RISK FACTORS

An investment in the American depositary 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 Competition

Competition in the Korean financial services industry is intense, and we may experience a loss of market share and declining margins as a result.

We compete principally with other national commercial banks in Korea but also face competition from other sources, including foreign banks operating in Korea, government-owned development banks, specialized banks and regional banks, as well as various other types of financial institutions, including credit card companies, securities companies and asset management companies. Competition in the Korean financial services industry has been, and is likely to remain, intense, and we believe that regulatory reforms and the general modernization of business practices in Korea has led, and will lead, to increased competition among financial institutions in Korea. In particular, we believe that foreign financial institutions, many of which have greater experiences and resources than we do, will continue to enter the Korean market and compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, the Korean banking industry is undergoing consolidation as well as several other developments. For example, Kookmin Bank may convert itself into a financial holding company and the Government is reportedly considering privatizing the whole or part of the government-invested development banks, including Korea Development Bank and Woori Financial Holding. The financial institutions resulting from these developments may, by virtue of their increased size, expanded business scope and more efficient operations, add further competitive pressure. There can be no assurance that we will be able to compete successfully with these or other domestic and foreign financial institutions.

Over the past several years, competition has been particularly fierce in our core banking area of small- to medium-enterprise lending, as most Korean banks have focused their business on this area after reducing their exposure to large corporations. Such trend has contributed to, and may further aggravate, lower profitability and asset quality problems in this area. Competition has also been intense in the credit card business, as Korean banks and credit card companies have engaged in aggressive marketing activities, which may result in asset quality problems previously experienced with respect to credit card receivables. In addition, when the Financial Investment Services and Capital Market Act becomes effective in February 2009, which has been enacted with the aim of promoting integration and rationalization of the Korean capital markets and financial investment products industry, it may further intensify competition among financial institutions in Korea.

Increased competition and market saturation from any or all of the foregoing developments may result in a loss of market share and declining margins. In particular, if other banks and financial institutions adopt the strategy of competing on the basis of reduced interest rates, we may be required to do the same, which would undermine our net interest margin and profitability in addition to customer attrition resulting from competition. Any of such developments would have a material adverse effect on our business, growth, financial condition and results of operation.

Risks Relating to Our Banking Business

We have significant exposure to small- and medium-sized enterprises, and financial difficulties experienced by such enterprises may result in a deterioration of our asset quality and have an adverse impact on us.

One of our core banking businesses is lending to small- and medium-sized enterprises (as defined in Item 4. Information on the Company — Business Overview — Our Principal Activities — Corporate Banking Services — Small- and Medium-sized Enterprises Banking). Our loans to such enterprises increased from W39,943 billion as of December 31, 2005 to W47,159 billion as of December 31, 2006 and W62,296 billion as of December 31, 2007, representing 37.7%, 38.5% and 41.0%, respectively, of our total loan portfolio as of such dates. As of the same dates, the non-performing loan ratios for such loans were 2.54%, 1.64%, and 1.26%, respectively. Non-performing loans to small- and medium-sized enterprises were ₩1,015 billion, ₩775 billion and ₩784 billion, of our total loans to small- and medium-sized enterprises, as of December 31, 2005, 2006 and 2007, respectively.

From 2002 to 2004, Korean banks, including our banking subsidiaries, generally experienced relatively high delinquency ratios with respect to loans in this segment, in large part due to aggressive lending by the banks to such enterprises with insufficient regard to asset quality as Korean economy experienced a downturn. While the delinquency ratios for loans in this segment generally stabilized and has remained relatively low since 2005, there is no assurance that delinquencies among such enterprises will not rise to the previous levels. According to the Financial Supervisory Service, the delinquency ratio for Won-currency loans by Korean commercial banks to small- and medium-sized enterprises was 1.1% as of December 31, 2007.

Our banking subsidiaries have significant exposure to the real estate leasing and service companies and the construction companies. Recently, these companies are increasingly experiencing financial difficulties due to a slowdown in the housing market following the adoption of government regulations designed to stem speculations in the real estate market. A substantial majority of these companies to which we have exposed are small- to medium-sized enterprises. These enterprises experienced significant difficulties in times of economic downturns in the past, which resulted in higher delinquencies and impairment. This has been particularly the case for our customers that are even smaller enterprises, such as small unincorporated businesses and sole proprietorships, which tend to be affected to a greater extent that the larger corporate borrowers by downturns in Korean economy. As of December 31, 2005, 2006 and 2007, under Korean GAAP, Shinhan Bank's Won-denominated loans to the real estate leasing and service industry amounted to ₩6,649 billion, ₩8,719 billion and ₩12,212 billion, or 6.63%, 7.67% and 11.47% of the total Won-denominated loans, respectively, and had delinquency ratios (net of charge-offs and loans sales) of 1.23%, 0.62% and 0.90%, respectively. As of December 31, 2005, 2006 and 2007, under Korean GAAP, Shinhan Bank's Won-denominated loans to the construction industry amounted to ₩2,311 billion, ₩2,874 billion and ₩3,893 billion, or 2.31%, 2.53% and 3.66% of total Won-denominated loans, respectively, and had delinquency ratios (net of charge-offs and loans sales) of 1.53%, 1.01% and 1.36%, respectively.

