

RISK FACTORS

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

Risks Relating to Our Banking Business

We have significant exposure to small- and medium-sized enterprises including smaller enterprises, which may result in a deterioration of our asset quality to this segment and have an adverse impact on us.

Our loans to small- and medium-sized enterprises meeting the definition of such enterprises under the Basic Act on Small- and Medium-sized Enterprises and its Presidential Decree increased from W14,649 billion as of December 31, 2002 to W38,055 billion as of December 31, 2003 and to W38,713 billion as of December 31, 2004. These balances represent 32.5%, 40.0% and 39.9%, respectively, of our total loan portfolio as of December 31, 2002, 2003 and 2004. For a definition of small- and medium-sized enterprises, see "Item 4. Information on the Company – Business Overview – Our Principal Activities – Corporate Banking Services – Small- and medium-sized Enterprises Banking". Non-performing loans to small- and medium-enterprises as described above were W159 billion as of December 31, 2002, W605 billion as of December 31, 2003 and W1,005 billion as of December 31, 2004, representing 1.09%, 1.59% and 2.60% of our total loans to small- and medium-sized enterprises as of December 31, 2002, 2003 and 2004.

Since 2002, the industry-wide delinquency ratios for loans to small- and medium-sized enterprises have been rising under Korean GAAP. According to data compiled by the Financial Supervisory Service, the delinquency ratio (net of charge-offs, which has also increased significantly) for loans by Korean banks to small- and medium-sized enterprises increased from 1.9% as of December 31, 2001 to 3.2% as of May 31, 2004, the record-high to date. As of December 31, 2004, such delinquency ratio was 2.1%. The delinquency ratio for loans to small-and medium-sized enterprise is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal payments are overdue by one day or more or interest payments are over due by 14 days or more (if prior interest payments on a loan were made late on more than three occasions, in which case the loan is considered delinquent if interest payments are overdue by one day or more) to (2) the aggregate outstanding balance of such loans. Shinhan Bank's delinquency ratio for such loans increased from 1.07% as of December 31, 2002 to 1.80% as of December 31, 2004 and Chohung Bank's delinquency ratio for such loans increased from 1.53% as of December 31, 2002 to 2.21% as of December 31, 2004. In 2002, 2003 and 2004, under Korean GAAP, Shinhan Bank charged off loans to small-and medium-sized enterprises of W43 billion, W36 billion and W101 billion, respectively, while Chohung Bank charged off loans to small- and medium-sized enterprises of W49 billion, W73 billion and W255 billion, respectively. In addition, Chohung Bank sold loans to small- and medium-sized enterprises of W28 billion in 2002, none in 2003 and W357 billion in 2004. Shinhan Bank did not sell any of its loans to small- and medium-sized enterprises in 2002 and 2003, but sold W146 billion in 2004. Absent these charge-offs and loan sales, the delinquency ratios would have been higher.

We have increased significant exposure to the real estate, leasing and service industry as it presented significant growth opportunities in recent years. Our loans to the real estate, leasing and service industry increased from W4,552 billion, or 8.99% of total corporate loans (Shinhan Bank and Chohung Bank combined), as of December 31, 2002 to W6,132 billion, or 11.34% of total corporate loans, as of December 31, 2003, and to W7,691 billion, or 14.08% of total corporate loans, as of December 31, 2004. In addition, our loans to the hotel and leisure industry as of December 31, 2003 and 2004 aggregated W1,977 billion and W2,082 billion, respectively, or 3.66% and 3.81%, respectively, of total corporate loans. However, the real estate, leasing and service industry and the hotel and leisure industry have been experiencing significant difficulties recently resulting in higher delinquencies and impairment. As of December 31, 2004, under Korean GAAP, the delinquency ratios for loans to the real estate, leasing and service industry were 2.67% for Chohung Bank and 1.53% for Shinhan Bank, in each case net of charge-offs and loan sales. As of December 31, 2004, under Korean GAAP, the delinquency ratios for loans to the hotel and leisure industry

were 2.74% for Chohung Bank and 2.17% for Shinhan Bank, in each case net of charge-offs and loan sales. A continued deterioration in asset quality of loans to this industry sector may materially and adversely affect our financial condition and results of operations.

The small- and medium-sized enterprise lending business is still the focus of intense competition among large commercial banks and the opportunities for us to expand our business with more established small- and medium-sized enterprises have been reduced. We have in recent years selectively increased our customer base to include relatively smaller enterprises, including small unincorporated businesses and sole proprietorships. We believe that lending to these customers have presented an opportunity for growth but also increased our credit risk exposure relative to our existing customers in this segment. Continued weakness in the Korean and global economies, among other things, will adversely affect the financial condition of small- and medium-sized enterprises and may impair their ability to service their debt, including our loans to such customers.

We may not be able to sustain the high rate of growth in our mortgage and home equity lending. In addition, we cannot assure that the asset quality of our mortgage and home equity loans, in particular the long-term mortgage and home equity loans, will not deteriorate.

Over the past three years, mortgage and home equity lending was the largest contributor to the growth of our lending business. Our mortgage and home equity lending grew from ₩11,539 billion at December 31, 2002 to ₩20,517 billion at December 31, 2003 and to ₩22,180 billion at December 31, 2004. Such increase represents 20.5% of the overall increase in our loan portfolio over that period. Of our total consumer loan portfolio, 59.9%, 49.8% and 52.24% was attributable to mortgage and home equity lending as of December 31, 2002, 2003 and 2004, respectively. The volume of such lending is significantly dependent on, among other things, competitive conditions, real estate prices, interest rate levels and government policies affecting these markets. There can be no assurance that these factors will support continued significant growth of our mortgage and home equity lending business.

Consistent with practices in the Korean banking sector, a substantial majority of our mortgage and home equity loans have maturity of one to three years and are renewable based on our credit decisions. Since early 2004, however, we have begun offering longer-term mortgage and home equity loans with maturities of ten to 30 years similar to those offered in the United States. As of December 31, 2004, we had ₩5,752 billion of such long-term mortgage and home equity loans outstanding, for which we established an allowance for loan losses of ₩5 billion. For mortgage and home equity loans, we establish allowances based on loss factors taking into consideration historical performance of the portfolio, previous loan loss history and charge-off information. Due to the limited history of extending these longer term mortgage and home equity loans, we cannot assure you that the allowances we have established against these loans will be sufficient to cover all future losses arising from these loans in the future. Although we adjust the loss factors derived from the migration analysis as appropriate to reflect the impact of any current conditions on loss recognition that has not been adequately captured by our historical analysis, no assurance can be given that we may adequately do so in time or at all.

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

Borrowers' houses, other real estate or securities secure substantial portions of our loans. As of December 31, 2004, the secured portion of Won-denominated loans of Shinhan Bank amounted to ₩27,033 billion, or 65.7% of such loans, and the secured portion of Won-denominated loans of Chohung Bank amounted to ₩15,921 billion, or 48.6% of such loans under Korean GAAP. No assurance can be given that the collateral value may not materially decline in the future. Until recently, it was Shinhan Bank's general policy to lend up to 50%-70% of the appraised value of collateral, which appraisal value we believe was, in general, lower than the market value. Chohung Bank's policy is to lend up to the estimated recovery value of the collateral, which Chohung Bank calculates based on the value of collateral published by the courts as recovered through court-approved auctions and further adjusted to take into account the existence of any lien or other security interest that is prior to Chohung Bank's security interest. We believe that such estimated recovery value of the collateral is in general, lower than the market value. However, downturns in the real

estate market as well as decreases in the value of securities collateral in the past have resulted at times in the principal amount of a number of loans exceeding the value of the underlying collateral. Declines in the value of securities and/or real estate prices in Korea that result in shortfalls in collateral values to loan amounts would require us to increase loan loss provisions and may have a material adverse effect on us. For a description of our collateral valuation policy, see “Item 4. Information on the Company – Description of Assets and Liabilities – Risk Management – Credit Risk Management of Shinhan Bank – Credit Evaluation and Approval – Consumer Loans” and “Item 4. Information on the Company – Business Overview – Our Principal Activities – Retail Banking Services – Consumer Lending Activities”.

