Business Review 2009

Innovating for greater competitiveness

SHINHAN BANK

INNOVATING
for global leadership

Shinhan Bank's core strengths include a commitment to innovation and a spirit that meets any and all challenges. Together, these will make us a leader as the Korean financial industry prepares to meet a fast-changing operating environment. By deploying these traits across the globe, we will go beyond being a leading bank in Korea and evolve into a global player. We will also consolidate our foundations by preemptively coping with any and all crises.

We are growing beyond being a leading bank in Korea into a global player

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PROFILE

Shinhan Bank (SHB) boasts total assets of KRW 234 trillion. It plays a leading role in the Korean retail banking sector, having introduced the nation's first ATMs, self-service outlets, cyber loans, and Internet banking. The bank has also taken the initiative in putting advanced financial systems in place.

Shinhan Bank considers customer satisfaction to be its most important goal. It was the first player in the domestic financial industry to open a customer service center, and has always been in the vanguard of offering financial services that focus on customer satisfaction.

The bank has also established a human resources management system that is both equitable and transparent. In addition, its personnel evaluation system eschews educational background, factionalism, and place of birth in both hiring and advancement. It is currently carrying out a multilateral capability assessment to advance the fairness of its programs even more. Much of the strength and competency of its people result from a unique mentoring program and a talent cultivation strategy that takes the ordinary and makes it extraordinary.

SHB is also committed to globalizing its operations. To do so, it will seek out future growth engines in a broader range of territories, rather than competing in an increasingly narrowing domestic market. Working from the global organization that it has erected so far, the bank plans to restructure its networks by targeting regions that are strategically important and offer it a sufficient level of profitability. It will also minimize risk through a strategy of selection and concentration.

At the same time, the bank will embody the concept called "glocalization (globalization + localization) by strengthening its capabilities for localization. These efforts, which will be led by its global network of local subsidiaries, will include local funding and increasing its share of local customers. It will also build on its global capabilities through exhaustive risk management, localization marketing, and the cultivation of global talents.

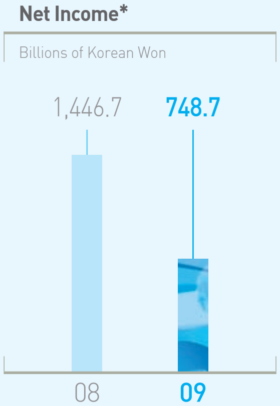
SHB has redefined the Shinhan Way so that it can achieve sustainable growth by developing a strong and robust corporate culture that enables all its employees to concentrate on common objectives with consistent values. Through this, the bank will be reborn as a stronger and more focused organization that remains faithful to the basic nature of its business. This "Shinhan Culture" includes a focus on customers and sales, a spirit of "can-do," and a capabilities-centered and equitable personnel strategy. By harnessing all of these strengths, SHB will grow into a reputable world bank while also remaining a leading domestic player.

FINANCIAL HIGHLIGHTS

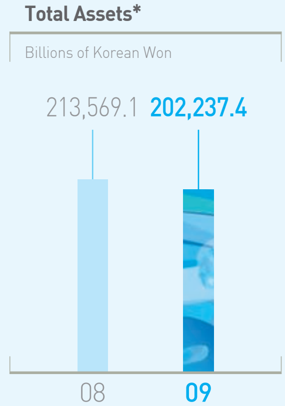
	In Billions of Korean Won		In Millions of US Dollars*	
	2009	**2008**	**2009**	**2008**
Bank Account				
For the Year				
Operating Revenues	41,466.7	49,507.3	35,514.5	42,400.9
Operating Expenses	40,233.9	47,601.5	34,458.6	40,768.6
Operating Income	1,232.8	1,905.8	1,055.8	1,632.2
Ordinary Income	1,066.2	1,903.1	913.2	1,630.0
Net Income	748.7	1,446.7	641.2	1,239.1
At Year-End				
Total Assets	202,237.4	213,569.1	173,207.7	182,912.9
Total Loans	139,956.2	145,341.8	119,866.6	124,479.1
Total Securities	39,540.2	36,592.3	33,864.5	31,339.7
Total Deposits	135,285.0	119,238.0	115,865.8	102,122.3
Total Stockholders' Equity	13,415.6	11,947.9	11,489.9	10,232.9
Trust Account				
At Year-End				
Total Assets	32,537.3	37,122.6	27,866.8	31,793.9
Total Loans	623.2	744.4	533.8	637.6
Total Securities	7,207.5	10,627.8	6,172.9	9,102.3
Total Money Trusts	9,904.9	12,822.5	8,483.1	10,981.9
Financial Ratios				
Return on Average Assets	0.34	0.71		
Return on Average Equity	5.89	12.69		
Substandard & Below	1.00	1.00		
NPL Ratio by FSS	0.77	0.85		
Net Interest Margin	1.76	2.13		
BIS Capital Adequacy Ratio	15.13	13.44		
(Tier 1 Capital Ratio)	11.61	9.3		
(Tier 2 Capital Ratio)	3.52	4.13		

* Translated into U.S. dollars at the rates of KRW 1,167.60/USD 1.0 and KRW 1,257.50/USD 1.0, respectively--those prevailing on December 31, 2009 and December 31, 2008.

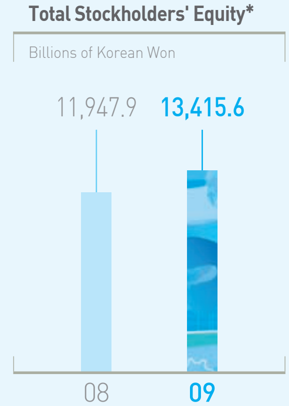
Net Income*



Total Assets*



Total Stockholders' Equity*



* Bank accounts only

2009 AT A GLANCE

March:

Subsidiary began operations in Canada

SHB's 100%-invested local subsidiary, Shinhan Bank Canada, began operations on March 10, with its head office in Toronto. This followed approval for its establishment from the nation's Department of Finance in August 2008, and the final approval for its operations from The Office of the Superintendent of Financial Institutions (OSFI) on February 5, 2009.

This means that SHB is now able to provide differentiated financial services targeting Korean residents and companies in Canada. It will also offer one-stop financial services to domestic customers who are planning to study or live there, in linkage with its emigration and investment consulting services.

March:

Appointed new president & CEO

In his inauguration speech, Baek Soon Lee, the bank's new president & CEO, said that he will work to make SHB a strong, healthy financial institution that people will respect and trust. He also pledged to "face reality straightforwardly and without fear, at a time when many banks in advanced nations are disappearing into the mists of history."

Explaining that "the crisis we are now undergoing presents us with a great opportunity to rebuild our basic capabilities and improve our structure for growth," Mr. Lee urged the audience to open a new chapter in the bank's proud history of facing challenges and carving out victories by "sticking to the basics, thinking about our goals and organizational philosophy, and putting our strengths and wisdom together to fortify our core competencies and build sound foundations for growth."

April:

Marked third anniversary of consolidation

June:

Issued USD 0.5 billion in foreign-currency public bonds

SHB successfully issued foreign currency public bonds worth USD 0.5 billion at the lowest spread offered by Korea's commercial banks in 2009—the first issuance of 144A unsecured bonds by a commercial financial institution since the Lehman Brothers debacle. This step enabled the bank to improve its market credibility, manage its foreign currency liquidity better, and support ongoing imports and exports financing.

July:

Concluded agreement with social enterprises organizations for the support of human resources in the accounting field--a first for the Korean financial industry

SHB entered into an agreement to partner with the Ministry of Labor and the Work Together Foundation, making it the first Korean financial institution to work with social enterprise agencies for the cultivation of human resources in the areas of financial accounting and job creation. The bank raised KRW 2.0 billion for the project through donations from its employees.

In a statement, SHB said, "by carrying out this project, we will help create jobs and contribute to the sustainable development of social enterprise organizations by strengthening their management capabilities and accounting transparency."

September:

Opened Shinhan Bank Japan

SHB's 100%-invested local subsidiary in Japan took over the operations of three SHB branches there, beginning operations as Shinhan Bank Japan (SBJ) on September 14.

SBJ plans to expand within the local market by grafting the best practices of its mother company, SHB, onto its localized marketing capabilities, actively expanding its channels, and providing a wide range of differentiated products and services. Shinhan Bank Japan is only the second foreign bank to operate as a locally incorporated entity in that country.

November:

Opened Shinhan Vietnam Bank

SHB's 100%-invested local subsidiary in Vietnam, Shinhan Vietnam Bank, began operations in Ho Chi Minh City on November 16.

SHB converted its Ho Chi Min City branch into a bank after obtaining approval for the establishment of a local subsidiary from the Bank of Vietnam on December 29, 2008. It was the first Korean bank in that country to be allowed to establish a local subsidiary. This step enabled the bank to gain a foothold for efficiently entering global markets, since it now operates 100%-owned local subsidiary banks in each of its core strategic areas: Vietnam, Japan, China, and the USA.

Shinhan Vietnam Bank plans to grow into a leading foreign-based bank by leveraging its differentiated risk management capabilities and unparalleled customer satisfaction management strategies. The bank will strengthen its operations by initially focusing on Korean customers, gradually expanding into corporate and retail banking.

Awards and Accolades

- **Korea Consumers' Forum's "Korea First" Brand Awards:** Grand Prize in banking category, Korea Consumers' Forum/*Korea Economic Daily* (Feb. 2009, for fifth consecutive year)
- **Korea Web Awards:** Minister of Knowledge Economy Award, *Hankook Ilbo* (Feb. 2009)
- **Korea's Most Respected Company Awards:** Ranked first in banking category (Feb. 2009, for sixth consecutive year)
- **Maekyung Financial Products Awards:** Grand Prize for "Fighting SME Support Loans," *Maeil Business Newspaper* (March 2009)
- **Korea Red Cross Order of Merit Award:** The Republic of Korea National Red Cross (March 2009)
- **2009 Best PB Center:** *The Hankyung Business Weekly* (April 2009)
- **Superior Bank:** For funds sales, Financial Supervisory Service (May 2009)
- **Global Standards Management Award:** Grand Prize in socially responsible management category, Korea Management Association (KMA) and KMA Global Standards Management Committee (May 2009, for fourth consecutive year)
- **Trust company award (TCA):** The Company of Korea 2009, Korea Consumers' Forum (June 2009)
- **Ranked First in Korea Standards-Premium Brand Index (KS-PBI):** Korea Standards Association, Seoul National University, *Chosun Ilbo* (June 2009, for second consecutive year)
- **Korean Service Award:** Grand Prize in banking category, Korea Standards Association (June 2009, for sixth consecutive year)
- **Korea Social Contributions Awards:** Grand Prize, Korean Journalists Forum (June 2009, for third consecutive year)
- **Ranked first in global customer satisfaction index (GCSI):** In banking category, Global Management Committee/ JMAC (July 2009)
- **Ranked first in Internet Banking Service:** Stockpia (Sept. 2009, for four consecutive quarters)
- **Best Brand of the Year:** Brand Stock/Yonsei Business Research Institute (Oct. 2009)
- **Korea Great Workplaces Awards:** Grand Prize in banking category, *JoongAng Ilbo* and GWP Korea (Oct. 15, 2009)
- **Ranked first in the Korean Standards Service Quality Index (KS-SQI) Survey:** Korean Standards Association (Oct. 2009, for eighth consecutive year)
- **Korea Financial Innovations Award:** Financial Products/Service Innovation category for Hope Energy Installment Savings, *Money Today* (Oct. 2009)
- **Korea Environmentally Friendly Management Awards:** Grand Prize in banking category, *Eco Media* (Nov. 2009)
- **Korea Communications Award:** Best Broadcasting Prize in banking category, Korea Corporate Newsletter Association (Dec. 9, 2009)
- **Best New Financial Product:** For Shinhan Mixed Interest Rate Loan, Financial Supervisory Service (Dec. 29, 2009)

Awards received from overseas financial magazines and journals

- **Best Retail Bank in Korea:** *The Asian Banker* (March 2009)
- **Best Emerging Market Banks in Asia:** *Global Finance* (May 2009)
- **Best Domestic Bank, Korea/Best Local Cash Management in Korea/Best Local Cash Management in Korea 1999-2008:** *Asiamoney* (June 2009)
- **Best Consumer Internet Banks Asia/South Korea:** *Global Finance* (Sept. 2009)
- **World's Best Banks: Asia/South Korea:** *Global Finance* (Jan. 2009)
- **Asset Country Awards 2009: North Asian Best Domestic Bank/South Korea:** *The Asset* (Nov. 2009)

MESSAGE FROM THE CEO

In 2010, we plan to concentrate on achieving **"Good Growth"** which will solidify the bank's roots

Baek Soon Lee
President & Chief Executive Officer

Dear Customers:

First, I wish to extend my sincere appreciation for the continued support and care you have given us.

Last year, our economy showed signs of strong resilience to the economic maelstrom that swept across the globe in the aftermath of the global financial crisis of 2008.

Governments around the world came together in a timely manner and coordinated policy measures to stabilize the global financial market. Consequently, the real economy sector entered a gradual recovery phase.

Because Korean corporations learned how to deal with or avoid macro shocks during the Asian currency crisis of ten years ago, its businesses were able to overcome these economic obstacles by applying the expertise they had gained in crisis management then.

Shinhan Bank was able to withstand and overcome the global financial situation and the subsequent recession by uniting all of its members for the purpose of crisis management. After reviewing our corporate mission, all our members came to an agreement on what our principles and standards should be.

As a result, we were able to extend our customer base--our number of active customers has risen by 12.3% since 2008. Indeed, our results actually improved because of the increase in our NIM, which returned to its pre-crisis level. We also successfully met all capital adequacy requirements: our BIS ratio stood at 15.1%, while the Tier 1 ratio was 11.6%.

On the international front, Shinhan Bank became the first Korean bank to establish a local subsidiary in Japan. We also began local subsidiary operations in Canada and Vietnam, enabling us to successfully launch our initiative to become a truly global operation.

2010 is projected to be a time of gradual economic recovery for Korea, putting two years of economic slowdowns behind us. At the moment, the only foreseeable threat to the nation's economic recovery might be the after-effects of worldwide exit strategies that are slated to be implemented throughout the year. In addition, a substantial shift in the financial landscape is expected, due to potential M&A activities being considered by banks.

Shinhan Bank is known for its ability to seize opportunities out of crises. We will stay the course to become "the premier bank of Korea, earning the trust of both customers and society."

In 2010, we will concentrate on achieving "Good Growth" that will solidify the bank's roots. Considering the gradual pace of domestic economic recovery, we will work to achieve responsible asset growth. In addition, we will focus on procuring lower-cost funding and optimizing its composition. We will also seek to increase non-interest-rate-related revenues.

Our capabilities for asset quality management and the identification of potential delinquencies will be strengthened. In addition, we will pay particular attention to the risk management needs of our global network, which has expanded to 14 nations around the world. In the process, we intend to create a solid foothold for a new, bank-wide risk management paradigm.

Secondly, we will strengthen our efforts to become more customer-centered. By doing so, we hope to further expand our customer base.

Shinhan Bank has long been recognized as the Korean bank with the highest level of customer satisfaction. However, customer needs and trends in the financial industry are changing rapidly. We must create a new paradigm for customer satisfaction to meet these elevated expectations, including those of our international clients.

We will also review such fundamental elements of our operations as products, services, marketing, and distribution channels from the perspective of our customers. By doing so, we will become "the bank that customers want to do business with the most, and the bank that grows with its customers."

Thirdly, we will augment our core internal competencies and ensure that we enjoy a differentiated competitive edge by concentrating on innovations.

Within the bank, participation and discussion among employees will become common. In addition, we plan to develop a culture that is imbued with knowledge and creativity by encouraging learning. As this develops, we will be able to deliver higher values to our customers. Our operational and sales processes will be also revamped, improving productivity by introducing reforms and new and innovative ideas.

Lastly, we will continue with our goal of becoming a bank that people trust and respect.

Last year, employees and management made voluntary financial contributions to help create jobs at SMEs. This year, we plan to aid our less-fortunate neighbors in obtaining much-needed financial assistance. We hope that our efforts will spread the seeds of hope to those who have fallen behind.

We will also remain true to our responsibility to help make the earth greener and protect the environment, meeting society's expectations of us as a caring and responsible corporate citizen.

2010 will mark the beginning of the second decade of the 21st century. In the past ten years, Shinhan Bank has successfully established the Shinhan Financial Group, going through a smooth period of integration to become a financial powerhouse.

We intend to make 2010 a new turning point in our goal of becoming the bank that grows with its customers—a premier-ranked financial institution that commands the respect and trust of society and strives to become a global player. In the future, the annals of Korea's financial history will show the many challenges and triumphs we met and won in our journey toward greatness.

I look forward to your continuing interest and affection in the future. Thank you.

Baek Soon Lee

Baek Soon Lee
President & Chief Executive Officer

INNOVATIONS

for a stronger corporate vision and increased sustainability

Shinhan Bank's high rate of growth has resulted from adapting creative management strategies, increasing customer values, expanding its global management operations, and insisting on continuous innovations.
Stable growth for the future and the rigorous pursuit of innovations will make its tomorrows all the more special.

VISION & STRATEGY

Under the SFG's strategic goal of "Trust 2010," we have tasked ourselves with "growing into a first-class bank through innovation

Our Vision

Shinhan Financial Group's (SFG) vision is to be a "world-class financial group" that secures a stable earnings base through a careful balancing of its banking and non-banking sectors. In line with this overall vision, Shinhan Bank's goal is to be "THE Bank of Pride." It will carry out this mission in four strategic directions.

