158 | 952,050 | 827,062 | 954,146 |
| Stock compensation costs | - | (636) | (5,143) | 4,507 |
| Valuation gain(loss) on derivatives | 140,905 | 10,489 | 157,170 | (5,776) |
| Other | 1,225,436 | 1,022,334 | 1,090,866 | 1,156,904 |
| | ₩ 3,158,427 | (3,552,533) | 4,892,044 | (5,286,150) |
| Unrealizable temporary differences(*1) | 256,565 | | | 7,110,859 |
| Realizable temporary differences | 3,414,992 | | | 1,824,709 |
| Tax effect of temporary difference | 767,935 | | | 426,988 |
| Tax effect of temporary differences in overseas subsidiaries | 6,262 | | | 15,906 |
| Tax effects of tax loss carryforwards | 3,454 | | | 4,251 |
| Net deferred tax assets(*2) | ₩ 777,651 | | | 447,145 |

(*1) Unrealizable temporary differences consist of ₩7,804,191 million for the controlling company, ₩28,370 million for Shinhan Bank, ₩60 million for Shinhan Capital and ₩(1,762) million for Shinhan PE.

(*2) Deferred tax assets decreased by ₩333 million and increased by ₩442 million and deferred tax liabilities decreased by ₩14 million due to exclusion of consolidation and foreign currency translation adjustment, respectively.

(25) Earnings Per Share

(a) Basic earnings per share for the years ended December 31, 2010 and 2009 were as follows:

| | 2010 | 2009 |
|---|-------------|-------------|
| Income from continuing operations | ₩ 2,383,936 | 1,291,541 |
| Dividends on preferred stock | (235,371) | (242,469) |
| Income from continuing operations available common shares | 2,148,565 | 1,049,072 |
| Weighted average number of common shares outstanding(*) | 474,199,587 | 461,500,172 |
| Earnings per share from continuing operations won | ₩4,531 | 2,273 |
| Net income in controlling interest | ₩ 2,383,936 | 1,305,311 |
| Dividends on preferred stock | (235,371) | (242,469) |
| Net income available for common shares | 2,148,565 | 1,062,842 |
| Weighted average number of common shares outstanding(*) | 474,199,587 | 461,500,172 |
| Earnings per share in won | ₩ 4,531 | 2,303 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(*)Weighted average numbers of common shares outstanding for the year ended December 31, 2009 were as follows:

| | 2009 | | |
|--|--------------------|----------------|------------------------------|
| | Number of shares | Number of days | Accumulated number of shares |
| Outstanding at January 1, 2009 | 417,673,260 | 365 | 152,450,739,900 |
| Effect of treasury stock held | 529 | 42 | 22,218 |
| Common stock issued | 54,497,285 | 283 | 15,422,731,655 |
| Capital increase without consideration | 2,028,513 | 283 | 574,069,179 |
| Outstanding at December 31, 2009 | 474,199,587 | | 168,447,562,952 |
| | | 365 | |
| | | | 461,500,172 |

(b) Diluted earnings per share for the years ended December 31, 2010 and 2009 were as follows:

| | 2010 | 2009 |
|--|----------------|--------------|
| Income from continuing operations available for common shares | ₩ 2,148,565 | 1,049,072 |
| Plus: dividends on redeemable convertible preferred stock | 27,656 | 28,656 |
| Adjusted income from continuing operations | 2,176,221 | 1,076,728 |
| Weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares(*) | 488,920,587 | 476,221,172 |
| Diluted earnings per share from continuing operations in won | ₩4,451 | 2,261 |
| Income available for common stock | ₩2,148,565 | 1,062,842 |
| Plus: dividends on redeemable convertible preferred stock | 27,656 | 27,656 |
| Adjusted net income | 2,176,221 | 1,090,498 |
| Weighted average number of common shares outstanding after adjustment for the effects of dilutive potential common shares(*) | 488,920,587 | 476,221,172 |
| Diluted earnings per share in won | ₩ 4,451 | 2,290 |

(*)Weighted average number of common and common equivalent shares outstanding for the years ended December 31, 2010 and 2009 were as follows:

| | 2010 | 2009 |
|---|-------------|-------------|
| Weighted average number of shares outstanding (basic) | 474,199,587 | 461,500,172 |
| Effect of redeemable convertible preferred stock | 14,721,000 | 14,721,000 |
| Weighted average number of shares outstanding (diluted) | 488,920,587 | 476,221,172 |

(c) Exercisable stock options, excluded in calculating earnings per share

| | Exercisable period | Number of shares exercisable |
|-------------------------------|--------------------|------------------------------|
| 7 th Stock options | March 20, 2011 | 661,804 |
| | ~ | |
| | March 19, 2015 | |

(26) Comprehensive Income

Comprehensive income for the years ended December 31, 2010 and 2009 were as follows:

| | 2010 | 2009 |
|--|-------------|-----------|
| Net income | ₩ 2,371,143 | 1,328,253 |
| Other comprehensive income: | | |
| Unrealized gain (loss) on available-for-sale securities | 174,210 | 1,073,421 |
| Unrealized holding gain of equity method accounted investees | 3,118 | (12,577) |
| Unrealized holding loss of equity method accounted investees | 19,779 | (2,428) |
| Cumulative effects of foreign currency translation adjustments | 2,532 | (154,475) |
| Valuation gain (loss) from derivatives | 426 | 35,088 |
| Comprehensive income | 2,571,208 | 2,267,282 |
| Comprehensive income – controlling interest | 2,583,369 | 2,245,552 |
| Comprehensive income – non-controlling interest | (12,161) | 21,730 |
| | ₩ 2,571,208 | 2,267,282 |

(27) Value Added Information

Details of accounts included in the computation of value added for the years ended December 31, 2010 and 2009 were as follows:

| | 2010 | 2009 |
|---|-------------|-----------|
| Salary expense | ₩ 1,348,664 | 1,493,938 |
| Provision for retirement and severance benefit | 132,559 | 120,933 |
| Retirement and severance benefit paid due to early retirement | 33,394 | 157,482 |
| Other employee benefits | 588,551 | 372,408 |
| Rent expense | 199,293 | 179,019 |
| Depreciation | 192,342 | 234,635 |
| Taxes and dues | 148,060 | 142,725 |
| | ₩ 2,642,863 | 2,701,140 |

(28) Statements of Cash Flows

(a) Cash and due from banks as of December 31, 2010 and 2009 in the consolidated statements of cash flows are equivalent to cash and due from banks on the consolidated statements of financial position.

(b) Significant transactions not involving cash inflows or outflows for the years ended December 31, 2010 and 2009 were as follows:

| | 2010 | 2009 |
|---|-----------|---------|
| Changes in other comprehensive income of subsidiaries | ₩ 199,433 | 940,241 |
| Changes in retained earnings of subsidiaries | 203 | 4,301 |

(29) Dividends

(a) Dividends for the years ended December 31, 2010 and 2009 were as follows:

| | 2010 | | |
|--|---------------|------------------|----------------|
| | Common stocks | Preferred stocks | Total |
| Total number of shares issued | ₩ 474,199,587 | 43,711,000 | 517,910,587 |
| Par value per share in won | 5,000 | 5,000 | 5,000 |
| Dividend per share in won (rate per share) (*) | 750 (15%) | 5,275 (105.5%) | 1,132 (22.64%) |
| Dividends | ₩ 355,650 | 230,586 | 586,236 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

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

| | Number of shares | Dividends per share in won | Dividend rate per share (%) | Dividends |
|-----------------------------|---------------------|-------------------------------|--------------------------------|----------------|
| Redeemable preferred stock: | | | | |
| Series 10 | ₩ 28,990,000 | 7,000 | 140.00 | 202,930 |
| Series 11 | 14,721,000 | 1,878.695 | 37.5739 | 27,656 |
| | ₩ 43,711,000 | | | 230,586 |

| | 2009 | | |
|--|---------------|------------------|--------------|
| | Common stocks | Preferred stocks | Total |
| Total number of shares issued | 474,199,587 | 53,094,459 | 527,294,046 |
| Par value per share in won | 5,000 | 5,000 | 5,000 |
| Dividend per share in won (rate per share) (*) | ₩ 400 (8%) | 4,486 (89.72%) | 811 (16.22%) |
| Dividends | ₩ 189,680 | 238,180 | 427,860 |

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

| | Number of shares | Dividends per share in won | Dividend rate per share (%) | Dividends |
|-----------------------------|---------------------|-------------------------------|--------------------------------|----------------|
| Redeemable preferred stock: | | | | |
| Series 5 | 9,316,793 | 730.674 | 14.6135 | 6,808 |
| 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 | 37.5739 | 27,656 |
| | 53,094,459 | | | 238,180 |

(b) Payout ratios for the years ended December 31, 2010 and 2009 were calculated as follows:

| | 2010 | | | 2009 | | |
|------------------------|------------------|---------------------|-----------|------------------|---------------------|-----------|
| | Common stocks | Preferred stocks | Total | Common stocks | Preferred stocks | Total |
| Dividends in won | ₩ 355,650 | 230,586 | 586,236 | 189,680 | 238,180 | 427,860 |
| Net earnings in won(*) | ₩ 2,150,598 | 230,586 | 2,381,184 | 1,068,112 | 238,180 | 1,306,292 |
| Payout ratios (%) | 16.54 | | 24.62 | 17.76 | | 32.75 |

(*) Based on net income of the controlling company's non-consolidated financial statements.

(c) Dividend yields on common shares for the years ended December 31, 2010 and 2009 were calculated as follows:

| | 2010 | 2009 |
|--------------------------------|----------|--------|
| Dividends per share in won | ₩ 750 | 400 |
| Market price as of year end(*) | ₩ 52,760 | 44,563 |
| Dividends yields ratio(%) | 1.42 | 0.90 |

(*) Stock price is the average of the quoted prices during the week ending two days prior to the record date.