Foreclosure on collateral generally requires a written petition to a Korean court. Such application, when made, may be subject to delays and administrative requirements that may result in a decrease in the recovery value of such collateral. Foreclosure proceedings under laws and regulations in Korea typically take from seven months to one year from initiation to collection depending on the nature of the collateral. In addition, there can be no assurance that we will be able to realize the full value on such collateral as a result of, among other factors, delays in foreclosure proceedings, defects in the perfection of collateral, fraudulent transfers by borrowers and general declines in collateral value as large numbers of properties are placed in the market.

We may experience a further deterioration of the credit quality of our credit card and other consumer lending portfolios.

Our total consumer portfolio is comprised of three principal product types, namely mortgage and home equity loans, credit cards and other consumer loans (which include principally unsecured consumer loans). In recent years, credit card and other consumer lending, including lending to small unincorporated businesses, in Korea experienced significant growth as a result of government policies and a greater focus on these sectors by commercial banks and credit card companies. This growth, however, has led to industry-wide declines in overall credit quality, with increased delinquencies, provisions and charge-offs, as a result of, among other things, weak economic conditions as well as an increase in unemployment. The unemployment rates in Korea have changed from 3.4% as of December 31, 2003, to 3.2% as of December 31, 2004 and to 3.7% as of March 31, 2005.

The amount of credit card loans has increased from W2,763 billion as of December 31, 2002 to W6,112 billion as of December 31, 2003 but decreased to W4,732 billion as of December 31, 2004. Our other consumer loans, on the other hand, have continued to increase from W4,962 billion as of December 31, 2002 to W14,580 billion as of December 31, 2003 and to W15,546 billion as of December 31, 2004. While the bulk of these increases resulted from our acquisition of Chohung Bank, the underlying portfolio growth at both Shinhan Bank and Chohung Bank has resulted in increasing delinquencies in this portion of our portfolio. While our delinquency ratio for total consumer loans decreased from 3.95% in 2002 to 2.04% in 2004, the credit card and other consumer loan sectors continue to experience credit quality problems and there can be no assurance that a continuation of these problems will not have a material adverse effect on our results of operations.

In addition, due to the rapid increase in consumer debt in Korea in recent years, the Korean government has adopted a series of regulations designed to restrain the rate of growth in, and delinquencies of, cash advances, credit card loans and credit card usage generally and to strengthen the reporting of, and compliance with, credit quality indexes. In March 2002, the Financial Supervisory Commission imposed sanctions, ranging from warnings and administrative fines to partial business suspensions, on substantially all Korean credit card issuers as a result of alleged unlawful or unfair practices discovered during its industry-wide inspection. In March 2002, Chohung Bank was given a warning by the Financial Supervisory Commission for issuing credit cards to underaged customers. In late 2002, the Korean government enacted a number of changes to the laws governing the reporting by credit card issuers, including increasing the minimum allowance required, stated as a certain percentage of outstanding balance, and revising the calculation of delinquency ratios applicable to credit cards, which are performed on a Korean GAAP basis as described in “Item 5. Operating and Financial Review and Prospects – Reconciliation with Korean Generally Accepted Accounting Principles”. The Korean government may adopt further regulatory changes in the future that affect the credit card industry, which in turn may adversely affect our credit card operations. See “Item 4.

Information on the Company – Business Overview – Our Principal Activities – Credit Card Services”. In the consumer loan sector, the Korean government enacted a number of changes to laws governing retail lending volumes, including the lowering of maximum loan-to-value ratio of mortgage and home equity loans to 60%, and in certain cases to 40%. We believe that the Korean government will continue to announce regulatory changes restricting the growth of consumer loans, in particular, mortgage and home equity lending. These regulations may significantly reduce the level of our consumer lending and credit card operations that we engage and maintain in the future. The growth and profitability of our consumer lending and credit card operations may suffer materially as a result of these enforcement activities and regulations and proposed regulations.

Developments adversely affecting the business and liquidity of credit card companies in Korea may result in losses in respect of our exposure to such companies.

Adverse developments in the credit card industry in recent years such as industry-wide increases in delinquencies and resulting increases in provisioning for loan losses have had a negative impact on investors’ perception of credit card companies in the Korean corporate debt market, thereby significantly limiting the ability of credit card companies to obtain financing through issuances of debt securities. According to a press release issued by the Financial Supervisory Commission, the average industry-wide delinquency ratio (defined as ratio of credit card balances that are delinquent for more than 30 days over total outstanding balances, including delinquent balances rewritten as credit card loans) of credit card companies in Korea was approximately 18.25% as of December 31, 2004. As a result, Korean credit card companies have been experiencing significant financial and liquidity difficulties. As of March 31, 2005, such delinquency ratio was reported to have decreased to 15.73%. As of December 31, 2004, we held debt and equity securities issued by credit card companies (including through asset-backed securitization) in the aggregate principal amounts of W356 billion and W183 billion, respectively, in our investment portfolio.

As of December 31, 2004, we had loans outstanding to credit card companies in the aggregate principal amount of W538 billion. These loans, excluding loans extended to LG Card, are considered performing in accordance with our internal credit rating methodology and therefore we have not recognized a specific loan loss allowance against these loans. See “Item 4. Information on the Company – Description of Assets and Liabilities – Loans – Loan Concentrations – Exposures to the Credit Card Industry”. To the extent that financial and liquidity difficulties experienced by credit card companies are not resolved on a timely basis, the asset quality of our exposure to credit card companies may become significantly impaired, resulting in losses that are materially adverse to our financial condition and results of operations and capital adequacy.

The recent announcement by the Korean National Tax Service relating to the tax treatment of certain deposit products may adversely affect our financial condition and results of operations.

Beginning in 2002, commercial banks in Korea, including Shinhan Bank and Chohung Bank, offered to their customers deposit products that utilize Korean Won and Japanese Yen swaps to maximize the return for such customers. According to the terms of these deposit products, deposits made by customers in Korean Won are converted into Japanese Yen and repaid in Japanese Yen at maturity. The repayment amount is then converted back into Korean Won. While these deposit products typically carry a low interest rate, ranging from 0.05% to 0.3% per annum, the actual return to the customers were higher as a result of foreign exchange gains. These deposit products are attractive to customers, in particular high net worth customers, since the gains from foreign exchange were deemed not to be interest subject to income tax. However, in May 2005, the Korean National Tax Service announced a recommendation in which it decided that these gains were taxable as interest income and that the banks should refile its tax returns to include the unwithheld amounts. In June 2005, the Korean National Tax Service made a follow-up announcement confirming this position by stating, among other things, foreign currency deposits disguised as derivative products would be subject to tax and tax withholding. Eight of the commercial banks in Korea, who are subject to this adverse tax treatment, have announced their intention to challenge the foregoing decision by the Korean National Tax Service while complying with the Tax Service’s information requests. As of June 1, 2005, Shinhan Bank and Chohung Bank would have been subject to a tax withholding liability of W17.2 billion and W1.5 billion, respectively.

The commercial banks had marketed these deposit products to their customers on the basis that such deposit products were exempt from income tax or tax withholding. We believe that few, if any, of these customers have reported the gains from such deposit products as interest income subject to taxation in their tax returns. According to the Korean National Tax Service, these deposit customers are also responsible for including the income received from these deposits in their final individual tax returns relating to comprehensive financial taxable income. However, depending on the amount of income received from these products, the individual customers may be subject to (i) a higher tax rate on all of his or her taxable income, (ii) a fine for failing to properly report the interest income in an amount equal to 20% of the unreported amount, and (iii) a fine for failing to pay tax on such interest income in an amount equal to interest applied at a rate of 10.95% per annum to such unpaid tax amount. No assurance can be given that aggrieved customers will not bring claims against these commercial banks, including Shinhan Bank and Chohung Bank, if their tax liabilities are increased as a result of the foregoing events. Such claims, if there is merit, may lead to significant level of actual or contingent liabilities for us although we cannot ascertain the amount of such potential claims at this time. Such claims, to the extent material, may adversely affect our financial condition and results of operations.