- **For Customers:** Provide the finest in values as their lifetime partner
- **For Shareholders:** Become a company that is trusted wholeheartedly
- **For Employees:** Create a warm and welcoming workplace
- **For Society:** Contribute to the national economy and society

Our corporate culture, called "The Shinhan Way," is customer-centric, mutually respectful, committed to leading the process of change, focused on being the best, and ownership-oriented. We strive to achieve our vision and mission through the 10 principles of the "SHB Way."

Management Goals and Strategies

Under the SFG's strategic goal of "Trust 2010," we have tasked ourselves with "growing into a first-class bank through innovation." Our new slogan, "Creative 2010, New Shinhan Power," mirrors our commitment to creative thinking. Based on a strategy of harnessing innovation to strengthen our competitiveness, our core strategic directions are as follows.

Expand customer base: We will promote customer lock-ins and the expansion of quality customer bases, and maintain our commitment to sustainable management.

Stabilize earnings base: We will stabilize our earnings base by increasing the volume of high-quality assets and non-interest income, seeking mid- to low-cost financing, and optimizing our capital portfolio.

Adopt a new risk paradigm: We will realign our risk management systems, manage our soundness indicators, and guard against insolvencies, with a particular focus on enhancing our global risk management capabilities.

Pursue new growth businesses: We will engage in a wider range of new growth businesses, such as corporate investment banking (CIB), retirement pensions, and "green" financing.

Continue with innovations: All our processes, systems, channels, and brands will be measured in terms of their effect on customers and competitiveness. We will also carry forward any and all innovation tasks that are customer-oriented and productive.

Core Strategic Directions

Grow into a first-class bank: We will select management indicators that will help us grow into a first-class bank in the medium to long term, and carry them forward by stage. By focusing strongly on these indicators, we will increase our efficiency and effectiveness.

Expand customer base: We will continue to expand our customer base by ensuring that our long-term goals are customer-centric. We will also enhance our customer relationship programs and strategies, and work hard to lock in customers.

Pursue innovations: We will pursue innovations that maximize our efficiencies through customer-centered systems and processes. This will include ensuring that all our systems and processes are customer-centered. In addition, we will reduce our operating expenses through improvements to our processes, and increase the value of our intangible assets.

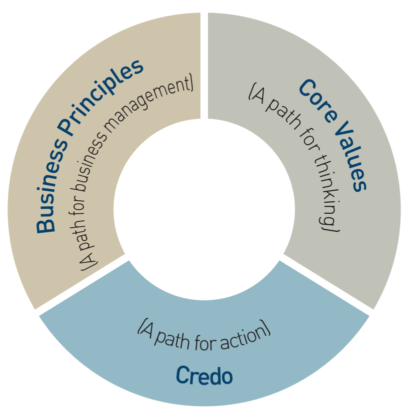
The Shinhan Way

The Shinhan way is

a value system shared by all Shinhan people across the Group that leads them to think and act as "one Shinhan" with unrivalled confidence and passion.

Components of The Shinhan Way

Principles that serve as bases for our management decisions to attain our vision



Criteria for judgments that must be ingrained in all the members of our organization

A Code of Conduct that encourages changes in the actions and attitudes of an organization's members

Core Values

Shinhan's people want to be the very best at what they do, because they are dedicated to their work and their employer. We want to mold that passion into a workplace culture of innovation, teamwork, mutual respect, and dedication to our customers.

Customers:
We will always think and act from the perspective of our customers, based on the honesty and trust that will allow us to grow in concert with them. We are also committed to faithfully fulfilling our social responsibilities toward all the members of our society.

Respect:
We will maximize our organizational cohesion and grow together by insisting on mutual respect among the Group's companies, departments, and individuals, and by always taking one another's viewpoints into account.

Change:
We will secure differentiated competitiveness that will set us apart from our competitors by making creative approaches to future markets, instead of just concentrating on today's market.

Excellence:
We will set challenging goals to allow us to become the best in our field. We will act swiftly and resolutely to attain them by enhancing our expertise and constantly stretching ourselves with a pioneering spirit and unrivalled passion.

Ownership:
We will take the initiative in our work and exhibit a strong sense of responsibility. We believe that our organization's growth and our own personal growth starts from the same root.

10 Business Principles and Standards

Grow into a first-class bank: We will select management indicators that will help us grow into a first-class bank in the medium to long term, and carry them forward by stage. These indicators will then be supported to add to their efficiency and effectiveness.

1. **Business must be promoted by balancing customer values and our own values**
   This means that we will not engage in actions that will damage customer values for our own benefit, as well as selling products that meet customers' needs.
2. **Qualitative growth is a prerequisite for qualitative growth**
   This means that achieving a proper balance between our growth potential and our profitability will guarantee our soundness.
3. **Long-term outcomes must not be damaged by short-term performances**
   This means that our short-term earnings generation should not conflict with our long-term growth. Instead, we should prioritize businesses that add to growth in the mid-term.
4. **We will seek asset growth within a 100% loan-deposit ratio**
   This means that we will operate our assets within the limits of possible financing, and curb external growth that is excessively asset-oriented.
5. **We will apply integrated management to all our risks, including credit risk**
   This means that we will engage in new businesses only if we have conducted sufficient levels of due diligence. All products must be sold and managed within appropriate, optimal ranges in consideration of our portfolios.
6. **We will not deal in products and businesses for which regulations, manuals, and roles and responsibilities (R&Rs) have not been provided**
   This means that we will not deal with unfamiliar products and businesses. We will only sell products that are in compliance with all relevant regulations, processes, and internal structures.
7. **The capability and information levels of each business division and management/support division must be equal**
   This means that all front-office data and information must be shared with the middle and back offices.
8. **We will review the appropriateness of any product/business that grows by 30% or more**
   This means that we will conduct in-depth reviews on the appropriateness of a product when it makes up a larger-than-anticipated ratio of our total business portfolio.
9. **Foreign currency loans must support the real needs of our customers**
   This means that our foreign currency operations will be largely limited to imports/exports financing and foreign currency loans.
10. **5% of our capabilities must be invested in innovations and creating new growth engines**
    This means that we will continue creating new markets, attracting new customers, and developing new products and services.

These principles and standards must be observed and obeyed in all our businesses and operations going forward.

INNOVATIONS
for a better tomorrow

Shinhan Bank's social responsibility management activities are designed to protect the environment for our stakeholders and future generations.

SOCIAL CONTRIBUTIONS

Our first priority is to benefit our customers and society, reflecting our CEO's philosophy that we must be "an open and honest financial institution"

"Towards a Better Society"

SHB: a bank that is committed to the betterment of its customers and society

Shinhan Bank is a pioneer in the areas of corporate ethics and corporate social responsibility (CSR), having implemented programs and processes to support and carry them out in the early 1980s. Since its founding, the bank has instituted a wide variety of CSR programs. In addition, we are committed to management that is honest and principled, that creates value for customer satisfaction, and that fulfills our responsibilities and roles as a concerned and caring corporate citizen.

In 2005, we became the first domestic financial institution to publish a CSR report. Since then, we have issued the report on a regular basis. We have also declared "coexistence and co-prosperity with our stakeholders" as our primary CSR direction. This was done to contribute to advancing the interests of the financial industry and creating national wealth by becoming a solid buttress for the national economy. We are also systematically operating a wide spectrum of CSR programs after establishing our CSR goals and strategies, along with long- and short-term imperatives by stakeholder through to 2012.

Our first priority is to benefit our customers and society, reflecting our CEO's philosophy that we must be "an open and honest financial institution." We are committed to returning a significant portion of our profits to society, and sharing our accomplishments and values with the communities in which we live and work. This is achieved through an array of social contributions projects in such areas as social welfare, volunteer services, environmental conservation, culture and the arts, the promotion of sports, and the development of products that benefit the public interest. In addition, we promote true corporate citizenship, sharing with our neighbors through the voluntary participation of our employees and customers.

We incorporate CSR into our corporate culture and build lasting communications channels with our external stakeholders by publishing a monthly CSR e-newsletter that contains information on CSR trends, SHB's CSR activities, Mecenat activities, and volunteer service. In addition, our homepage offers a Voice of Customers (VOC) section to gather feedback from local communities. These are then reflected in our internal policies.

Under the motto "Sharing Happiness, Growing Joy," the Shinhan Bank Volunteer Group engages in such activities as preserving traditional culture, developing more livable neighborhoods, and nurturing future leaders. Our company-wide volunteer activities include protecting cultural assets, assisting social welfare institutions, supporting undernourished children, providing the needy with charcoal briquettes and kimchi, and assisting in disaster relief operations.

In addition, we take part in campaigns to protect natural treasures (including both animals and plants) and continue to expand the concept of "green" finance by developing such products as "Green" Compound Interest Trust and Hope Energy Installment Savings. We were also the first Korean commercial bank to establish a scholarship foundation and a finance museum.

The Shinhan Bank Hope Foundation fosters talented professionals who can contribute to the nation and society, and promotes education, the arts, and culture. Every year, the foundation awards scholarships to juvenile heads of households and differently-challenged students. It also provides annual scholarships to Korean children living in Kazakhstan, Uzbekistan, and China.

The Museum of Korean Financial History contains 3,000 pieces of financial data in a space of about 1,200 m^2, while the Shinhan Gallery supports the activities of promising young artists by holding special exhibitions for them. Both are located in Taepyeongno, a cultural street in Seoul.

We have recently become involved in public interest-linked programs in partnership with non-profit organizations such as UNICEF and the Red Cross, including training in sharing and support for low-income earners and the underprivileged. We were also the first financial institution in Korea to operate credit recovery support programs that enable bad credit holders to improve their credit ratings by engaging in community service activities.

In 2009, we implemented the "Job SOS 4U" project to assist in furthering employment opportunities at SMEs. Its goal, in cooperation with the Korea Federation of Small- and Medium-Sized Businesses, is to assist with the problem of youth unemployment and support the underprivileged. We have helped about 3,000 people to find employment so far, at a cost to us of KRW 35.0 billion.

We established the Shinhan Smile Microcredit Bank in December 2009, a "first" for the domestic financial industry. In cooperation with the Shinhan Financial Group, the foundation helps the underprivileged become financially independent. The project, which is widely regarded as a success case for CSR activities, allows us to leverage our financial know-how, expertise, and related strengths in a very worthwhile activity.

Some of our other programs include economics classes for children, special events for children living on islands and in remote areas, overseas travel programs for teachers, and the promotion of sports. We have also contributed to the spread of CSR by developing a variety of public-interest products. These include CSR Management Loans, SME support funds, and special bankbooks for exemplary taxpayers.

To ensure that our HR management culture is morally and ethically unassailable, we are conducting a campaign to ensure that we carry out honest and transparent financial transaction practices, pay our expenses in an open and transparent manner, and prevent the use of bribes for jobs and promotions.

We also ensure that all our employees are aware of the need for ethical behavior and compliance with our integrity policies and programs. This is done through an integrity pact, a securities transactions reporting system, self-help checks on ethical behavior and compliance, and a whistle-blower program. We also operate training programs so that ethical behavior will be carried out automatically. This includes the development of cyber education programs, the production and distribution of guidebooks on ethical behavior and compliance, and a handbook on our Code of Ethics.

SOCIAL CONTRIBUTIONS

Numerous awards have been bestowed upon us in recognition of our bank-wide CSR management practices. They include the grand prize at the Global Standards Management Awards (in the socially responsible management category) from Korea Management Association Registration & Assessments (KMAR); the grand prize at the Korea Social Contributions Awards from the Korean Journalists' Forum; and the grand prize at the Global Reporting Initiative (GRI) Sustainability Reports Awards.

After analyzing changes in social trends and consumer perceptions, increasing our knowledge of global standards, and learning more about the characteristics of the banking industry, our Corporate Social Responsibility Team, which is in charge of all our CSR management functions, proposed a number of concrete and differentiated strategic directions for our various CSR efforts and projects. We are also taking part in the global standardization of CSR management activities by joining CSR-related global organizations such as the UN Global Compact, the UN Environmental Program Finance Initiative (UNEP FI), and the Carbon Disclosure Project (CDP).

In order to achieve high returns and maximize our growth, we will develop new markets and seek out future growth engines. We also emphasize the need to develop an innovative culture that changes the way we work and think, through such future-oriented activities as Blue Ocean, 6 Sigma, and knowledge management.

Moving forward, we will retain our commitment to building a better society and future for all our stakeholders. To this end, we will continue to place top priority on sustainable financing, while systematizing and strengthening our CSR programs so that we can continue to play a pioneering role in sustainable development.

ETHICAL MANAGEMENT

Shinhan Bank aims to be an open and honest financial institution in all areas of the economy, society, and the environment, fully trusted by its customers and society alike

Shinhan Bank aims to be an open and honest financial institution in all areas of the economy, society, and the environment, fully trusted by its customers and society alike. To this end, we have developed ethical standards and programs that all our financial professionals must comply with.
Our ethical management system is led by a Compliance Officer, who is tasked with pursuing ethical management-related operations across the board. The Officer is assisted by the Compliance Department. Our employees participate in the practice of ethical management by signing a "pledge for ethical practices." We also offer both online and offline training in matters relating to ethical behavior.

Ethical Management Programs and Systems

Systems

Full-time Compliance Officers: We select full-time compliance officers at all our branches. In addition, we prevent the development of "blind spots" in compliance by developing guidelines for our overseas branches, supporting compliance activities, and strengthening our reporting and management systems.

Customer Due Diligence: Our customer due diligence system has been revamped to comply with the revised Anti-Money Laundering (AML) Act. Other risks are prevented through training and periodic financial transactions report management.

Programs

Compliance: Our compliance program helps employees to voluntarily obey all laws and regulations related to fair trade among our operations. It includes execution systems, the publication of handbooks, the enactment of a Code of Conduct, and educational and monitoring systems. We also conduct monitoring and offer online and offline training, targeting high-risk divisions and departments. In addition, we monitor internal trading among SFG's affiliates.

Ethical Management: We have a number of programs in place to make our employees aware of the need for an ethical culture in all our activities. These include a pledge for ethical practices by all our employees, employee compliance checkups, and a financial transactions reporting system. In addition, we are systematizing our ethical management practices, mainly by installing a program called Law & Ethics (a form of legal advice for an ethical management system) on our Intranet.

BOARD OF DIRECTORS

The Board of Directors (BOD) consists of ten executive directors, including eight outside ones. It also includes a number of committees: Risk Management Committee, Audit Committee, Auditor Candidate Recommendation Committee, and Outside Director Candidate Recommendation Committee.

In 2009, the BOD held 14 meetings dealing with the enactment of and revisions to management regulations, the establishment of local subsidiaries abroad, and the appointment of the Fair Trade Compliance Officer.

According to BOD regulations, outside directors-only meetings must be held more than twice a year to gather and reflect their professional opinions on Shinhan Bank's management. Information on the composition of the BOD and compensation levels for its members is available on our website through a link called "Public Disclosure of Management Performance."

Executive Director

Baek Soon Lee
President & Chief Executive Officer

Director

Woo Jong Won
Director & Standing Auditor

Outside Director

Cheol Soon Park
Director,
Professor,
Seoul National University

Kyu Min Lee
Director,
Chairman,
Korea Market Forum for Journalists

Sang Hoon Shin
Director,
President,
Shinhan Financial Group

Sung Ho Wi
Director,
Deputy President,
Shinhan Financial Group

Joon Kyung Kim
Director,
Professor,
KDI School of Public Policy and Management

Jae Ha Park
Director,
Researcher,
Korea Institute of Finance

Hee Jin Lee
Director,
Professor,
Yonsei University

Haruki Hirakawa
Director,
President,
Hirakawa Shoji co., Ltd.

Executive Officers

Jeum Joo Gweon
Deputy President,
Management Planning Group

Chan Park
Deputy President,
Management Support Group

Hyung Jin Kim
Deputy President,
Corporate Business Unit & Corporate Banking Group

Young Hoon Lee
Deputy President,
Credit Analysis & Assessment Group

Sung Rack Lee
Deputy President,
Retail Business Unit & Retail Business Development Group

Dong Dae Lee
Executive Vice President,
Investment Banking Group

Se Il Oh
Executive Vice President,
IT Group

Yong Byoung Cho
Executive Vice President,
Global Business Group

Jong Bok Moon
Executive Vice President,
Wealth Management Group

In Jong Joo
Executive Vice President,
Institutional Banking Group

Young Oh Seol
Executive Vice President,
Risk Management Group

INNOVATIONS

for stable growth

Shinhan Bank is committed to carrying forward customer and productivity-oriented innovations to lay the foundation for stable growth. Through such innovations, we are expanding our customer base, stabilizing our earnings structure, and enhancing our global risk management capabilities, while pushing forward new growth businesses.

We have formulated three strategic directions: establish the foundation for long-term growth, reinforce profitability, and strengthen the loyalty of institutional customers

Institutional Banking Group

The Institutional Banking Group targets institutional customers, including government organizations (e.g. courts and public prosecutors' offices), local governments, public organizations (e.g. universities, hospitals, and military-related institutions), and airports, plus their employees and relevant institutions.

Particularly, we are raising our profile as the best specialist in court-related businesses; we are the only bank to have conducted court operations since 1958. We also have the largest airport-based banking network in Korea; we provide currency exchange and other financial services at four major domestic airports: Incheon, Gimpo, Gimhae, and Jeju.