(30) Derivatives

(a) Details of the notional amounts of unsettled derivative instruments as of December 31, 2010 and 2009 were as follows:

| | | 2010 | | |
|------------------------|----------------------------|---------------|------------|-------------|
| | | Trading | Hedge | Total |
| Currency related: | Futures | ₩ 23,416 | - | 23,416 |
| | Forwards | 44,514,486 | 6,694 | 44,521,180 |
| | Options bought | 1,597,912 | - | 1,597,912 |
| | Options sold | 76,787 | - | 76,787 |
| | Swap | 15,133,461 | 899,823 | 16,033,284 |
| | | 61,346,062 | 906,517 | 62,252,579 |
| Interest rate related: | Futures bought | 38,258 | - | 38,258 |
| | Futures sold | 115,808 | - | 115,808 |
| | Options bought | 4,920,000 | - | 4,920,000 |
| | Options sold | 4,439,103 | - | 4,439,103 |
| | Swap | 165,957,783 | 9,968,508 | 175,926,291 |
| | Interest rate futures | 525,631 | - | 525,631 |
| Stock related: | | 175,996,583 | 9,968,508 | 185,965,091 |
| | Futures | 121,925 | - | 121,925 |
| | Stock index options bought | 7,437,643 | - | 7,437,643 |
| | Stock index options sold | 5,529,152 | - | 5,529,152 |
| | Swap | 929,064 | - | 929,064 |
| | Exchange traded options | 88,525 | - | 88,525 |
| Other: | | 14,106,309 | - | 14,106,309 |
| | Credit-linked derivatives | 87,742 | - | 87,742 |
| | Commodity options bought | 81,850 | - | 81,850 |
| | Commodity options sold | 42,683 | - | 42,683 |
| | Other | 22,122 | - | 22,122 |
| | | 234,397 | - | 234,397 |
| | | ₩ 251,683,351 | 10,875,025 | 262,558,376 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

| | | 2009 | | |
|------------------------|----------------------------|----------------------|-------------------|--------------------|
| | | Trading | Hedge | Total |
| Currency related: | Futures | ₩ 176,332 | - | 176,332 |
| | Forwards | 59,733,542 | 26,738 | 59,760,280 |
| | Options bought | 3,378,290 | - | 3,378,290 |
| | Options sold | 713,053 | - | 713,053 |
| | Swap | 23,640,054 | 2,969,633 | 26,609,687 |
| | | 87,641,271 | 2,996,371 | 90,637,642 |
| Interest rate related: | Futures bought | 5,431 | - | 5,431 |
| | Futures sold | 38,017 | - | 38,017 |
| | Options bought | 5,371,200 | - | 5,371,200 |
| | Options sold | 5,975,144 | - | 5,975,144 |
| | Swap | 131,848,852 | 10,906,464 | 142,755,316 |
| | Interest rate futures | 374,340 | - | 374,340 |
| | | 143,612,984 | 10,906,464 | 154,519,448 |
| Stock related: | Futures | 71,811 | - | 71,811 |
| | Stock index options bought | 2,465,247 | - | 2,465,247 |
| | Stock index options sold | 1,358,531 | - | 1,358,531 |
| | Swap | 1,737,543 | - | 1,737,543 |
| | Exchange traded options | 541,177 | - | 541,177 |
| | | 6,174,309 | - | 6,174,309 |
| Other: | Credit-linked derivatives | 174,918 | - | 174,918 |
| | Commodity options bought | 56,647 | - | 56,647 |
| | Commodity options sold | 24,278 | - | 24,278 |
| | Other | 35,201 | - | 35,201 |
| | | 291,044 | - | 291,044 |
| | | ₩ 237,719,608 | 13,902,835 | 251,622,443 |

(30) Derivatives, Continued

(b) Details of valuation on trading and hedging derivative instruments as of December 31, 2010 and 2009 were as follows:

| | | | | | 2010 | |
|--------------------------------|---|----------------|-----------------|----------------|-------------------------|------------------|
| | | | | | Valuation gain (losses) | |
| | | | | | Fair value | |
| | | | | | Assets | Liabilities |
| | | | | | Trading | Hedge |
| | | | | | Total | |
| Currency related: | | | | | | |
| Forwards | W | (64,729) | (1,588) | (66,317) | 811,441 | 444,682 |
| Futures | | 72 | - | 72 | - | - |
| Options bought | | (21,026) | - | (21,026) | 155,042 | 7,938 |
| Options sold | | 2,351 | - | 2,351 | 836 | 3,630 |
| Swap | | 136,618 | (24,624) | 111,994 | 758,278 | 885,136 |
| | | 53,286 | (26,212) | 27,074 | 1,725,597 | 1,341,386 |
| Interest rate related: | | | | | | |
| Futures | | (238) | - | (238) | - | - |
| Options bought | | (11,516) | - | (11,516) | 43,793 | - |
| Options sold | | 4,982 | - | 4,982 | - | 44,799 |
| Swap | | 25,811 | 133,510 | 159,321 | 960,706 | 887,828 |
| | | 19,039 | 133,510 | 152,549 | 1,004,499 | 932,627 |
| Stock related: | | | | | | |
| Futures | | (4,251) | - | (4,251) | - | - |
| Stock index options bought | | 976,144 | - | 976,144 | 1,068,569 | - |
| Stock index options sold | | (969,125) | - | (969,125) | - | 1,036,493 |
| Exchange traded options bought | | 2,670 | - | 2,670 | - | - |
| Exchange traded options sold | | 37 | - | 37 | - | 30 |
| Swaps | | 45,917 | - | 45,917 | 34,106 | 2,137 |
| | | 51,392 | - | 51,392 | 1,102,675 | 1,038,660 |
| Other: | | | | | | |
| Credit-linked derivatives | | (1,312) | - | (1,312) | 349 | 428 |
| Commodity options bought | | 851 | - | 851 | 4,118 | - |
| Commodity options sold | | (467) | - | (467) | - | 1,837 |
| Other | | (407) | - | (407) | 1,417 | 3,297 |
| | | (1,335) | - | (1,335) | 5,884 | 5,562 |
| | W | 122,382 | 107,298 | 229,680 | 3,838,655 | 3,318,235 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

| | 2009 | | | Fair value | |
|--------------------------------|-------------------------|------------------|------------------|------------------|------------------|
| | Valuation gain (losses) | | | Assets | Liabilities |
| | Trading | Hedge | Total | | |
| Currency related: | | | | | |
| Forwards | ₩ (146,445) | 1,017 | (145,428) | 1,735,985 | 725,111 |
| Futures | (3,518) | - | (3,518) | - | - |
| Options bought | (100,287) | - | (100,287) | 348,937 | 8,909 |
| Options sold | 24,704 | - | 24,704 | 4,544 | 66,618 |
| Swap | 478,153 | (30,100) | 448,053 | 1,349,727 | 2,013,380 |
| | 252,607 | (29,083) | 223,524 | 3,439,193 | 2,814,018 |
| Interest rate related: | | | | | |
| Futures | (6) | - | (6) | - | - |
| Options bought | (31,409) | - | (31,409) | 55,768 | - |
| Options sold | 41,135 | - | 41,135 | - | 53,218 |
| Swap | 136,570 | (339,585) | (203,015) | 894,869 | 1,101,060 |
| | 146,290 | (339,585) | (193,295) | 950,637 | 1,154,278 |
| Stock related: | | | | | |
| Futures | (2,161) | - | (2,161) | - | - |
| Stock index options bought | 87,136 | - | 87,136 | 151,060 | 5,266 |
| Stock index options sold | (65,628) | - | (65,628) | 5,567 | 109,718 |
| Exchange traded options bought | 15,448 | - | 15,448 | 6,064 | - |
| Exchange traded options sold | 521 | - | 521 | - | 608 |
| Swaps | (4,614) | - | (4,614) | 120,079 | 149,761 |
| | 30,702 | - | 30,702 | 282,770 | 265,353 |
| Other: | | | | | |
| Credit-linked derivatives | 7,965 | - | 7,965 | 2,554 | 23,890 |
| Commodity options bought | 145 | - | 145 | 1,900 | - |
| Commodity options sold | (759) | - | (759) | - | 1,178 |
| Other | 245 | - | 245 | 2,027 | 1,329 |
| | 7,596 | - | 7,596 | 6,481 | 26,397 |
| ₩ | 437,195 | (368,668) | 68,527 | 4,679,081 | 4,260,046 |

(31) Commitments and Contingencies

(a) Guarantees, acceptances and commitments as of December 31, 2010 were as follows:

| | Amount | |
|-------------------------------------|--------|------------|
| Guarantee for payment | | |
| Certain guarantee for payment | ₩ | 8,535,622 |
| Uncertain guarantee for payment | | 7,071,327 |
| | | 15,606,949 |
| Commitment | | |
| Loan commitment in won(*) | | 44,736,809 |
| Loan commitment in foreign currency | | 2,710,249 |
| ABS/ABCP commitment | | 5,423,977 |
| Other | | 15,974,084 |
| | | 68,845,119 |
| Endorsement bill | | 12,334,284 |
| | ₩ | 96,786,352 |

(*) As of December 31, 2010, the Consolidated Company provides commitment of ₩3,900 million of ABCP commitment and ommitment of ₩2,377,665 million of loan commitment in won related to real estate project financing, respectively.

(b) As of December 31, 2010, the Consolidated Company was involved in 348 pending lawsuits as a defendant (total claim amount: ₩389,059 million) and recorded a provision of ₩101,378 million and reserve of ₩1,311 million with respect to these lawsuits in other liabilities, respectively. Management expects that the ultimate losses as a result of these lawsuits would not have a significant effect on the Consolidated Company's financial position or result of operations.

(c) As of December 31, 2010, Shinhan Bank and Jeju Bank guaranteed repayment of principal and, in certain cases, minimum interest earnings on trust account assets under management in the amount of ₩3,672,267 million. Additional losses may be recorded based on future performance of these guaranteed trust accounts.

(d) Credit-linked derivatives

Details of credit-linked derivatives held by Shinhan Investment as of December 31, 2010 were as follows:

| | Credit Guarantee Contracts Sold | | |
|---------------------|---------------------------------|----------|--------|
| | Overseas | Domestic | Total |
| Credit default swap | ₩ - | 87,742 | 87,742 |

Credit guarantee contracts can cause losses if one or more credit events occur by the reference entity including bankruptcy, payment defaults, or default on obligation.

(e) 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, 2010 and 2009, such receivables amounted to ₩4,540,719 million and ₩4,067,804 million, respectively.