We are taking active measures to curtail delinquency with respect to our loans to the small- and medium-sized enterprises, including strengthening loan application review processes and closely monitoring borrowers in vulnerable sectors. Despite such efforts, however, there is no assurance that the delinquency ratio for our loans to the small- and medium-sized enterprises will not rise in the future. For example, the intensifying competition among banks to increase lending to these enterprises may result in aggressive lending with insufficient regard to asset quality and profitability. Furthermore, adverse economic developments, such as increases in oil and other raw material prices or volatility of the Won against other currencies, may undermine the ability of our customers in these sectors to service their debt. In addition, many small- and medium-sized enterprises have close business relationships with the largest corporate conglomerates, known as “chaebols,” primarily as suppliers or subcontractors. Any financial or operational difficulties faced by those *chaebols*, or outsourcing of the relevant part of their supply chain to overseas suppliers, would likely hurt the operating results and liquidity of the domestic small- to medium-sized enterprises, including those to which we have exposure, resulting in an impairment of their ability to repay our loans. Any significant rise in the interest rates in Korea would also impair their ability to repay our loans. A significant rise in the delinquency ratios among these borrowers would have a material adverse effect on our business, liquidity, results of operation and financial condition.

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

Borrowers' homes, other real estate and other securities secure substantial portions of our loans. As of December 31, 2007, under Korean GAAP, the secured portion of Shinhan Bank's Won-denominated loans amounted to ₩67,353 billion, or 63.54% of such loans. We cannot assure you that the collateral value may not materially decline in the future. Shinhan Bank's general policy is to lend up to 50% to 70% of the appraised value of collateral (except in “highly speculated” areas designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) and to periodically re-appraise our collateral. However, downturns in the real estate market in Korea have from time to time resulted in the value of the collateral falling below the outstanding principal balance of the underlying loans. Declines in real estate prices reduce the value of the collateral securing our mortgage and home equity loans, and such reduction in the value of collateral may result in our inability to cover the uncollectible portion of our secured loans. A decline in the value of the real estate or other collateral securing our loans, or our ability to obtain additional collateral in the event of such declines, may result in the deterioration of our asset quality and require us to take additional loan loss provisions.

In Korea, foreclosure on collateral generally requires a written petition to a Korean court. Foreclosure proceedings in Korea typically take from seven months to one year from initiation to collection depending on the nature of the collateral, and any foreclosure application may be subject to delays and administrative requirements, which may result in a decrease in the recovery value of such collateral. There can be no assurance that we will be able to realize the full value of collateral as a result of, among others, delays in foreclosure proceedings, defects in the perfection of collateral, fraudulent transfers by borrowers and general declines in collateral value due to the oversupply of properties available in the market. Our failure to recover the expected value of collateral could expose us to losses.

We have exposure to large corporations, and, as a result, future financial difficulties experienced by them may have an adverse impact on us.

Of our 20 largest corporate exposures as of December 31, 2007, ten were companies that are or were members of the main debtor groups identified by the Governor of the Financial Supervisory Service, which are largely comprised of chaebols. As of such date, the total amount of our exposures to the main debtor group was ₩22,610 billion, or 10.9% of our total exposures to corporations. See “Item 4. Business Overview — Assets and Liabilities — Exposure to chaebols.” If the credit quality of our exposures to the main debtor group declines, we may be required to record additional loan loss provisions in respect of loans and impairment losses in respect of securities, which would adversely affect our financial condition, results of operations and capital adequacy. We cannot assure you that the allowances we have established against these exposures will be sufficient to cover all future losses arising from such 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 exposures, which may have a material adverse impact on our financial condition, results of operations and capital adequacy. See “Item 4. Information on the Company — Description of Assets and Liabilities — Loan Portfolio — Exposure to the Main Debtor Groups.”

A significant portion of our credit exposure is concentrated in a relatively small number of large corporate borrowers, which increases the risk of our corporate credit portfolio.

As of December 31, 2007, our loans, securities, guarantees and acceptances to our 20 largest borrowers totaled ₩29,373 billion, or 14.2% of our total exposures. As of that date, our single largest corporate credit exposure was to the Samsung group, to which we had outstanding credit exposure of ₩4,425 billion, or 2.1% of our total exposures. On a consolidated basis, our exposure to any single borrower and exposure to any single group of companies belonging to the same conglomerate is limited under Korean law to 20% and 25%, respectively, of the Net Total Equity Capital (as defined in “Item 4. Information about the Company — Supervision and Regulation”) under Korean GAAP. However, any further deterioration in the financial condition of our large corporate borrowers may require us to take substantial additional provisions and may have a material adverse impact on our results of operations and financial condition.