In addition, we have established branches and outlets at key universities and general hospitals across the nation. We have also been expanding into military-related organizations and local government markets; in 2006 we opened a depository in Incheon Metropolitan City.

Our core competitiveness lies in the fact that we have, above all, secured a highly-loyal, quality customer base of institutions including courts, colleges, hospitals, municipal and provincial depositories, and airports. We have also built a high entry barrier through our know-how accumulated in the market along with trusted relationships with long-term customers.

Moreover, we are developing a strong customer pool for the future by opening branches in major institutions and carrying out extensive marketing activities such as aerial marketing.

Secondly, the group boasts a solid revenue structure with a focus on low-cost deposits and currency exchange. We have a considerable number of low-cost deposit account holding customers such as universities and hospitals. We also deal in deposits from the courts and municipal and provincial depositories. Foreign exchange services at major domestic airports currently form the majority of our gains on foreign exchange transactions.

In 2009, the group gained a firm foothold to retain its market leadership. For example, Gyeonggi-do (province) and Bucheon City opened depositories with us. We also renewed our contracts for seven depositories including those of Gangwon-do and Chungcheongbuk-do, while many government-run public institutions including Korea Institute of Energy Technology Evaluation and Planning (KETEP) and the Structural Regulation Fund selected us as their deposit bank.

In addition, we newly attracted student ID/debit cards of nine colleges including Dongguk University and Chongju University, leading to the issuance of 34,300 cards and thereby expanding our customer base. We also concluded an agreement with eight more colleges (including Daeduk University and the Kumoh National Institute of Technology) as their tuition receiving bank, forming the basis to build up the foundation for our long-term growth.
As such, we are striving to retain our top position in the institutional banking market through differentiation strategies by segment, including courts, colleges, hospitals, municipal and provincial depositories, and government organizations.

In 2010, we plan to continue our role as the core group of Shinhan Bank with the strategic objective to "retain our top position in the institutional banking market by expanding our market share."

To achieve this, we have formulated three strategic directions: establish the foundation for long-term growth, reinforce profitability, and strengthen the loyalty of institutional customers.

In order to build up the foundation for long-term growth, we will attract new clients through careful selection and also focus our concentration on government and public agencies and maturing municipal and provincial depositories. Specifically, we will work to renew our contracts with municipal and provincial depositories and universities (including Incheon Metropolitan City, Andong City, Konkuk University, and Suwon University). In addition, we will continue to intensify our marketing activities for future customers primarily by inducing college students to choose us as their main bank and vitalizing Narasarang smart card customers.

In order to reinforce our profitability, we will continue to strengthen our revenue basis by retaining our market share in court deposits, increasing deposits from colleges, expanding national pension transactions, and managing optimal profits and losses on loans to relevant institutions. In addition, we will strive to create diverse revenues through the sales of synergy-generating products within the group, targeting institutional customers, and strategic institutional products such as retirement pensions.

In order to reinforce the loyalty of institutional customers, we will continuously bolster our institutional customer relationship management by maintaining close connections with top priority keymen, and expand our support for institutional banking by carrying forward Hi-Touch marketing and targeting the executives of institutions. At the same time, we will boost the capabilities of our employees by operating training and educational programs for institutional banking and municipal and provincial depositories, and developing online training for court operations.

The banking industry is currently faced with intensifying competition, both at home and abroad, and an increasingly difficult operational environment. This makes our role more important than ever as we have prime-quality institutional customers and healthy assets such as low-cost deposits.

Accordingly, we will faithfully carry out our role with passion and a spirit of challenge to achieve the above strategic objectives based on our extensive and unique experiences and know-how.

Retail Business Development Group

Since the bank's reorganization in February 2009, the Retail Business Development Group has been dealing with branch management indicators developed by business groups according to customer segment, including wealth management (WM) and institutional and small- and medium-sized enterprise (SME) customers. It is tasked with working out, notifying and rating evaluation indicators and goals for channels, while leading divisions that are field-type retail business development organizations and regional heads.

Prior to the organizational transformation, the group pushed forward businesses, targeting retail customers with less than KRW 0.5 billion in deposits, self-employed businesses, and corporations whose financial statements are not subject to examination by independent auditors. Now its role has been expanded to handle everything that has to do with sales channels, and its performance is evaluated by the results of branches within the group, excluding those from corporate customers.

In 2009, we opened a series of financial centers in the form of a combined retail and corporate branch. This led to the integrated operation of 104 corporate banking financial centers. When this happened, corporate executives who had previously been managing corporate branches were introduced to retail banking. As a result, transactions were further strengthened, while synergies were generated between both channels.
At the end of 2009, the group had 767 branch channels, with total loans and deposits amounting to KRW 89.0 trillion and KRW 116.2 trillion, respectively.

In 2009, in the aftermath of the global financial crisis, the retail banking industry was again placed under difficult circumstances: falling real estate prices and stock market instability, an increase in non-performing household loans, a frozen job market, drops in real wages, prolonged low

interest rates, and a decrease in confidence in financial institutions. Banks also had difficulties with sales growth and the management of earnings indicators mainly due to accelerated customer breakaways caused by downfalls in the rate of returns for fund customers.

Since the second half of the year, however, all management indicators gradually normalized as the Korean economy recovered through government-led stimulus policies and efforts to manage satisfactory soundness by domestic financial institutions. Beginning in August, operating income exceeded our monthly targets. In the fourth quarter, we formulated the "first-class bank" strategy on a bank-wide level with the goal of becoming the "best local bank." We also established a strategic roadmap for the next five years (2010-2014) by selecting core management indicators by division.

For the retail business, we devised a 3R strategy to become a first-class bank: "Retain first place," "Reinforce core domains," and "Revolutionize developing innovation areas."

Channel innovation tasks have been selected as core management indicators for the Retail Banking Group. The tasks are aimed at increasing the number of active customers to expand the customer base, low-cost deposits to expand the volume (market share) of core businesses, and the number of Internet and mobile banking customers to broaden the non-direct sales base, and improving the productivity of channels.

Our management strategy for 2009 was "Retail ABCI" for the recovery of customer trust to strengthen our future competitiveness with a focus on four core strategic tasks: Asset quality improvement, Profitability build up, Customer relationship enrichment, And Infrastructure upgrade.

First, as risk management is our core management indicator, we concentrated on the management of non-performing loans throughout the year by organizing a task force team for delinquency management on a retail level business-wide. Accordingly, SHB achieved the banking industry's lowest delinquency ratio of 0.24% in terms of delinquencies in household loans. The delinquency ratio in the retail business, including sold loans, was also managed satisfactorily, standing at 0.97%. We particularly systematized our prior loan reviews by adopting preemptive risk management techniques.

Asset grew by KRW 4 trillion in total as we sought quality asset-oriented selective growth. This included KRW 2.6 trillion in household loans, and KRW 700 billion in corporate loans. Usable deposits increased by KRW 9.5 trillion over the year as a result of campaigns held at the beginning and the end of the year to secure bank-wide liquidity such as the deposit-loan ratios and liquidity indicator management. Low-cost deposits, in particular, sharply surged by KRW 4.8 trillion due to the ongoing, year-round low interest policy and slowdowns in real estate and stock markets.

Second, to build up our profitability, we pushed for selective growth with a focus on quality assets with confirmed profitability and soundness. As a result, we recorded a pre-tax income of KRW 812.1 billion following the continuous improvement of loan margins and a rise in commission income.

Third, as for the enrichment of customer relationships, we built a subdivided management system by customer group, including private banking (PB), mass affluent (MA), institutional, and SME customers, mainly by creating the Wealth Management (WM) Group, and concentrating customer management processes on the Marketing Department.

In addition, we separately implemented customer relationship management and product marketing tasks by upgrading the "Shinhan Retail Way" for systematic customer management. We also suggested standardized customer management activities to be carried out by branches on a daily basis. Through this, the number of Tops Premier customers advanced by 21,510, or 12%, from a year earlier, while that of active customers increased by 620,000. Particularly, we attracted 2.28 million customers for the year through the comprehensive apartment application savings, thereby gaining a foothold for our long-term growth.

For the retail business, we devised a 3R strategy to become a first-class bank: "Retain first place," "Reinforce core domains," and "Revolutionize developing innovation areas"

Fourth, we re-established a fund business structure to upgrade our infrastructures, and improved the productivity of our channels through an expansion in our retail windows and the range of their operations. We particularly broadened our business process reengineering (BPR) target operations by executing the BPR level-up project, and improved our efficiencies by strengthening sales through direct and indirect channels, and our Single View marketing.

In 2010, we forecast that our risk factors will decrease as compared to the preceding year, given the global economic recovery currently underway and the relatively sound fundamentals of the Korean economy. Furthermore, we expect new opportunities to increase mainly due to the expansion of the mobile banking market and "green" banking.

Competition among banks will become more fierce, however, due mainly to intensifying competition in the inducement of quality customers among financial service sectors, increasing cutthroat competition in deposits, and interest rate hikes following the exit strategies. Continuous attention and management are also required for a stronger observance of the compliance program to manage soundness and prevent financial accidents caused by latent risk factors.

Externally, we anticipate that there will be great changes in the entire banking sector such as slowdowns in fiscal expansion policies, tighter regulations by supervisory authorities, a relaxation of business domains in the financial industry, convergences between different business types such as between communications and finance, and M&As in banking institutions.

In this climate, Shinhan Bank plans to put our Retail Revolution 3.0 into practice as a concrete action policy to carry out our strategies for becoming a first-class bank. To this end, we set our management strategy slogan to be "Retail Revolution 3.0! Creative challenge toward first-class retail banking," and established four core tasks to pursue: "Expand Customers," "Maximize the Profits," "Strengthen the Basics," and "Innovate the Services."

Firstly, to "Expand Customers," we will seek to augment our customer base including quality customers, and in particular, we will increase active customers dramatically. On this note, we plan to actively attract the customers of Shinhan Financial Group (SFG) affiliates, induce apartment application savings customers to choose us as their main bank, expand subscribers to retirement pensions, and build up non-direct banking channel customers. We will also pursue subdivided customer markets by implementing the Segment Program Manager program by stage.

Secondly, in order to "Maximize the Profits," we will improve our funding structure by attracting salary transfers and collective master accounts, and expand our sales of installment-type deposit products. We will also enhance the profitability of our household loans by improving loan margins through changes in the loan interest rate structure and by securing proper margins. In addition, we will augment synergy revenues and commission income.

Thirdly, to "Strengthen the Basics," we will build up customer trust through ethics and quality management, ensure stable loan-to-deposit ratios, keep new risk paradigms in place, enhance the sales of installment-type products and retirement pensions, put in place the Retail Shinhan Way, and strengthen the capabilities of our employees.

Fourthly, for "Innovate the Services," we will optimize our networks, operate innovation channels, reform window operation systems, reinforce sales in linkage with direct and non-direct banking channels, and innovate customer service (CS), product development and brands.

Our ultimate goal is to become "The Best Retail Bank in Asia." To this end, we will help Shinhan Bank grow into the best retail bank in Korea, by strengthening our future competitiveness and expanding our customer base through innovations with creative thinking in 2010.

Multi-Channel Division

The Multi-Channel Division is comprised of the Multi-Channel Department and the Call Center. The former is tasked with non-direct channel strategies and operations (including the homepage, Internet banking, mobile banking, IC cards, payments, and settlements) and developing new businesses through strategic alliances. The Call Center is in charge of phone banking operations and the management of automation equipment.

The division is also tasked with the stable administration of non-direct channels that are the bank's core transaction channels, and the development of fresh services through new channels that are being created in line with IT developments.

In 2009, we carried out Web service renewals to improve our Internet services as part of our ongoing efforts to develop new services and make improvements to them. We also upgraded our mobile banking operations, implemented "visually friendly" Internet banking and ATM services for customers who cannot access the Internet easily, and developed a Chinese-language homepage.

We experienced a substantial increase in online product sales during the year. The number of online product sales accounts was 1,033,000, a jump of 87% over the year. The amount of these product sales also grew by 25% to reach KRW 2.6 trillion at year-end. This shows that online channels have become an important channel for product sales, and are no longer just an adjunct to tellers' windows.

We also introduced a "Basic Pack" of set products, enabling customers to subscribe to deposits, credit cards, online services, and mobile banking at the same time. Other services we provided include Internet messaging to enhance online products marketing, call-back consultations at our Internet products mall, and foreign-language consultations over the phone.

We are also committed to expanding services in new areas. For example, we offered integrated management services to merchant store customers through the "Shinhan My Shop Care Service," and secured 10,880 infrastructures for utility bill payments in partnership with convenience stores. We also provided a national pension payment service through cellular phone SMS, and a Shinhan Card cash advance service through home ATMs.

In recognition of our efforts to improve the quality of our Internet services and deliver a broader array of services, we were awarded the grand prize at the "2009 Korea Web Awards" in the financial services category, and were named "the best bank in Korea" at the World's Best Internet Bank Awards by Global Finance. We were also ranked first in Internet banking services by Stockpia, an Internet service rating agency, for five consecutive quarters.

In 2010, we will carry out four core strategies: strengthen our non-direct channel sales, enhance the competitiveness of our channels, augment our foundations for sustainable growth, and increase our level of support for our branches.

In order to strengthen non-direct channel sales, we will consolidate non-direct customer management, online product sales, and call marketing by augmenting our non-direct channel marketing capabilities, so that the non-direct channels can function as a new product marketing source.

The goal of the second strategy is to add to our customer base by positioning ourselves as the premier service bank in Korea. To this end, we will continuously improve our services, introduce new technologies, and develop new products and affiliated services.

We want to augment our foundations for sustainable growth to create new growth engines for the bank by seeking out new service sectors.

Finally, we will increase the level of support for our branches by sharing the Call Center's consultation support system with them. We will also deploy the TM (Telemarketing) Training Team to improve the TM capabilities of our branches through specialized education and training.

Wealth Management (WM) Group

The Wealth Management Group consists of the WM Department, the Real Estate Total Service Team, and the Private Banking (PB) Department. The WM Department manages "Tops Premier" customers (WM customers hereinafter) who are the highest class of the quality customers selected according to their records of transactions with Shinhan Bank. The Real Estate Total Service Team was newly established in 2010 to be tasked with professional real estate consulting and comprehensive management, targeting quality customers. The Private Banking (PB) Department manages high net worth individuals (HNWIs) with more than KRW 0.5 billion in deposits.

The WM Department was launched in 2009 to target WM customers in addition to HNWIs and provide differentiated, low-cost, high-efficiency asset management services. Its services, which are offered through all VIP sections of the bank's branches, include asset management consulting, portfolio suggestions, and other professional consultations mainly for taxes and real estate.
The Real Estate Total Service Team targets quality customers by providing one-stop total services ranging from real estate consulting to real estate brokerage and management, while conducting various market research activities.

The PB Department offers financial services (banking, securities, insurance, and investment trust), and non-financial services (tax and legal advice and the management of wills and inheritances), as well as life care services (health, travel, shopping, and golf).

In 2009, the WM Department mainly carried forward marketing for the segmentation of potential quality customers through the VIP corners in all branches, which are our major channels for asset management business. We also increased customer share of wallet (SOW) and asset rebalancing business through the suggestion of optimal asset allocation model portfolios according to customers' investment propensity. In order to successfully keep our asset management business in place and secure a competitive edge, we also operated educational and training programs on asset management consulting for our employees.

The number of WM customers increased by 12% over the year to make up 42.7% of total deposits and 19.1% of total loans to retail customers, enabling us to consolidate the foundation for customer value creation through asset management services. In relation to real estate, we published a monthly "Review & Prospect" report to strengthen the real estate consulting capabilities of our employees, while releasing the results of customer research surveys on market outlooks. In addition, we newly ran a building manager (BM) program for the re-employment of retired employees from the real estate management business.

The PB Department added two more PB centers in the Gangnam area of Seoul and opened the Taepyeongno Gold Center, a specialized PB center for overseas Koreans, thereby building a nationwide network of 19 PB centers (15 in Seoul and metropolitan areas and 4 in big provincial cities).

In addition, we heightened the level of our customer satisfaction by developing and operating financial products that can minimize risks and generate additional revenues with a focus on PB private equity funds that meet the needs of our customers. We also further solidified our position as the leader in the domestic PB market. For example, net assets amounted to KRW 10.9 trillion and the number of customers with more than KRW 1 billion in deposits exceeded 4,000. Externally, we ranked first in the KS-PBI (Korea Standard-Premium Brand Index) survey (in the PB category), which was jointly organized by Korea Standards Association, *Chosun Ilbo*, and Seoul National University, and were selected

The number of our WM customers increased by 12% over the year to make up 42.7% of total deposits and 19.1% of total loans to retail customers

as the best in the PB category by *Korea Economic Daily* in recognition of our market leadership.

With dramatic growth and innovations in the prime customer market as its strategic goals in 2010, the WM Department has three core tasks to pursue: "Strengthen the growth of WM customers," "Secure expertise in asset management capabilities," and "Optimize WM customer management." By carrying forward these tasks, we will make 2010 a year in which we will take a leap forward in terms of both quantity and quality growth.

In order to attract new WM customers, we will focus on new market development, community banking, and referral marketing. In addition, we will create new customers through intensive marketing by target market for potential quality customers, and continue to widen our market share by developing specialized products and differentiated services by customer segment.