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(32) Related Party Transactions

(a) Details of transactions

Significant transactions with the related parties for the years ended December 31, 2010 and 2009 were as follows:

| Related Party | Account | 2010 | 2009 |
|--|--|---------|---------|
| i) Controlling company and subsidiaries included in consolidation: | | | |
| Shinhan Financial Group: | | | |
| Shinhan Bank | Interest income | ₩ 28 | 3,716 |
| " | Fee and commission income | 98,252 | 113,249 |
| " | Interest income on deposits for severance benefits | 45 | 9 |
| " | Other non-operating revenues | 39 | 31 |
| Shinhan Card | Interest income | 50,730 | 60,790 |
| " | Fee and commission income | 8,752 | 9,484 |
| Shinhan Investment | Interest income | 7,848 | 9,340 |
| " | Fee and commission income | 4,025 | 4,337 |
| Shinhan Life Insurance | Fee and commission income | 8,377 | 6,605 |
| Shinhan Capital | Interest income | 33,634 | 49,098 |
| " | Fee and commission income | 1,064 | 1,462 |
| Jeju Bank | Fee and commission income | 449 | 500 |
| Shinhan Credit Information | Fee and commission income | 84 | 60 |
| Shinhan PE | Interest income | 193 | 438 |
| " | Fee and commission income | 19 | 12 |
| Shinhan BNP Paribas AMC | Fee and commission income | 145 | 142 |
| Shinhan Aitas | Fee and commission income | 46 | 38 |
| Shinhan Macquarie | Fee and commission income | - | 9 |
| Shinhan Bank: | | | |
| Shinhan Financial Group | Rental income | 1,022 | 733 |
| Shinhan Card | Interest income | 876 | 1,874 |
| " | Rental income | 2,812 | 4,745 |
| " | Fee and commission income | 155,060 | 145,247 |
| " | Gain on derivatives | 39,663 | 3,856 |
| Shinhan Investment | Interest income | 57 | 112 |
| " | Fee and commission income | 5,676 | 424 |
| " | Rental income | 1,212 | 1,620 |
| Shinhan Investment | Gain on derivatives | 32 | 1,527 |
| Shinhan Life Insurance | Rental income | 2,308 | 4,350 |
| " | Interest income | 2,633 | 64 |
| " | Fee and commission income | 21,602 | 9,988 |
| " | Gain on derivatives | 3,172 | 1,008 |
| " | Interest income on deposits for severance benefits | - | 6,202 |
| Shinhan Capital | Interest income | 11 | 5 |
| " | Rental income | 832 | 800 |
| " | Gain on derivatives | 6 | 30,048 |
| Jeju Bank | Interest income | 178 | 398 |

| Related Party | Account | | 2010 | 2009 |
|-----------------------------|--|---|--------|--------|
| Jeju Bank | Rental income | ₩ | 41 | - |
| Shinhan Credit Information | Rental income | | 111 | 147 |
| Shinhan BNP Paribas AMC | Fee and commission income | | 4 | 16 |
| " | Rental income | | 101 | 14 |
| Shinhan PE | Fee and commission income | | - | 50 |
| Shinhan Maquarie | Fee and commission income | | - | 8 |
| Shinhan Bank(Trust) | Fee and commission income from trust account | | 27,696 | 26,248 |
| " | Gain on derivatives | | 163 | 154 |
| Shinhan Europe | Interest income | | 1,265 | 908 |
| " | Gain on derivatives | | 4,987 | 983 |
| Shinhan Canada | Gain on derivatives | | 90 | 348 |
| Shinhan China | Interest income | | 401 | 344 |
| Shinhan Vietnam | Interest income | | 631 | 203 |
| Shinhan Khmer | Interest income | | 1 | 1 |
| Shinhan Kazakhstan | Interest income | | 6 | - |
| SBJ BANK | Interest income | | 699 | 309 |
| " | Gain on derivatives | | 1,544 | 7,031 |
| Symphony Energy | Interest income | | 640 | - |
| HKC&T | Interest income | | 722 | - |
| Shinhan Bank(Trust): | | | | |
| Shinhan Bank | Interest income | | 8,770 | 5,174 |
| Shinhan Asia: | | | | |
| Shinhan Bank | Gain on derivatives | | 122 | 110 |
| Shinhan Bank | Interest income | | 563 | 461 |
| Shinhan Canada: | | | | |
| Shinhan Bank | Gain on derivatives | | 1,693 | 2,165 |
| Shinhan China: | | | | |
| Shinhan Bank | Interest income | | - | 163 |
| SBJ BANK: | | | | |
| Shinhan Bank | Interest income | | 68,796 | 9,620 |
| " | Gain on derivatives | | 1,942 | 1,083 |
| Shinhan Europe: | | | | |
| Shinhan Bank | Gain on derivatives | | 13,201 | 2,602 |
| Shinhan Aitas: | | | | |
| Shinhan BNP Paribas AMC | Fee and commission income | | 1,123 | 1,140 |
| Shinhan Bank | Interest income | | 248 | 47 |
| " | Fee and commission income | | - | 112 |
| Shinhan Investment | Interest income | | - | 53 |
| " | Fee and commission income | | 106 | 8 |
| Shinhan Vietnam: | | | | |
| Shinhan Bank | Interest income | | 17 | - |
| Shinhan Card: | | | | |
| Shinhan Bank | Interest income | | 66 | 19 |
| " | Interest income on deposits for severance benefits | | - | 946 |
| " | Rental income | | 30 | 31 |
| " | Fee and commission income | | 153 | 438 |
| Shinhan Life Insurance | Interest income | | 269 | 538 |
| " | Fee and commission income | | 11,818 | 13,659 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

| Related Party | Account | 2010 | 2009 |
|------------------------------------|--|-------|-------|
| Jeju Bank | Interest income | ₩ 1 | 1 |
| " | Fee and commission income | 260 | 267 |
| Shinhan Investment | Interest income | 113 | 3 |
| Shinhan Credit Information | Rental income | 178 | 524 |
| " | Fee and commission income | 13 | 7 |
| Shinhan Investment: | | | |
| Shinhan Financial Group | Fee and commission income | 1,180 | 540 |
| Shinhan Bank | Interest income | 3,934 | 5,421 |
| " | Interest income on deposits for severance benefits | 12 | 8 |
| " | Rental income | 542 | 492 |
| " | Fee and commission income | 172 | 15 |
| " | Gain on derivatives | - | 2,073 |
| Shinhan Card | Interest income | 963 | 160 |
| " | Rental income | 1,001 | 1,002 |
| " | Fee and commission income | 443 | 201 |
| Shinhan Life Insurance | Rental income | 23 | 21 |
| " | Fee and commission income | - | 2 |
| " | Interest income | 14 | 13 |
| Jeju Bank | Interest income | 2,044 | 1,974 |
| Shinhan Capital | Interest income | 188 | 868 |
| " | Fee and commission income | 94 | 45 |
| Shinhan BNP Paribas AMC | Rental income | 1,751 | 1,803 |
| Shinhan Maritime PEF | Fee and commission income | 100 | - |
| " | Gain on derivatives | 1,089 | - |
| Shinhan Investment America: | | | |
| Shinhan Investment | Fee and commission income | 860 | 755 |
| Shinhan Investment Europe: | | | |
| Shinhan Investment | Fee and commission income | 175 | 305 |
| Shinhan Investment Asia: | | | |
| Shinhan Investment | Fee and commission income | 351 | 951 |
| Shinhan Maritime PEF: | | | |
| SS Triton A | Interest income | 453 | - |
| SS Triton B | Interest income | 453 | - |
| Shinhan Life Insurance: | | | |
| Shinhan Financial Group | Insurance income | 26 | 20 |
| Shinhan Bank | Insurance income | 633 | 1,093 |
| " | Rental income | 31 | - |
| " | Gain on derivatives | - | 2,650 |
| " | Interest income | 7,323 | 6,605 |
| " | Fee and commission income | 378 | 528 |
| Shinhan Aitas | Rental income | 21 | - |
| Shinhan Card | Insurance income | 194 | 225 |
| " | Interest income | 1,671 | 2,113 |
| " | Fee and commission income | 315 | 164 |
| " | Rental income | 156 | - |
| Shinhan Investment | Insurance income | 53 | 43 |

| Related Party | Account | 2010 | 2009 |
|------------------------------------|--|-----------|---------|
| Shinhan Investment | Fee and commission income | ₩ - | 1 |
| " | Rental income | 24 | - |
| Shinhan Capital | Insurance income | 8 | 6 |
| " | Rental income | 15 | - |
| Jeju Bank | Insurance income | 18 | - |
| Shinhan PE | Rental income | 1 | - |
| Shinhan BNP Paribas AMC | Rental income | 24 | - |
| Shinhan Credit Information | Insurance income | 5 | 4 |
| " | Rental income | 11 | - |
| Shinhan Capital: | | | |
| Shinhan Bank | Interest income | 38 | 123 |
| " | Gain on derivatives | 17,234 | 1,872 |
| Shinhan BNP Paribas AMC | Other operating income | 4 | - |
| Shinhan Investment | Gain on derivatives | 88 | - |
| Petra PEF | Fee and commission income | 412 | 5 |
| Jeju Bank: | | | |
| Shinhan Bank | Interest income | - | 11 |
| Shinhan Card | Fee and commission income | 28 | 47 |
| Shinhan Investment | Interest income | 1 | 1 |
| " | Fee and commission income | 33 | - |
| Shinhan Life Insurance | Fee and commission income | 63 | 155 |
| " | Rental income | - | 2 |
| Jeju Bank(Trust) | Fee and commission income from trust account | 165 | 243 |
| Jeju Bank(Trust) : | | | |
| Jeju Bank | Interest income | 166 | 244 |
| Shinhan Credit Information: | | | |
| Shinhan Bank | Interest income | 315 | 422 |
| Shinhan Bank | Fee and commission income | 4,720 | 5,330 |
| Shinhan Card | Fee and commission income | 23,436 | 24,729 |
| Shinhan Investment | Fee and commission income | 22 | 69 |
| Shinhan Life Insurance | Fee and commission income | 97 | 103 |
| Shinhan Capital | Fee and commission income | 18 | 16 |
| Shinhan PE: | | | |
| Shinhan Investment | Interest income | 106 | 111 |
| Shinhan PEF 1st | Fee and commission income | 2,578 | 2,321 |
| Shinhan PEF 2nd | Fee and commission income | 3,801 | 5,845 |
| Shinhan BNP Paribas AMC: | | | |
| Shinhan Bank | Interest income | 1,049 | 3,083 |
| Shinhan Life Insurance | Fee and commission income | 62 | 100 |
| " | Interest income | - | 2 |
| Symphony Energy: | | | |
| Shinhan Bank | Interest income | 8 | - |
| HKC&T: | | | |
| Shinhan Bank | Interest income | 9 | - |
| Shinhan Maquarie: | | | |
| Shinhan Bank | Interest income | - | 32 |
| | | ₩ 680,934 | 623,284 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