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. As of December 31, 2007, we had aggregate guarantees of ₩12,772 billion and aggregate acceptances of ₩1,701 billion, for which we provided allowances for losses of ₩21 billion in respect of the guarantees and ₩2 billion in respect of acceptances. If we experience significant asset quality deterioration with respect to our guarantees and acceptances, there is no assurance that our 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 the outstanding principal amount of the loans.

The loss of deposit accounts maintained by Korean courts may adversely affect our financial position and results of operations.

Following its merger with Chohung Bank, Shinhan Bank assumed Chohung Bank's business of providing designated depositary services to litigants engaged in legal or other proceedings in Korea. Chohung Bank had an almost exclusive market share of that business for approximately 40 years. While more than 10 banks (including Shinhan Bank) compete for these services, as of December 31, 2007, Shinhan Bank's market share for these services was approximately 70% based on the deposit amount. Since December 2004, newly opened courts are required to select the provider of these services through a competitive bidding, and the existing courts are required to evaluate the bank that provides these services on a periodic basis and, if such bank receives low marks on the evaluation, select a different bank through competitive bidding. In light of these requirements, there can be no assurance that we will continue to maintain the dominant market share at the current level. Because court deposits are a low-cost source of funding and we had total court deposits of ₩5,137 billion as of December 31, 2007, respectively, which accounted for 6.6% of our total Won deposits as of such date, the loss or reduction of such business may significantly hurt our financial condition and results of operations.

Risks Relating to Our Credit Card Business

Future changes in market conditions as well as other factors may lead to an increase in delinquency levels.

In recent years, credit card and other consumer debt has increased significantly in Korea. As of December 31, 2007, our credit card assets amounted to ₩14,681 billion. Our large exposure to credit card and other consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers in general. Accordingly, a rise in unemployment, an increase in interest rates or other difficulties in the Korean economy that have an adverse effect on Korean consumers could result in reduced growth and deterioration in the credit quality of our credit card asset portfolio. In line with industry practice, Shinhan Card has restructured a large portion of delinquent balances as loans. As of December 31, 2007, these restructured loans outstanding amounted to ₩350 billion. However, there is no assurance that Shinhan Card will be able to prevent significant credit quality deterioration in its asset portfolio.

Growing market saturation in the credit card sector may adversely affect growth prospects and profitability of Shinhan Card.

Over the past several years, substantially all commercial banks and financial institutions in Korea have focused their businesses on, and engaged in aggressive marketing campaigns in the credit card sector. The growth, market share and profitability of Shinhan Card's credit card operations may decline or become negative as a result of growing market saturation in this sector, intensified interest rate competition, pressure to lower the fee rates and higher marketing expenses, as well as government regulation and social and economic developments in Korea, such as changes in consumer confidence levels, spending patterns or public perception of credit card usage and consumer debt. Shinhan Card's ability to continue its asset growth in the future will depend on, among other things, its success in developing and marketing new products and services, its capacity to generate funding at commercially reasonable rates and in amounts sufficient to support further asset growth, its ability to develop the personnel and system infrastructure necessary to manage its growing and increasingly diversified business operations and its ability to manage increasing delinquencies, but there is no assurance that it will be able to do so at a sufficient level.

Risks Relating to Our Strategy

As a holding company, we are dependant primarily 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 assets are the outstanding capital stock of our subsidiaries, our ability to pay dividends on our common shares will mainly depend on the dividend payments from our 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 Banking 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 Banking Act and the requirements promulgated by the Financial Services Commission, if a bank fails to meet its required capital adequacy ratio or otherwise subject to the management improvement measures imposed by the Financial Services Commission, then the Financial Services Commission may restrict the declaration and payment of dividend by such a bank.

Shinhan Bank is currently considered to be "well-capitalized" under the Banking Act and the Financial Services Commission requirements. However, 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 fail to fully realize the anticipated benefits of the acquisition of LG Card.

We aim to capitalize over time on the combined strengths of LG Card (renamed Shinhan Card on October 1, 2007) and former Shinhan Card in terms of market share, product and service mix, customer base and cost efficiencies. We have effected the integration of the operations of these two companies by transferring all of the assets and liabilities of former Shinhan Card to LG Card on October 1, 2007. Our ability to achieve the benefits of the acquisition is subject to risks and uncertainties, including with respect to fully integrating the information technology system, risk management and other systems of the two companies, merging the currently separate labor unions of LG Card and former Shinhan Card, and otherwise harmonizing the two corporate cultures.

Other Risks Relating to Our 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. Taking these positions entails making assessments about financial market conditions and trends. The revenues and profits we derive from many of these positions and related transactions are dependent on market prices, which are at times beyond our control. When we own assets such as debt securities, a decline in market prices, including as a result of fluctuating market interest rates, can expose us to losses. If market prices move in a way we have not anticipated, we may experience losses. Also, when markets are volatile, characterized by rapid changes in the price direction, the actual market prices may be contrary to our assessments and lead to lower than anticipated revenues or profits, or even result in losses, with respect to the related transactions and positions.