We also plan to introduce an in-house WM specialist certification system and a multi-rater system for asset management capabilities in order to systematically manage the career development program (CDP) of our employees. Through these systems we will cultivate employees to become specialists and induce the upward standardization of their asset management competencies. In addition, we will push for the optimization of omni-directional customer management primarily by building a permanent WM customer management system and loyalty improvement programs while securing a differentiated image of the WM asset management brand (Shinhan Premier).

Meanwhile, we set our sights on increasing real estate-related non-interest income and invigorating real estate-linked businesses through real estate research and the provision of professional consulting services. To this end, we plan to re-establish real estate consulting targets and processes, strengthen market research activities, employ differentiated real estate management, and heighten the success ratio of real estate brokerage.

The PB Department aims to secure its position as the top global player in PB under the motto "Korea's representative PB, with unrivaled leadership." To this end, we will enhance the level of our customer satisfaction by providing professional one-on-one asset management and consulting services through the PB center. We will also seek channel strategies so that opportunities to use the PB Center channels will be expanded. By doing so, we will continue to expand local store-type PB centers through close market research in wealthy areas where there currently are no Shinhan PB centers. At the same time, we will increase opportunities to experience these centers' differentiated services, targeting HNWIs among customers who have accounts with general retail branches.

By reinforcing our PM team, we will offer differentiated products that are most suitable for market conditions through steady market research and analysis. We will also heighten customer satisfaction and loyalty by enabling our customers to experience products that can hedge against risks and enhance their rate of returns.

We will do our utmost to bolster our earnings bases through the diversification of earnings sources and secure new clients. We will develop new business models including a comprehensive real estate management service and the Family Business service. We will also continue to seek out new potential markets including CEOs and land compensation payers and collectors.

We will attract domestic investments by Koreans living abroad through the SFG's global operation network. At the same time, we will offer new global investment advisory services that will enable quality customers in Korea to use overseas investment advisory services and channels, while carrying forward differentiated global strategies to meet the needs of our prime customers for global asset management.

Small & Medium Business Division

The small and medium-sized enterprise (SME) market rapidly cooled off starting in the first half of 2009 due to economic downturns following the global financial crisis that began in the second half of 2008. The worsening economic conditions, led by the construction, shipbuilding, and marine transportation industries, came as a big shock to SMEs, including subcontractors, and this resulted in actualizing the possibility of potential insolvency. As capital demand soared and the market became even riskier, it was difficult for the financial industry to support SMEs sufficiently.

In such difficult environment, both internally and externally, we sought to improve our asset soundness through the preemptive insolvency and delinquency management under the mid- to long-term vision for "No. 1 Value Creator." We also strived to enhance profitability and improve our asset structure through strategic asset growth. As a consequence, we achieved noticeable results overall in the areas of sales, profitability, and soundness.

By the end of 2009, the average balance of SME loans surged by KRW 1.1 trillion to KRW 29.0 trillion from the previous year, while that of SME deposits grew by KRW 2.3 trillion to KRW 17.0 trillion. We also realized satisfactory revenues through quality-oriented asset growth, and increased SME loans by KRW 1.1 trillion through our support for SMEs.

Particularly, we maintained the soundness of SME loans which are vulnerable to economic downturns. This was attributed to our continuous endeavors to strengthen our capabilities and seek preemptive risk management amid the difficult market environment.

In addition, we enhanced our productivity and reduced risk by alleviating the workload of small-amount loans through the stable maintenance of our Small-Office-Home-Office credit scoring system (SOHO CSS) that we opened at the end of 2007.

In 2010, we expect that overall growth momentums will be strengthened due to the improvement of consumption and investment conditions along with economic recovery both at home and abroad. However, there is a possibility that domestic economy will relapse, mainly due to uncertainties in global economic circumstances, including those in the USA, and the implementation of exit strategies. Accordingly, we plan to achieve "Qualitative asset growth," "Expansion of earnings bases," and "The best soundness management" under the strategic direction to "Build the foundation for qualitative growth and stable earnings bases by expanding quality customer bases."

Business Improvement Division

Business Process Reengineering (BPR) is a process-oriented management innovation technique that improves management performance by combining business process redesigns and information technology. SHB has deployed it to maximize the marketing capabilities of its branches by concentrating their back office operations to its call center, dramatically reducing their workload.

In 2009, we expanded the project by stage, giving the call center such new operational responsibilities as credit reviews, new corporate loans, and mortgage-backed household loans. This process was completed in October, leading to a dramatic increase in customer marketing opportunities at our branches.

The BPR surveys and workload analyses that we carried out in 2009 showed remarkable results. First, overall satisfaction with the BPR was high throughout the entire range of our divisions (employees 93.5%, customers 92.7%). The majority of our employees also responded positively to the BPR's effects on branch marketing. In addition, they claimed that their daily working hours per person were reduced by about 2 hours and 40 minutes on average, resulting in great improvements to our business competitiveness.

Through the successful implementation of this "BPR Renovation 2.0!" project, we will expand our customer base and sales capacity by creating new marketing opportunities

Secondly, we were able to reduce our working hours. By analyzing the amount of time spent at terminals and unmanned security systems (SECOM) at our branches, we were able to schedule more efficient operating hours and earlier leaves. If there were no dramatic changes in our closing hours, it was because the reduced hours were used for such activities as in-depth customer management.

Thirdly, business efficiencies and productivity at the BPR Center were greatly improved. The BPR center is capable of handling the workload of 800 FTEs (Full-time equivalents) with only about 500 employees. This is attributable to declines in both personnel and costs. In addition, our competitiveness was higher compared to the BPR scales and personnel ratings of other major banks in Korea. In 2010, we will carry forward a "BPR Renovation 2.0!" project to help make us a first-class bank, based on the experience and know-how we amassed by successfully carrying out this additional BPR leveling-up project.

We plan to implement the project by stage, beginning from January 2010. It will be carried out in four core business areas: marketing supports, new businesses, process/system improvements, and the enhancement of the call center's operational efficiencies. Under our strategy for building optimal BPR support infrastructures, we will add four additional principles: simplify business processes, support customer marketing activities, strengthen ties with customers, and maximize business productivity and efficiencies.

Through the successful implementation of this "BPR Renovation 2.0!" project, we will expand our customer base and sales capacity by creating new marketing opportunities. We will also reduce workloads and enhance productivity by improving processes. Finally, we will increase our business competitiveness through a more efficient allocation and operation of call center resources and augmented customer and employee satisfaction.

The BPR Department of the Business Improvement Division will continue building the foundations for our future business competitiveness, allowing us to become a first-class bank through end user-centered process innovations that accurately reflect the opinions of our customers and branches. By doing so, we will position ourselves as a "process innovation consulting organization" that seeks the enhancement of business efficiencies and internal controls. This will be accomplished by adopting innovations that create increased customer values, enhance our competitiveness, and optimize our processes.

These are the tasks that SHB must carry forward successfully if it wishes to become a leading global bank, instead of a mere domestic player.

CORPORATE BANKING GROUP

Corporate Banking Group

The Corporate Banking Group is generally tasked with the bank's SME banking and large corporate banking. With two divisions and 142 branches under its umbrella, the group engages in corporate banking operations and targets large corporations, companies whose financial statements are examined by independent auditors, companies with more than KRW 5.0 billion in sales and whose financial statements are not subject to examination by independent auditors, government-controlled companies, and IB loan customers.

Its operations include traditional corporate loans and deposits, foreign exchange products and services including imports/exports, electronic settlement, funds management, and corporate Internet banking. Since the launch of the Corporate Business Unit, by combining the Corporate Banking Group with the Investment Banking Group in the beginning of 2009, we have been further reinforcing the corporate investment banking (CIB) operations.

Specifically, backed by 377 relationship managers (RMs) who are the industry's top-level specialists in corporate banking, we are striving to provide optimal financial solutions to meet the increasingly diversifying needs of our corporate customers. We will do our best to become "No. 1 in corporate banking" again in 2010.

For 2009, the group set three strategic directions--"Improve customer and asset structures," "Strengthen revenue structures," and "Build foundations for sound growth"--to realize strong corporate banking even amidst global economic slowdowns and the concomitant danger of corporate bankruptcies.

Improved customer/asset structures

We selected target markets and customer groups and strengthened target marketing for our core target customers--large corporations/well-established companies whose financial statements are audited by certified public accountants, and well-established companies whose financial statements are not audited by certified public accounts. As a result, our market share for target customers increased by 0.2% from a year ago. We were also committed to asset quality management mainly by actively reducing the amount of provisional payment for the Knock-In, Knock-Out (KIKO) currency options and forward exchanges, and promptly liquidating already-sold loans.

Strengthened revenue structures

In order to enhance our profitability, we augmented our net interest margins by 41bp by reducing reverse margin/low margin loans by KRW 6.8 trillion year-on-year, and improved our interest rate portfolio to an appropriate level by adjusting the portion of CD-linked loans to within 40.0%. We also increased usable deposits by KRW 7.8 trillion over the year, by strengthening our deposit base while strictly adhering to the principle of funds operation within the range of financing. Our monthly market share stood at 16.8% at the end of December 2009, as a result of our active pursuit of profitability-centered imports and exports marketing.

Built foundations for sound growth

In order to enhance the core capabilities of our corporate banking, we selected our first batch of reserve RMs and progressed RM capabilities strengthening programs. We also prepared to launch new integrated CMS products (scheduled for March 2010). This was to improve the efficiency of funds management by companies.

In addition, we invigorated club programs for the differentiated systematization of customers, while striving to differentiate content. In order to strengthen the inducement of retirement pensions that are platform products for long-term growth engines, we concentrated on target marketing for large corporations and public enterprises by utilizing multifaceted points of contact. As a consequence, retirement pensions increased by KRW 472.4 billion compared to a year earlier.

For 2010, the group set its strategic goal: "Strengthen growth foundations to secure leadership in corporate banking," based on its 2009

We will do our best to become "No. 1 in corporate banking" again in 2010

results. This is to achieve our vision to be the "No. 1 bank in corporate banking." This year again, grounded upon our three strategic directions, we will continue to pursue the following core action plans:

Improve customer/asset structures

In order to secure a market leading position in the corporate banking market, we will engage in marketing activities to induce quality large corporations and public enterprise to choose us as their main bank, while continuing to attract target SMEs as new customers. Particularly, we plan to continue strengthening our marketing efforts for healthy companies in such growing industries as rechargeable batteries, LED, green energy, low carbon, and high-efficiency sectors, and green growth engine industries.

Strengthen foundations for sound growth

We will operate Communities of Practice (CoP), targeting major corporations and public enterprises to concentrate on marketing for retirement pensions, and actively implement high-touch marketing by management, including top executives. By doing so, we will become No. 1 in the banking industry for retirement pensions. In order to effectively launch our new integrated CMS product, "Inside Bank," we will also carry forward prior marketing until its scheduled launch in March 2010, while increasing the number of subscribers and the use of the product. In addition, we will concentrate on differentiating the systematization of customer groups and reinforcing content to strengthen our non-price competitiveness.

Expand foundations for revenue generation

We will seek increases in import/export results by inducing large SFG affiliates to choose us as their main bank, and continue to expand the small and medium-sized foreign exchange company base mainly by operating training programs for staff in charge of foreign exchange. To this end, we will strengthen our support for import/export strategic branches in linkage with the International Trade Business Department. In order to invigorate the CIB and merchant banking operations, we will consolidate quality customer deal sourcing through branches, and expand joint high-touch marketing between the Corporate Banking Group and the IB Group.

Merchant Banking Department

The Merchant Banking Department began operations as an independent account within Shinhan Bank, with partial limitations to its business scope, when SHB acquired Hyundai Investment Bank during the foreign exchange crisis in late 1990s.
As of January 2010, its deposits amounted to KRW 6.2 trillion (including KRW 4.5 trillion in notes issued and KRW 1.7 trillion in CMAs). Invested assets totaled KRW 6.1 trillion (excluding KRW 1 trillion in corporate bonds in the bank account). Through this, we generated a pre-tax income of KRW 10.9 billion in January 2010, backed by a team of 25 employees, who are primarily engaged in funding through deposits, and the operation commercial papers (CPs) and corporate bonds.

The department has been generating high profitability through its extensive corporate customer base and efficient risk management, based on differentiated earning generation models.

In 2009, our pre-tax income amounted to KRW 110.8 billion, which is up 158% from the year before and also the largest since its establishment. This was attributed to our efforts to properly address market changes despite the bank-wide policy to control asset growth.
Our pre-income per regular employee stood at KRW 6.1 billion, boasting the industry's highest productivity.

In addition to such financial achievements, we completed the development of data processing for CMA Internet banking to enhance customer convenience and efficiently improved various internal processes primarily through Six Sigma activities as part of our constant efforts for self-innovations. We are also proactively coping with upcoming changes by preemptively addressing changes in our competitive environment including the introduction of short-term debentures.

In 2010, the department plans to concentrate all of its energy on securing healthy investment assets for its sustainable growth. To this end, we aim to conclude new agreements of KRW 2.3 trillion, mainly by invigorating transactions with public enterprises, increasing discount notes targeting quality companies, and expanding quality asset-backed commercial paper (ABCP).

In addition, we are dedicated to improving the stability of our funding and reducing funding costs. To this end, we are diversifying our range of deposit customers, which is currently limited to financial institutions, to include public enterprises and general corporations.
Particularly, we will be dedicated to expanding our customer base and organizing our customers throughout the year, as the importance of customer bases is being highlighted again under the Capital Market Consolidation Act. We will also seek out opportunities for sustainable growth based on our extensive customer network by developing a broad spectrum of customized loan and deposit projects and actively meeting the needs of our customers with our relationship managers.

Investment Banking (IB) Group

The Investment Banking Group is positioning itself as a leading player in the domestic IB market, by providing a diversity of extensive financial solutions: M&A underwriting loans, ship/airplane financing, corporate facility loans, real estate project financing (PF), infrastructure financing, overseas PF, asset securitization, and equity investments.

In addition, our Hong Kong IB center, which began full-scale operations in 2007, has successfully entered the local market by arranging financing and offering consultations for overseas expansion to Korean companies while forwarding IB operations in China and Southeast Asian countries in earnest.

In 2009, the group devoted its efforts to developing mid- to long-term IB business models under its strategic directions of "Improving asset soundness," "Boosting profitability," and "Vitalizing CIB," despite the global financial crisis and economic slowdowns.

On the strength of such continuous efforts, the group posted KRW 169.3 billion in operating income, and KRW 113.6 billion in pre-tax income. Our operating margins for new deals also exceeded our target of 5%, thereby substantially improving our profitability. Delinquencies of assets under management and the ratio of non-performing loans to total loans stood at 0.2% and 0.9%, respectively, enabling us to maintain top-level asset soundness both at home and abroad.

Meanwhile, we concentrated on vitalizing communications channels in 2009--the first year in which we activated CIB cooperation models. We increased our visits to corporate branches to have informal meetings. Our CIB morning meetings in cooperation with business groups were also regularized. Other efforts included strenghthening the capabilities of our employees mainly through the operation of Help Desk for IB operations, deal case studies, and the publication of business manuals.

During the same year, we built preemptive and integrated risk management systems which include the operation of an "Emergency Committee for Soundness Management" and "Prior IB Deal Council," a meeting for prior risk examination, the establishment of standards for real estate PF operations, and the enactment of guidelines for shipping financing management.

In 2010, we will "Build the foundations to take a leap forward as a leader in IB." To achieve this strategic objective successfully, we plan to carry forward the following four core tasks:

Expand deal sourcing and strengthen financing arrangements

- We will diversify deal sourcing products and pursue preemptive marketing by concentrating on target IB customers.

"A total solution provider to improve the values of corporate customers and build sustainable and sound growth foundations"

- We will actively extend customized and theme-type solution sales following changes in the market environment.
- We will build strategic partnerships with diverse domestic institutional investors through the concentration on and expansion of syndication operations, while augmenting diverse market networks.

Maximize earnings

- We will strengthen our capabilities to develop new revenue sources by actively advancing into new business areas, at home and abroad, such as SOC in emerging nations and cross-border underwriting loans.
- We will develop global business models and provide various financial solutions by leveraging the Hong Kong IB Center.
- We will maximize the profitability of our existing business domains by expanding mega deal financial arranging operations in the cash cow sectors including M&As, real estate and structured products.

Establish new-concept risk management systems

- We will systematize prior risk management by creating assessment guidelines and checklists for the handling of new IB deals.
- We will differentiate our risk management capabilities by systematically monitoring and preemptively cope with risk factors by market, industry, and company and through organic co-work with middle/back offices.

Build the most advanced IB infrastructures

- We will maximize the capabilities of our human resources by introducing customized training programs individually or by IB division, establishing roadmaps for the development of capabilities, and continuously fostering Junior IBs.
- We will strengthen our research functions by utilizing market/industry research functions of the Shinhan Future Strategy Business Development (FSB) Research Institute and sharing the research functions of our affiliates including Shinhan Investment Corp.
- We will develop organic support systems for the front office by establishing and operating regular front/middle/back office meetings and re-establishing their roles and responsibilities.