| Related Party | Account | | 2010 | 2009 |
|--|---------------------------|---|--------|--------|
| ii) Equity method accounted investees: | | | | |
| Shinhan Financial Group: | | | | |
| Shinhan Data System | Fee and commission income | ₩ | 68 | 50 |
| Cardif Life Insurance | Interest income | | - | 222 |
| " | Fee and commission income | | - | 79 |
| Shinhan Maquarie | Fee and commission income | | 2 | - |
| Shinhan Bank: | | | | |
| Shinhan Data System | Rental income | | 430 | 389 |
| Cardif Life Insurance | Fee and commission income | | 14,488 | 10,129 |
| Aju Capital | Interest income | | 2,666 | - |
| " | Gain on derivatives | | 1,257 | 3,877 |
| UAMCO., Ltd. | Interest income | | 2,359 | - |
| UAMCO., Ltd.: | | | | |
| Shinhan Bank | Interest income | | 104 | - |
| Shinhan Card: | | | | |
| Shinhan Data System | Fee and commission income | | 1 | - |
| Cardif Life Insurance | Fee and commission income | | 964 | 1,309 |
| SHC Management | Fee and commission income | | 55 | 129 |
| Shinhan Life Insurance: | | | | |
| Shinhan Data System | Insurance income | | 2 | - |
| " | Rental income | | 30 | - |
| Cardif Life Insurance | Fee and commission income | | 3 | 2 |
| Jeju Bank: | | | | |
| Cardif Life Insurance | Fee and commission income | | - | 7 |
| Cardif Life Insurance: | | | | |
| Shinhan Life Insurance | Interest income | | 21 | 10 |
| Shinhan Bank | Interest income | | - | 5 |
| SHC Management: | | | | |
| Shinhan Bank | Interest income | | 4 | 76 |
| Shinhan Investment | Interest income | | 2 | 4 |
| Shinhan Data System: | | | | |
| Shinhan Financial Group | Fee and commission income | | 539 | 182 |
| Shinhan Bank | Interest income | | 153 | 182 |
| " | Fee and commission income | | 21,716 | 17,700 |
| Shinhan Card | Fee and commission income | | 7,314 | 2,107 |
| Shinhan Capital | Fee and commission income | | 375 | - |
| Shinhan Investment | Fee and commission income | | 3,035 | 2,722 |
| " | Interest income | | 3 | - |
| Shinhan Life Insurance | Fee and commission income | | 1,814 | - |
| Jeju Bank | Fee and commission income | | 46 | 22 |
| Cardif Life Insurance | Fee and commission income | | - | 188 |
| Shinhan Credit Information | Fee and commission income | | 57 | 23 |
| Shinhan Aitas | Fee and commission income | | 533 | 188 |
| Shinhan BNP Paribas AMC | Fee and commission income | | 13 | 6 |

(b) Account balances

Significant balances with the related parties as of December 31, 2010 and 2009 were as follows:

| Related Party | Account | 2010 | 2009 |
|--|-------------------------------|-----------|---------|
| Shinhan Corporate Restructuring Fund 7 th: | | | |
| Shinhan Bank | Interest income | ₩ 6 | - |
| Shinhan Corporate Restructuring Fund 8 th: | | | |
| Shinhan Bank | Interest income | 50 | 6 |
| Macquarie Shinhan Infrastructure Asset Management: | | | |
| Shinhan Bank | Interest income | 129 | 198 |
| Aju Capital: | | | |
| Shinhan Bank | Interest income | - | 262 |
| " | Gain on derivatives | 631 | 3,259 |
| Westend Corporate Restructuring Fund: | | | |
| Shinhan Bank | Interest income | 12 | - |
| Shinhan Maquarie: | | | |
| Shinhan Bank | Interest income | 12 | - |
| | | ₩ 58,894 | 43,333 |
| | | ₩ 739,828 | 666,617 |
| i) Controlling company and subsidiaries included in consolidation: | | | |
| Shinhan Financial Group: | | | |
| Shinhan Bank | Due from banks | ₩ 787 | 9,822 |
| " | Guarantee deposits | 12,474 | 8,974 |
| " | Accounts receivable | 121,121 | 38,240 |
| " | Deposit for severance benefit | - | 2,300 |
| Shinhan Card | Loans in won | 900,000 | 800,000 |
| " | Accounts receivable | 103,468 | 3,517 |
| " | Accrued income | 4,442 | 3,682 |
| Shinhan Investment | Loans in won | 100,000 | 170,000 |
| " | Accounts receivable | 7,753 | 4,443 |
| " | Accrued income | 950 | 1,569 |
| Shinhan Life Insurance | Accounts receivable | 4,570 | 2,533 |
| Shinhan Capital | Loans in won | 450,000 | 600,000 |
| " | Accounts receivable | 2,956 | 1,822 |
| " | Accrued income | 2,353 | 3,412 |
| Jeju Bank | Accounts receivable | 281 | - |
| Shinhan Credit Information | Accounts receivable | 978 | 476 |
| Shinhan PE | Loans in won | 5,000 | 5,000 |
| " | Accounts receivable | 151 | - |
| Shinhan BNP Paribas AMC | Accounts receivable | 79 | 68 |
| Shinhan Maquarie | Accrued income | - | 75 |
| Shinhan Bank: | | | |
| Shinhan Card | Call loan | 15,300 | 58,200 |
| " | Accounts receivable | 25 | 20 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

| Related Party | Account | 2010 | 2009 |
|-----------------------------|------------------------------------|---------|---------|
| Shinhan Card | Accrued income | ₩ 1,740 | - |
| " | Derivative assets | 3,572 | 3,856 |
| Shinhan Investment | Guarantee deposits | 12,179 | 11,243 |
| " | Accrued income | 15 | - |
| " | Derivative assets | 32 | 1,527 |
| Shinhan Life Insurance | Accrued income | 6 | 978 |
| " | Derivative assets | 12,475 | 18,773 |
| " | Deposit for severance benefit | 91,592 | 88,732 |
| Jeju Bank | Call loan | 569 | 2,130 |
| " | Loans in foreign currency | 11,111 | 8,377 |
| " | Accrued income | 68 | 45 |
| Shinhan Asia | Due from banks | 108 | 140 |
| " | Loans in foreign currency | 17,084 | 16,930 |
| " | Derivative assets | 162 | 316 |
| Shinhan Bank America | Due from banks | - | 96 |
| Shinhan Europe | Due from banks | 181 | 1,376 |
| " | Call loan | - | 7,006 |
| " | Loans in foreign currency | 144,162 | 64,218 |
| " | Derivative assets | 75 | 105 |
| Shinhan Khmer | Due from banks | - | 20 |
| Shinhan Canada | Due from banks | - | 464 |
| " | Derivative assets | - | 200 |
| Shinhan China | Due from banks | 821 | 907 |
| " | Loans in foreign currency | 34,167 | - |
| " | Call loan | 56,945 | - |
| SBJ BANK | Loans in foreign currency | 218,591 | 197,584 |
| " | Call loan | 83,339 | 69,455 |
| " | Derivative assets | - | 6,357 |
| " | Other asset | 59,036 | 499 |
| Shinhan Vietnam | Due from banks in foreign currency | - | 18,657 |
| " | Call loan | 55,806 | 74,726 |
| " | Loans in foreign currency | 11,389 | 12,178 |
| " | Accrued income | - | 14,148 |
| Shinhan Kazakhstan | Due from banks in foreign currency | 151 | - |
| Shinhan Bank(Trust) | Borrowing from bank account | 6,773 | 24,391 |
| Symphony Energy | Loans in won | 11,319 | - |
| " | Loans in foreign currency | 246 | - |
| Symphony Energy | Domestic Import usance bills | 855 | - |
| " | Accrued income | 47 | - |
| HKC&T | Loans in won | 14,905 | - |
| " | Loans in foreign currency | 1,740 | - |
| " | Accrued income | 44 | - |
| Shinhan Bank(Trust): | | | |
| Shinhan Bank | Due from bank account | 562,860 | 465,684 |
| Shinhan Asia: | | | |
| Shinhan Bank | Loans in foreign currency | 9,681 | 9,925 |

| Related Party | Account | 2010 | 2009 |
|----------------------------|--------------------------------------|-----------|-----------|
| Shinhan Europe: | | | |
| Shinhan Bank | Derivative assets | ₩ 174 | 447 |
| " | Loans in foreign currency | 152,197 | - |
| Shinhan Kazakhstan: | | | |
| Shinhan Bank | Due from banks | 7 | - |
| Shinhan China: | | | |
| Shinhan Bank | Loans in foreign currency | 48,724 | 25,774 |
| SBJ BANK: | | | |
| Shinhan Bank | Due from banks | 47,386 | 27 |
| " | Call loan | - | 50,515 |
| " | Loans in foreign currency | 2,831,589 | 2,435,415 |
| " | Other asset | 971 | - |
| Shinhan Vietnam: | | | |
| Shinhan Bank | Loans in foreign currency | 9,575 | - |
| " | Other asset | 30,243 | - |
| Shinhan Aitas: | | | |
| Shinhan Bank | Due from banks | 10,150 | 3,736 |
| " | Other asset | 204 | - |
| Shinhan Investment | Due from banks | 1,939 | 4,273 |
| " | Accrued income | 4 | - |
| Shinhan BNP Paribas AMC | Accounts receivable | 97 | 98 |
| Shinhan Card: | | | |
| Shinhan Financial Group | Accounts receivable | 270 | 234 |
| Shinhan Bank | Due from banks | 26,693 | 29,281 |
| " | Guarantee deposits | 29,913 | 23,586 |
| " | Accounts receivable | 11,951 | - |
| " | Derivative assets | 33,503 | 52,901 |
| " | Pension assets for severance benefit | 1,064 | 1,351 |
| Shinhan Investment | Due from banks | 468 | 1,484 |
| " | Guarantee deposits | 3,974 | 3,974 |
| Shinhan Investment | Accounts receivable | 1,285 | - |
| Shinhan Life Insurance | Accounts receivable | 1,821 | 1,644 |
| " | Accrued income | 606 | - |
| " | Deposit for severance benefit | 9,330 | 9,108 |
| Shinhan Capital | Accounts receivable | 140 | 195 |
| Jeju Bank | Due from banks | 204 | 247 |
| Shinhan Credit Information | Accounts receivable | 136 | 90 |
| Shinhan PE | Accounts receivable | 40 | 33 |
| Shinhan BNP Paribas AMC | Accounts receivable | 68 | 70 |
| Shinhan Aitas | Accounts receivable | 138 | 75 |
| Shinhan Investment: | | | |
| Shinhan Bank | Due from banks | 187,758 | 207,564 |
| " | Guarantee deposits | 21,424 | 20,580 |
| " | Trading Securities | 30,100 | - |
| " | Accrued income | 1,194 | 915 |
| " | Derivative assets | 4 | - |
| " | Deposit for severance benefit | 23 | 517 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