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

Market downturns are likely to lead to a decline in the volume of transactions that we execute for our customers and, therefore, to a 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 size of the asset under management, 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. In addition, protracted market movements involving result in declines of asset prices can reduce liquidity for assets held by us and lead to material losses if we cannot close out or otherwise dispose of deteriorating positions in a timely way or at commercially reasonable prices.

Our risk management policies and procedures may not be fully effective at all times.

In the course of our operation, we must manage a number of risks, such as credit risks, market risks and operational risks. Although we devote significant resources to develop and improve our risk management policies and procedures and expect to continue to do so in the future, our risk management techniques may not be fully effective at all times in mitigating risk exposures in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Management of credit, market and operational risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and we cannot assure you that these policies and procedures will prove to be fully effective at all times against all the risks we are faced with.

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. As part of efforts to fully integrate the operations of LG Card (acquired in March 2007 and renamed Shinhan Card in October 2007) and former Shinhan Card, we plan to integrate the information technology system of former Shinhan Card into that of LG Card by August 2008. We also plan to upgrade our groupwide customer data sharing and other customer relations management systems. We may experience disruptions, delays or other difficulties from our information technology systems, and may not integrate or upgrade our systems as currently planned. Any of these developments may have an adverse effect on our business and adversely impact our customers’ confidence in us.

Risks Relating to Liquidity and Capital Management

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, and even if available, it may not be in an amount or on terms commercially acceptable to us, impose conditions on our ability to pay dividends or grow our business, and/or 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 may have a material adverse effect on our financial condition and results of operations.

Difficult conditions in the global credit and financial markets could adversely affect our liquidity and performance.

Beginning in the second quarter of 2007, credit markets in the United States experienced difficult conditions and volatility that in turn have affected worldwide financial markets. In particular, in late July and early August

2007, market uncertainty in the U.S. sub-prime mortgage sector increased dramatically and further expanded to other markets such as those for leveraged finance, collateralized debt obligations and other structured products. These conditions have resulted in reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency in the United States and global credit and financial markets. Recent increases in credit spreads, as well as limitations on the availability of credit, may affect our ability to borrow, which may adversely affect our liquidity and performance. In the event that the current difficult conditions in the global credit markets continue, we may be forced to fund our operations at a higher cost or we may be unable to raise as much funding as we need to support our lending and other activities. This could cause us to curtail our business activities and could increase our cost of funding, both of which may reduce our profitability.

A considerable increase in interest rates could raise our funding costs and decrease the value of our debt securities portfolio and while reducing loan demand and the ability of our borrowers to repay loans, which, as a result, could adversely affect us.

From 2000 to 2004, interest rates in Korea declined to historically low levels as the government sought to stimulate economic growth through active rate-lowering measures. Interest rates started to rebound in the second half of 2005 and continued to rise in 2006 and 2007, although they have remained relatively flat in the first quarter of 2008. The vast majority of debt securities we hold pay interest at a fixed rate. However, all things being equal and assuming that the interest rate sensitivity gap of our assets and liabilities is narrow, a considerable increase in interest rates would lead to a decline in the value of the debt securities in our portfolio. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. A considerable rise in interest rates may therefore require us to rebalance our assets and liabilities in order to minimize the risk of potential mismatches and maintain our profitability.

In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our borrowers, including holders of our credit cards, which in turn may lead to deterioration in our credit portfolio. Since most of our loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of our borrowers and could adversely affect their ability to make timely payments on their loans.

Our banking subsidiaries are dependent on short-term funding sources that are susceptible to the availability of alternative funding sources and market volatility, which dependence may adversely affect our operations.

Our banking subsidiaries meet most of their funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2007, approximately 52.5% of Shinhan Bank’s total deposits had current maturities of one year or less. In the past, largely due to the lack of alternative investment opportunities for individuals and households in Korea, especially in light of the low interest rate environment and volatile stock market conditions, a substantial portion of such customer deposits were rolled over upon maturity and accordingly provided a stable source of funding for our banking subsidiaries. However, due to the increasing popularity of higher-yielding investment opportunities driven by the bullish stock market in the recent past, an increasing portion of customer deposits maintained at banks have shifted to money market funds and other brokerage accounts maintained at securities companies, which resulted in temporary difficulty in finding sufficient funding for Korean banks in general, including our banking subsidiaries, in January 2008. As a result, during this time, the Korean banks, including our banking subsidiaries, met their funding needs, in part, through an increased use of call loans and other short-term loans, which carried higher interest rates than customer deposits and therefore had an adverse effect on their net interest margin. No assurance can be given that our banking subsidiaries will continue to enjoy a stable funding source in the future through rollovers of customer deposits. In addition, upon the effectiveness of the Financial Investment Services and Capital Market Act, customers that currently maintain demand deposit or savings accounts that are payable upon demand at our banking subsidiaries, which accounted for approximately 47.5% of Shinhan Bank’s total deposits as of December 31, 2007, elect to have such accounts established at securities and investment management companies. In any such event, our liquidity position could be adversely affected and our banking subsidiaries may be required to seek more expensive sources of short-term and long-term funding to finance their operations. See Item 5 "Liquidity and Capital Resources — Financial Condition — Liquidity."