Corporate Investment Banking (CIB) Business Division

The Corporate Investment Banking Business Division was created in July 2008 under the necessity of a comprehensive marketing organization; it combines the traditional demand for loans with consulting functions such as customer asset advisory services.
Currently, the division consists of four teams: the RM Support Team, the Strategic Marketing Team, the Large/Public Corporation Banking Team, and the Corporate Consulting Team. The RM Support Team backs up structured loans including asset-backed loans (ABLs) and project-type facility loans. The Strategic Marketing Team seeks out and assists corporations whose financial statements are not examined by independent auditors. The Large/Public Corporation Banking Team aids IB deals from branches of the Corporate Banking Group, plus financial marketing, targeting large corporations and public enterprises. The Corporate Consulting Team strives to provide the best solutions for all operations at corporate banking branches by extending management and financial consulting to businesses.

A number of difficulties were anticipated until the first half of 2009 due to a sluggish real economy market that began in 2008 in the aftermath of rapid turndowns in the global economy following the global liquidity meltdown. However, we managed to expand our market share by seeking out financially strong corporations and attracting quality business partners through preemptive marketing activities as part of our constant efforts to be "the best pioneer in the financial industry in the prime corporate banking market." As a result, we contributed KRW 3.6 trillion in loans to branches in

2009. In addition to financial achievements, we successfully carried forward the following activities to strengthen our foundations in the corporate banking market.

Strengthened the capabilities of RMs

We are committed to the development of the best practices. For example, we published a "BEST marketing casebook for corporate banking" and distributed it to all of our branches. We also strengthened the capabilities of our Risk Managers (RMs) by offering them open Saturday lectures, and instituted a Community of Practice (CoP) program for "best deal" studies.

Developed new markets and industries

We extended loans of KRW 143.6 billion to the new and renewable energy and environmental industries through research activities such as the operation of new industries research group CoP and the publication of a research report on green growth industries (involving CDM, LED, and rechargeable batteries).

Organized strategic customers

We bolstered ties with second-generation executives by leading and participating in the Shinhan Management Innovation Process (MIP)," a program targeting second-generation managers. In addition, through continuous feedback on the CEOs and managements of companies for which we provided consulting services, we solidified the bank's marketing foundations and improved our non-price competitiveness.

The following are operational plans for 2010 by team.

RM Support Team

As an axis of the Corporate Banking Group's goal for quality asset growth, the team supports high-yield, quality asset-oriented assets, such as plant equipment and materials sectors. It also aims to develop new markets, including such green growth industries as new and renewable energy.

Strategic Marketing Team

This team aims to secure growth foundations for leadership in the banking industry, by increasing quality assets and developing a well-balanced portfolio through speedy marketing efforts targeting financially strong corporate customers who do not currently hold accounts at the bank.

Large/Public Corporation Banking Team

This team aims to actively induce new loans, secure optimum profitability, and vitalize CIB operations. To this end, it strives to increase new loans to quality corporations and attract new public enterprises through business agreements with public financial firms and large corporations. Other efforts include participating in large infrastructure projects related to economy invigorating policies, public-private partnership/proposal-type development projects, and expanding payment guarantees for overseas plant projects.

Corporate Consulting Team

This team supports the marketing activities of branches through the provision of business succession and loan screening services, while strengthening consulting for prime corporations whose financial statements are or are not examined by independent auditors. Its goal is to expand customer bases and improve non-price competitiveness.

The Global Business Group

The Global Business Group plans to carry forward global operations by taking a mid- to long-term perspective and recognizing their great growth potentials. On this note, we are committed to realizing our ambitious vision to become an "Asia Top 10 bank" and then a "World-class global player" on a mid- to long-term basis by securing future growth foundations for overseas operations.

The group's major 2009 results are as follows:

Strengthened networking

We were devoted to the qualitative and quantitative expansion of our global network; we target areas with high strategic importance following our "selection and concentration" strategy amid the global financial crisis.
As a consequence, we prepared the groundwork for localized operations going forward by developing an optimal networking portfolio (47 networks in 14 nations) with a focus on local subsidiaries.

Established subsidiary in Japan (September 14, 2009)

Completed establishment of Shinhan Bank Japan. We launched a local subsidiary in Japan, the second foreign-based bank to do so following Citibank, by taking over the operations of three of SHB's branches (Tokyo, Osaka, Fukuoka).

Established subsidiary in Canada (March 9, 2009)

We complemented our network in North America by completing the establishment of Shinhan Bank Canada.

Converted branch to subsidiary in Vietnam (November 16, 2009)

Completed establishment of Shinhan Vietnam Bank.
We established a local subsidiary in Vietnam, the first to do so among domestic banks and a fifth among foreign-based banks following HSBC, SCB, ANZ, and Hong Leong Bank.

Expanded subsidiaries and offices

- January 16, 2009: Little Neck Branch of SHBA, USA
- July 9, 2009: Dallas Branch of SHBA, USA
- September 30, 2009: Uzbekistan office
- October 22, 2009: Branch in Hong Qiao, Shanghai, China
- November 25, 2009: Uehon-machi Branch of Shinhan Bank Japan
- December 22, 2009: Ueno Branch of Shinhan Bank Japan

Fortified global capabilities and infrastructures

(1) Fostered global talents

- Implemented Global Young Frontier (YF) program in full scale to spread Shinhan culture and enhance teamwork by local employees
- Concentrated on strengthening the capabilities of local employees mainly by operating on-the-job training (OJT) and increasing invitation training in Korea

(2) Upgraded risk management

- Global operations require preemptive risk management due to high possibilities of failure caused by diverse factors including lack of information on relevant countries, political risks, business risks, cultural differences, and different regulatory and supervisory systems.
- We sought to upgrade our risk management mainly by establishing risk management report systems by overseas branches, improving regulations and systems on risk including loans, and strengthening internal control.

(3) Product and Marketing

- We concentrated on the development of services and marketing that meet the needs of overseas customers.
- Our Global Medical Accounts, a product which is connecting domestic hospitals with overseas branches, significantly contributed to providing the foundations to secure local customers of our

We are committed to realizing our ambitious vision to become an "Asia Top 10 bank" and then a "World-class global player" on a mid- to long-term basis by securing future growth foundations for overseas operations

overseas branches. Particularly, SHBA's health installment savings, a linked product, received wild public support in local communities through alliances with domestic hospitals.

In 2010, the group will reinforce the capabilities of its operations in order to realize its ambitious vision for a 'World-class Global Bank," under the strategic cognizance of a "Bank in Bank" beyond the mere concept of overseas branches.

Reinforce our networking in both quality and quantity

- We will strive for the qualitative and quantitative expansion of our global networks and target our four core markets, including Japan, Vietnam, China and the USA, and emerging markets in which we can secure sufficient profitability while minimizing risks, such as India.

- Following the upgrading of our overseas branches through consulting on SHBA and Japan in 2009, we will promote qualitative improvement by carrying forward additional consulting.

Strengthen capabilities and lay the groundwork for localization

- We plan to concentrate on reinforcing our global capabilities while doing our utmost to prepare the groundwork that will enable us to move into the retail business, which is Shinhan Bank's best area, in overseas markets.

- We will strive to secure localization capabilities mainly by procuring necessary materials locally and securing local customers, led by our local subsidiary network which has recently been strengthened. At the same time, we will further consolidate the support and management functions of the head office so that the bank's core capabilities such as differentiated marketing techniques, customer management know-how, and risk management can be spread to overseas networks. We also plan to actively give autonomy in necessary areas including local operations.

Promote good growth through the reconstitution of asset portfolios and the expansion of customer bases

- We will prepare sustainable growth foundations by bolstering the financing functions of our overseas branches and developing asset portfolios with a focus on high-yield/stable assets, while continuously heightening our market shares.

Treasury Department

The year 2009 was marked by governmental stimulus policies (fiscal and financial), followed by unprecedented strong market stabilization measures that took effect around the world such as the supply of liquidity and low interest rate policies amidst the ongoing global financial crisis. On the back of the extraordinarily strong, speedy steps by each government, the financial markets recovered stability and the movements of the real economy also improved.
What's still believed to be insufficient, however, is the spontaneous resilience in the private sectors, excluding the effects of fiscal spending and the supply of liquidity. In addition, tighter regulations have been visualized by policy makers in an effort to re-establish risk management policies in overall financial systems after the financial crisis. The Basel Committee also published its policies for financial regulations. As such, it was a time to seek new paradigms for risk management in the financial industry in general.

Accordingly, the Treasury Department had set 2009 as the beginning year for upgrading capabilities to address crises and secure sustainable management ability. Particularly, we concretized our Liquidity Contingency Plan (LCP), in linkage with SFG's risk management project, to improve our risk addressing capabilities in preparation against shocks to the market. We also applied scenarios (that will enable us to detect market changes in advance) to stress test methodologies, and then reflected those methodologies in our asset and liability management (ALM) system. When this project is completed in 2010, the bank's ability to cope with liquidity in times of crisis should be upgraded to par.

Treasury Department will establish liquidity risk management systems that are tailored to international standards and actively push for ALM strategies, backed by its further upgraded liquidity management capabilities

In the won currency sector, we endeavored to increase deposits by utilizing our existing customer base. This was to overcome rising liquidity risk factors, following the asset growth policies in the past that relied on marketable deposits (financial bonds, CDs). By doing so, we maintained the loan to deposit ratio on a stable level. We also endeavored to improve customer relationships by meeting their needs, attract potential customers, and build our image as a leading bank. We also continued to stabilize our funding operations by diversifying financing vehicles such as the issuance of structured notes and interest rate swap (IRS)-linked bonds.

We developed comprehensive portfolios that focus on liquidity and profitability to support our asset and liability portfolio strategies, as well as "quick strategies" to meet the needs of changing market situations in a timely and proactive manner. We also sought to improve deposit structures and expand liquid assets. In addition, we devised optimal interest rate gaps for interest rate risk management and carried forward continuous management strategies to contract volatility in losses and profits following fluctuations in interest rates. By doing so, we were able to realize stable year-round liquidity ratio management and interest income growth.

In the area of investment bond management, we posted operating profit margins which exceeded our benchmark indices by implementing differentiated operational strategies by portfolio based on mid- to long-term interest rate forecasts.

With regard to foreign currency operations, despite the unprecedented economic crisis caused by the subprime mortgage situation, we surmounted the crisis in a steady manner by successfully managing foreign currency liquidity. Specifically, we secured stable foreign currency liquidity on a bank-wide level, floated USD 0.5 billion Global Bonds even amid the crisis, and raised funds through EUR 90 million Club Loans.

In addition, we succeeded in securing foreign-currency liquidity through the development of a new financing market by borrowing USD 50 million through the sale and lease back method, a first among domestic commercial banks, in February 2009 when the subprime mortgage crisis reached its climax. Furthermore, we successfully issued cross-border residential mortgage backed securities (RMBS) for two consecutive years since 2008, thereby firming up our leadership in the Asia-Pacific RMBS market. Particularly, as the second batch of RMBS was the first RMBS issued in the Asia-Pacific region since the Lehman Brothers situation, it makes it even more meaningful in that we surpassed such difficult market environments.

The year 2010 will likely be faced with greater difficulties related to the sustainability of an economic recovery including concerns over the world economy's double dip and contractions in reserve energy for fiscal spending. In addition, due to worries over side effects such as a bubble in asset prices and high inflations following excessive liquidity supply and low levels of interest rates, discussions are being held about the timing of exit strategy implementations. This should lead to the differentiated enforcement of exit strategies according to the economic conditions per nation.

Accordingly, the department will establish liquidity risk management systems that are tailored to international standards and actively push for ALM strategies, backed by its further upgraded liquidity management capabilities. To this end, we plan to mainly concentrate on: stabilizing our earnings structure based on AML strategies, keeping new paradigms on risk management in place, and enhancing our funding structure through the diversification of financing vehicles.

International Trade Business Department

In 2009, the International Trade Business Department endeavored to overcome worsening market situations caused by the global foreign exchange crisis while doing its best to recover the bank's market position in foreign exchange.

Our global cash management service (CMS), which we developed as the bank's new growth engines to

support efficient corporate foreign currency funds management attracted more than 1,200 corporate customers (an increase of about 600 over the year). This resulted from our continuous efforts to attract new customers since its successful launch in 2008.

The global CMS provides corporate customers with a specialized foreign currency funds management service. It is also positioning itself as a marketing solution to generate new revenues in the transaction banking and supplementary service areas including commissions for foreign exchange remittances.

In addition, we improved our foreign exchange processes by stabilizing the foreign exchange business process reengineering (BPR) earlier than scheduled. By doing so, we reduced the workload of branches and decreased operational risk. We constantly made other efforts to solidify closer ties with our corporate customers including the "Import & Export Academy," workshops for Korea Post and participating in the World Korean Business Convention.

In 2010, we will fortify the foundation for foreign exchange with the aim to secure stable earnings bases and strengthen customer bases. To this end, we will make up for the weak points in the areas of imports and exports, money exchange, and remittance, and enhance our competitiveness.

First, in the corporate banking area, we plan to carry out active foreign exchange marketing with a view to recovering corporate customers who fell away due to our passive marketing activities during the process of overcoming the foreign exchange crisis. In particular we plan to launch a joint foreign currency network service in July.
While anticipating great changes in the foreign currency remittance market, we will bolster our marketing to settle down as the market leader by transforming changes into opportunities.

Next, for global CMS, we will strive for its profitability-oriented growth by continuously improving its external forms and increasing its actual use at the same time.
In the personal banking sector, we will firmly retain our leadership. On this note, we will maintain our leading position in the foreign exchange market, seek out new earnings sources mainly by developing niche markets, and expand our customer base through strategic alliances with mobile carriers and other companies. In remittances, we will concentrate our marketing competency by reinforcing non-direct banking channels so that we can cut down on expenses and increase earnings.

Lastly, we will consolidate our internal capabilities to successfully fulfill our business strategies including the aforementioned. We will particularly strengthen education and training on foreign exchange operations for employees so as to change the way people understand foreign exchange inside and outside the bank. In addition, we will vitalize programs to build up ties with our customers, and strive to become a neighborhood bank and a friendly department at all times, in unity with all of our staff members with passion and devotion.

Risk Management Group

Shinhan Bank operates a Risk Management Committee, Credit Policy Committee, and ALM Committee for efficient risk management. The Risk Management Group consists of the Risk Management Department, Credit Risk Management Department, Loan Review Department, and Settlement Department. To ensure the integrated management of all the bank's risks, the entire group is tasked with identifying, evaluating, monitoring, controlling for, and reporting all risks.

We are also operating a derivatives and structured products risk review council, a fair value appraisal council, and a prior IB deal review council, in order to objectively analyze and examine risk factors prior to the promotion of new products and businesses.

Each business unit that is exposed to or likely to generate risk is responsible for the initial management of those risks, while risk managers in each unit report to the main management on their monitoring and regular inspection results.

We are efficiently coping with the rapidly changing financial industry environment by constructively dealing with diverse regulations including the International Financial Reporting Standards (IFRS) and Anti-Money Laundering (AML) Act

We also utilize a system that quantifies major risks, such as credit, market, interest rate, and liquidity risks, with an aim to manage risk volume at an appropriate level. A comprehensive earnings management system is also in place to connect managing risk management and earnings. This enables us to calculate yields and control operations from a risk point of view.
We are efficiently coping with the rapidly changing financial industry environment by constructively dealing with diverse regulations including the International Financial Reporting Standards (IFRS) and Anti-Money Laundering (AML) Act.

Credit Risk Management

We double-check credit risk from portfolio and individual loan perspectives. As for portfolios, loans are managed by establishing limitations by nation and industry to prevent the concentration of loans on specific sectors. Individual loans are managed by considering debtors' credit ratings and recovery ratios by product in order to expand and maintain portfolios with satisfactory credit ratings.

Accounting for more than 80% of the bank's risks, credit risk is largely classified into expected loss and unexpected loss. Expected loss is calculated on the basis of bankruptcy and recovery ratios that are estimated by utilizing internal data. The bank's loan loss provisions are then derived from these anticipated losses. Our loan loss provisions are put aside based on a conservative policy using either the Financial Supervisory Service's guidelines or its own index depending on which is higher.

On the other hand, unexpected loss refers to risk capital that the bank has to hold against credit losses that exceed the average volume. It is measured and managed based on both regulatory capital and economic capital standards. Regulatory capital for credit risk is calculated by using risk weighted assets following the Basel II's basic internal rating processes, and it is utilized mainly for the management of BIS ratios.

Economic capital for credit risk is utilized for limitations management and performance evaluations by business unit by calculating the credit value-at-risk (VaR) on a 99.9% confidence level, selecting credit metrics methodologies and using Monte Carlo simulation methods.

The consistent risk elements used when calculating expected and unexpected losses were approved by the supervisory authorities in April 2008 in recognition of their adequacy and consistency as they meet standards for Credit Risk Foundation Internal Rating Based Approach.

Market Risk Management

Market risk refers to risks generated by fluctuations in market prices, such as interest rates, share prices, exchange rates, and product prices. Its management is geared toward ensuring that the maximum amount of loss falls within pre-established and permissible levels.
This is primarily managed by establishing value-at-risk limits, investment limits, position limits, transaction limits, loss limits, and stop-loss selling limits by desk, department and dealer. The Risk Management Department is tasked with monitoring adherence to these limits, while the limits are established or adjusted through the ALM Committee. In addition, new products (or dealings) of each business sector are evaluated on related risk by the department prior to their launch so that risk factors can be objectively analyzed and examined in advance.

To measure market risk, the bank uses VaR, a statistical system for calculating the maximum potential loss due to market fluctuations. We are currently able to calculate market risk within a 99% confidence level by applying historical simulation methods.
In order to complement risk measurement by statistical methods, we guard the appropriateness of our equity capital by estimating the maximum potential loss of our trading positions in time of emergencies.