| Related Party | Account | 2010 | 2009 |
|------------------------------------|-------------------------------|---------|--------|
| Shinhan Card | Trading Securities | ₩ 1,393 | 11,383 |
| " | Accrued income | 20 | 54 |
| Shinhan Life Insurance | Deposit for severance benefit | 663 | 510 |
| Shinhan Capital | Trading Securities | - | 20,060 |
| " | Accrued income | - | 58 |
| Jeju Bank | Due from banks | 74,401 | 67,420 |
| " | Accrued income | 784 | 486 |
| Shinhan Maritime PEF | Accrued income | 100 | - |
| " | Derivative assets | 1,089 | - |
| Shinhan Investment America: | | | |
| Shinhan Investment | Accrued income | 106 | - |
| Shinhan Investment Europe: | | | |
| " | Accrued income | 11 | 174 |
| Shinhan Maritime PEF: | | | |
| SS Triton A | Held-to-Maturity securities | 19,613 | - |
| " | Accrued income | 453 | - |
| SS Triton B | Held-to-Maturity securities | 19,613 | - |
| " | Accrued income | 453 | - |
| Shinhan Life Insurance: | | | |
| Shinhan Financial Group | Accounts receivable | 1,212 | - |
| Shinhan Bank | Due from banks | 65,841 | 63,149 |
| " | Available-for-Sale securities | 4,665 | 4,035 |
| Shinhan Bank | Held-to-Maturity securities | 54,999 | 54,999 |
| " | Guarantee deposits | 36,952 | 12,345 |
| " | Accrued income | 22,680 | 15,647 |
| Shinhan Card | Available-for-Sale securities | - | 25,814 |
| " | Accounts receivable | 114 | 102 |
| " | Accrued income | - | 442 |
| Shinhan Investment | Guarantee deposits | 239 | 228 |
| Jeju Bank | Due from banks | 212 | 242 |
| Shinhan Capital: | | | |
| Shinhan Financial Group | Accounts receivable | 706 | - |
| Shinhan Bank | Due from banks | 3,778 | 7,920 |
| " | Guarantee deposits | 966 | 963 |
| " | Accrued income | 12 | 6 |
| " | Derivative assets | 36,335 | 19,273 |
| Jeju Bank: | | | |
| Shinhan Bank | Guarantee deposits | 1,140 | - |
| Shinhan Card | Accounts receivable | 10 | 19 |
| Shinhan Life Insurance | Accrued income | 5 | 4 |
| Jeju Bank(Trust) | Accrued income | - | 243 |
| Jeju Bank(Trust) : | | | |
| Jeju Bank | Due from Bank Account | 4,010 | 10,910 |
| Shinhan Credit Information: | | | |
| Shinhan Bank | Due from banks | 9,470 | 9,452 |
| " | Guarantee deposits | 939 | 1,352 |

| Related Party | Account | | 2010 | 2009 |
|--|---------------------|---|-----------|-----------|
| Shinhan Bank | Accounts receivable | ₩ | 382 | - |
| " | Accrued income | | 147 | 583 |
| Shinhan Card | Accrued income | | 2,246 | 2,171 |
| Shinhan Investment | Accounts receivable | | 3 | - |
| Shinhan Life Insurance | Accrued income | | - | 10 |
| " | Accounts receivable | | 6 | - |
| Shinhan Capital | Accrued income | | 1 | 1 |
| Shinhan PE: | | | | |
| Shinhan Financial Group | Prepaid expenses | | 111 | 122 |
| Shinhan Bank | Due from banks | | 86 | 3,551 |
| Shinhan Investment | Due from banks | | 6,258 | 285 |
| Shinhan BNP Paribas AMC: | | | | |
| Shinhan Bank | Due from banks | | 80,784 | 59,847 |
| " | Accrued income | | 983 | 1,828 |
| Shinhan Investment | Guarantee deposits | | 962 | 962 |
| Shinhan Life Insurance | Accrued income | | 7 | 7 |
| Shinhan Maquarie: | | | | |
| Shinhan Bank | Due from banks | | - | 2,389 |
| Shinhan PEF 2nd: | | | | |
| Shinhan Investment | Due from banks | | 8 | - |
| Symphony Energy: | | | | |
| Shinhan Bank | Due from banks | | 1,485 | 2,763 |
| HKC&T: | | | | |
| Shinhan Bank | Due from banks | | 2,535 | - |
| " | Accrued income | | 2 | - |
| | | ₩ | 7,110,891 | 6,111,139 |
| ii) Equity method accounted investees: | | | | |
| Shinhan Financial Group: | | | | |
| Shinhan Data System | Accounts receivable | ₩ | 213 | 190 |
| SHC Management | Accounts receivable | | 81 | 68 |
| Shinhan Maquarie | Accrued income | | 77 | - |
| Shinhan Bank: | | | | |
| Cardif Life Insurance | Accrued income | | 258 | 515 |
| Aju Capital | Bills bought in won | | 50,000 | - |
| " | Derivative assets | | - | 1,057 |
| UAMCO.,Ltd. | Loans in won | | 4,026 | - |
| UAMCO.,Ltd.: | | | | |
| Shinhan Bank | Due from banks | | 1,083 | 5,132 |
| " | Accounts receivable | | - | 4 |
| Shinhan Data System: | | | | |
| Shinhan Financial Group | Accounts receivable | | - | 1 |
| Shinhan Bank | Due from banks | | 6,777 | 6,330 |
| " | Guarantee deposits | | 219 | 219 |
| " | Accounts receivable | | 62 | 436 |
| " | Accrued income | | 58 | - |
| Shinhan Card | Accounts receivable | | 1,696 | 276 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

| Related Party | Account | | 2010 | 2009 |
|---|-------------------------------|---|------------|-----------|
| Shinhan Investment | Accounts receivable | ₩ | 173 | 632 |
| Shinhan Capital | Accounts receivable | | - | 33 |
| Shinhan Life Insurance | Accounts receivable | | 94 | 75 |
| Jeju Bank | Accounts receivable | | - | 6 |
| Shinhan Credit Information | Accounts receivable | | - | 75 |
| Shinhan BNP Paribas AMC | Accounts receivable | | - | 2 |
| Cardif Life Insurance: | | | | |
| Shinhan Bank | Due from banks | | 172 | 1,310 |
| " | Guarantee deposits | | 35 | 35 |
| " | Deposit for severance benefit | | - | 382 |
| Jeju Bank | Due from banks | | - | 2 |
| Shinhan Corporate Restructuring Fund 7th: | | | | |
| Shinhan Bank | Due from banks | | 275 | 5,828 |
| Shinhan Corporate Restructuring Fund 8 th: | | | | |
| Shinhan Bank | Due from banks | | 3,581 | 972 |
| Macquarie Shinhan Infrastructure Management Co., Ltd.: | | | | |
| Shinhan Bank | Due from banks | | 5,710 | 11,190 |
| " | Accounts receivable | | - | 83 |
| Westend Corporate Restructuring Fund: | | | | |
| Shinhan Bank | Due from banks | | 483 | 1,509 |
| Aju Capital: | | | | |
| Shinhan Bank | Due from banks | | 440 | 414 |
| Shinhan Card: | | | | |
| Shinhan Data System | Accounts receivable | | 56 | 47 |
| Cardif Life Insurance | Accounts receivable | | 99 | 88 |
| SHC Management | Accrued income | | - | 5 |
| Shinhan BNP Paribas AMC: | | | | |
| Cardif Life Insurance | Accrued income | | 43 | 45 |
| SHC Management: | | | | |
| Shinhan Bank | Due from banks | | 100 | 100 |
| " | Accrued income | | 5 | - |
| Shinhan Investment | Due from banks | | 36 | 51 |
| Shinhan Maquarie: | | | | |
| Shinhan Bank | Due from banks | | 4,555 | - |
| | | | 80,407 | 37,112 |
| | | | ₩7,191,298 | 6,148,251 |

(c) Guarantees and acceptances

The guarantees and acceptances provided between the related parties as of December 31, 2010 were as follows:

| Guarantor | Guaranteed Parts | Account | Amount of guarantees and acceptances | |
|--------------|-----------------------|------------------------------------|--------------------------------------|---------|
| Shinhan Bank | Shinhan Capital | Guarantees for letter of credit | ₩ | 880 |
| " | SHC Management | Guarantees for letter of guarantee | | 47 |
| " | Aju Capital Co., Ltd. | Guarantees for debenture issuance | | 110,815 |
| " | " | Guarantees for letter of credit | | 1,883 |
| " | Shinhan Investment | Finance guarantees | | 51,368 |
| " | Shinhan China | Finance guarantees | | 43 |
| " | SBJ Bank | Finance guarantees | | 67,272 |
| | | | ₩ | 232,308 |

(33) Segment Information

(a) The Consolidated Company has five 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) and leasing business, business of investment and trust of securities, debt collection services and other businesses (Others). The following table provides information for each operating segment as of and for the years ended December 31, 2010 and 2009:

| | 2010 | | | | | | |
|----------------------------|---------------|-------------|------------|----------------|------------|------------------------------|-------------|
| | Banking | Credit Card | Securities | Life Insurance | Others | Adjustment for consolidation | Total |
| Gross operating revenue(*) | ₩ 23,740,634 | 4,077,430 | 1,725,852 | 3,929,246 | 897,584 | (719,614) | 33,651,132 |
| Inter-segment transaction | 363,641 | 12,693 | 11,619 | 10,624 | 270,071 | (668,648) | - |
| Net operating revenue | 23,376,993 | 4,064,737 | 1,714,233 | 3,918,622 | 627,513 | (50,966) | 33,651,132 |
| Operating income | 2,311,805 | 1,168,371 | 174,463 | 287,405 | (116,115) | (590,760) | 3,235,169 |
| Total assets | ₩ 221,691,423 | 21,096,513 | 9,464,524 | 11,956,060 | 34,445,320 | (32,622,088) | 266,031,752 |

| | 2009 | | | | | | |
|----------------------------|---------------|-------------|------------|----------------|------------|------------------------------|-------------|
| | Banking | Credit Card | Securities | Life Insurance | Others | Adjustment for consolidation | Total |
| Gross operating revenue(*) | ₩ 42,089,993 | 3,693,746 | 1,631,798 | 3,418,428 | 3,418,428 | (673,041) | 51,171,902 |
| Inter-segment transaction | 259,496 | 15,878 | 13,331 | 13,452 | 13,452 | (606,969) | - |
| Net operating revenue | 41,830,497 | 3,677,868 | 1,618,467 | 3,404,976 | 3,404,976 | (66,072) | 51,171,902 |
| Operating income | 1,195,819 | 1,114,830 | 36,446 | 236,461 | 236,461 | (385,684) | 2,097,907 |
| Total assets | ₩ 216,976,837 | 17,572,883 | 7,569,773 | 10,054,742 | 10,054,742 | (28,766,335) | 255,018,087 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(*) 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, 2010 and 2009:

| | 2010 | | | |
|---------------------------|---------------|------------|------------------------------|-------------|
| | Domestic | Overseas | Adjustment for consolidation | Total |
| Gross operating revenue | ₩ 33,491,786 | 878,960 | (719,614) | 33,651,132 |
| Inter-segment transaction | 570,875 | 97,773 | (668,648) | - |
| Net operation revenue | 32,920,911 | 781,187 | (50,966) | 33,651,132 |
| Operating income | 3,753,571 | 72,358 | (590,760) | 3,235,169 |
| Total assets | ₩ 286,292,514 | 12,361,326 | (32,622,088) | 266,031,752 |

| | 2009 | | | |
|---------------------------|---------------|------------|------------------------------|-------------|
| | Domestic | Overseas | Adjustment for consolidation | Total |
| Gross operating revenue | ₩ 49,835,102 | 2,009,841 | (673,041) | 51,171,902 |
| Inter-segment transaction | 588,754 | 18,215 | (606,969) | - |
| Net operation revenue | 49,246,348 | 1,991,626 | (66,072) | 51,171,902 |
| Operating income | 2,407,413 | 76,178 | (385,684) | 2,097,907 |
| Total assets | ₩ 272,519,202 | 11,265,220 | (28,766,335) | 255,018,087 |

