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 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 national 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 of 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. In addition, notwithstanding the failed sale of it in 2007, Korea Exchange Bank may be subject to a merger or sale in the near future. 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. In March 2007, we acquired the controlling equity interest in LG Card, the largest credit card company in Korea in terms of the number of cardholders which had been in a workout program since November 2003 . We cannot assure you that we will be able to successfully integrate the operations of LG Card into the rest of our operations, achieve the intended synergy effects or otherwise manage LG Card successfully.

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, 2006, approximately 89.91% 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, 2006 with remaining maturities of four months or less, approximately 32.64% were rolled over or otherwise maintained with Shinhan 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 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 W38,713 billion as of December 31, 2004 to W39,943 billion as of December 31, 2005 and to W47,159 billion as of December 31, 2006. These balances represent 39.9%, 37.7% and 38.5%, respectively, of our total loan portfolio as of December 31, 2004, 2005 and 2006. 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 W1,005 billion as of December 31, 2004, W1,015 billion as of December 31, 2005 and W775 billion as of December 31, 2006, representing 2.60%, 2.54% and 1.64%, respectively, of our total loans to small- and medium-sized enterprises as of December 31, 2004, 2005 and 2006.

From 2002 to 2004, due to an aggressive lending policy with insufficient regard to asset quality followed by a downturn in Korean economy, the industry-wide delinquency ratios for loans to small- and medium-sized enterprises under Korean GAAP significantly increased. 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 overdue 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. 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. Under Korean GAAP, 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 W55 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, in the absence of which the delinquency ratios would have been higher. In 2005 and 2006, due to an active campaign to improve asset quality, under Korean GAAP, Shinhan Bank's delinquency ratio for such loans decreased from 1.80% as of December 31, 2004 to 1.44% as of December 31, 2005 and to 1.10% as of December 31, 2006 and Chohung Bank's delinquency ratio for such loans decreased from 2.21% as of December 31, 2004 to 1.70% as of December 31, 2005. In 2004, 2005 and 2006, under Korean GAAP, Shinhan Bank charged off loans to small- and medium-sized enterprises of W101 billion, W82 billion and W82 billion, respectively, while Chohung Bank charged off loans to small- and medium-sized enterprises of W255 billion, W118 billion in 2004, 2005, respectively. In addition, under Korean GAAP, in 2004, 2005 and 2006, Chohung Bank sold W357 billion and W175 billion and Shinhan Bank sold W146 billion, W126 billion and W83 billion of its loans to small- and medium-sized enterprises, respectively, in the absence of which the delinquency ratios would have been higher. While Shinhan Bank adopts a more strict system for asset quality control in respect of loans to small- to medium-sized enterprises, loans to such enterprises continue to represent a significant percentage of Shinhan Bank's total loans, which was 38.5% as of December 31, 2006, and we cannot assure you that the delinquency ratio for such loans will not increase in the future, especially if Korean economy experiences a significant downturn in the future or if the interest rate in Korea rises significantly.

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 W7,691 billion, or 14.08% of total corporate loans, as of December 31, 2004, to W9,434 billion, or 16.30% of total corporate loans, as of December 31, 2005 and to W13,714 billion, or 20.18% of total corporate loans, as of December 31, 2006. In addition, our loans to the hotel and leisure industry (consisting principally of hotels, motels and restaurants) as of December 31, 2004, 2005 and 2006 aggregated W2,082 billion, W2,114 billion and W2,741 billion respectively, or 3.81%, 3.65% and 4.03%, respectively, of total corporate loans. The real estate, leasing and service industry and the hotel and leisure industry experienced significant difficulties in 2004 resulting in higher delinquencies and impairment. As of December 31, 2006, under Korean GAAP, Shinhan Bank's delinquency ratio for loans to the real estate, leasing and service industry, net of charge-offs and loan sales, was 0.61%, and our delinquency ratio for loans to the hotel and leisure industry, net of charge-offs and loan sales, was 0.96%. While these ratios improved compared to those as of December 31, 2005, which were 1.00% and 1.88%, respectively for Shinhan Bank, and 1.73% and 3.30%, respectively, for Chohung Bank, we cannot assure you such ratios will not deteriorate in the future, especially if Korean economy experiences a significant downturn in the future, if the interest rate in Korea rises significantly, or, as a substantial portion of these loans is secured with real estate, if the real estate price in Korea drops significantly.