Finally, we use a market risk management system called RiskWatch to measure daily risks and establish limits on a daily basis. It makes calculations based on data regarding the level of trading in stocks, bonds, and derivatives--all of which are prime targets for market risk measurement. All results are reported to management. We also analyze portfolio risk and hedge strategies by using the results of these measurements, while reinforcing our risk management elaborating nonlinear risk measurements through historical simulations.

Asset & Liability Management (ALM)

Interest Rate Risk Management

Interest rate risk refers to the possibility of losses (e.g., declines in net asset values or net interest income) being generated by unfavorable interest rate movements.
At Shinhan Bank, an interest rate risk management division uses an ALM system to measure, monitor, and control for risk, independently from front offices.

Particularly, changes in our net interest income are measured and managed within a given period of time mainly through interest rate gaps, net interest income (NII) and earnings at risk (EaR) simulations. We also measure and manage maximum potential losses in net asset value including assets, liabilities, and cash flow generated from off-balance-sheet transactions.

Interest rate gap limits and interest rate VaR limits are established by the interest rate risk management department; their management conditions are reported to the Risk Management Committee and the ALM Committee on a regular basis. We also conduct quarterly stress tests to measure and manage potential losses at the time of market crisis situations. The results are presented to the ALM Committee.

Liquidity Risk Management

Liquidity risk refers to the potential inability to fulfill contractual payment obligations on time, being forced to raise capital at higher-than market prices, or maintaining operational funds at lower-than-market rates.

Shinhan Bank follows all liquidity-related guidelines (including those dealing with liquidity ratios) set by relevant supervisory organizations, and establishes its own contingency plans against unexpected shortages of available cash that could result from sudden changes in capital markets or monetary policies.

Our measurement indices such as liquidity ratios and gaps are calculated and managed and reported to management and the ALM committee regularly through a system that manages the maturity of financing and operating funds simultaneously.

Operational Risk Management

Operational risk refers to risk resulting from direct and/or indirect losses caused by incomplete or incorrect internal processes, employee fraud or misconduct, system errors, or external factors.

Shinhan Bank's operational risk management structure involves three major lines, in addition to the BOD and management. These lines include sales organizations, supporting departments (which are tasked with the development and operation of operational risk management systems), and examination departments (which are responsible for conducting thorough and efficient inspections).

In addition, Shinhan Bank has been operating the Basel II operational risk management system since February 2006.
We have also built an operational risk management system that includes six modules:

Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRIs), Loss Data Collection (LDC), Operational Risk Measurement, Scenario Analyses, and Operational Risk Culture. By utilizing this system, we meet the quantitative and qualitative requirements for operational risk management of the Basel Committee and the Financial Supervisory Service (FSS).

Middle Office

Since February 2009, we have expanded the middle office functions in the Risk Management Group to independently carry out checks and balances in front offices in the IB Group and the Treasury & Global Banking Group. This has enhanced our risk management to be more systematic and efficient.

The middle office for securities and derivative products manages market data while occupying the role of front system managers to examine the value and fairness of new transactions concluded in the front office.
It also calculates losses by desk and dealer, and risks (sensitivity levels, positions and investment status), while monitoring the observance of loss and risk limitations by each department, desk, and front that are established by the ALM Committee. It also monitors stocks that are targets for stop-loss sales.

The middle office for investment banking products monitors limitations to IB assets and the observance of various matters to manage risk given the characteristics of IB operations. It also promotes preemptive risk management on IB assets through the regular analyses of investment assets portfolios and asset conditions. In addition, it operates an IB Deal Prior Review Council that examines inherent risk factors in advance at the time of handling new assets, and reflects the results in investment decision making.

Through these middle office functions, we ensure that monitoring operations will factor in the characteristics of our front operations, and expect effective checks and balances in all our front offices.

Risk Model Validation

We deploy a wide range of risk models to measure and manage for risks--the volume of which is steadily multiplying due to increasingly specialized and complicated operational activities. This is to minimize the possibility of loss risk (or model risk) resulting from errors within the models being utilized or operational errors. As a result, we need to validate the appropriateness of all our risk models.

In 2009, we conducted regular validation tests on the non-retail, retail, and SOHO credit assessment system, the LGD /CCF estimation system, the market risk calculation system, the risk-weighted asset (RWA) calculation system, and the loan loss provision calculation system.

The results were then presented to management and the Risk Management Committee.
In the future, we will continue to improve our risk models' performance and utilization by introducing new methodologies and continuing to offer employees educational and training programs.

Credit Analysis & Assessment Group

The Credit Analysis & Assessment Group manages overall loan-related systems and processes, including credit approval and assessment, and post management of liquidated loans. It is comprised of the Credit Planning Department, Credit Analysis & Assessment Department, Retail Credit analysis & assessment department, Corporate Credit Collection Department, and Retail Credit Collection Department.

The Credit Planning Department engages in planning loan policies, managing loan-related regulations and systems, analyzing soundness indicators and devising strategies and measures, analyzing current situations by industry, and supporting credit analysis and assessment.
The Credit Analysis & Assessment Department and the Retail Credit Analysis & Assessment Department are tasked with loan analysis and assessment and general risk management by planning credit analysis and assessment programs, evaluating and assessing credit, and establishing and monitoring limitations on proper credit exposure.
The Corporate Credit Collection Department and

The bank also maintained superior asset soundness as compared to its competitor banks by recording delinquency ratios of 0.52% and the non-performing loans to total loans ratio of 0.998% despite difficult economic conditions

the Retail Credit Collection Department serve to minimize credit-related losses by taking charge of operations related to legal procedures on liquidated loans and individual and corporate resuscitation processes and restructuring.

In 2009, total loans decreased by 2.4% over the year to reach KRW 150.2 trillion. This was led by a decline in demand for corporate loans behind the economic slowdowns following the global economic crisis. It also reflected our strengthened soundness management and the conversion of our overseas branches into local subsidiaries.

When primarily excluding the effects of a decline in the exchange rate (from 1USD=KRW 1,257.50 at 2008-end to 1USD= KRW 1,167.60 at 2009-end), the conversion of overseas branches into subsidiaries, and asset securitization, total loans should have increased by 1.96% from the previous year.

The bank also maintained superior asset soundness as compared to its competitor banks by recording delinquency ratios of 0.52% and the non-performing loans to total loans ratio of 0.998% despite difficult economic conditions.
In addition, the Corporate Restoration Support Division we newly established in December 2008 was tasked with supporting SME liquidity and construction, shipbuilding, and marine transportation business-related workouts through the Fast Track Program (FTP).

We also organized a Special Delinquency Management Committee in February 2009 to establish and maintain bank-wide consistent soundness management policies and control systems, special task force teams within the Corporate Credit Collection Department, and the Retail Credit Collection Department to support follow-up operations by branches and the normalization of insolvent enterprises. As a result of concentrating all of our energy on the management of soundness as such, we were able to realize excellent asset soundness as compared to our competitors.

In addition, we enforced various schemes for the management of loan soundness. These included improving offshore loan processes through due diligence by overseas branches and local subsidiaries and retail credit analysis and assessment processes and conducting loan reviews on issue business types and companies whenever necessary.

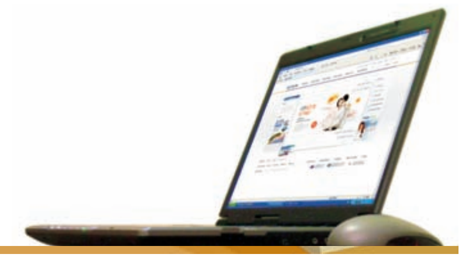
In 2010, expectations for economic recovery are growing due to the betterment of the financial sector and real economy indicators. In addition, there are uncertainties about the improvement of economic conditions at home and abroad including worries over the recurrence of the financial crisis. In this climate, our business goal will be to "Build the foundation for a first-class bank through strategic asset rebalancing in consideration of profitability and soundness." This is aimed at maintaining growth strategies with a focus on an increase in quality assets. Detailed strategies are as follows.

Achieve the most competitive soundness taking profitability into consideration

We plan to improve our loan asset structure with an emphasis on quality assets. To this end, we will monitor loan assets, support preemptive analysis and assessment for prime corporations, and carry out campaigns to reduce low-rate, low-yield loan assets and increase high-rate, high-yield ones. We will also continue strengthening our soundness management. This will involve bolstering the management of potential bad loans, improving the standards for loan operations and loan processes for overseas branches, and realigning the operation of arbitrary decisions on loan limitations.

Build foundation for future growth

In order to reinforce the competitiveness of our manpower in charge of loans, we will strengthen talent cultivation for credit analysis and assessment, and support the enhancement of loan business capabilities by branches. In relation to the pursuit of new growth industries (and in order to foster the bank's future growth engines), we plan to give institutional assistance to "green" finance and growth sectors, while building up analysis and assessment capabilities and improving CIB/global analysis and assessment capabilities.



Enhance competitiveness through efficient programs and systems

We will improve loan systems to address climate changes, and enhance competitive edges through process and system improvement, while developing systems to advance risk management systems.

IT Group

The IT Group is composed of three departments and one team to provide efficient and stable services; the group maintains organic cooperative relations among themselves according to their roles and responsibilities.
The IT General Management Department is tasked with bank-wide IT planning and management; these tasks include the establishment of mid- to long-term IT strategies, support for the standardization of infrastructure architecture and technologies, development quality control and verification, and IT security and audits.

Other tasks include: the IT Finance Development Department that develops our banking account operations including deposits, loans, foreign exchange and IB; the IT Information Development Department which is in charge of developing electronic banking businesses including Internet banking and ATM and management support businesses such as accounting, reports and marketing. The IT Global Development Team is tasked with system development for our global networks.

In 2009, the IT Group aimed to timely support businesses in pursuit of internal stability and the efficiency of IT infrastructures. To achieve this, we set three strategic directions: (1) provide optimal IT services for strategies in pursuit in a timely manner, (2) strengthen the efficiencies and capabilities of the IT Group's operating system, and (3) enhance stable system operation and cost efficiencies. On this note, we selected detailed tasks to carry forward intensively for each direction.

For the first strategic direction, we built new global and IB management systems to lay the foundation for new growth engines and secure global business competitiveness. We also developed business systems to cope with internal and external standards and regulations including the International Financial Reporting Standards (IFRS), Basel II, the Capital Market Consolidation Act, and the Anti-Money Laundering Act.

At the same time, we advanced branch operation support systems mainly by upgrading the BPR system and building integrated marketing systems. We are also actively pushing for the development of businesses utilizing new technologies such as smart phone-based mobile banking and in-house mobile office.

Second, we established innovation strategies for the IT organization and improved synergy effects by converting our existing IT infrastructure operations into the form of a group shared service center (SSC). We particularly organized an independent division to be exclusively in charge of IT development in preparation for an expansion in the global markets.

Third, we provide non-stop IT services 24/7, while actively seeking to curtail expenses mainly by enhancing the efficiency of our infrastructures and operating methods. We are also securing the stability and availability of our financial services. These efforts include anticipating and blocking illegal access to electronic financial services and hacking attempts, and solutions to prevent internal information disclosure. We are also operating global-standard information security management systems such as the recertification of the ISO 27001.

In 2010, the group aims to "lead innovations in working methods and secure a top-tier competitive edge in IT capabilities." To achieve this, we selected four core strategic tasks: (1) build an efficient and smart working environment; (2) sharpen global IT competitiveness, (3) strengthen IT organization's capabilities; and (4) operate stable infrastructures.

We will actively promote R&D for the creation of new business values including "green" IT and financial convergence by utilizing the latest IT such as the virtualization of infrastructures, cloud computing and smart phones

First, we will maximize our business productivity and the level of satisfaction on our services mainly by optimizing our BI systems and building role-based integrated business transaction and mobile-based working environments.

Second, we will develop additional global systems and management support systems and apply them to our local subsidiaries in a timely and stable manner. We will also strengthen our global support systems and organizations to provide optimized global IT support programs.

Third, we will divide IT capabilities into core areas including business analysis and specialized IT areas with a focus on technologies to materialize more efficient job systems. We also plan to offer higher-quality IT services by objectively evaluating and continuously managing the performance of the IT organization including the IT Balanced Scorecard (BSC).

Lastly, we will solidify the improvement of overall infrastructures including the working environment of branches, IT systems, and security, and we will expand/apply the group's SSC by stage so as to secure business continuity and build an optimal IT infrastructure operating system.

At the same time, we will actively promote R&D for the creation of new business values including "green" IT and financial convergence by utilizing the latest IT such as the virtualization of infrastructures, cloud computing and smart phones.

Trust Department

In 2009, the Trust Department gained a foothold in trust operations in earnest through the realignment of its trust systems and reorganization. We reestablished our trust service processes at the beginning of the year. Reorganizing at the end of the year by separating trust and retirement pension divisions provided a momentum for us to gain expertise.

At the end of 2009, our assets under management (AUM) in special money trusts decreased due to short-term capital outflows at the end of 2009, whereas AUM in pension-type trusts, one of our strategic products, increased.

In 2010, our strategic goal in the trust business is to solidify our earnings basis by strengthening our products and services. For special monies in trust, we will particularly secure a variety of invested assets and strengthen associated marketing activities in linkage with branches to expand our PB and WM customer bases and prevent their breakaways.

As for pension-type trusts, we will strive harder to improve earnings rates mainly through the development of high-yield assets and the reorganization of our portfolios. In the area of properties in trust, we will endeavor to create new opportunities for the generation of earnings. To this end, we will invigorate the inducement of sale and management trusts by boosting our support for branch operations and marketing activities targeting customers. We will also expand mortgage-backed trusts through business alliances with our overseas subsidiaries or other banks.

In addition, in order to "Strengthen the capabilities of the trust business," our mid- to long-term task, we will consolidate the expertise of our employees through the cultivation of reserve professional human resources in relation to trusts. We will also sharply upgrade our trust data processing system. By doing so, we will lay the groundwork that will enable us to flexibly cope with the increasingly diversifying needs of customers.

MANAGEMENT DISCUSSION AND ANALYSIS

Innovations for a superb performance

Shinhan Bank made noteworthy achievements in spite of difficult market conditions following the global economic crisis of 2009, including total assets of KRW 234 billion, a BIS ratio of 15.13% (Tier 1: 11.61%), an ROE of 5.9%, a net interest margin of 2.17% (quarterly), and net income of KRW 749 trillion. These impressive results flowed from the bank's commitment to continuous innovations.

Financial Highlights

	In Billions of Korean Won		In Millions of US Dollars*	
	2009	2008	2009	2008
Bank Account				
For the Year				
Operating Revenues	41,466.7	49,507.3	35,514.5	42,400.9
Operating Expenses	40,233.9	47,601.5	34,458.6	40,768.6
Operating Income	1,232.8	1,905.8	1,055.8	1,632.2
Ordinary Income	1,066.2	1,903.1	913.2	1,630.0
Net Income	748.7	1,446.7	641.2	1,239.1
At Year-End				
Total Assets	202,237.4	213,569.1	173,207.7	182,912.9
Total Loans	139,956.2	145,341.8	119,866.6	124,479.1
Total Securities	39,540.2	36,592.3	33,864.5	31,339.7
Total Deposits	135,285.0	119,238.0	115,865.8	102,122.3
Total Stockholders' Equity	13,415.6	11,947.9	11,489.9	10,232.9
Trust Account				
At Year-End				
Total Assets	32,537.3	37,122.6	27,866.8	31,793.9
Total Loans	623.2	744.4	533.8	637.6
Total Securities	7,207.5	10,627.8	6,172.9	9,102.3
Total Money Trusts	9,904.9	12,822.5	8,483.1	10,981.9
Financial Ratios				
Return on Average Assets	0.34	0.71		
Return on Average Equity	5.89	12.69		
Substandard & Below	1.00	1.00		
NPL Ratio by FSS	0.77	0.85		
Net Interest Margin	1.76	2.13		
BIS Capital Adequacy Ratio	15.13	13.44		
(Tier 1 Capital Ratio)	11.61	9.3		
(Tier 2 Capital Ratio)	3.52	4.13		

* Translated into U.S. dollars at the rates of KRW 1,167.60/USD 1.0 and KRW 1,257.50/ USD 1.0, respectively--those prevailing on December 31, 2009 and December 31, 2008.

Overview

The global financial crisis, which was triggered by the sub-prime mortgage debacle in the USA, led to a credit crunch and subsequent difficulties accessing foreign-currency borrowings, both of which continued through the first quarter of 2009. Credit risk increased substantially due to economic slowdowns, leading to corporate restructurings and a continuing rise in large-scale business insolvencies. From the second quarter on, however, business recovery in Korea occurred more rapidly than anticipated, due mainly to cooperation among governments, a global economic recovery, and governmental SME support policies. As a result, the bank's profitability improved significantly during the second half of the year.

Shinhan Bank's net income amounted to KRW 748.7 billion at the end of 2009, down 48.3% from the year before, due to a deteriorating business environment. This decline was primarily attributed to a fall in interest income due to a drop in interest rates on deposits following sharp reductions in market interest rates. Other causes were a marked decrease in commissions on fund sales behind a sluggish stock market, and an increase in loan loss provisions (by about KRW 0.4 trillion) due to a lowering in the soundness of assets because of the recession.