(34) Results of Operations for the Last Interim Period

| | 2010 | | 2009 |
|-----------------------------------|------|-------------|-------------|
| | | 4th Quarter | 4th Quarter |
| Operating revenue (*) | ₩ | 7,892,318 | 8,193,718 |
| Operating income (*) | | 476,074 | 492,816 |
| Net income for the period | | 342,407 | 262,460 |
| Net income – majority interest | | 364,358 | 256,211 |
| Earnings per share | | 646 | 414 |
| Diluted earnings per share in Won | ₩ | 641 | 414 |

(*) Based on presentation in the Korean language consolidated financial statements

(35) Condensed Financial Statements of the Consolidated Company

(a) Statements of Financial Position

Condensed statements of financial position of the Consolidated Company as of December 31, 2010 and 2009 were as follows:

| | | | | 2010 |
|---|---|--------------------|--------------------|----------------------------|
| | | Total assets | Total liabilities | Total stockholders' equity |
| Controlling company and subsidiaries included in consolidation: | | | | |
| Shinhan Financial Group | ₩ | 29,616,670 | 6,891,917 | 22,724,753 |
| Shinhan Bank | | 205,377,968 | 190,371,775 | 15,006,193 |
| Shinhan Bank (Trust) | | 3,649,842 | 3,649,842 | - |
| Shinhan Asia | | 205,683 | 45,202 | 160,481 |
| Shinhan Bank America | | 1,069,901 | 964,915 | 104,986 |
| Shinhan Europe | | 371,606 | 298,629 | 72,977 |
| Shinhan Khmer | | 52,045 | 26,824 | 25,221 |
| Shinhan Kazakhstan | | 42,611 | 2,874 | 39,737 |
| Shinhan Canada | | 157,057 | 130,166 | 26,891 |
| Shinhan China | | 1,720,058 | 1,359,190 | 360,868 |
| SBJ Bank | | 5,527,909 | 5,141,518 | 386,391 |
| Shinhan Vietnam | | 498,340 | 317,654 | 180,686 |
| Shinhan Aitas | | 25,271 | 4,290 | 20,981 |
| Shinhan Card | | 21,096,513 | 15,967,282 | 5,129,231 |
| Shinhan Investment | | 9,539,649 | 7,641,290 | 1,898,359 |
| Shinhan Investment America | | 4,971 | 79 | 4,892 |
| Shinhan Investment Europe | | 5,520 | 103 | 5,417 |
| Shinhan Investment Asia | | 4,175 | 204 | 3,971 |
| Shinhan Maritime | | 89,286 | 1,089 | 88,197 |
| SS Triton A | | 39,162 | 14,581 | 24,581 |
| SS Triton B | | 39,162 | 14,581 | 24,581 |
| Shinhan Life Insurance | | 11,956,060 | 10,938,950 | 1,017,110 |
| Shinhan Capital | | 3,750,776 | 3,283,760 | 467,016 |
| Petra PEF | | 40,385 | 4 | 40,381 |
| Jeju Bank | | 3,027,983 | 2,791,814 | 236,169 |
| Jeju Bank (Trust) | | 22,425 | 22,425 | - |
| Shinhan Credit Information | | 19,546 | 4,377 | 15,169 |
| Shinhan PE | | 20,805 | 5,821 | 14,984 |
| Shinhan PEF 1st | | 159,863 | 900 | 158,963 |
| Shinhan PEF 2nd | | 211,002 | - | 211,002 |
| Symphony Energy | | 45,757 | 31,013 | 14,744 |
| SHPE Holdings One | | 147,525 | - | 147,525 |
| SHPE Holdings Two | | 50,077 | 22,490 | 27,587 |
| HKC&T | | 50,076 | 22,490 | 27,586 |
| Shinhan BNP Paribas AMC | | 172,058 | 24,880 | 147,178 |
| | ₩ | 298,807,737 | 249,992,929 | 48,814,808 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

| | | 2009 | | |
|---|---|--------------------|--------------------|----------------------------|
| | | Total assets | Total liabilities | Total stockholders' equity |
| Controlling company and subsidiaries included in consolidation: | | | | |
| Shinhan Financial Group | ₩ | 27,120,706 | 6,392,345 | 20,728,361 |
| Shinhan Bank | | 202,237,352 | 188,821,769 | 13,415,583 |
| Shinhan Bank (Trust) | | 3,727,705 | 3,727,705 | - |
| Shinhan Asia | | 209,869 | 48,721 | 161,148 |
| Shinhan Bank America | | 1,154,668 | 1,052,675 | 101,993 |
| Shinhan Europe | | 347,549 | 271,597 | 75,952 |
| Shinhan Khmer | | 54,709 | 30,090 | 24,619 |
| Shinhan Kazakhstan | | 42,212 | 1,849 | 40,363 |
| Shinhan Canada | | 101,706 | 72,370 | 29,336 |
| Shinhan China | | 1,333,194 | 978,141 | 355,053 |
| SBJ Bank | | 4,449,993 | 4,234,428 | 215,565 |
| Shinhan Vietnam | | 350,706 | 257,859 | 92,847 |
| Shinhan Aitas | | 18,395 | 2,424 | 15,971 |
| Shinhan Card | | 17,572,883 | 12,931,388 | 4,641,495 |
| Shinhan Investment | | 7,551,809 | 5,785,472 | 1,766,337 |
| Shinhan Investment Europe | | 7,423 | 105 | 7,318 |
| Shinhan Investment America | | 5,524 | 96 | 5,428 |
| Shinhan Investment Asia | | 5,017 | 135 | 4,882 |
| Shinhan Life Insurance | | 10,054,742 | 9,274,787 | 779,955 |
| Shinhan Capital | | 3,652,012 | 3,253,785 | 398,227 |
| Petra PEF | | 41,990 | - | 41,990 |
| Jeju Bank | | 2,950,155 | 2,736,667 | 213,488 |
| Jeju Bank (Trust) | | 17,019 | 17,019 | - |
| Shinhan Credit Information | | 19,763 | 4,380 | 15,383 |
| Shinhan PE | | 21,765 | 7,003 | 14,762 |
| Shinhan PEF 1st | | 199,644 | 900 | 198,744 |
| Shinhan PEF 2nd | | 178,287 | 6 | 178,281 |
| Symphony Energy | | 36,345 | 15,983 | 20,362 |
| SHPE Holdings One | | 143,795 | - | 143,795 |
| Shinhan BNP Paribas AMC | | 167,973 | 27,110 | 140,863 |
| Shinhan Macquarie | | 9,512 | 15,164 | (5,652) |
| | ₩ | 283,784,422 | 239,961,973 | 43,822,449 |

(b) Statements of Income

Condensed statements of income of the Consolidated Company for the years ended December 31, 2010 and 2009 were as follows:

| Subsidiaries | 2010 | | | | |
|---|-------------------|-------------------|------------------------|--------------------------------|-------------------|
| | Operating revenue | Operating expense | Operating income(loss) | Income(loss) before income tax | Net income (loss) |
| Controlling company and subsidiaries included in consolidation: | | | | | |
| Shinhan Financial Group | ₩ 2,820,008 | 442,487 | 2,377,521 | 2,377,647 | 2,381,184 |
| Shinhan Bank | 22,969,678 | 20,714,053 | 2,255,625 | 2,092,082 | 1,648,389 |
| Shinhan Bank (Trust) | 210,993 | 205,428 | 5,565 | - | - |
| Shinhan Asia | 8,477 | 6,280 | 2,197 | 969 | 969 |
| Shinhan Bank America | 65,577 | 94,994 | (29,417) | (30,285) | (30,337) |
| Shinhan Europe | 14,240 | 8,092 | 6,148 | 6,360 | 4,314 |
| Shinhan Khmer | 3,706 | 2,132 | 1,574 | 1,578 | 1,206 |
| Shinhan Kazakhstan | 2,879 | 2,853 | 26 | 82 | 82 |
| Shinhan Canada | 5,558 | 8,840 | (3,282) | (3,286) | (3,286) |
| Shinhan China | 74,482 | 69,674 | 4,808 | 4,462 | 2,825 |
| SBJ Bank | 153,045 | 133,765 | 19,280 | 18,009 | 7,033 |
| Shinhan Vietnam | 43,552 | 21,533 | 22,019 | 22,187 | 16,939 |
| Shinhan Aitas | 21,682 | 14,845 | 6,837 | 6,618 | 5,010 |
| Shinhan Card | 4,061,297 | 2,872,926 | 1,188,371 | 1,180,052 | 1,107,029 |
| Shinhan Investment | 1,725,731 | 1,554,328 | 171,403 | 184,049 | 138,889 |
| Shinhan Investment America | 920 | 1,772 | (852) | (852) | (410) |
| Shinhan Investment Europe | 203 | 1,666 | (1,463) | (1,473) | (1,473) |
| Shinhan Investment Asia | 228 | 1,019 | (791) | (791) | (791) |
| Shinhan Maritime | 898 | 2,397 | (1,499) | (1,499) | (1,499) |
| SS Triton A | - | 654 | (654) | (654) | (654) |
| SS Triton B | - | 654 | (654) | (654) | (654) |
| Shinhan Life Insurance | 3,817,702 | 3,530,298 | 287,404 | 278,059 | 210,630 |
| Shinhan Capital | 385,620 | 311,532 | 74,088 | 73,307 | 56,114 |
| Petra PEF | 728 | 837 | (109) | (109) | (109) |
| Jeju Bank | 188,083 | 161,178 | 26,905 | 25,550 | 18,970 |
| Jeju Bank (Trust) | 750 | 750 | - | - | - |
| Shinhan Credit Information | 33,428 | 32,190 | 1,238 | 1,283 | 987 |
| Shinhan PE | 6,532 | 3,536 | 2,996 | 708 | 222 |
| Shinhan PEF 1st | 15,484 | 49,952 | (34,468) | (39,782) | (39,782) |
| Shinhan PEF 2nd | 41 | 13,716 | (13,675) | (12,359) | (12,359) |
| Symphony Energy | 68,701 | 74,026 | (5,325) | (5,568) | (5,568) |
| SHPE Holdings Two | 3,857 | 6,829 | (2,972) | (2,414) | (2,414) |
| HKC&T | 3,898 | 5,573 | (1,675) | (2,306) | (2,306) |
| Shinhan BNP Paribas AMC | 119,197 | 65,322 | 53,875 | 53,112 | 39,737 |
| | ₩ 36,827,175 | 30,416,131 | 6,411,044 | 6,224,082 | 5,538,887 |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

