

SHINHAN FINANCIAL GROUP CO LTD

Form 20-F

June 30, 2008

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As filed with the Securities and Exchange Commission on June 30, 2008

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 20-F**

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR**
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007
OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
OR**
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report**

Commission File Number: 001-31798

Shinhan Financial Group Co., Ltd.

(Exact name of registrant as specified in its charter)

N/A

(Translation of registrant's name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

**120, 2-Ga, Taepyung-Ro, Jung-Gu
Seoul 100-102, Korea**

(Address of principal executive offices)

Sung Hun Ryu, +822 6360 3071, irshy@shinhan.com, +822 6360 3098 (F), 120, 2-Ga, Taepyung-Ro. Jung-Gu Seoul
100-102, Korea

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person))

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on Which Registered:
Common stock, par value Won 5,000 per share	New York Stock Exchange*
American depositary shares	New York Stock Exchange

* Not for trading, but only in connection with the listing of American depositary shares on the New York Stock Exchange, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of Shinhan Financial Group's classes of capital or common stock as of the close of the last full fiscal year covered by this Annual Report: 396,199,587 shares of common stock, par value of Won 5,000 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2) of the Exchange Act: Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court: Yes No

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EXPLANATORY NOTE

Effective as of April 3, 2006, we merged Shinhan Bank, our principal banking subsidiary, into Chohung Bank, our then wholly-owned subsidiary whose controlling equity interest we acquired in August 2003, and renamed the merged entity as Shinhan Bank. Unless otherwise indicated, statistical and financial information relating to Shinhan Bank for the year ended December 31, 2006 includes the corresponding information of Chohung Bank for the period from January 1, 2006 through April 2, 2006. See Item 4. Information on the Company History and Development of Shinhan Financial Group History and Organization.

On March 23, 2007, we acquired the controlling equity interest in LG Card, the largest credit card company in Korea. We then applied the equity method of accounting for our previous ownership interest of 7.15% in LG Card. Where indicated, statistical and financial information of the prior years presented herein were adjusted to reflect the equity method of accounting. See note 2 in the notes to the consolidated financial statements included in this annual report for additional information. Effective as of September 21, 2007, we completed the acquisition of the remaining LG Card shares, and LG Card became our wholly-owned subsidiary. On October 1, 2007, LG Card assumed all of the assets, liabilities, and contracts of the former Shinhan Card, our then-existing credit card subsidiary, and changed its name to Shinhan Card. On the same date, the former Shinhan Card changed its name to SHC Management Co., Ltd. Unless otherwise indicated, statistical and financial information relating to Shinhan Card for the year ended December 31, 2007 include the corresponding information of the former Shinhan Card for the period from January 1, 2007 through September 30, 2007 and the corresponding information of LG Card (renamed Shinhan Card on October 1, 2007) for the period from March 1, 2007 through December 31, 2007. See Item 4. Information on the Company Acquisition of LG Card.

Former Shinhan Card refers to the entity created on June 4, 2002 as a result of the spin-off of the credit card division of Shinhan Bank, into which the credit card division of Chohung Bank was merged on April 3, 2006. Following the transfer of all of its assets and liabilities to LG Card on October 1, 2007, former Shinhan Card currently survives under the name of SHC Management Co., Ltd. without any significant assets and liabilities. Unless otherwise indicated, statistical and financial information relating to former Shinhan Card for the year ended December 31, 2006 includes the corresponding information of the credit card division of Chohung Bank for the period from April 3, 2006 through December 31, 2006. See Item 4. Information on the Company History and Development of Shinhan Financial Group History and Organization.

In order to present more comprehensive financial data regarding Shinhan Card's financial condition, this annual report contains certain financial information presented on a managed basis that includes, subject to certain adjustments, financial receivables that Shinhan Card has sold in asset-backed securitization transactions but which may continue to have an effect on Shinhan Card's future operations and financial condition. The managed data is not audited and is not presented or prepared in accordance with U.S. GAAP or Korean GAAP. There can be no assurances that the managed financial and operating data accurately reflects Shinhan Card's financial condition or performance had it not conducted asset-backed securitization transactions or fully consolidated the special purpose companies to which Shinhan Card sold the financial receivables or that the managed operating data accurately reflect Shinhan Card's results of operations on an overall or product level basis.

CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

Unless otherwise specified or the context otherwise requires:

the terms we, us, our, Shinhan Financial Group, SFG and the Group mean Shinhan Financial Group and its consolidated subsidiaries;

the terms Shinhan Bank and SHB refer to the surviving entity following the merger of the former Shinhan Bank into Chohung Bank effective April 3, 2006 and such entity's consolidated subsidiaries;

the term former Shinhan Bank refers to Shinhan Bank and its consolidated subsidiaries as in existence prior to its merger with Chohung Bank effective April 3, 2006;

the terms Chohung Bank, Chohung and CHB refer to Chohung Bank and its consolidated subsidiaries as in existence prior to its merger with Shinhan Bank effective April 3, 2006;

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the term **Shinhan Card** refers to LG Card, which on October 1, 2007 assumed all of the assets and liabilities of former Shinhan Card and was renamed as Shinhan Card, and its consolidated subsidiaries;

the term **former Shinhan Card** refers to the entity created on June 4, 2002 as a result of the spin-off of the credit card division of Shinhan Bank, into which the credit card division of Chohung Bank was split-merged on April 3, 2006, and currently surviving under the name of SHC Management after transferring of all of its assets and liabilities to LG Card (renamed Shinhan Card) on October 1, 2007; and

the term **LG Card** refers to LG Card and its consolidated subsidiaries. After acquisition by us of its controlling equity interest, LG Card became our subsidiary on March 23, 2007, and on October 1, 2007, LG Card assumed all of the assets and liabilities of former Shinhan Card and was renamed Shinhan Card.

All references to **Korea** or the **Republic** contained in this document mean The Republic of Korea. All references to the **government** mean the government of The Republic of Korea. The **Financial Supervisory Service** is the executive body of the Financial Services Commission, renamed as such as of February 29, 2008 from the Financial Supervisory Commission. References to **MOSF** are to the Ministry of Strategy and Finance, renamed as such as of February 29, 2008 from the Ministry of Finance and Economy.

Our fiscal year ends on December 31 of each year. All references to a particular year are to the year ended December 31 of that year.

In this annual report, unless otherwise indicated, all references to **Won** or **W** are to the currency of the Republic, and all references to **U.S. Dollars**, **Dollars**, **\$** or **US\$** are to the currency of the United States of America. Unless otherwise indicated, all translations from Won to Dollars were made at ₩935.8 to US\$1.00, which was the noon buying rate in The City of New York for cable transfers in Won per US\$1.00 as certified for customs purposes by the Federal Reserve Bank of New York (the **Noon Buying Rate**) in effect on December 31, 2007. On June 16, 2008, the Noon Buying Rate was ₩1,038.5 = US\$1.00. No representation is made that the Won or U.S. Dollar amounts referred to in this report could have been or could be converted into Dollars or Won, as the case may be, at any particular rate or at all.

Unless otherwise indicated, the financial information presented in this document has been prepared in accordance with accounting principles generally accepted in the United States of America (**U.S. GAAP**).

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

FORWARD LOOKING STATEMENTS

This document includes **forward-looking statements**, as defined in Section 27A of the U.S. Securities Act, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**), including statements regarding our expectations and projections for future operating performance and business prospects. The words **believe**, **expect**, **anticipate**, **estimate**, **project** and similar words used in connection with any discussion of future operating or financial performance identify forward-looking statements. In addition, all statements other than statements of historical facts included in this document are forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. This document discloses, under the caption

Item 3. Key Information Risk Factors and elsewhere, important factors that could cause actual results to differ materially from our expectations (Cautionary Statements). Included among the factors discussed under the caption

Item 3. Key Information Risk Factors are the followings risks related to our business, which could cause actual results to differ materially from those described in the forward-looking statements: the risk of adverse impacts from an economic downturn; increased competition; market volatility in securities and derivatives markets, interest or foreign exchange rates or indices; other factors impacting our operational plans; or legislative or regulatory developments.

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We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this document.

All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

ITEM 1. *IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS*

Not applicable.

ITEM 2. *OFFER STATISTICS AND EXPECTED TIMETABLE*

Not applicable.

ITEM 3. *KEY INFORMATION*

SELECTED FINANCIAL DATA

Selected Consolidated Financial and Operating Data under U.S. GAAP

The selected consolidated financial data set forth below for the years ended December 31, 2003, 2004, 2005, 2006 and 2007 and as of December 31, 2003, 2004, 2005, 2006 and 2007 have been derived from our consolidated financial statements which have been prepared in accordance with U.S. GAAP. Our consolidated financial statements as of and for the years ended December 31, 2003 have been audited by independent registered public accounting firm Samil PricewaterhouseCoopers. Our consolidated financial statements as of and for the years ended December 31, 2004, 2005, 2006 and 2007 have been audited by independent registered public accounting firm KPMG Samjong Accounting Corp.