We have significant exposure to LG Card, which is experiencing financial difficulties and which is in a workout program. If this program is not satisfactorily resolved, it may have a material adverse effect on us.

LG Card, one of Korea's largest credit card companies, has experienced significant liquidity and asset quality problems in recent years. In November 2003, the creditor banks of LG Card (including Shinhan Bank and Chohung Bank) agreed to provide a new W2 trillion credit facility, secured by credit card receivables, to enable LG Card to resume cash operations. Our portion of this commitment was W216.7 billion, consisting of W113.7 billion for Shinhan Bank and W103 billion for Chohung Bank. The maturity of this credit facility was extended to December 2005. Certain of LG Card's creditor banks (including our subsidiaries) also agreed to extend the maturity of a portion of LG Card's debt coming due in 2003 for one year, after the chairman of LG Group pledged his personal stake in LG Corporation, the holding company for the LG Group, LG Investment & Securities and LG Card as collateral to offset future losses of LG Card.

After the failure to auction LG Card to a buyer in December 2003, the principal creditors of LG Card tentatively agreed to a rescue plan in January 2004 under which the Korea Development Bank would acquire a 25% (subsequently adjusted to 26%) interest in LG Card and the other creditors would collectively acquire a 74% (subsequently adjusted to 73%) ownership interest following the completion of several debt-to-equity swaps contemplated for 2004. In addition, the creditors agreed to form a normalization steering committee for LG Card to oversee LG Card's business operations. An extraordinary shareholders' meeting of LG Card was held in March 2004 and a new chief executive officer as well as directors nominated by the normalization steering committee were elected. In February 2004, the creditors exchanged indebtedness of W954 billion (including our portion of W77.5 billion) for shares constituting 54.8% of the outstanding share capital of LG Card. LG Group also funded an additional W800 billion to LG Card (in addition to a W200 billion capital contribution made in December 2003). In March 2004, the LG Group and the Korea Development Bank provided additional liquidity of W375 billion and W125 billion, respectively. In May 2004, LG Card completed a capital write-down of 97.7% of its outstanding common stock, which included the W954 billion converted into equity by the creditors in February 2004 (including our portion of W77.5 billion). In July 2004, the creditors also converted an additional W954 billion of indebtedness into equity of LG Card (including our portion of W77.5 billion) and W1.59 trillion of new loans extended to LG Card (including our portion of W154.4 billion) into equity of LG Card. In January 2005, the LG Group and the creditor banks provided additional liquidity of W1 trillion in the aggregate (including W25.3 billion for Shinhan Bank and W23.0 billion for Chohung Bank for our aggregate portion of W48.3 billion) and also reduced the interest rate from 7.5% per annum to 5.5% per annum as well as extending the maturity of existing indebtedness of LG Card. In March 2005, the maturity of the W2 trillion credit facility extended by the creditor financial institutions were further extended to December 2006, subject to four equal quarterly installment repayments in 2006. In addition, the terms of the collateral for this facility were amended. Prior to this amendment, the creditor financial institutions were entitled to receive the cash inflows from collection on such collateral.

LG Card was not required to maintain a minimum collateral ratio or to enhance its credit support through the provision of additional collateral. Thus, there was no guarantee against losses to the extent that collection results in a shortfall of the principal amount of the credit extended. As a result of the amendment, however, LG Card is entitled to the cash received from collection on condition that LG Card maintains a minimum collateral ratio of 105%. In March 2005, LG Card also completed a capital write-down of 81.8% of its outstanding common stock, which included the ₩2,417 billion of equity held by the creditors (including our portion of ₩216 billion).

As of December 31, 2004, our total exposure to LG Card was ₩335 billion, including ₩148 billion of loans, ₩4 billion of debt securities and ₩183 billion of equity securities. We made an allowance for loan losses of ₩13 billion for the loans. As a result of the satisfactory progress on scheduled debt restructuring of LG Card, we recorded reversal of loan loss provisions of ₩77 billion and recognized securities impairment losses of ₩1 billion in 2004 in respect of our exposures to LG Card. In connection with the LG Card rescue plan, Shinhan Bank transferred ₩10 billion of exposure in its performance-based trust account to the bank account in January 2004 and Chohung Bank also transferred ₩30 billion of exposure in its performance-based trust account to the bank account in February 2004, resulting in an increase in our total exposure to LG Card. These exposures were included in our credit exposure that was converted into equity in connection with the rescue plan of LG Card as described above.

The value of underlying collateral, our pro rata entitlement thereto and the allowances we have established or will establish against our exposures to LG Card and other Korean credit card companies may not be sufficient to cover all future losses arising from these exposures. Following the debt-to-equity conversions in respect of our exposures to LG Card, we may experience further losses if the market value of the LG Card equity securities we own falls below their recorded book value. In addition, in the case of credit card companies that are in or in the future enter into workout, restructuring, reorganization or liquidation proceedings, our recoveries from those companies may be limited. We may, therefore, experience future losses with respect to these exposures.

In addition, our investment portfolio includes beneficiary certificates representing interests in investment trusts whose assets include securities issued by troubled credit card companies, including LG Card. Accordingly, to the extent that the value of securities issued by credit card companies declines as a result of their financial difficulties or otherwise, we may experience losses on our investment securities.

We have significant exposure to SK Networks, which is experiencing financial difficulties that it concealed through accounting irregularities and which is in a workout program. If this program is not satisfactorily resolved, it may have a material adverse effect on us.

As of December 31, 2004, our total exposure outstanding to SK Networks (formerly, SK Global) alone was ₩683 billion, or 0.53% of our total exposure, consisting of ₩339 billion in loans, ₩2 billion in debt securities, ₩236 billion in equity securities and ₩106 billion in guarantees and acceptances. Of our total loans outstanding to SK Networks, ₩24 billion was secured. For the unsecured loans of ₩315 billion, we made allowance for loan losses of ₩19 billion. With respect to the guarantees and acceptances outstanding, we made allowances of ₩6 billion.

In the first quarter of 2003, accounting irregularities were discovered at SK Networks to which most commercial banks in Korea, including ourselves, had substantial exposure. These irregularities had concealed the weak financial condition of SK Networks over a period of several years. In March 2003, the principal creditor banks of SK Networks commenced formal workout procedures against SK Networks under the Corporate Restructuring Promotion Act of Korea. In October 2003, SK Networks and its overseas subsidiaries completed the final major step in the restructuring of indebtedness of SK networks and its overseas subsidiaries, including the following:

- the purchase by SK Networks of approximately US\$540 million of the US\$563 million of total indebtedness of its overseas subsidiaries held by non-Korean institutions in exchange for 43% of the principal amount in promissory notes and 5% of the principal amount in the form of bonds with warrants;

- the purchase or inclusion in the restructuring plan of SK Networks of all of the approximately US\$126 million of indebtedness of its overseas subsidiaries held by Korean financial institutions; and
- the entering into a Memorandum of Understanding on the Corporate Restructuring Implementation, or Memorandum, in respect of the restructuring of the approximately US\$2 billion of indebtedness to SK Networks.

All of the indebtedness of SK Networks and its overseas subsidiaries held by Korean financial institution creditors was resolved either through an exchange for 43% of the principal amount in promissory notes and 5% of the principal amount in the form of bonds with warrants or in accordance with the Memorandum. Under the Memorandum, all of the indebtedness of SK Networks held by the Korean financial institution creditors was converted into shares of common stock, redeemable preferred stock and mandatory convertible bonds of SK Networks. SK Corp., which is the parent company of SK Networks, also converted approximately US\$760 million of its claims against SK Networks into the shares of common stock of SK Networks in connection with the Memorandum.