Despite these problems, our policy of continuous risk and asset quality management helped us keep the ratio of non-performing loans to total loans and our delinquency ratios (based on the arrearage of principal payments of more than one day) at stable levels of 1.0% and 0.52%, respectively, as of the end of 2009. Our NPL coverage ratio was about 165.0%, the highest among domestic banks. As a result, we were thoroughly prepared to defend against further bad loans.

Total assets in the bank account backed off by 6.4% over the year to KRW 233.5 trillion. The main reasons for this were the bank's stable and conservative asset management policies, declines in foreign exchange rates, and the conversion of its branches in Japan and Vietnam into local subsidiaries. Deposits increased by 11.9% to KRW 129.3 trillion.
Other achievements included an upturn in the BIS ratio to 15.13%, resulting from our efforts towards capital management.

Net Income Summary

(In Billions of Korean Won, %)

	FY2007	FY2008	FY2009	YoY
Operating Revenues	17,797.8	49,507.3	41,466.7	-16.2%
Interest Income	9,409.8	11,399.4	9,472.4	-16.9%
Commission Income	1,018.0	990.1	944.5	-4.6%
Other Operating Income	7,370.0	37,117.9	31,049.9	-16.3%
Operating Expenses	14,886.6	47,601.5	40,233.9	-15.5%
Interest Expenses	5,748.8	7,328.0	5,858.2	-20.1%
Commission Expenses	129.5	214.1	227.3	6.2%
Other Operating Expenses	6,655.0	37,942.8	31,922.1	-15.9%
(Provision for Credit Losses)	459.6	928.8	1,207.0	29.9%
Selling and Administrative Expenses	2,353.4	2,116.6	2,226.3	5.2%
Operating Income	2,911.2	1,905.8	1,232.8	-35.3%
Non-Operating Income	157.3	235.3	109.8	-53.3%
Non-Operating Expenses	213.6	237.9	276.4	16.2%
Ordinary Income	2,854.9	1,903.1	1,066.2	-44.0%
Extraordinary Gains	0.0	0.0	0.0	
Income before Income Taxes Expense	2,854.9	1,903.1	1,066.2	-44.0%
Income Tax Expenses	803.6	456.4	317.5	-30.4%
Net Income for the Year	2,051.3	1,446.7	748.7	-48.3%

Interest income fell by 16.9% over the year, led by a plunge in market interest rates. Commission income, including commissions from the sale of beneficiary certificates, decreased slightly.

Operating expenses were reduced by 15.5%. In specific terms, interest expenses decreased by 20.1%, due to a drop in funding costs following the stabilization of market interest rates. Other operating expenses lessened by 15.9%. This was led by decreased losses from the sale and valuation of securities and the valuation of derivatives.

Selling and administrative expenses rose by about 5.2%, reflecting costs of KRW 151.1 billion for voluntary retirements and an increase in expenses due to accounting adjustments related to incentives and annual and monthly leaves.

Although operating income contracted by as much as 35.3% due to the global financial crisis, a stagnant business environment, and the government's low interest rate policy, the bank was able to realize satisfactory results compared to its competitors, thanks in large part to its efforts towards conservative asset growth and its excellent risk management capabilities.

Net Interest Income and Margin

(In Billions of Korean Won, %)

	FY2007	FY2008	FY2009	Increase	YoY
Interest Income					
Interest on Due from Banks	46.8	118.8	60.3	-58.5	-49.3
Interest on Securities	1,309.0	1,656.9	1,569.3	-87.6	-5.3
Interest on Loans	7,988.9	9,555.8	7,781.3	-1,774.5	-18.6
Other	65.1	67.9	61.5	-6.4	-9.4
Total	**9,409.8**	**11,399.4**	**9,472.4**	**-1,927.0**	**-16.9**
Interest Expenses					
Interest on Deposits	3,449.7	4,594.5	4,053.0	-541.5	-11.8
Interest on Borrowings	722.3	784.9	414.4	-370.4	-47.2
Interest on Debentures	1,473.8	1,822.4	1,294.3	-528.1	-29.0
Other	103.0	126.1	96.5	-29.7	-23.5
Total	**5,748.8**	**7,328.0**	**5,858.2**	**-1,469.8**	**-20.1**
Net Interest Income	3,661.1	4,071.4	3,614.2	-457.2	-11.2

Interest income decreased by 16.9% following a sharp fall in market interest rates, and interest expenses shrank by 20.1%. As a result, net interest income declined by 11.2% from the year before.

Net Interest Margin

(In Billions of Korean Won, %)

	FY2008		FY2009	
	Volume	Yield	Volume	Yield
Interest Earning Assets	160,867.2	6.57	174,440.3	5.14
IEA in KRW	140,950.2	6.89	156,941.6	5.34
Due From Banks	502.3	4.92	2,242.6	2.29
Securities	21,178.3	5.62	27,550.0	4.96
Loans	119,180.9	7.10	127,065.7	5.46
Loans in KRW	116,436.2	7.00	123,371.3	5.40
Corporates	59,258.0	7.00	62,061.2	5.62
Households	54,181.7	7.06	57,134.1	5.30
Loan Loss Reserves(△)	1,995.3	0.00	2,713.8	0.00
IEA in Foreign Currency	19,917.0	4.30	17,498.7	3.30
Due From Banks	1,298.0	1.75	1,721.9	0.51
Securities	1,387.9	5.65	1,523.9	3.31
Loans	17,231.1	4.38	14,252.9	3.64
Loans in FC	9,990.2	5.11	9,101.7	3.72
Bills Bought in FC	7,456.2	3.29	5,382.9	3.34
Loan Loss Reserves(△)	215.3	0.00	231.7	0.00
Interest Bearing Liabilities	152,845.0	4.67	166,829.2	3.53
IBL in KRW	132,420.8	4.90	145,767.2	3.71
Deposits	93,587.4	4.56	111,188.4	3.52
Borrowings	8,525.3	4.87	6,427.2	3.01
Finance Debentures	28,191.7	5.87	23,921.6	4.98
Others	2,116.5	6.98	4,230.1	2.55
IBL in Foreign Currency	20,424.2	3.23	21,062.0	2.35
Deposits	5,182.4	2.53	7,750.5	2.20
Borrowings	10,540.4	3.05	9,442.1	2.29
Finance Debentures	3,404.3	4.75	3,568.5	2.90
Others	1,297.1	3.55	300.9	1.59
Net Interest Spread in KRW		2.54		1.94
Net Interest Margin		2.13		1.76
KRW		2.29		1.90
Foreign Currency		0.98		0.48

Net interest margin (NIM) dropped by 37 basis points over the year to 1.76%. This was due to the difference in time between sharp decreases in market interest rates and the reflection of their effects, caused by the gap between the maturity dates of interest rates for funds operations and those for financing. Despite this, the bank's NIM recovered to an average year's level at year-end, when the majority of these effects from market interest decreases were applied.

Net Interest Income (including debt expenses)

(In Billions of Korean Won, %)

	FY2007	FY2008	FY2009	Increase	YoY
Fees & Commissions	888.5	776.0	717.2	-58.8	-7.6
(Credit Card)	(121.7)	(121.9)	(151.8)	29.9	24.5
Fees on Trust Accounts	83.3	75.2	67.3	-7.9	-10.5
Securities-related Income	1,236.0	275.5	314.8	39.3	14.3
Gain on Foreign Currency Transaction	162.7	482.0	610.3	128.2	26.6
Gain Related to Derivatives	122.0	-386.4	-265.3	121.1	-
Other Income	-889.1	-1,271.3	-1,599.2	-328.0	-
Total	**1,603.5**	**-49.0**	**-155.0**	**-106.1**	**216.5**

Non-interest income fell by KRW 106.1 billion over the year, although derivatives-related gains surged by KRW 121.1 billion. This was primarily due to a reduction in commission income from the sale of beneficiary certificates caused by falling stock prices; a decline in IB-related commissions flowing from the bank's conservative asset operations; and additional debt expenses.

Sales and Administrative Expenses

(In Billions of Korean Won, %)

	FY2007	FY2008	FY2009	Increase	YoY
Salaries	840.3	742.1	934.7	192.6	25.95
Retirement Allowance	94.7	88.4	79.7	-8.7	-9.81
Other Employee Benefits	435.3	372.8	254.6	-118.2	-31.71
Rent	126.9	140.3	141.1	0.8	0.56
Entertainment	13.7	13.5	12.7	-0.8	-6.18
Depreciation	250.4	236.1	195.4	-40.7	-17.25
Taxes and Dues	87.3	98.7	80.3	-18.5	-18.71
Advertising	53.7	45.8	32.8	-13.0	-28.44
Other Expenses	451.1	378.8	495.2	116.3	30.70
Total S&A Expenses	**2,353.4**	**2,116.6**	**2,226.3**	**109.7**	**5.18**

Sales and administrative (S&A) expenses grew by 5.18% to KRW 2.2 trillion. While the bank managed to curtail its overall expenses thanks to its efforts towards efficient cost control, there was still a marginal increase in S&A expenses. This was primarily due to costs generated by the implementation of voluntary retirements at year-end and a rise in expenses caused by accounting adjustments for incentives and annual and monthly leaves

Balance Summary

Total Loans

(In Billions of Korean Won, %)

	FY2007	FY2008	FY2009	Increase	YoY
Loans in Won					
Retails	52,257.3	56,131.2	58,552.8	2,421.6	4.3
Mortgage	31,744.4	34,509.6	38,173.6	3,664.0	10.6
Others	20,512.9	21,621.6	20,379.2	-1,242.4	-5.7
SMEs	45,976.3	52,416.5	52,848.0	431.5	0.8
Large Corp.	5,900.7	8,894.8	7,866.3	-1,028.5	-11.6
Public & Others	1,860.4	2,354.4	2,329.2	-25.3	-1.1
Total	**105,994.7**	**119,797.0**	**121,596.3**	**1,799.3**	**1.5**
Loans in FC	6,899.2	7,647.8	4,731.9	-2,916.0	-38.1
Credit Card Accounts	0.0	0.0	0.0	0.0	0.0
Bills Bought in FC	3,425.8	3,107.0	3,388.0	281.0	9.0
Call Loans, RPs	347.6	2,737.6	961.9	-1,775.7	-64.9
Others	9,427.4	9,893.3	7,994.0	-1,899.3	-19.2
(Loan Loss Allowance)	(1,980.5)	(2,620.7)	(2,608.7)	(-11.94)	(-0.46)
(Present Value Discount)	(96.8)	(94.7)	(90.6)	(-4.10)	(-4.33)
Total	**124,017.4**	**140,467.4**	**135,972.8**	**-4,494.6**	**-3.2**

※ Bank accounts only

Total loans in the bank account fell by 3.2% over the year. This was led by a rise in won-currency loans following growth in mortgage loans, while the value of corporate loans declined marginally. Foreign currency loans were off by 38.1%, due to the conversion of overseas branches to subsidiaries and reductions in foreign exchange rates.

Total Securities

(In Billions of Korean Won, %)

	FY2007	FY2008	FY2009	Increase	YoY
Stocks	5,180.4	4,149.3	5,531.6	1,382.3	33.3
Government Bonds	2,805.7	5,499.1	10,148.1	4,649.0	84.5
Finance Debentures	13,307.9	18,076.4	14,043.3	-4,033.1	-22.3
Corporate Bonds	3,128.4	3,026.7	3,861.3	834.5	27.6
Beneficiary Certificates	1,722.0	2,325.2	2,010.1	-315.1	-13.6
Securities Denominated in Foreign Currencies	1,234.3	1,646.7	1,476.4	-170.4	-10.3
Others	319.6	337.6	302.1	-35.5	-10.5
Total	**27,698.3**	**35,061.2**	**37,372.9**	**2,311.8**	**6.6**

※ Bank accounts only

The value of securities in the bank account amounted to KRW 37.4 trillion, rising by 6.6% from a year earlier. Total securities went up by KRW 2.3 trillion, as the bank sharply increased its portion of government and public bonds as part of its policy for stable asset management in the face of uncertainties in the financial market.

Total Deposits

(In Billions of Korean Won, %)

	FY2007	FY2008	FY2009	Increase	YoY
Low Cost Deposits	37,992.5	36,002.4	42,184.4	6,181.9	17.2
Demand	12,406.4	11,725.0	13,379.6	1,654.6	14.1
Low Cost Saving*	25,586.1	24,277.4	28,804.7	4,527.3	18.6
Time Deposits	39,403.6	55,895.6	73,625.7	17,730.1	31.7
Installment Deposits	343.0	225.5	144.3	-81.2	-36.0
CDs	15,167.7	13,123.6	7,357.0	-5,766.6	-43.9
RPs, Bills Sold	5,498.4	3,186.9	681.3	-2,505.6	-78.6
Deposits in Won	98,405.2	108,434.1	123,992.7	15,558.6	14.3
Deposits in FC	4,778.4	7,106.8	5,337.2	-1,769.5	-24.9
Total	**103,183.5**	**115,540.8**	**129,330.0**	**13,789.1**	**11.9**

※ Bank accounts only

Deposits in the bank account were worth KRW 129.3 trillion, an increase of 11.9% from the year before.

The bank lowered its ratio of marketable financing and strengthened its customer deposit-oriented financing as part of its policy of reducing its loan-to-deposit (LTD) ratio, amid brisk discussions over the tightening of regulations on liquidity within the financial industry. This in turn led to an increase in time deposits of KRW 17.7 trillion and a contraction in the value of CDs, RPs, and bills sold of about KRW 8.0 trillion. As a result, the bank's LDP ratio dropped by 24.69% (based on the monthly average, excluding CDs) year-on-year.

Asset Quality

(In Billions of Korean Won, %)

	FY2007	FY2008	FY2009	Increase	YoY
Normal	132,179.5	150,627.2	146,504.1	-4,123.1	-2.7%
Precautionary	1,080.6	1,693.2	2,172.1	478.9	28.3%
Substandard	502.7	743.4	1,039.0	295.6	39.8%
Doubtful	124.2	302.0	257.7	-44.3	-14.7%
Estimated Loss	353.8	485.7	202.1	-283.6	-58.4%
Total	**134,240.8**	**153,851.5**	**150,175.0**	**-3,676.5**	**-2.4%**
Doubtful & Below Ratio	0.36%	0.51%	0.31%	-0.21%p	
Substandard & Below Ratio	0.73%	1.00%	1.00%	0.00%p	
Precautionary & Below Ratio	1.54%	2.10%	2.44%	0.35%p	
Provisions [1]	1,869.1	2,509.2	2,467.8	-41.3	-1.6%
Coverage Ratio Against					
Doubtful & Below	391.1%	318.5%	536.7%	218.1%p	
Substandard & Below	190.6%	163.9%	164.6%	0.8%p	
Precautionary & Below	90.7%	77.8%	67.2%	-10.6%p	

1) Based on loans that are targets for the calculation of non-performing loans (including banking, merchant banking, and trusts)

The overall asset soundness of financial companies worsened due to harsh economic conditions and a depressed real estate market. Although the ratio of precautionary-and-below loans to total loans at Shinhan Bank rose by 0.35% over the year, the ratio of substandard-and-below loans to total loans remained the same as the previous year: 1.00%. Despite this deterioration in asset quality, the bank maintained an NPL coverage ratio of 164.6%, the highest among domestic banks, keeping it well-prepared to guard against additional non-performing loans.

Provisions

(In Billions of Korean Won, %)

	FY2007	FY2008	FY2009	Increase	YoY
Bank Accounts [1]					
LLR at the Start of the Period	1,706.7	1,991.5	2,661.4	670.0	33.6%
Provisions During Period	459.6	928.9	1,207.0	278.1	29.9%
Write-off	186.3	340.9	1,006.9	666.0	195.3%
Other Adjustments	11.5	82.0	-219.5	-301.6	-367.6%
LLR at the End of Period	1,991.6	2,661.4	2,641.9	-19.5	-0.7%
Trust Accounts					
LLR at the Start of the Period	15.4	9.6	8.2	-1.5	-15.2%
Provisions During Period	-13.1	-3.4	-2.6	0.8	-24.1%
Write-off	0.5	0.2	0.3	0.1	48.5%
Other Adjustments	7.8	2.1	2.3	0.2	10.3%
LLR at the End of Period	9.6	8.2	7.6	-0.5	-6.7%
Total					
LLR at the Start of the Period	1,722.1	2,001.1	2,669.6	668.5	33.4%
Provisions During Period	446.5	925.5	1,204.4	278.9	30.1%
Write-off	186.8	341.2	1,007.3	666.1	195.2%
Other Adjustments	19.3	84.2	-217.2	-301.4	-358.0%
LLR at the End of Period	2,001.2	2,669.6	2,649.5	-20.1	-0.8%

1) Bank account provisions refer to the balance of loan loss provisions (excluding allowances for acceptances and guarantees losses).

As mentioned above, decreases in asset quality led to a sharp increase in the volume of loan loss provisions to KRW 1.2 trillion, up 29.9% from the year before. Despite this, the total balance of loan loss provisions edged down by 0.7% over the year to reach KRW 2.6 trillion at year-end, led by write-offs of substandard-and-below loans.

The balance of loan loss provisions in the trust accounts went down by 6.7% over the year to reach KRW 7.6 billion.