We and our banking subsidiaries may be required to raise additional capital to maintain our capital adequacy ratios, which we or our banking subsidiaries may not be able to do on favorable terms or at all.

Pursuant to the new capital adequacy requirements of the Financial Services Commission applicable from January 1, 2007, we, as a financial holding company, are required to maintain a minimum consolidated equity capital ratio, which is the ratio of equity capital as a percentage of risk-weighted assets on a consolidated Korean GAAP basis, of 8.0%. See "Item 4. Information on the Company — Supervision and Regulation — Principal Regulations Applicable to Financial Holding Companies — Capital Adequacy." In addition, each of our banking subsidiaries is required to maintain a minimum Tier I capital adequacy ratio of 4.0% and a combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated Korean GAAP basis. In both cases, Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100% of Tier I capital. As of December 31, 2007, our consolidated equity capital ratio and the capital adequacy ratios of our banking subsidiaries exceeded the minimum levels required by the Financial Services Commission. However, our capital base and capital adequacy ratio or those of our subsidiaries may deteriorate in the future if our or their results of operations or financial condition deteriorates for any reason, including as a result of a deterioration in the asset quality of our loans (including credit card balances), or if we or they are not able to deploy our funding into suitably low-risk assets. If we or our subsidiaries fail to maintain our or their capital adequacy ratios in the future, Korean regulatory authorities may impose penalties ranging from a warning to suspension or revocation of our or their licenses.

If our capital adequacy ratio or those of our subsidiaries deteriorate, we or they may be required to obtain additional Tier I or Tier II capital in order to remain in compliance with the applicable capital adequacy requirements. In addition, as the financial holding company for our subsidiaries, we may be required to raise additional capital to contribute to our subsidiaries. We or our subsidiaries may not be able to obtain additional capital on favorable terms, or at all. Our ability or the ability of our subsidiaries to obtain additional capital at any time may be constrained to the extent that banks or other financial institutions in Korea or from other countries are seeking to raise capital at the same time. For a description of the capital adequacy requirements of the Financial Services Commission, see "Item 5. Liquidity and Capital Resources — Financial Condition — Capital Adequacy." Depending on whether we or our subsidiaries are able to obtain the necessary additional capital, and the terms and amount of such capital obtained, holders of our common stock of ADSs may experience a dilution of their interest, or we may experience a dilution of our interest in our subsidiaries.

Our banking subsidiaries may face increased capital requirements under the new Basel Capital Accord.

Beginning on January 1, 2008, the Financial Supervisory Service implemented the new Basel Capital Accord, referred to as Basel II, in Korea, which has substantially affected the way risk is measured among Korean financial institutions, including our banking subsidiaries. Building upon the initial Basel Capital Accord of 1988, which focused primarily on credit risk and market risk and on capital adequacy and asset soundness as measures of risk, Basel II expands this approach to contemplate additional areas of risk such as operational risk. The implementation of Basel II may require an increase in the capital requirements of our banking subsidiaries, which may require us to either improve our asset quality or raise additional capital.

In addition, under Basel II, banks are permitted to follow either a standardized approach or an internal ratings-based approach with respect to calculating credit risk capital requirements. Shinhan Bank has voluntarily chosen to establish and follow an internal ratings-based approach, which is more risk-sensitive in assessing its credit risk capital requirements. On April 28, 2008, the Financial Supervisory Service approved Shinhan Bank's foundation internal ratings-based approach for credit risk. Accordingly, starting June 30, 2008, Shinhan Bank plans to implement the foundation internal rating-based ("F-IRB") method with respect to the Basel II credit risks related to loan portfolios of large companies, small and medium enterprises and retail outlets. While we believe that the implementation of Shinhan Bank's foundation ratings-based approach will increase its capital adequacy ratio and lead to a decrease in its credit risk-related capital requirements in 2008 as compared to those under its previous approach under the initial Basel Capital Accord of 1988, there can be no assurance that such approach under

Basel II will not require an increase in Shinhan Bank's credit risk capital requirements in the future, which may require Shinhan Bank to either improve its asset quality or raise additional capital.

See "Item 4. Information on the Company — Risk Management — Upgrades and Integration of Risk Management" and "Item 5. Operating Results — Overview — Basel Capital Accord."

Risks Relating to Government Regulation and Policy

We are a heavily regulated entity and 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.

As a financial services provider, we are subject to a number of regulations designed to maintain the safety and soundness of Korea's financial system, ensure our compliance with economic and other obligations and limit our exposure risk. These regulations may limit our activities and changes in these regulations may increase our costs of doing business. Regulatory agencies frequently review regulations relating to our business. We expect the regulatory environment in which we operate to continue to change. Changes to regulations applicable to us and our business or changes in their implementation or interpretation could affect us in unpredictable ways and could adversely affect our businesses, results of operations and financial conditions.