As a result of this corporate restructuring, we owned 9.49% of common shares of SK Networks (or 9.82% of total equity ownership in SK Networks including the redeemable preferred stock) as of December 31, 2004.

We also have exposures to other companies belonging to the SK Group. As of December 31, 2004, our total exposure outstanding to SG Wicus Corporation. was W3 billion, consisting of W3 billion in loans. For the loans, we have made an allowance for loan losses of W0.02 billion. In addition, as of December 31, 2004, our total exposure outstanding to SK Corporation, the controlling company of the SK Networks, was W633 billion, or 0.49% of our total exposure, consisting of W37 billion in loans, W206 billion in debt securities, W138 billion in equity securities, and W252 billion in guarantees and acceptances. We classify loans and guarantees and acceptances to other SK Group companies, including SK Corporation, as performing in accordance with our internal credit rating methodology and therefore no specific allowance is made against these loans or guarantees and acceptances. Our management believes the general allowance of W4 billion against the performing element of the corporate loan portfolio in total is sufficient to cover any incurred losses within this portfolio, including those loans to companies within the SK Group, including SK Corporation and excluding SK Networks and SG Wicus Corporation.

For a more detailed discussion of our exposure to the SK Group as of December 31, 2004, see “Item 4. Information on the Company – Description of Assets and Liabilities – Loans – Loan Concentrations – Exposures to SK Group Companies”.

We have exposure to the largest Korean business conglomerates, known as “chaebols”, and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us.

As a result of the unfavorable financial and economic conditions in Korea, a number of chaebols have experienced and continue to experience financial difficulties. We have significant exposure to chaebols and large corporate borrowers. Of our twenty largest corporate exposures as of December 31, 2004, seven are companies that are members of the twenty-nine largest chaebols in Korea. If the quality of the exposures extended by us to chaebols declines, we would require additional loan loss provisions in respect of loans and would record impairment losses in respect of securities, which would adversely affect our financial condition, results of operations and capital adequacy.

In particular, we have significant exposures to former Ssangyong Group companies, a number of which have been experiencing financial difficulties. In 1998, Daewoo Motors acquired Ssangyong Motors from the former Ssangyong Group, on condition that certain of the then existing liabilities of Ssangyong Motors be retained by the former Ssangyong Group. In connection with this transaction, nine member companies of the Ssangyong Group assumed in the aggregate W1.8 trillion, which subsequently resulted in significant increases in interest expense for such companies, further aggravated by a sharp increase in interest rates during the financial crisis of the late 1990's. Several of the Ssangyong Group companies, including Ssangyong Corporation, Ssangyong Cement Industrial and Ssangyong Engineering & Construction, have experienced significant financial and liquidity difficulties as a result and were subsequently placed under workout programs

by their respective creditors. In particular, Chohung Bank is the largest creditor to Ssangyong Corporation and, as such, is the lead creditor bank under the workout program applicable to Ssangyong Group companies. As of December 31, 2004, our total exposure to Ssangyong Corporation and Ssangyong Cement Industrial amounted to ₩279 billion and ₩155 billion, respectively, for which we have raised allowances for loan losses of ₩40 billion, or 14.4%, and ₩10 billion, 6.5%, respectively. Of our total loans and guarantees and acceptances to the Ssangyong Group, ₩305 billion was classified as impaired.

We cannot assure you that the allowances we have established against our exposures to the former Ssangyong Group companies will be sufficient to cover all future losses arising from these exposures. In addition, with respect to those companies that are in or in the future enter into workout or liquidation proceedings, we may not be able to make any recoveries against such companies. We may, therefore, experience future losses with respect to those loans, which may have a material adverse impact on our financial condition, results of operations and capital adequacy.

For a more detailed discussion of our exposure to the former Ssangyong Group as of December 31, 2004, see “Item 4. Information on the Company – Description of Assets and Liabilities – Loans – Loan Concentrations – Exposures to Ssangyong Group Companies”.

Future financial difficulties of chaebols may adversely affect the credit quality of our small- and medium-sized enterprise customers who serve chaebols.

Many of the more established small- and medium-sized enterprises, which have been a key focus of our corporate banking activities, have close business relationships with chaebols, primarily as suppliers and subcontractors. Recently, many chaebols have moved and continue to move their production plants or facilities or business operations to China and other countries with lower labor costs and other expenses, which will lead to less business opportunities for small- and medium-sized enterprises resulting in a material adverse impact on their financial condition and results of operations, including their ability to service their debt as they come due. Financial difficulties experienced by our small- and medium-sized enterprises customers, and our less established customers in particular, may have an adverse impact on our financial condition and results of operations.

We have exposure to companies that are currently or may in the future be put in restructuring, and we may suffer losses as a result of additional loan loss provisions required and/or the adoption of restructuring plans with which we do not agree.

As of December 31, 2004, our total loans and guarantees and acceptances to companies that were under troubled debt restructurings amounted to ₩1,480 billion or 1.4% of our total loans and guarantees and acceptances. As of the same date, our allowances for losses on these loans and guarantees and acceptances amounted to ₩295 billion, or 19.9% of these loans.

These allowances may not be sufficient to cover all future losses arising from our exposure to these companies. Furthermore, in the event that any of our borrowers become subject to corporate restructuring procedures, we may be forced to restructure our credits pursuant to restructuring plans approved by other creditor financial institutions holding 75% or more of the total outstanding debt (and 75% or more of the total outstanding secured debt, if the restructuring plan includes the restructuring of existing secured debt) of the borrower, or to dispose of our credits to other creditors on unfavorable terms.

The loss of deposit accounts maintained by Korean courts with Chohung Bank may adversely affect Chohung Bank’s financial position and results of operations.

Chohung Bank believes that it holds the largest amount of deposits made by litigants and applicants in connection with legal proceedings in Korean courts or by persons involved in disputes. Although Chohung Bank has been involved in this business for more than forty years and has acquired certain competitive advantages and entry barriers in connection therewith, no assurance can be given that Chohung Bank will be able to maintain its competitiveness in this area. The Korean Supreme Court in 1994 opened to other banks the opportunity to establish new sub-branches or branches in newly opened court houses. The Supreme Court

may open up competitive bidding to the entire network of sub-branches and branches taking court deposits. If the Supreme Court decides to select a bank for court deposits at all courts through competitive bidding, there can be no assurance that Chohung Bank will be selected. Because court deposits are a low-cost source of funding and Chohung Bank had total court deposits of ₩3,872 billion, ₩4,295 billion and ₩4,329 billion as of December 31, 2002, 2003 and 2004, respectively, which accounted for 9.2%, 10.8% and 11.2% of total Won deposits of Chohung Bank as of the same periods, the loss of such business may adversely affect Chohung Bank's financial condition and results of operations.

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

In the normal course of our banking activities, we make various commitments and incur certain contingent liabilities in the form of guarantees and acceptances. Certain guarantees issued or modified after December 31, 2002 that are not derivative contracts have been recorded on our consolidated balance sheet at their fair value at inception. Other guarantees are recorded as off-balance sheet items in the footnotes to our financial statements and those guarantees that we have confirmed to make payments on become acceptances, which are recorded on the balance sheet. We had aggregate guarantees of ₩5,546 billion, and acceptances of ₩2,012 billion as of December 31, 2004. We provide an allowance for losses with respect to guarantees and acceptances as of each balance sheet date. We provided allowances for losses of ₩76 billion in respect of the guarantees and ₩17 billion in respect of acceptances as of December 31, 2004. If we experience significant asset quality deterioration in our guarantees and acceptances exposures, no assurance can be given that such allowances will be sufficient to cover any actual losses resulting in respect of these liabilities, or that the losses we incur on guarantees and acceptances will not be larger than those experienced on corporate loans.

Risks Relating to Our Strategy

As a holding company, we are dependant on receiving dividends from our subsidiaries in order to pay dividends on our common shares.