| Subsidiaries | 2009 | | | | |
|---|---------------------|-------------------|------------------------|--------------------------------|-------------------|
| | Operating revenue | Operating expense | Operating income(loss) | Income(loss) before income tax | Net income (loss) |
| Controlling company and subsidiaries included in consolidation: | | | | | |
| Shinhan Financial Group | ₩ 1,800,354 | 504,176 | 1,296,178 | 1,306,279 | 1,306,292 |
| Shinhan Bank | 41,466,693 | 40,233,903 | 1,232,790 | 1,066,208 | 748,664 |
| Shinhan Bank (Trust) | 219,912 | 219,912 | - | - | - |
| Shinhan Asia | 13,573 | 9,932 | 3,641 | (354) | (586) |
| Shinhan Bank America | 66,963 | 134,532 | (67,569) | (71,778) | (71,943) |
| Shinhan Europe | 19,036 | 13,214 | 5,822 | 5,892 | 3,999 |
| Shinhan Khmer | 4,110 | 2,398 | 1,712 | 1,189 | 875 |
| Shinhan Kazakhstan | 3,801 | 3,139 | 662 | 643 | 643 |
| Shinhan Canada | 2,969 | 6,840 | (3,871) | (3,873) | (3,873) |
| Shinhan China | 64,134 | 51,440 | 12,694 | 13,083 | 9,778 |
| Shinhan Japan | 32,711 | 33,821 | (1,110) | (13,940) | (14,950) |
| Shinhan Vietnam | 6,654 | 18,656 | (12,002) | (12,011) | (12,697) |
| Shinhan Aitas | 18,760 | 14,453 | 4,307 | 3,884 | 3,259 |
| Shinhan Card | 3,693,714 | 2,578,916 | 1,114,798 | 1,100,554 | 856,755 |
| Shinhan Investment | 1,583,574 | 1,547,127 | 36,447 | 56,911 | 44,184 |
| Shinhan Investment America | 1,234 | 2,364 | (1,130) | (1,130) | (1,014) |
| Shinhan Investment Europe | 1,427 | 1,925 | (498) | (498) | (498) |
| Shinhan Investment Asia | 1,293 | 2,222 | (929) | (930) | (930) |
| Shinhan Life Insurance | 3,418,331 | 3,181,967 | 236,364 | 224,375 | 173,973 |
| Shinhan Capital | 449,042 | 397,502 | 51,540 | 50,516 | 38,413 |
| Petra PEF | - | 10 | (10) | (10) | (10) |
| Jeju Bank | 189,400 | 172,710 | 16,690 | 16,912 | 12,837 |
| Jeju Bank (Trust) | 828 | 828 | - | - | - |
| Shinhan Credit Information | 35,367 | 34,252 | 1,115 | 1,441 | 1,115 |
| Shinhan PE | 8,348 | 3,953 | 4,395 | 4,913 | 3,625 |
| Shinhan PEF 1st | 21,019 | 8,211 | 12,808 | 10,053 | 10,053 |
| Shinhan PEF 2nd | 62 | 5,901 | (5,839) | 784 | 784 |
| Symphony Energy | 63,104 | 66,134 | (3,030) | (2,990) | (2,042) |
| SHPE Holdings Two | 6,623 | - | 6,623 | 6,623 | 6,623 |
| Shinhan BNP Paribas AMC | 115,227 | 70,008 | 45,219 | 42,624 | 31,714 |
| Shinhan PE | 3,706 | 6,149 | (2,443) | (2,832) | (2,110) |
| | ₩ 53,311,969 | 49,326,595 | 3,985,374 | 3,802,538 | 3,142,933 |

(36) Discontinued Operations

In accordance with a resolution of the Board of Directors' meeting held on March 20, 2009, Shinhan Financial Group Co., Ltd. disposed 3,290,002 shares and 1,409,999 shares of Cardif Life Insurance Co., Ltd. to BNP Paribas Assurance and Shinhan Bank, respectively, effective June 26, 2009. Accordingly, Cardif Life Insurance Co., Ltd. was excluded from the subsidiary of the Consolidated Company. The Consolidated Company accounted for the results of operations from Cardif Life Insurance separately as discontinued operations. The comparative income statement has been restated to show the income (loss) from discontinued operation separately from continuing operations.

(a) Details of income (loss) from discontinued operations for the year ended December 31, 2009 were as follows:

| | | 2009 |
|-----------------------------------|---|--------|
| Operating revenues | ₩ | 88,295 |
| Operating expenses | | 82,451 |
| Operating income(loss) | | 5,844 |
| Non-operating income(loss), net | | 21 |
| Gain on disposition of subsidiary | | 12,080 |
| Tax effect | | 2,485 |
| | ₩ | 15,460 |

(b) Cash flows from discontinued operations for the year ended December 31, 2009 were as follows:

| | | 2009 |
|--|---|--------|
| Net cash provided by operating activities | ₩ | 53,995 |
| Net cash provided by investing activities(*) | | 22,809 |
| Net cash from financing activities | | - |
| Net cash provided by discontinued operations | ₩ | 76,804 |

(*) Cash flows provided by disposition of subsidiary amounting to W 23,000 million are included.

(37) Plans and Adoption of K-IFRS (International Financial Reporting Standards)

(a) Preparation of K-IFRS adoption

Under the roadmap announced by the Financial Supervisory Commission for the adoption of Korean IFRS (the "K-IFRS") in March 2007 and article 13 of the Act on External Audit of Stock Companies, the Consolidated Company will adopt the K-IFRS from the fiscal year 2010 (the date of first-time adoption to K-IFRS: January 1, 2010).

In August 2007, the Consolidated Company formed a task force to prepare for its transition from Korean GAAP to K-IFRS. The three phases being conducted for the transition to K-IFRS by the task force are 1) Analysis and Planning Phase, 2) Design Phase and 3) Implementation Phase. As of the date of the report, all three phases as described above are substantially completed. The Consolidated Company has been preparing financial statements under K-IFRS from the date of transition and onwards and expects that financial information for the fiscal year 2010 will be K-IFRS compliant.

(b) K-IFRS Adoption Status

i) Action Plan and Status

The Task Force Team has divided its operations into three phases to effectively manage and complete the long-term plans.

① Phase 1: Analysis Phase

The Consolidated Company identified differences between Statements of Korean Financial Accounting Standards (current Korean Accounting Standards) and K-IFRS, and assessed the potential impact of K-IFRS adoption over the period from August of 2007 to February of 2008. Also, the Consolidated Company has provided K-IFRS training course to its employees to enhance K-IFRS knowledge.

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

② Phase 2: Policy Establishment, System Design and Implementation Phase Based on the outcome of Phase 1, from March 2008 to December 2009, the Consolidated Company performed detailed GAP and impact analysis, designed and implemented of its IT infrastructure. The Consolidated Company also has continuously carried out training course for its employees.

③ Phase 3: K-IFRS application phase
Starting January 2010, the Consolidated Company is proceeding to prepare and verify financial information, to reorganize internal accounting control system, and to analyze the impact of changes in accordance with K-IFRS.

ii) Major Activities

① Establishment of Shinhan Financial Group and all its subsidiaries (the "Group") accounting policies and accounting manuals

In consideration of the requirements of K-IFRS and the Group's current situations, the Consolidated Company performed an analysis of its various alternatives in order to establish the Group accounting policies that would best apply to both the Consolidated Company and all its subsidiaries, and determined the detailed methodologies for each accounting treatment. In addition, each subsidiary reorganized its accounting policy and accounting practice manual to meet the consistency for accounting treatments.

② System Redesign

The Consolidated Company analyzed a financial reporting system and defined business requirement design in order to produce the financial information in a relevant and efficient manner. Then the Consolidated Company completed IFRS system at the end of reporting period. In addition, the Consolidated Company has performed financial data cleansing and uploaded data in IFRS system.

③ Redesign of financial reporting internal control processes

The Consolidated Company analyzed in detail the impact of the adoption of K-IFRS on internal control on financial reporting process and redesigned and tested its internal accounting control system. Also, the Consolidated Company performed the training for internal accounting staffs.

④ Analysis of the impact of changes in K-IFRS

The Consolidated Company is analyzing the impact of changes and forthcoming requirements of IFRS on financial information and closing system.

⑤ Generation and analysis of financial information in accordance with K-IFRS

The Consolidated Company is generating and analyzing opening balance as of January 1, 2010 and each quarter financial information of 2010 prepared in accordance with K-IFRS as of the reporting date.

iii) Composition and Operation of the Action Plan

In order to ensure a smooth transition to K-IFRS, the Consolidated Company formed its K-IFRS Adoption Task Force Team, including external consultants. Each subsidiary performs detail conversion tasks. In addition, an IT IFRS Task Force Team was formed with IT experts from each sector, in order to carry out IT system design and implementation

(c) Differences between K-IFRS and K-GAAP Expected to Have a Material Effect on the Group

The areas of accounting under the current financial statements for which the application of K-IFRS is expected to give rise to significant differences include the scope of consolidation, goodwill, loss provision, revenue recognition, derecognition of financial instruments and employee benefits, among others. The details of significant differences are as follows:

| | | K-IFRS | K-GAAP |
|-------------------------------|--|--|--------|
| First-time adoption of K-IFRS | Business combinations | K-IFRS 1103, Business Combinations will not be applied retrospectively to business combinations occurring prior to the date of transition. | - |
| | Deemed cost | The Consolidated Company elected to measure land and buildings at fair value at the date of transition and use those fair values as their deemed costs. | - |
| | Cumulative translation differences | The cumulative translation difference of foreign operations as of the date of transition will be regarded as nil | - |
| | Derecognition of financial assets and financial liabilities | The derecognition requirements in K-IFRS 1039, Financial Instruments: Recognition and Measurement were applied prospectively for transactions occurred on or before the date of transition. | - |
| | Financial asset designated as available for sale or financial instrument designated as a financial asset or financial liability at fair value through profit or loss | Although K-IFRS 1039, Financial Instruments: Recognition and Measurement permits a financial asset to be designated on initial recognition as available for sale or a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss, those designations are permitted at the date of transition. The Consolidated Company elected to use these exemptions. | - |
| | Share-based payment transactions | K-IFRS 1102, Share-based Payment was applied retrospectively to equity instruments that were granted on or before the date of transition. | - |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(37) Plans and Adoption of K-IFRS (International Financial Reporting Standards), Continued