In addition, a breach of regulations could expose us to potential liabilities and sanctions. For example, If the Financial Services 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 Services Commission may order, among others, at the level of the holding company or that of its 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 is imposed on us or on our operating subsidiaries by the Financial Services Commission as a result of poor financial condition or failure to comply with minimum capital adequacy requirements or for other reasons, such measures may have a material adverse effect on our business and the price of our common shares and/or American depositary shares.

Government oversight of our lending business, particularly regarding home equity and mortgage loans, has become stricter, which may adversely affect our banking business.

Due to concerns regarding the potential risks of excessive retail lending, particularly regarding home equity and mortgage lending, the Korean government has in recent years adopted more strict regulations with respect to retail lending by Korean banks. The Korean government has also indicated a continuing commitment to stabilize rising prices in the real estate market and a willingness to take necessary measures for this purpose. For example, in recent years, the Korean government:

- adopted guidelines that require financial institutions to impose stricter debt-to-income ratio limits on customers, in addition to loan-to-value ratio requirements, in connection with mortgage loans for real property located in areas of intense real property speculation or excessive investment;
- raised the property tax applicable to residential properties if such property represents the third or more residential property owned by a single individual;
- adopted a ceiling on the sale price of newly constructed residential properties and, under certain circumstances, required developers to disclose the costs incurred in connection with the construction of such properties;
- amended the Urban and Residential Environment Improvement Act to require that at least 25% of any increased floor space resulting from the redevelopment of existing residential properties be allocated to the construction of residential rental properties;
- issued recommendations that Korean banks further limit their mortgage and home equity lending; and

• undertook new measures to increase the supply of residential properties, including long-term residential lease properties.

These measures, as well as any future regulations that the Korean government may undertake for a similar policy goal, may have the effect of limiting the growth and profitability of our retail banking business, especially in the area of mortgage and home equity lending. Furthermore, these measures may contribute to substantial future declines in real estate prices in Korea, which will reduce the value of the collateral securing our mortgage and home equity loans. See "—Other risks relating to our business—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."

New loan loss provisioning guidelines implemented by the Financial Services Commission may require us to increase our provisioning levels under Korean GAAP, which could adversely affect us.

In recent years, the Financial Services Commission has implemented changes to the loan loss provisioning requirements applicable to Korean banks under Korean GAAP, which have resulted in increases to our provisions and have adversely impacted our reported results of operations and financial condition under Korean GAAP. Until 2004, this requirement to establish allowances for possible losses in respect of confirmed acceptances and guarantees applied only to those classified as substandard or below. Commencing in the second half of 2005, this requirement was extended to cover confirmed acceptances and guarantees classified as normal or precautionary, as well as unconfirmed acceptances and guarantees and bills endorsed. These changes resulted in a significant increase in our allowance for acceptances and guarantees and other allowances under Korean GAAP, and a corresponding decrease in our income before income tax under Korean GAAP, in 2005. Furthermore, in the second half of 2006, the Financial Services Commission increased the minimum required provisioning levels applicable to loans, confirmed and unconfirmed acceptances and guarantees, bills endorsed and unused credit lines that are classified as normal and precautionary. These changes resulted in a significant increase in our allowance for loan losses, allowance for acceptances and guarantees and other allowances under Korean GAAP, and a corresponding decrease in our income before income tax under Korean GAAP, in 2006. In addition, in the second half of 2007, the Financial Services Commission increased the minimum required provisioning levels applicable to corporate loans and other credits classified as normal. For monoline credit card companies, until 2007, the requirement to establish other allowances in respect of unused credit lines applied only to the unused credit limit for cash advances on active credit card accounts, defined as those with a transaction recorded during the past year. Commencing in the first quarter of 2008, this requirement was extended to cover the unused credit limit for credit card purchases on all credit card accounts, whether active or not, and in anticipation of such extension, we have made related allowances in 2007. As a result, these changes resulted in a significant increase in other allowances under Korean GAAP, and a corresponding decrease in our income before income tax under Korean GAAP, in 2007. See "Item 4. Information on the Company — Supervision and Regulation — Principal Regulations Applicable to Banks — Capital Adequacy."

Also, in November 2004, the Financial Services Commission announced that it will implement new loan loss provisioning guidelines by the end of 2007 under which Korean banks will take into account "expected losses" with respect to credits in establishing their allowance for loan losses, instead of establishing such allowances based on the classification of credits under the current asset classification criteria. Under the new guidelines, all Korean banks were advised to establish systems to calculate their "expected losses" based on their historical losses during 2005. The Financial Services Commission also announced that Korean banks could voluntarily comply with the new loan loss provisioning guidelines commencing in 2005. Specifically, in the second half of 2005, banks that had implemented a credible internal system for evaluating "expected losses" could establish their allowance for loan losses based on their historical losses, so long as the total allowance for loan losses established exceeded the levels required under the asset classification-based provisioning guidelines. Similarly, in the first half of 2006, banks that had implemented a credible system for evaluating "expected losses" could establish their allowance for loan losses based on such expected losses, so long as the total allowance established exceeded required levels. We complied with the new guidelines and developed a system for evaluating "expected losses" in establishing our allowance for loan losses. However, the Financial Services Commission has not since released any further details regarding the new guidelines, and it is unclear when such new guidelines will be implemented in the future. Full compliance with the new guidelines may increase our provisions for loan losses under Korean GAAP compared to previous levels established under the asset classification-based provisioning guidelines.