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

- Under the Korean Commercial Code, dividends may only be paid out of distributable income, an amount which is calculated by subtracting the aggregate amount of a company's paid-in capital and certain mandatory legal reserves from its net assets, in each case as of the end of the prior fiscal year;
- Under the Bank Act, a bank also is required to credit at least 10% of its net profit to a legal reserve each time it pays dividends on distributable income until such time when this reserve equals the amount of its total paid-in capital; and
- Under the Bank Act and the requirements promulgated by the Financial Supervisory Commission, if a bank fails to meet its required capital adequacy ratio or otherwise subject to the management improvement measures imposed by the Financial Supervisory Commission, then the Financial Supervisory Commission may restrict the declaration and payment of dividend by such a bank.

Although Shinhan Bank is considered "well-capitalized" under the Bank Act and the Financial Supervisory Commission requirements, we cannot assure you that Shinhan Bank will continue to meet the criteria under the regulatory guidelines, in which case it may stop paying or reduce the amount of dividends paid to us.

We may need to raise additional capital, and adequate financing may not be available to us on acceptable terms, or at all.

We may seek additional capital in the near future to fund the growth of our operations, including through mergers and acquisitions, to provide financial support for our subsidiaries, including funds needed to address liquidity difficulties, to meet minimum regulatory capital adequacy ratios and to enhance our capital levels. We may not be able to obtain additional debt or equity financing, or if available, it may not be in amounts or on terms commercially acceptable to us, it may impose conditions on our ability to pay dividends or grow our business or it may impose restrictive financial covenants on us. If we are unable to obtain the funding we need, we may be unable to continue to implement our business strategy, enhance our financial products and services, take advantage of future opportunities or respond to competitive pressures, all of which could have a material adverse effect on our financial condition and results of operations.

We may not succeed in improving customer service through the introduction of performance-based compensation.

Our ability to increase our market share in the retail, small- and medium-sized enterprise and credit card segments will depend in part upon our ability to attract and maintain customers through high-quality services. We intend to enhance the quality of our customer service by increasing employee performance measured against the level of customer satisfaction and customer response to our products and services and the quality of the assets and revenues generated. To do so, it may involve the introduction of performance-based compensation. Virtually all employees interfacing with our customers are members of our labor union subject to contracts that do not currently provide for performance-based compensation. To the extent we attempt to implement performance-based compensation, we may face strong resistance from our labor union. Failure of the union to accept or cooperate fully with our new programs may materially adversely affect the implementation of this aspect of our strategy.

Risks relating to our other businesses

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

We enter into and maintain large investment positions in the fixed income markets, primarily through our treasury and investment business. We describe these activities in “Item 4. Information on the Company – Business Overview – Our Principal Activities – Treasury and Securities Investment”. We also maintain smaller trading positions, including securities and derivative financial instruments as part of our banking operations. In each of the product and business lines in which we enter into these kinds of positions, part of our business entails making assessments about financial market conditions and trends. The revenues and profits we derive from many of our positions and related transactions are dependent on market prices. When we own assets such as debt securities, market price declines, including as a result of fluctuating market interest rates, can expose us to losses. If prices move in a way we have not anticipated, we may experience losses. Also, when markets are volatile, characterized by rapid changes in price direction, the assessments we have made may prove to lead to lower revenues or profits, or losses, on the related transactions and positions.

Protracted market declines can reduce liquidity in the markets, making it harder to sell assets and leading to material losses.

In some of our businesses, protracted market movements, particularly price declines in assets, can reduce the level of activity in the market or reduce market liquidity. These developments can lead to material losses if we cannot close out deteriorating positions in a timely way. This may especially be the case for assets that are not traded on stock exchanges or other public trading markets, such as corporate debt securities issued by Korean companies, including credit card companies, and derivatives contracts, which may have values that we calculate using models other than publicly-quoted prices. For instance, the market value of debt securities in our portfolio as reflected on our balance sheet is determined by references to suggested prices posted by Korean rating agencies. These valuations, however, may differ significantly from the actual value that we may

realize in the event we elect to sell these securities. As a result, we may not be able to realize the full “marked-to-market” value at the time of any such sale of these securities and thus may incur additional losses. Monitoring the deterioration of prices of assets like these is difficult and could lead to losses we did not anticipate.

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

Market downturns are likely to lead to decline in the volume of transactions that we execute for our customers and, therefore, to decline in our non-interest revenues. In addition, because the fees that we charge for managing our clients’ portfolios are in many cases based on the value of performance of those portfolios, a market downturn that reduces the value of our clients’ portfolios or increases the amount of withdrawals would reduce the revenues we receive from our securities brokerage, trust account management and other asset management services. Even in the absence of a market downturn, below-market performance by our securities, trust account or asset managers may result in increased withdrawals and reduced inflows, which would reduce the revenue we receive from these businesses.

Our Internet banking services are subject to security concerns relating to the commercial use of the Internet.

We provide Internet banking services to our retail and corporate customers, which require sensitive customer information, including passwords and account information, to be transferred over a secure connection on the Internet. However, connections on the Internet, although secure, are not free from security breach. No assurance can be given that security breach in connection with our Internet banking service will not occur in the future, which may result in significant liability to our customers and third parties and materially and adversely affect our business.

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

We rely on our information technology systems for our daily operations including billing, effecting online and offline banking transactions and record keeping. We may experience disruptions, delays or other difficulties from our information technology systems, which may have an adverse effect on our business and adversely impact our customers’ confidence in us.

We are subject to operational risks which our current risk management system may not detect in time or at all.

Operational risk is risk that is difficult to quantify and subject to different definitions. In addition to internal audits and inspections, the Financial Supervisory Service conducts general annual audits of operations at Shinhan Financial Group and also performs general annual audits of our operations. The Financial Supervisory Service also performs special audits as the need arises on particular aspects of our operations such as risk management, credit monitoring and liquidity. In the ordinary course of these audits, the Financial Supervisory Service routinely issue warning notices where it determines that a regulated financial institution or such institution’s employees have failed to comply with the applicable laws or rules, regulations and guidelines of the Financial Supervisory Service. We have in the past received, and expect in the future to receive, such notices and we have taken and will continue to take appropriate actions in response to such notices. In April 2005, the Financial Supervisory Service discovered that one of Chohung Bank’s employees had embezzled approximately W40 billion of Chohung Bank’s funds. Pending the official report by the Financial Supervisory Service on the results of their investigation and discovery, Chohung Bank recovered approximately W4 billion of the embezzled fund and suspended the employee in question from his duties. In addition, Chohung Bank took remedial measures, which include increasing staffing at our back office function involving funds settlement, improving fund transfer procedures, further specification of borrowing entries, centralization of managing policy loans, establishment of a new internal audit and inspection unit to audit back office functions, introduction of an ad hoc audit and improving overall internal control procedures. No assurance can be given, however, that these remedial measures would be sufficient to prevent similar or more adverse operational risks from materializing.

Risks Relating to our Acquisition and Integration of Chohung Bank

We may fail to fully realize the anticipated benefits of the acquisition.

We aim to capitalize over time on the combined strengths of Shinhan Bank and Chohung Bank in terms of market share, product and service mix, customer base and cost efficiencies. Our ability to achieve these benefits during the three-year transition period and after a merger of the two banks is subject to risks and uncertainties, some of which are beyond our control, including:

- unforeseen or latent risks in the operations or the loan portfolio of Chohung Bank;
- difficulties in managing the gradual integration of the two businesses during the transition period, including the harmonization of compensation levels and the implementation of a coordinated business plan;
- difficulties in operating the integrated information technology system, risk management and other systems;
- difficulties in integrating the managements of the two banks after the anticipated merger;
- difficulties in putting in place effective cost-cutting measures such as procurement systems and electronic banking systems;
- difficulties in harmonizing the two corporate cultures; and
- difficulties in securing and retaining the key personnel of Chohung Bank during the transition period and retaining key personnel after the anticipated merger.