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You should read the following data with the more detailed information contained in Item 5. Operating and Financial Review and Prospects and our consolidated financial statements included in Item 18. Financial Statements. Historical results do not necessarily predict future results.

Consolidated Income Statement Data

	Year Ended December 31,					
	2003	2004	2005	2006	2007	2007
	(In billions of Won and millions of US\$, except per common share data)					
Interest and dividend income	₩ 5,331	₩ 7,712	₩ 7,488	₩ 8,893	₩ 12,149	\$ 12,983
Interest expense	2,998	4,138	4,014	4,912	6,979	7,458
Net interest income	2,333	3,574	3,474	3,981	5,170	5,525
Provision (reversal) for credit losses	965	135	(183)	226	81	86
Noninterest income	1,118	2,092	2,945	3,786	4,738	5,063
Noninterest expense	1,937	3,451	3,641	5,308	6,745	7,208
Income tax expense	248	682	1,015	650	1,057	1,131
Minority interest	26	153	16	18	95	101
Income before extraordinary item and effect of accounting change	275	1,245	1,930	1,565	1,930	2,062
Extraordinary gain		28				
Cumulative effect of a change in accounting principle, net of taxes		(23)		(10)		
Net income	₩ 275	₩ 1,250	₩ 1,930	₩ 1,555	₩ 1,930	\$ 2,062
Net income per common shares (in currency unit):						
Net income basic(1)(3)	₩ 1,024	₩ 4,133	₩ 5,763	₩ 4,180	₩ 4,480	\$ 4.79
Net income diluted(2)(3)	984	3,704	5,419	4,180	4,390	4.69
Weighted average common shares outstanding-basic (in thousands of common shares)	262,987	292,465	333,424	372,173	382,731	
Weighted average common shares outstanding-diluted (in thousands of common shares)	279,745	337,479	356,140	372,173	396,484	

Notes:

- (1) Basic earnings per share are calculated by dividing the net income available to holders of our common shares by the weighted average number of common shares issued and outstanding for the relevant period.
- (2) Dilutive earnings per share are calculated in a manner consistent with that of basic earnings per share, while giving effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common shares were converted into or exercised for common shares. We have two categories of potentially dilutive common shares: (i) shares issuable upon the exercise of stock options and (ii) shares issuable upon conversion of the redeemable convertible preferred shares. In 2006, there was no dilutive effect on earnings per share due to a change in accounting policy in 2006 which resulted in the use of the number of the outstanding shares as of the beginning of the year and the election by us to grant cash in lieu of stock upon the exercise of stock options by our employees. We may in the future grant shares in lieu of cash upon the exercise of stock options by our employees, which may impact the dilutive earnings per share in the future.
- (3) We applied the equity method of accounting for the previous ownership interest of 7.15% in LG Card in conformity with APB opinion No. 18. Accordingly, the investment, our results of operation and retained earnings were retroactively adjusted as we acquired control over LG Card in 2007.

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	As of December 31,					
	2003	2004	2005	2006	2007	2007
	(In billions of Won and millions of US\$, except per common share data)					
<i>Assets:</i>						
Cash and cash equivalents	₩ 1,897	₩ 2,444	₩ 2,434	₩ 1,691	₩ 3,580	\$ 3,826
Restricted cash	3,662	3,301	3,644	6,758	4,745	5,070
Interest-bearing deposits	409	220	627	725	1,094	1,169
Call loans and securities purchased under resale agreements	1,898	1,591	1,499	1,243	802	858
<i>Trading assets:</i>						
Trading securities and other	2,857	4,639	3,573	3,474	8,220	8,784
Derivatives assets	520	1,678	934	1,363	1,962	2,097
<i>Securities:</i>						
Available-for-sale securities	18,099	18,108	22,480	16,939	22,849	24,416
Held-to-maturity securities	3,605	3,099	2,963	7,581	8,224	8,789
Loans (net of allowance for loan losses of ₩3,631 billion in 2003, ₩2,311 billion in 2004, ₩1,512 billion in 2005, ₩1,575 billion in 2006 and ₩2,099 billion in 2007)	91,791	94,752	104,447	120,989	149,723	159,994
Customers liability on acceptances	2,365	2,012	1,879	1,417	1,701	1,817
Premises and equipment, net	2,003	1,848	1,876	2,097	2,455	2,623
Goodwill and intangible assets	1,676	1,660	2,957	2,584	6,160	6,582
Security deposits	966	968	1,078	1,108	1,294	1,383
Other assets	4,601	6,889	4,688	7,118	8,813	9,418
Total assets	₩ 136,349	₩ 143,209	₩ 155,079	₩ 175,087	₩ 221,622	\$ 236,826