Any future required increases in our provisions for loan losses under Korean GAAP could have an adverse effect on our reported results of operations and financial condition under Korean GAAP and our reported capital adequacy ratio, which in turn may adversely affect the market price of our common stock and ADSs.

Government regulation of the credit card business has increased significantly in recent years, which may hurt our credit card operations.

Due to the rapid growth of the credit card market and rising consumer debt levels in Korea in prior years, the Korean government has heightened its regulatory oversight of the credit card industry. From mid-2002 through 2005, the Ministry of Strategy and Finance (formerly the Ministry of Finance and Economy) and the Financial Services Commission adopted a variety of amendments to existing regulations governing the credit card industry. Among other things, these amendments increased minimum required provisioning levels applicable to credit card receivables, required the reduction in volumes for certain types of credit card loans, increased minimum capital ratios and allowed the imposition of new sanctions against credit card companies that failed to meet applicable requirements. The Financial Services Commission and the Financial Supervisory Service also implemented a number of stricter rules governing, among others, the risk management systems of credit card issuers, evaluation and reporting of credit card balances and delinquency ratios, the procedures governing which persons may receive credit cards and the scope of permitted deductions for income tax purposes, the level of including securitized assets in calculation of capital adequacy. For more details relating to these regulations, see “Item 4. Information on the Company — Supervision and Regulation — Principal Regulations Applicable to the Credit Card Business.”

The Korean government may adopt further regulatory changes in the future that affect the credit card industry. Depending on their nature, such changes may adversely affect our credit card operations, by restricting its growth or scope, subjecting it to stricter requirements and potential sanctions or greater competition, constraining its profitability or otherwise.

Structural reforms in the Korean economy and its financial sector may have a substantial impact on our business, and the recently enacted financial Investment Services and Capital Market Act may intensify competition in the Korean financial industry.

From time to time, generally in response to the financial and economic crisis in Korea and elsewhere, the Korean government announces and implements a series of comprehensive policy packages to address structural weaknesses in the Korean economy and its financial sector. A recent policy announcement involves the government’s intention to privatize the government-invested banks such as Korea Development Bank and Woori Financial Holdings with a view of creating globally competitive investment banks. While details of such measures are unavailable to-date, such privatization efforts may create additional competitive pressure in the banking sector and in turn have an adverse impact on our business, financial condition and results of operations.

In addition, in order to promote integration and rationalization of the Korean capital markets and financial investment products industry, in July 2007, the National Assembly of Korea enacted the Financial Investment Services and Capital Market Act. When this new law becomes effective in February 2009, we and other banks in Korea may face greater competition in the Korean financial services market from securities companies and other non-bank financial institutions. For example, securities companies currently are not permitted to accept deposits other than for purposes of securities investment by customers and may not provide secondary services in connection with securities investments such as settlement and remittance relating to such deposits. However, under the new law, financial investment companies, which will replace the current securities companies, among others, will be able to provide such secondary services. See “Item 4. Information on the Company — Supervision and Regulation — The Financial Investment Services and Capital Market Act.” Accordingly, we and other banks in Korea may experience a loss of customer deposits (which in turn may create further need to seek alternative funding sources and an increase in our funding costs), as well as a decrease in our settlement and remittance service fee income.

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 Services Commission, has in the past announced lending policies to encourage Korean banks and financial institutions to lend to or invest in particular industries or customer segments, and, in certain cases, has provided lower cost funding through loans made by the Bank of Korea for further lending to specific customer segments, such as the small- and medium-sized enterprises. While all loans or securities investments will be reviewed in accordance with our credit review policies or internal investment guidelines and regulations, we, on a voluntary basis, may factor the existence of such policies and encouragements into consideration in making loans or securities investments. In addition, while the ultimate decision whether to make loans or securities investments remains with us and is made based on our credit approval procedures and our risk management system, independently of government policies, the Korean government may in the future request financial institutions in Korea, including us, to make investments in or provide other forms of financial support to particular sectors of the Korean economy as a matter of policy, which financial institutions, including us, may decide to accept. We may incur costs or losses as a result of providing such financial support.

The Act concerning Protection of Fixed Term or Part Time Employees may have an adverse effect on our operations.