Labor opposition and unrest could delay or disrupt successful integration of Shinhan Bank and Chohung Bank or hinder our ability to realize the anticipated benefits of our acquisition of Chohung Bank.

Prior to entering into a cooperation understanding with our management, the labor union of Chohung Bank opposed the acquisition, engaging in a strike in mid-June 2003 interrupting Chohung Bank’s operations for five days and causing temporary liquidity problems. Following execution of the acquisition agreements, the labor union of Chohung Bank opposed the selection of Chohung Bank’s new CEO, who was a former executive of Chohung Bank, and attempted to prevent the recommendation committee for the CEO of Chohung Bank from meeting to approve the appointment. Subsequently, the labor union withdrew their objection. Disagreements by the labor union of Chohung Bank regarding integration steps or the full integration or by the labor union of Shinhan Bank regarding the understanding or other aspects of the integration and actions taken to delay or disrupt the process could have a material adverse effect on our ability to realize the anticipated benefits of our acquisition of Chohung Bank and have an adverse effect on our combined results of operations and the price of our common shares or American depositary shares.

Risks Relating to Competition

Competition in the Korean banking industry, in particular in the small- and medium-sized enterprises banking, retail banking and credit card operations, is intense, and we may experience declining margins as a result.

We compete principally with other nationwide commercial banks in Korea but also face competition from a number of additional sources including regional banks, development banks, specialized banks and foreign banks operating in Korea, as well as various other types of financial institutions, including credit card companies, securities companies and asset management companies. Over the past few years, regulatory reforms and liberalization of the Korean financial markets have led to increased competition among financial institutions in Korea. As the reform of the financial sector continues, foreign financial institutions, many with greater resources than we have, have entered the Korean market. There can be no assurance that we will be able to compete successfully with other domestic and foreign financial institutions or that increased competition will not have a material adverse effect on our financial condition or operating results.

The Korean commercial banking industry has undergone dramatic changes recently as a number of significant mergers and acquisitions in the industry have taken place. There may be additional consolidation in the Korean commercial banking industry, including Korea's regional banks in particular. In November 2001, Kookmin Bank and Housing & Commercial Bank, two of the strongest banks in Korea, merged to form Kookmin Bank. The newly merged bank is significantly larger and has more financial resources than us. Also in 2001, Woori Bank restructured itself as a financial holding company and significantly realigned its businesses and products to compete with other larger banks in Korea. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last few years. In 2002, there was a merger between Hana Bank and Seoulbank. In 2003, Lone Star acquired a controlling interest in Korea Exchange Bank. In 2004, Citibank acquired Koram Bank through a tender offer and subsequently renamed it Citibank Korea. In 2005, Standard Chartered Bank acquired Korea First Bank. At present, these and other banks resulting from mergers or acquisitions may have more financial resources or more experience in providing certain banking or financial services than us. Increased competition and continuing consolidation in the Korean banking industry may lead to decreased margins. There can be no assurance that we will be able to compete successfully with such banks.

Over the past several years, virtually all Korean banks have adopted a strategy of reducing large corporate exposure and increasing small- and medium-sized enterprises, retail and credit card exposure. As a result, substantially all commercial banks and financial institutions in Korea have focused their business on, and engaged in aggressive marketing campaigns and made significant investments in, these sectors. The growth and profitability of our small- and medium-sized enterprises and retail banking activities and credit card operations may decline as a result of growing market saturation in these sectors, increased interest rate competition, pressure to lower the fee rates applicable to these sectors and higher marketing expenses. In particular, it will be more difficult for our bank subsidiaries to secure new small- and medium-sized enterprise customers, retail and credit card customers with the credit quality and on credit terms necessary to achieve our business objectives.

An important focus of our business is to increase our fee income in order to diversify our revenue base, in anticipation of greater competition and declining lending margins. To date, except for credit card fees, securities brokerage fees and trust account management fees, we have not generated significant fee revenues. Our focus on generating fee revenue also involves the development of fee business from bancassurance and investment trust management. We recognize, however, that other banks and financial institutions in Korea have recently recognized the same trends and are beginning to focus on increasing their fee income, in particular from bancassurance and investment trust.

Successful acquisition of these fee generating businesses by our competitors may result in increased competition in the area of investment trust business. Recently, Woori Securities has acquired LG Investment & Securities, Hana Bank has acquired Daehan Investment & Securities, and Dongwon Financial Holding has acquired Korea Investment & Securities. Intense competition in the fee-based business will require us to create a new market and innovative products and services in a highly competitive environment. Our failure to do so could adversely affect our future results of operations.

We are highly dependent on short-term funding sources that are susceptible to price competition, which dependence may adversely affect our operations.

Most of our funding requirements, principally those of Shinhan Bank and Chohung Bank, are met through short-term funding sources, primarily in the form of customer deposits, which are subject to significant price competition. As of December 31, 2004, approximately 91.7% of our total deposits had current maturities of one year or less or were payable on demand. In the past, a substantial portion of such customer deposits has been rolled over upon maturity or otherwise maintained with us, and such short-term deposits have been a stable source of funding over time. For example, of Shinhan Bank's total time deposits outstanding as of December 31, 2004 with remaining maturities of four months or less, approximately 57.2% were rolled over or otherwise maintained with Shinhan Bank. Of Chohung Bank's total time deposits maturing during the four months ended December 31, 2004, approximately 53.3% were rolled over or otherwise maintained with Chohung Bank. No assurance can be given, however, that such stable source of funding will

continue, including as a result of intense price competition. If a substantial number of depositors fail to roll over deposited funds upon maturity or withdraw such funds from us, our liquidity position could be materially adversely affected, and we may be required to seek more expensive sources of short-term and long-term funds to finance our operations.

Risks Relating to Government Regulation and Policy

We operate in a legal and regulatory environment that is subject to change, which may have an adverse effect on our business, financial condition and results of operations.

The legal and regulatory framework for the Korean banking industry has continued to undergo significant reforms recently. Historically, regulations of the Korean government included, among other things, establishing lending rates and deposit rates for banks. Regulations also dictated the extent of competition through restrictions on new entrants and on the growth of existing banks, including the opening of new branches. Regulatory reform of the Korean banking industry to date has removed controls on all lending rates and all deposit rates and provided for increased prudential supervision of the financial sector by the Korean government. We believe that the Korean government intends to continue to deregulate the financial sector, by allowing market forces to have a larger role in guiding the development of the industry. However, with respect to provisioning, liquidity and capital adequacy standards, the Government has revised its regulations to implement stricter standards for commercial banks and credit card companies. We expect the regulatory environment in which we operate to continue to be subject to change. There can be no assurance that any future changes will not have an adverse effect on our business, financial condition or results of operations.

Uncertainties surrounding the consumer debt workout programs recently announced by the Korean government may have an impact on our ability to recover and collect on non-performing loans.

In an effort to resolve the problems caused by consumer credit delinquencies, the Korean government established Hanmaum Financial Company and the Credit Counseling & Recovery Service on May 20, 2004. Hanmaum Financial Company is a so-called “bad bank”, a type of private asset management company that acquires non-performing assets from banks and other financial institutions for the purpose of providing long-term financial aid to certain qualified delinquent consumers who apply for this program to enable them to pay off their financial debts. After restructuring delinquent debts of approximately 170,000 consumers, Hanmaum Financial Company was wound down. The Korean government currently plans to establish a second “bad bank” to aid the delinquent consumers who did not benefit from Hanmaum Financial Company despite being qualified to do so. The second bad bank is expected to provide relief without collecting 3% or 6% of the debt amount in advance nor requiring a separate application procedure, and is also expected to allow target individuals to repay their delinquent debts within seven years. The second bad bank will raise funds to purchase the delinquent debts from financial institutions through a special purpose company in an asset-backed securitization transaction. The second bad bank is expected to distribute the debt amount collected in excess of the initial purchase price to the selling financial institutions. At this time, we cannot accurately predict the number of applicants and amounts subject to the second bad bank program. To the extent the second bad bank achieves less-than-expected level of collection of, and recovery on, non-performing assets, commercial banks and credit card companies, including Shinhan Bank, Chohung Bank and Shinhan Card, may realize less gains from recoveries.