Delinquency Ratios

(In Billions of Korean Won, %)

	Dec. 2007			Dec. 2008			Dec. 2009		
	Total	Overdue	Ratio	Total	Overdue	Ratio	Total	Overdue	Ratio
Overall	127,413	902	0.71%	145,578	1,193	0.82%	141,722	739	0.52%
Corporate*	51,987	602	1.16%	61,421	822	1.34%	60,806	553	0.91%
Consumer*	52,805	216	0.41%	56,747	195	0.34%	59,048	144	0.24%

* Based on arrearage in principal payments of more than one day

The bank's total delinquency ratios decreased by 0.30% to 0.52% at the end of 2009. By loan type, corporate loans fell by 0.43% to 0.91%, while household loans dropped by 0.10% to 0.24%.

Although the ratio for corporate loans rose slightly due to economic slowdowns and corporate restructurings, the bank's total delinquency ratios were still the healthiest in the industry. We will continue to maintain this high level of asset soundness going forward in order to minimize increases in credit risk. This will be achieved through continuous and preemptive management and strengthened credit analyses and assessments.

Capital Adequacy

(In Billions of Korean Won, %)

	FY2007	FY2008	FY2009	Chg in Amount	YoY
Total Capital	16,374.9	17,889.1	18,322.7	433.6	2.4%
Risk-weighted Assets	135,495.7	133,140.1	121,132.0	-12,008.1	-9.0%
Credit Risk-weighted Assets	132,954.1	122,803.9	109,371.4	-13,432.5	-10.9%
Market Risk-weighted Assets	2,541.5	1,895.4	2,972.5	1,077.2	56.8%
BIS Capital Adequacy Ratio	12.09%	13.44%	15.13%	1.69%p	
Tier 1 Ratio	7.64%	9.30%	11.61%	2.31%p	
Tier 2 Ratio	4.45%	4.13%	3.52%	-0.61%p	

※ Bank accounts only

The bank's BIS capital adequacy ratio grew by 1.69% to 15.13%, while its Tier 1 ratio rose by 2.31% to 11.61%.

The bank's BIS ratio rose to a highly stable level through its asset growth controls and preemptive financing efforts. Credit risk-weighted assets declined by 10.9% over the year.

Trust Account

Income

(In Billions of Korean Won, %)

	FY2007	FY2008	FY2009	Increase	YoY
Fees and Commissions from T/A	83.3	75.2	67.3	-7.9	-10.5%
Subsidy for T/A	-	-	-	-	0.0%
Net Income from T/A	83.3	75.2	67.3	-7.9	-10.5%

Outstanding

(In Billions of Korean Won, %)

	FY2007	FY2008	FY2009	Increase	YoY
Total Asset	34,258.6	37,122.6	32,537.3	-4,585.3	-12.4%
Money in Trust	13,574.5	12,822.5	9,904.9	-2,917.6	-22.8%
Property in Trust	20,324.8	23,909.3	22,259.0	-1,650.3	-6.9%

Assets in the trust account fell by 12.4% to KRW 32.5 trillion. Monies held in trust and properties in trust decreased by 22.8% and 6.9%, respectively.

GLOBAL NETWORK

Head Office

120, Taepyung-Ro 2-Ga, Jung-Gu, Seoul, 100-724, Korea Mailing Address: C.P.O. Box 6999, Seoul, 100-669, Korea
email: corres@shinhan.com Homepage: www.shinhan.com

Overseas Office

JAPAN

SHINHAN BANK JAPAN
9th Fl., Shiroyama Trust Tower, 3-1
Toranomon 4-chome, Minato-ku, Tokyo, Japan
Tel. 81-3-6403-0505
Fax. 81-3-6403-0510
SWIFT: SHBKJPJXXXX

TOKYO BRANCH
9th Fl., Trust Tower Bldg., 3-1 Toranomon
4-chome, Minato-ku, Tokyo, Japan
Tel. 81-3-3578-9321
Fax. 81-3-3578-9355
SWIFT: SHBKJPJXTOK

UENO BRANCH
8th Fl., Nomura Bldg., 1-14-4, Higashiueno,
Taito-ki, Tokyo, Japan
Tel. 81-3-5812-0505
Fax. 81-3-5812-0510
SWIFT: SHBKJPJXXXX

OSAKA BRANCH
3rd Fl., Resona Semba Bldg. 4-21, Minami-
Semba, 4-Chome, Chuo-ku, Osaka, Japan
Tel. 81-6-6243-2341
Fax. 81-6-6243-2346
SWIFT: SHBKJPJX

UEHONMACHI BRANCH
Ueroke F Bldg. 6F, 3-5, Uehonmachinich
5-Chome, Chuo-ku, Osaka, Japan
Tel. 81-6-6767-0506
Fax. 81-6-6767-0525
SWIFT: SHBKJPJXFUK

FUKUOKA BRANCH
8th Fl., Tenjin Mitsui Bldg. 14-13, Tenjin
2-chome, Chuo-ku, Fukuoka, Japan
Tel. 81-92-724-7004
Fax. 81-92-724-7003
SWIFT: SHBKJPJXFUK

YOKOHAMA BRANCH
JN Bldg 12F, 3-56-1 Aioi-cho, Naka-ku,
Yokohama, Kanagawa, Japan
Tel. 81-45-680-5560
Fax. 81-45-680-5561
SWIFT: SHBKJPJXXXX

SOUTHEAST ASIA

SINGAPORE BRANCH
1 George Street #15-03, Singapore 049145
Tel. 65-6536-1144
Fax. 65-6533-1244
SWIFT: SHBKSGSG

MUMBAI BRANCH
42, Jolly Maker Chambers II, 4th Fl., 225,
Nariman Point, Mumbai, 400-021. India
Tel. 91-22-2282-2200
Fax. 91-22-2288-4277
SWIFT: SHBKINBB

NEWDELHI BRANCH
Upper Ground Floor, Mercantile House, 15
Kasturba Gandhi Marg, New Delhi 110-001, India
Tel. 91-11-2370-6040
Fax. 91-11-2370-6044
SWIFT: SHBKINBB

HONGKONG BRANCH
Room 3401, Gloucester Tower, The Landmark,
15 Queen's Road, Central, Hong Kong
Tel. 852-2877-3121
Fax. 852-2877-2460
SWIFT: SHBKHKHX

SHINHAN VIETNAM BANK LTD.
11th Fl., Centec Tower, 72-74 Nguyen Thi Minh
Khai St., District 3, HCMC, Vietnam
Tel. 84-8-3823-0012
Fax. 84-8-3823-0009
SWIFT: SHBKVNVXXXX

SHINHAN KHMER BANK
No.277 Norodom Blvd Sangkat Tonle Bassac
Khan Chamkarmon Phnom, Cambodia
Tel. 855-23-727-380
Fax. 855-23-727-383
SWIFT: SHBKKHPP

SHINHAN ASIA LIMITED
Suites 3507, 35th Fl., Two Exchange Square, 8
Connaught Place, Central, HK
Tel. 852-3717-0700
Fax. 852-2810-1928
SWIFT: SHBKHKHX

SHINHANVINA BANK
100 Nguyen Thi Minh Khai St., Dist1, HCMC,
Vietnam
Tel. 84-8-829-1581
Fax. 84-8-914-2635
SWIFT: SHBKVNVN

HOCHIMINH BRANCH
100 Nguyen Thi Minh Khai St., Dist1, HCMC,
Vietnam
Tel. 84-8-829-1581
Fax. 84-8-914-2635
SWIFT: SHBKVNVN

HANOI BRANCH
2nd floor, Daeha Business Center, 360 Kim
Ma Ngoc Khanh, Hanoi, Vietnam
Tel. 84-4-3831-5205
Fax. 84-4-3831-5134
SWIFT: SHBKVNVNHAN

BINHDUONG BRANCH
No.1, Truong Son Highway, An Binh Commune,
Di An District, Binh Duong Province, Vietnam
Tel. 84-8-3724-2791
Fax. 84-8-3724-2795
SWIFT: SHBKVNVN

DONGNAI BRANCH
9,10,11 Lot 4 Road 51 Quater 1 Long Binh tan
Ward Bien Hoa City Dong Nai Province, Vietnam
Tel. 84-61-883-0511
Fax. 84-61-883-0523
SWIFT: SHBKVNVN

CHINA

SHINHAN BANK (CHINA) LTD.
12th Fl. Zhongyu Plaza No.6, Workers' Stadium
Road N.,Chaoyang District, Beijing 100027, China
Tel. 86-10-8529-0088
Fax. 86-10-8529-0188
SWIFT: SHBKCNBJ

BEIJING BRANCH
1st Fl. Zhongyu Plaza No.6, Workers' Stadium
Road N.,Chaoyang District, Beijing 100027, China
Tel. 86-10-8523-5555
Fax. 86-10-8523-5696
SWIFT: SHBKCNBJBJG

SHANGHAI BRANCH
22nd Floor, HSBC Tower, 1000 Lujiazui Ring
Road, Pudong New Area, Shanghai, China
Tel. 86-21-6841-2100
Fax. 86-21-6841-2108
SWIFT: SHBKCNBJSHA

SHANGHAI PUXI SUB-BRANCH
B-1st Floor, Hyunyoon International Building,
1100 Wuzhong Road, Min Hang district,
Shanghai, China
Tel. 86-21-6465-2300
Fax. 86-21-6465-2313, 2314
SWIFT: SHBKCNBJSHA

SHANGHAI HONGQIAO SUB-BRANCH
Oriental C.C Bldg., 345, Xian Xia Road,
Changning Area, Shanghai, 200336, China
Tel. 86-21-6241-0066
Fax. 86-21-6273-2178
SWIFT: SHBKCNBJSHA

TIANJIN BRANCH
Room 1901/6, Tianjin International Building,
75 Nanjing Road, Tianjin, 300050 P.R. China
Tel. 86-22-2339-4070
Fax. 86-22-2339-4043
SWIFT: SHBKCNBJTJN

TIANJIN BINHAI SUB-BRANCH
Unit27, Fortune Plaza21, The 3rd Street,
TEDA Tianjin 300457, China
Tel. 86-22-6628-1234
Fax. 86-22-6628-1235
SWIFT: SHBKCNBJTJN

TIANJIN AOCHENG SUB-BRANCH
No. 1-03 Ao-cheng Commercial Plaza Binshuixi Street, Nankai District, Tianjin 300381 P.R. CHINA
Tel. 86-22-5885-0088
Fax. 86-22-5885-0090
SWIFT: SHBKCNBJSHA

WUXI BRANCH
2nd Floor No.5 Changjiang North Road, Changjiang Club, Wuxi, Jiangsu 214028, China
Tel. 86-0510-8181-3068
Fax. 86-0510-8181-3058
SWIFT: SHBKCNBJWXI

QINGDAO BRANCH
4th Fl., CITIC WT Securities Co.,Ltd,Bldg. No.28 Donghai West Road, Qingdao 266071, CHINA
Tel. 86-532-8502-5500
Fax. 86-532-8502-5566
SWIFT: SHBKCNBJQDO

QINGDAO CHENGYANG SUB-BRANCH
No.151, Zhengyang Road, Chengyang District, Qingdao, 266109, P.R. China
Tel. 86-532-6696-0505
Fax. 86-532-6696-0215
SWIFT: SHBKCNBJQDO

EUROPE

LONDON BRANCH
3rd Fl. 51-55 Gresham Street, London EC2V 7HB, United Kingdom
Tel. 44-207-600-0606
Fax. 44-207-600-1826
SWIFT: SHBKGB2L

SHINHAN BANK EUROPE GmbH
Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany
Tel. 49-69-975-7130
Fax. 49-69-741-0506
SWIFT: SHBKDEFF

SHINHAN BANK KAZAKHSTAN
123/7 Dostyk ave. Medeu District, Almaty, Republic of Kazakhstan
Tel. 7-727-385-9600
Fax. 7-727-264-0999

SHINHAN BANK UZBEKISTAN REPRESENTATIVE OFFICE
Neworld Bldg. 3rd Fl., Oybek Str. 22 Tashkent, Uzbekistan 100015
Tel. 998-71-150-1184
Fax. 998-71-252-3605

AMERICA

NEWYORK BRANCH
17th Fl., 600 3rd Ave, New York, NY10016, U.S.A.
Tel. 1-212-371-8000
Fax. 1-212-371-8875
SWIFT: SHBKUS33

SHINHAN BANK AMERICA
330 5th Avenue 4th Floor New York, NY 10001 U.S.A.
Tel. 1-646-843-7300
Fax. 1-212-447-7477
SWIFT: SHBKUS6LNYX

MANHATTAN BRANCH
313 5th Ave., New York, NY 10016, U.S.A.
Tel. 1-646-843-7333
Fax. 1-212-447-9169
SWIFT: SHBKUS6LNYX

FLUSHING BRANCH
136-17 39th Ave., Ground Fl., Flushing, NY 11354, U.S.A.
Tel. 1-718-799-7001
Fax. 1-718-939-3229
SWIFT: SHBKUS6LNYX

NORTHERN 150 BRANCH
150-29 Northern Blvd., Flushing, NY 11354, USA
Tel. 1-718-799-7100
Fax. 1-718-888-9696
SWIFT: SHBKUS6LNYX

BAYSIDE BRANCH
211-11 Northern Blvd., Bayside, NY 11361, U.S.A.
Tel. 1-718-281-7010
Fax. 1-718-224-5764
SWIFT: SHBKUS6LNYX

FORTLEE BRANCH
222 Main St., Fort Lee, NJ 07024, U.S.A.
Tel. 1-202-363-9009
Fax. 1-201-363-9049

PALISADEPARK BRANCH
21 Grand Ave. PalisadesPark, NewJersey, 07650, U.S.A.
Tel. 1-201-213-1009
Fax. 1-201-313-9688
SWIFT: SHBKUS6LNYX

LITTLENECK BRANCH
252-20 Northern Blvd. Littleneck, NY, 11362, U.S.A.
Tel. 1-718-281-7888
Fax. 1-718-886-9157
SWIFT: SHBKUS6LNYX

NAB
10500 Old Alabama Road Connector Alpharetta, GA30022, U.S.A.
Tel. 1-678-277-8400
Fax. 1-678-277-8440
SWIFT: SHBKUS6LNYX

DULUTH BRANCH
2170 Pleasant Hill Road, Duluth, GA 30096, U.S.A.
Tel. 1-678-512-8200
Fax. 1-678-957-9974
SWIFT: SHBKUS6LNYX

DALLAS BRANCH
2240 Royal Lane Suite 303, Dallas, TX 75229, U.S.A.
Tel. 1-972-406-3540
Fax. 1-972-406-3546
SWIFT: SHBKUS6LNYX

SHINHAN BANK AMERICA CA regional office
3000 West Olympic Blvd., Los Angeles, CA 90006, U.S.A.
Tel. 1-213-251-3000
Fax. 1-213-386-2170
SWIFT: SHBKUS6LCAX

OLYMPIC BRANCH
3000 West Olympic Blvd., Los Angeles, CA 90006, U.S.A.
Tel. 1-213-251-3000
Fax. 1-213-386-2170
SWIFT: SHBKUS6LCAX

BUENA PARK BRANCH
6771 Beach Blvd., Buena Park, CA 90621, U.S.A.
Tel. 1-714-443-6400
Fax. 1-714-443-5960
SWIFT: SHBKUS6LCAX

DOWNTOWN BRANCH
738 East Pico Blvd., #234, Los Angeles, CA 90021, U.S.A.
Tel. 1-213-251-3090
Fax. 1-213-748-9422
SWIFT: SHBKUS6LCAX

IRVINE BRANCH
2730 Alton Parkway, Suite 111, Irvine, CA92606, U.S.A.
Tel. 1-949-660-0505
Fax. 1-949-660-0503
SWIFT: SHBKUS6LCAX

SHINHAN BANK CANADA
23rd Fl. 5140 Young St. North York, Ontario M2N 6L7, Canada
Tel. 1-416-250-3500
Fax. 1-416-250-3507
SWIFT: SHBKCATT

MAIN BRANCH
5095 Yonge St. Unit B2, Toronto, Ontario M2N 6Z4, Canada
Tel. 1-416-250-3550
Fax. 1-416-250-3557
SWIFT: SHBKCATT

SHINHANBANK MEXICO REPRESENTATIVE OFFICE
Piso 12 Torre Summa, 213 Hamburgo Col. Juárez, Mexico D.F
Tel. 52-55-5525-7787

CORPORATE DATA (AS OF DECEMBER 31, 2009)

Date of Establishment	Shinhan Bank (est. 1982) and Chohung Bank (est. 1897) merged to the new Shinhan Bank on April 1, 2006
Major Shareholder	Shinhan Financial Group (100%)
Business Network	Domestic: 1,035 branches and offices Overseas: 6 overseas branches, 10 local subsidiaries, 34 local subsidiaries' branches, 2 representative offices
Number of Customers	15,679 thousand
Number of Employees	10,948
Members of Shinhan Financial Group	Shinhan Bank (100%) Shinhan Card (100%) Shinhan Investment Corp. (100%) Shinhan Life Insurance (100%) Shinhan Capital (100%) Jeju Bank (68.9%) Shinhan BNP Paribas Asset Management (65%) Shinhan Data System (100%) Shinhan Credit Information (100%) Shinhan Private Equity (100%) Shinhan Macquarie Financial Advisory (51%) SHC Management* (100%)

- ( ) shows Shinhan Financial Group's holdings in its subsidiaries.

* Currently in liquidation proceedings

SHINHAN BANK

120, Taepyeong-ro 2-ga, Jung-gu,
Seoul, Korea 100-724
Tel: 82-2-756-0505
Fax: 82-2-774-7013
Website: www.**shinhan**.com