On December 21, 2006, the Act concerning Protection of Fixed Term or Part Time Employees (the “Non-regular Employee Act”) was enacted and became effective on July 1, 2007. Under the Non-regular Employee Act, non-regular employees, who are hired under fixed-term employment contracts, must not be discriminated against by employers, compared to regular employees performing the same or similar duties as those of the fixed-term employees in wages and other labor conditions, without justifiable grounds. The Non-regular Employee Act also provides that, if a fixed-term employee remains employed under a fixed-term employment contract for a period exceeding two years, the fixed-term employee will be deemed to be a regular employee and the employer will not be able to terminate the employment of such fixed-term employee without justifiable grounds, even after the expiration of the fixed-term employment contract, provided that this provision shall apply only to fixed-term employees to be hired under fixed-term employment contracts to be newly entered into or renewed or extended after the effective date of the Non-regular Employee Act. As of December 31, 2007, we had a total of 16,434 regular employees and 4,699 non-regular employees who are employed on a temporary basis.

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 the years from 2003 to 2007 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:

- volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including continued weakness of the U.S. dollar and/or the appreciation of the Korean Won against foreign currencies), 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;
- uncertainty and volatility in real estate prices arising, in part, from the Korean government's policy-driven tax and other regulatory measures;
- 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;
- 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; and
- the failure by the legislative body of the United States or Korea to approve the Free Trade Agreement or the failure by Korean economy to achieve the desired economic benefits from such Free Trade Agreement.

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 military and political struggle in Iraq , 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 Korea and North Korea 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 increased hostility between North Korea and the United States. In February 2005, North Korea announced that it possessed nuclear weapons, and after a series of failed negotiations with five nations consisting of China, Japan, Korea, Russia and the United States, in July 2006, North Korea conducted several missile tests. In response, the United Nations Security Council passed a resolution condemning such missile tests and banning any United Nations member state from conducting transactions with North Korea in connection with material or technology related to missile development or weapons of mass destruction. In October 2006, North Korea announced that it had successfully conducted a nuclear test. In response, the United Nations Security Council passed a resolution which prohibits any United Nations member state from conducting transactions with North Korea in connection with any large-scale arms and material or technology related to missile development or weapons of mass destruction, providing luxury goods to North Korea, and imposes freezing of assets and an international travel ban on persons associated with North Korea's weapons programs, and calls upon all United Nations member states to take cooperative action, including through inspection of cargo to or from North Korea. In February 2007, the six nations reached an accord under which North Korea would begin to disable its nuclear facilities in return for fuel oil and aid. In August 2007, North Korea completed implementing the first phase of the accord by closing down and sealing the relevant nuclear facility. In September 2007, the six nations entered into an agreement to dismantle the North Korean nuclear armament by the end of 2007, which North Korea failed to comply. Subsequently, in April 2008, North Korea and the United Sates agreed on procedures through which North Korea would declare its nuclear programs. Making such declaration is the next step toward dismantling the North Korean nuclear armament. Once the declaration is made, the United States may remove North Korea from the list of state sponsors of terrorism and end sanctions imposed under certain U.S. law. It is uncertain, however, whether North Korea would eventually declare its nuclear programs in accordance with the agreed-upon procedures, or whether the North Korean nuclear armament will eventually be dismantled. In addition, there is no guarantee that the new administration in Korea, which took office in February 2008, will continue to pursue the engagement policy of the previous administration with respect to North Korea or that high-level contacts between Korea and North Korea will continue.

We are currently not engaged in any business activities in North Korea. However, any further increase in tensions, resulting for example from a break-down in contacts, further tests of long-range nuclear missiles, coupled with continuing nuclear programs by North Korea or an outbreak in military hostilities, could adversely affect our business, prospects, financial condition and results of operations and could lead to a decline in the market value of our ADSs.

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

Enacted on January 20, 2004 and effective January 1, 2005, the Act on Class Actions regarding Securities allows class action suits to be brought by shareholders of companies listed on the Korea Exchange, including ours, for losses incurred in connection with the purchase and sale 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. This 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, Shinhan Financial Group, its subsidiaries and its and their respective 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 valuable 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.

Any significant labor unrest in the Korean financial industry or other sectors of Korean economy 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, and depress 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 conversion of our redeemable convertible preferred shares.

As part of the financing for the LG Card acquisition, we issued to 12 entities in Korea an aggregate of 14,721,000 redeemable convertible preferred shares, which are convertible into 3.71% of our total issued common shares on a fully diluted basis. These redeemable convertible preferred shares may be converted into our common shares at any time from January 26, 2008 through January 25, 2012.

Currently, we do not know when or what percentage of our redeemable convertible preferred shares will be converted, or disposed of following the conversion. Accordingly, we cannot currently predict the impact of such conversion or disposal.

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 national 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 national bank, provided that a prior approval from the Financial Services 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 Services 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 these limits, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Services 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, plus an additional charge of up to 0.03% of the book value of such shares per day until the date of disposal.

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 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 Strategy and Finance, and transfer of American Depositary shares takes place on such exchange. In May 2007, the Seoul Administrative Court held that depositary receipts do not constitute share certificates subject to the securities transaction tax. However, the decision made by the Seoul Administrative Court is not necessarily final and a higher court may issue a different ruling from that of the Seoul Administrative Court upon further appeal. Depending on the outcome of such appeal, there may be different tax consequences of transfers of American depository shares. See “Item 10. Additional Information — Taxation — Korean Taxation.”