| | | K-IFRS | K-GAAP |
|--|---|--|--|
| First-time adoption of K-IFRS | Decommissioning liabilities included in the cost of property, plant and equipment | The amount that would have been included in the cost of the related asset when the liability first arose is estimated by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period. | - |
| | Leases | K-IFRS 1017, Leases will be applied retrospectively to leases occurring prior to the date of transition. | - |
| | Investments in subsidiaries, jointly controlled entities and associates | The deemed costs for investments in subsidiaries, jointly controlled entities and associates at cost were K-GAAP carrying amounts at the date of transition. | - |
| Basis of financial statement preparation | | Consolidated financial statements | Individual financial statements |
| Consolidation scope | | If the Group has dominant influence or control over the subsidiary including special purpose vehicle "SPV", the subsidiary is included in the Group's consolidation scope regardless of the subsidiary size. | Based on the Act on External Audit of Stock Companies, a stock company, whose total value of asset is less than W 10 billion as of the end of the immediate preceding fiscal year, shall not be considered a subsidiary. Consolidation of SPV is not stipulated in K-GAAP. |
| Goodwill | | Goodwill acquired in a business combination is not amortized and is allocated to cash-generating units "CGUs" or groups of CGUs and tested for impairment annually whenever there is any indication that they may be impaired. | Goodwill acquired in a business combination is amortized on a straight-line basis over its estimated useful life not to exceed 20 years. |

| | K-IFRS | K-GAAP |
|--|--|--|
| Allowance for loan losses | Allowance for loan losses that has been incurred but not yet identified are estimated at a specific asset and collective level using the historical experience. | Allowance for loan losses is estimated at a greater of the amount resulting from the expected loss method reasonably estimated using the historical experience and the amount estimated based on the asset classification guidelines of the Financial Services Commission in accordance with the Regulations for the Supervision of Financial Institutions. |
| Revenue recognition | All fees associated with origination of loans are deferred and recognized over the expected life of the loan using the effective interest method as an adjustment to the loan balance and interest income. | Fees directly associated with origination of loans are deferred and recognized over the maturity of the loan using the effective interest method as an adjustment to the loan balance and interest income. |
| Financial instrument: measurement | The appropriate fair value for an asset held or liability to be issued is usually the current bid price and, for an asset to be acquired or liability held, the asking price. Bid-ask adjustment is applied when measuring financial instrument at fair value. The fair value is measured reflecting credit risk. | Bid price and asking price are not reflected in the fair value of financial instruments. Credit risk is not required to be considered in measuring fair value. In accordance with Best practice for business process of derivative transactions provided by Financial Supervisory Service, counterparty's credit risk is considered in measuring fair value of OTC derivatives. |
| Derecognition of financial instruments | Depends on the extent to which it retains the risks and rewards of ownership of the financial asset, the transferred asset is continued to be recognized, is derecognized or is continued to be recognize to the extent of its continuing involvement in the financial asset. | Depends on whether or not the Consolidated Company retains control over the financial assets, the transferred asset is continued to be recognized or derecognized. |

Notes to Consolidated Financial Statements, Continued

| | K-IFRS | K-GAAP |
|---|--|--|
| Change in depreciation method | The depreciation method applied to an asset shall be reviewed at least at each fiscal year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate. | The depreciation method shall be applied consistently from period to period unless there are justifiable reasons. The depreciation method for the same kind of property and equipment is applied to newly acquired assets. |
| Employee benefits | Under the Projected Unit Credit Method, the Consolidated Company recognizes a defined benefit obligation calculated using an actuarial technique and a discount rate based on the present value of the projected benefit obligation. | The Consolidated Company establishes an allowance for severance liability equal to the amount which would be payable if all employees left at the end of the reporting period. |
| Customer loyalty program | The Consolidated Company allocates some of the consideration received or receivable from the sales transaction to the award credits and defers the recognition of revenue. | The Consolidated Company recognizes as provision or accounts payable. |
| Classification of investment property | A property that is held to earn rentals or for capital appreciation or both is classified as investment property. | A property that is held to earn rentals or for capital appreciation or both is classified as property, plant and equipment. |
| Valuation method of property, plant and equipment and investment property | An entity shall choose either the cost model or the revaluation model and shall apply that policy to an entire class of property, plant and equipment. The Consolidated Company chooses the cost model. | An entity shall choose either the cost model or the revaluation model as its accounting policy. The Consolidated Company chooses the cost model. |
| Presentation of liabilities and equity | The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. | Classified under Commercial Law |

(d) Changes in scope of consolidation

The Consolidated Company is required under K-IFRS to present consolidated financial statements. Changes in the scope of consolidation from K-GAAP to K-IFRS as of December 31, 2010 are as follows:

| Consolidated Subsidiaries under K-GAAP | Consolidated Subsidiaries under K-IFRS | Difference |
|---|--|--|
| - - | Shinhan Data System SHC Management | Under Art. 1-3 par. 2 of the Presidential Decree enacting the Act on External Audit of Stock Companies, Shinhan Data System and SHC Management were excluded from consolidation, however under K-IFRS they are consolidated subsidiaries. |
| - | Corstone Delta Company Ltd. | As the percentage of ownership is less than 50%, Corstone Delta Company Ltd. was excluded from consolidation, however under K-IFRS 2012, Consolidation - Special Purpose Entities it is a consolidated subsidiary. |
| Trust accounts | - Unspecified money trust - Development trust | Under current K-GAAP, trust accounts where there is repayment guarantee of principal and minimum interest earnings are subject to consolidation scope in accordance with Detailed Regulation on Supervision of Banking Business. Under K-IFRS, however, those trust accounts are excluded from the consolidation scope since the Consolidated Company does not have control. |
| SPC Wholly owned private equity fund | 27 entities including Shinhan 6th Securitization Specialty L.L.C. 71 entities including SH Private Bond Investment Trust SH-3 | Under current K-GAAP, consolidation scope is determined in accordance with Act on External Audit of Stock Companies and Enforcement Decree of the Act where SPC and wholly owned private equity fund are excluded from consolidation scope. Under K-IFRS, however, those entities are included in the consolidation scope since the Consolidated Company has control. |
| Petra Private Equity Fund | - | Due to revision of Act on External Audit of Stock Companies and Enforcement Decree of the Act, it is not included in the consolidation |
| - - | Shinhan 7th Corporate Restructuring Fund SHC 1st New Technology Investment Fund | Under current K-GAAP, consolidation scope is determined in accordance with Act on External Audit of Stock Companies and Enforcement Decree of the Act where SPC and wholly owned private equity fund are excluded from consolidation scope. Under K-IFRS, however, those entities are included in the consolidation scope since the Consolidated Company has control. |

Notes to Consolidated Financial Statements, Continued

December 31, 2010 and 2009

(In millions of won)

(37) Plans and Adoption of K-IFRS (International Financial Reporting Standards), Continued

(e) Summary of the effects of the adoption of K-IFRS on the Consolidated Company's financial position and the results of its operation

This summary of the effects on the Consolidated Company's financial position and the results of its operation described below are based on the consolidated financial statements, and may change in the future as a result of additional analysis, revised standards etc.

i) The effects on the Consolidated Company's financial position due to the adoption of K-IFRS as of the date of transition to K-IFRS, January 1, 2010 are as follows:

| | | Total assets | Total liabilities | Total equity |
|---|---|---------------------|--------------------------|---------------------|
| K-GAAP | ₩ | 255,018,087 | 233,895,061 | 21,123,026 |
| Adjustment for: | | | | |
| Changes in the consolidated entities | | 1,081,470 | 1,133,803 | (52,333) |
| Allowance for loan losses | | 1,177,796 | - | 1,177,796 |
| Allowance for unused loan commitments | | - | (292,341) | 292,341 |
| Effective interest | | (83,596) | (70,413) | (13,183) |
| Fair value of financial guarantee contract and allowance for loss on guarantees and acceptances | | 61,307 | 23,889 | 37,418 |
| Impairment of securities | | (50,923) | - | (50,923) |
| Goodwill | | (264,026) | - | (264,026) |
| Convertible preferred stock | | - | 180,464 | (180,464) |
| Hybrid bond | | - | (2,529,787) | 2,529,787 |
| Deemed cost for land and buildings | | 628,740 | - | 628,740 |
| Defined benefit obligation (Actuarial valuation) | | - | 57,994 | (57,994) |
| Fair value of share based payment | | - | 17,435 | (17,435) |
| Other | | 21,042 | (67,811) | 88,853 |
| Tax effect on adjustments | | (145,522) | 353,939 | (499,461) |
| Total adjustment | | 2,426,288 | (1,192,828) | 3,619,116 |
| K-IFRS | ₩ | 257,444,375 | 232,702,233 | 24,742,142 |

ii) The effects on the Consolidated Company's financial position due to the adoption of K-IFRS as of December 31, 2010 and results of its operations for the year end of December 31, 2010 are as follows:

| | Total assets | Total liabilities | Total equity | Net Income | Comprehensive income |
|---|----------------------|--------------------|-------------------|------------------|----------------------|
| K-GAAP | ₩ 266,031,752 | 242,833,716 | 23,198,036 | 2,383,936 | 2,583,369 |
| Adjustment for: | | | | | |
| Changes in the consolidated entities | (138,962) | (273,395) | 134,433 | (57,790) | 154,415 |
| Allowance for loan losses | 984,211 | - | 984,211 | (192,918) | (178,782) |
| Allowance for unused loan commitments | - | (330,423) | 330,423 | 38,184 | 38,268 |
| Effective interest | (51,663) | (54,351) | 2,688 | 16,802 | 16,802 |
| Fair value of financial guarantee contract and allowance for loss on guarantees and acceptances | 102,002 | 72,079 | 29,923 | (7,651) | (7,494) |
| Impairment of securities | (37,079) | - | (37,079) | (10,586) | 15,860 |
| Goodwill | 314,105 | - | 314,105 | 566,904 | 566,904 |
| Convertible preferred stock | - | - | - | (9,924) | (9,924) |
| Hybrid bond | 13,476 | (2,523,379) | 2,536,855 | 9,340 | 7,802 |
| Deemed cost for land and buildings | 620,522 | - | 620,522 | (7,919) | (7,919) |
| Defined benefit obligation (Actuarial valuation) | - | 110,345 | (110,345) | (52,141) | (52,141) |
| Fair value of share based payment | - | 15,663 | (15,663) | 1,773 | 1,773 |
| Other | 90,760 | 406,295 | (315,535) | (21,176) | (278,105) |
| Tax effect on adjustments | (62,650) | 407,482 | (470,132) | 28,401 | 33,237 |
| Total adjustment | 1,834,722 | (2,169,684) | 4,004,406 | 301,299 | 300,696 |
| K-IFRS | ₩ 267,866,474 | 240,664,032 | 27,202,442 | 2,685,235 | 2,884,065 |

GLOBAL NETWORKS

Shinhan Financial Group has 59 offices in 14 countries, including the US, the UK, Japan, China, Germany, India, Hong Kong, Vietnam and Singapore.



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INVESTOR INFORMATION

Forward-Looking Statements

Shinhan Financial Group's 2010 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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