Unlike the “bad bank” program that provides loans directly to consumers, the Credit Counseling & Recovery Service has adopted an individual workout program. For delinquent consumers who are deemed to be capable of repaying their debts, the Credit Counseling & Recovery Service will, pursuant to an agreement with the creditor financial institution, provide such consumers an opportunity to repay in installments, provide a repayment grace period, reduce their debt amount or extend the maturity date of the debt. Currently, approximately 180 financial institutions, including banks and insurance companies, are parties to the Credit Recovery Support Agreement, pursuant to which such financial institutions, have agreed to provide such support described above to those consumers who meet the following qualifications: (i) income exceeding minimum living expenses promulgated by the Ministry of Health and Welfare of Korea, (ii) debt not exceeding ₩300 million in total amount, and (iii) at least 80% of such individual’s total debt owing to

financial institutions who are parties to the Credit Recovery Support Agreement. Each application for credit recovery is reviewed by the Credit Counseling & Recovery Service and approval of each application requires the approval by creditors representing at least one-half of the unsecured debt amount and at least two-thirds of the secured debt amount. In addition to the foregoing program, in April 2005, the Credit Counseling & Recovery Service adopted the “Credit Recovery Support Program for Destitute Delinquent Consumers” pursuant to which individuals who qualify us any of (i) unemployed young men, (ii) small merchants whose annual revenue is less than W48 million under the Value-Added Tax Act of Korea, or (iii) recipients of assistance as defined under the National Basic Living Securities Act may repay their debts in installments over eight to ten years following a certain grace period.

In September 2004, a court-administered individual workout program was adopted under the Individual Debtor Recovery Act. Under this program, a qualified individual debtor may file a petition for an individual workout program with a competent court. Subject to the court’s approval, the debtor may repay the debt over a period from three to eight years and will be exempted from other debts without declaring bankruptcy. To qualify, an individual delinquent debtor must have less than W500 million in debt (in the case of unsecured debt) or W1 billion in debt (in the case of secured debts), and must be capable of earning income continuously or repeatedly in the future.

To the extent that amounts of non-performing assets subject to these programs are significant and collection on such assets are unsuccessful, these consumer debt workout programs and uncertainties surrounding them may result in an adverse effect on our ability to recover and collect on such assets. See “Item 4. Information on the Company – Business Overview – Our Principal Activities – Credit Card Services”.

Structural reforms occurring in the Korean economy and financial sector may have a substantial impact on our business.

In response to the financial and economic downturn in Korea in 1997 and 1998, the Korean government announced and implemented a series of comprehensive policy packages to address structural weaknesses in the Korean economy and the financial sector, which included the mergers and restructurings of a number of banks. We expect that these comprehensive policy packages will continue to have a substantial impact on our business. The government has indicated that it may advocate further mergers or restructurings involving other commercial banks and financial institutions in the Korean financial sector. Such mergers or restructurings may create larger banks and financial institutions that may pose a competitive threat and in turn have an adverse impact on our business, financial condition and results of operations.

The Financial Supervisory Commission may impose supervisory measures if it deems us or our operating subsidiaries to be financially unsound.

If the Financial Supervisory Commission deems our financial condition, including the financial conditions of our operating subsidiaries, to be unsound or if our operating subsidiaries or we fail to meet the applicable requisite capital ratio or the capital adequacy ratio, as the case may be, set forth under Korean law, the Financial Supervisory Commission may order, among other things, at the level of the holding company or a subsidiary, capital increases or reductions, stock cancellations or consolidations, transfers of business, sales of assets, closures of branch offices, mergers with other financial institutions, or suspensions of a part or all of our business operations. If any of such measures are imposed on us or our operating subsidiaries by the Financial Supervisory Commission as a result of poor financial condition or failure to comply with minimum capital adequacy requirements or otherwise, such measures may materially harm our business and adversely affect the price of our common shares or our American depository shares.

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

The Korean government has encouraged and may in the future encourage lending to or investment in the securities of certain types of borrowers and other financial institutions in furtherance of government initiatives.

The Korean government, through its regulatory bodies such as the Financial Supervisory Commission, has in the past announced lending policies to encourage Korean banks and financial institutions to lend or make investments in particular industries or customer sectors, and, in certain cases, has provided lower cost funding through loans made by the Bank of Korea for further lending to specific customer sectors, such as the small- and medium-sized enterprises. The Korean government has in this manner encouraged commercial banks to step in to provide credit card companies with additional liquidity. While all loans or securities investments will be reviewed in accordance with our credit review policies or internal investment guidelines and regulations or those of Chohung Bank, as the case may be, we, on a voluntary basis, may factor the existence of such policies and encouragements into consideration in making loans or securities investments. However, the ultimate decision whether to make loans or securities investments always remains with us based on our credit approval procedures and our risk management system, independently of government policies.

Risks Relating to Korea and the Global Economy

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

We are incorporated in Korea, and substantially all of our operations are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. Financial turmoil in Asia in the late 1990's adversely affected the Korean economy and in turn Korean financial institutions. In addition, investors' reactions to developments in one country can have adverse effects on the securities of companies in other countries, including Korea. In addition, the economic indicators in 2002, 2003 and 2004 have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control.

Developments that could hurt Korea's economy in the future include, among other things:

- failure of restructuring of *chaebols* and accounting irregularities of and regulatory proceedings against *chaebols*, together with its negative effect on the Korean financial markets and on the small- and medium-sized enterprises market;
- failure of restructuring of large troubled companies, including LG Card and other troubled credit card companies and financial institutions;
- volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including continued weakness of the U.S. dollar or a depreciation of the Chinese renminbi or Japanese Yen), interest rates and stock markets;
- increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;
- adverse developments in the economies of countries to which Korea exports goods and services (such as the United States, China and Japan), or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;
- the continued emergence of China, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and relocation of the manufacturing base from Korea to China);
- social and labor unrest or declining consumer confidence or spending resulting from lay-offs, increasing unemployment and lower levels of income;
- a decrease in tax revenues and a substantial increase in the Korean government's expenditures for unemployment compensation and other social programs that together could lead to an increased government budget deficit;
- political uncertainty or increasing strife among or within political parties in Korea, including as a result of the increasing polarization of the positions of the ruling progressive party and the conservative opposition; and

- a deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy.

Deterioration in the Korean economy can also occur as a result of deterioration in the global economic conditions. Recent developments in the Middle East, including the war in Iraq and its aftermath, higher oil prices and the continued weakness of the economy in parts of the world have increased the uncertainty of world economic prospects in general and continue to have an adverse effect on the Korean economy. Any future deterioration of the Korean economy could have an adverse effect on us and the market price of our common shares or our American depositary shares.

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

Relations between Korea and North Korea have been tense over most of Korea's history. The level of tension between the two Koreas has fluctuated and may increase or change abruptly as a result of current and future events, including ongoing contacts at the highest levels of the governments of Korea and North Korea and increasing hostility between North Korea and the United States. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency, and has reportedly resumed activity at its Yongbyon power plant. In January 2003, North Korea announced its intention to withdraw from the Nuclear Non-Proliferation Treaty, demanding that the United States sign a non-aggression pact as a condition to North Korea dismantling its nuclear program. In August 2003, representatives of Korea, the United States, North Korea, China, Japan and Russia held multilateral talks in an effort to resolve issues relating to North Korea's nuclear weapons program. While the talks concluded without resolution, participants in the August meeting indicated that further negotiations may take place in the future and, in February 2004, six party talks resumed in China. In June 2004, the third round of the six-party talks resumed in China, which ended with an agreement by the parties to hold further talks by the end of September 2004, which failed to take place as planned. In February 2005, North Korea declared that it had developed and was in possession of nuclear weapons. It also announced its indefinite withdrawal from further six-party talks. Any further increase in tensions, resulting for example from a break-down in contacts or an outbreak in military hostilities, could hurt our business, results of operations and financial condition and could lead to a decline in the price of our common stock and our American depositary shares.

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

Effective January 1, 2005, a new law enacted on January 12, 2004 allows class action suits to be brought by shareholders of companies listed on the Korea Exchange, including us, for losses incurred in connection with purchases and sales of securities and other securities transactions arising from (i) false or inaccurate statements provided in registration statements, prospectuses, business reports and audit reports; (ii) insider trading and (iii) market manipulation. In March 2005, this law was amended to provide for a grace period for class action suits based on (i) of the above in order to afford the companies an opportunity to correct any prior false or inaccurate statements until the release of their audited financial statements for the fiscal year ended December 31, 2006. During this grace period, companies will be immune from any class action suits arising from (i) of the above. The new law permits 50 or more shareholders who collectively hold 0.01% or more of the shares of a company at the time when the cause of such damages occurred to bring a class action suit against, among others, the issuer and its directors and officers. It is uncertain how the courts will apply this law, however, as this law has been enacted only recently. Litigation can be time-consuming and expensive to resolve, and can divert management time and attention from the operation of a business. We are not aware of any basis for such suit being brought against us, nor, to our knowledge, are there any such suits pending or threatened. Any such litigation brought against us could have a material adverse effect on our business, financial condition and results of operations.

Labor unrest may adversely affect the Korean economy and our operations.

During 1998 and 1999, there were large-scale protests and labor strikes in Korea. In July 2000, the Korean Financial Industry Union, which represents the employees of over 30 financial institutions, urged its members to participate in a strike to express their opposition to mergers of the banks and the possibility of further layoffs, when the Korean government announced its plan to implement the second phase of restructuring the Republic's banks, including the promulgation of a law which allows the formation of financial holding companies. The strike subsequently was cancelled after the Korean government and the union leaders reached an agreement whereby the Korean government would not require mandatory bank mergers.

Continuing labor unrest could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could affect the financial conditions of Korean companies in general, depressing the prices of securities on the Korea Exchange, the value of unlisted securities and the value of the Won relative to other currencies. Such developments would likely have an adverse effect on our financial condition, results of operations and capital adequacy.

Risks Relating to Our American Depositary Shares

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

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

The value of your investment may be reduced by future sales of our common stock or our American depositary shares by the Korea Deposit Insurance Corporation or BNP Paribas, by other stockholders or holders of American depositary shares or by us.

Korea Deposit Insurance Corporation owns redeemable convertible preferred shares convertible into shares of our common stock representing approximately 12.28% of our total shares of common stock as of the date hereof. BNP Paribas currently owns approximately 4.25% of our outstanding shares (or 3.72% on a fully diluted basis taking into account the conversion of redeemable convertible preferred shares of Korea Deposit Insurance Corporation). Currently, we do not know when, how, or what percentage of, our redeemable convertible preferred shares will be converted by Korea Deposit Insurance Corporation and when, how or what percentage of our shares Korea Deposit Insurance Corporation will dispose of upon conversion or BNP Paribas will dispose of our shares, or to whom such shares will be sold. As a result, we cannot currently predict the impact of such sales on us.

In certain cases, we must obtain the consent of the Korea Deposit Insurance Corporation to declare and pay dividends on our shares or our American depositary shares. If Korea Deposit Insurance Corporation declines to give such consent, holders of American depositary shares may be adversely affected.

Pursuant to the terms of the Investment Agreement, we are required to obtain the consent of the Korea Deposit Insurance Corporation, to the extent permitted under applicable law, in order to declare and pay dividends on our common shares in excess of ₩750, representing 15% of par value (₩5,000), if our net

income under Korean GAAP is below ₩800 billion in a given fiscal year and any of the Redeemable Preferred Stock and Redeemable Convertible Preferred Stock are outstanding. Failure to obtain the consent of the Korea Deposit Insurance Corporation in such instances may lead to payment of dividends at a level that is lower than expected and may adversely affect the price of our common shares and our American depositary shares and further adversely affect the interest of our shareholders, including the holders of our American depositary shares.

Ownership of our shares is restricted under Korean law.

Under the Financial Holding Companies Act, any single shareholder (together with certain persons in a special relationship with such shareholder) may acquire beneficial ownership of up to 10% of the total issued and outstanding shares with voting rights of a bank holding company controlling nationwide banks such as us. In addition, any person, except for a “non-financial business group company” (as defined below), may acquire in excess of 10% of the total voting shares issued and outstanding of a financial holding company which controls a nationwide bank, provided that a prior approval from the Financial Supervisory Commission is obtained each time such person’s aggregate holdings exceed 10% (or 15% in the case of a financial holding company controlling regional banks only), 25% or 33% of the total voting shares issued and outstanding of such financial holding company. The Korean government and the Korea Deposit Insurance Corporation are exempt from this limit. Furthermore, certain non-financial business group companies (i.e., (i) any same shareholder group with aggregate net assets of all non-financial business companies belonging to such group of not less than 25% of the aggregate net assets of all members of such group; (ii) any same shareholder group with aggregate assets of all non-financial business companies belonging to such group of not less than ₩2 trillion; or (iii) any mutual fund in which a same shareholder group identified in (i) or (ii) above owns more than 4% of the total shares issued and outstanding of such mutual fund) may not acquire beneficial ownership in us in excess of 4% of our outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of up to 10% of our outstanding voting shares with the approval of the Financial Supervisory Commission under the condition that such non-financial business group companies will not exercise voting rights in respect of such shares in excess of the 4% limit. See “Item 4. Information on the Company – Supervision and Regulation – Principal Regulations Applicable to Financial Holding Companies – Restriction on Financial Holding Company Ownership”. To the extent that the total number of shares of our common stock that you and your affiliates own together exceeds such limit, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Supervisory Commission may order you to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in a fine of up to ₩50 million.

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

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

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

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

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

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

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

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

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

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

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

Under Korean tax law, a securities transaction tax (including an agricultural and fisheries special surtax) is imposed on transfers of shares listed on the Korea Exchange, including our common shares, at the rate of 0.3% of the sales price if traded on the Korea Exchange. According to a tax ruling recently issued by Korean tax authorities, securities transaction tax of 0.5% of the sales price could be imposed on the transfer of American depositary shares unless American depositary shares are listed or registered on the New York Stock Exchange, NASDAQ National Market or other foreign exchanges that may be designated by the Ministry of Finance and Economy, and transfer of American Depositary shares takes place on such exchange. At this time, it is unclear as to when the Korean government will begin to enforce the imposition of such securities transaction tax. See “Item 10. Additional Information – Taxation – Korean Taxation”.

Other Risks

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

We, including our subsidiaries such as Shinhan Bank and Chohung Bank, are not required to and do not prepare interim financial information on a U.S. GAAP basis. U.S. GAAP differs in significant respects from Korean GAAP, particularly with respect to the establishment of provisions and loan loss allowance. See “Item 5. Operating and Financial Review and Prospects – Selected Financial Information under Korean GAAP” and “– Reconciliation with Korean Generally Accepted Accounting Principles”. As a result, provision and allowance levels reflected under Korean GAAP in our results for the three months ended March 31, 2004 and 2005 may differ significantly from comparable figures under U.S. GAAP for these and future periods.

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

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which differ in many respects from standards applicable in other countries, including the United States. As a reporting company registered with the Securities and Exchange Commission and listed on the New York Stock Exchange, we are, and in the future will be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002. However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the New York Stock Exchange. For significant differences, see “Item 6. Directors, Senior Management and Employees – Corporate Governance”. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in less than satisfactory corporate governance practices or disclosure to investors in certain countries.

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

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