The small- and medium-sized enterprise lending business continues to be 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. Renewed 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 W22,180 billion as of December 31, 2004 to W25,840 billion as of December 31, 2005 and to W30,097 billion as of December 31, 2006. Such increase represents 41.74% and 25.65% of the overall increase in our loan portfolio during 2005 and 2006, respectively. Of our total consumer loan portfolio, 52.24%, 53.88% and 55.25% was attributable to mortgage and home equity lending as of December 31, 2004, 2005 and 2006, respectively. The growth of such lending is significantly dependent on, among other things, competitive conditions, real estate prices, interest rate levels and government policies affecting these markets. 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% and maximum debt-to-income ratio of mortgage and home equity loans to 60%, and in certain cases to 40% . In recent years, the Korean government has issued several policy-driven regulations to suppress the increasing real estate prices in certain zones of the Seoul Metropolitan area that are in high demand, including the further reduction of maximum loan-to-value ratio and maximum debt-to-income ratio applicable to mortgage and home equity loans for real estate in those regulated zones, which has resulted in, and may further, a general decline in the real estate prices in Korea. Due to the factors discussed above, we cannot assure you that significant growth of our mortgage and home equity lending business will continue.

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, 2006, we had W13,585 billion of such long-term mortgage and home equity loans outstanding, for which we established an allowance for loan losses of W1 billion. This relatively low amount of allowance for loan losses compared to the amount of the long-term mortgage and home equity loans were primarily due to the fact that these loans are oversecured and are made subject to the condition of relatively low loan-to-value ratios. 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, we cannot assure you 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’ homes, other real estate and other securities secure substantial portions of our loans. As of December 31, 2006, under Korean GAAP, the secured portion of our Won-denominated loans of Shinhan Bank amounted to W58,795 billion, or 65.62% 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% — 70% of the appraised value of collateral, which appraisal value we believe 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 in a number of loans whose principal amount exceeds the value of the underlying collateral at times. Declines in the value of securities and/or real estate prices in Korea that result in shortfalls in collateral values compared 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 of 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 due to oversupply of properties that 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). From 2000 to 2002, 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. However, as a result of, among other things, weak economic conditions as well as an increase in unemployment in 2003 and 2004, this growth led to an industry-wide decline in the overall credit quality, with increased delinquencies, provisions and charge-offs. While the overall credit quality and the level of delinquencies, provisions and charge-offs improved in 2005 and 2006 due to aggressive efforts by credit card companies and other consumer lending companies to write off non-performing loans and issue new credit only to select customers with good credit ratings, we cannot assure you that such trends will continue or will not materially worsen in the future as competition again intensifies in the credit card industry for market shares and new sources of revenues. In addition, the credit card and other consumer loan sectors may still experience credit quality problems and there can be no assurance that 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”. The Korean government may continue to announce regulatory changes restricting the growth of consumer loans. 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.

In 2003 and 2004, 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. As a result, Korean credit card companies experienced significant financial and liquidity difficulties. Although the average industry-wide delinquency ratio (defined as the 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 as reported by the Financial Supervisory Commission has decreased from 9.03% as of December 31, 2004 to 4.04% as of December 31, 2006, the level of delinquencies experienced by the credit card industry in Korea remains relatively high and we cannot assure you that the credit card companies will not face a similar crisis in terms of its business and liquidity in the future.

We have significant 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, 2006, six are companies that are members of the 36 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 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.

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, 2006, our loans to companies that were under troubled debt restructurings amounted to W343 billion, or 0.28% of our total loans, and our allowances for losses on these loans amounted to W222 billion, or 64.8% of such loans. As of the same date, our guarantees and acceptances to companies that were under troubled debt restructurings amounted to W20 billion, or 0.29% of our total guarantees and acceptances, and our allowance for such guarantees and acceptances amounted to W11 billion, or 53.4% of such guarantees and acceptances. These allowances may not be sufficient to cover all future losses arising from our exposure to these companies. Furthermore, under the Corporate Restructuring Promotion Act which was abolished in December 2005, if any of our borrowers became subject to corporate restructuring procedures, we could have been 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 included the restructuring of existing secured debt) of the borrower, or to dispose of our credits to other creditors on unfavorable terms. Although the Corporate Restructuring Promotion Act was abolished and is no longer effective, the National Assembly is currently in the process of reviving this law so that it will remain effective until December 2010.

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

Prior to its merger with Shinhan Bank, Chohung Bank held the largest amount of deposits made by litigants and applicants in connection with legal proceedings in Korean courts or by persons involved in disputes. Chohung Bank was involved in this business for more than forty years and has acquired certain competitive advantages and entry barriers in connection therewith, and Shinhan Bank has assumed most of this business following the merger between Chohung Bank and Shinhan Bank. In 1994, the Korean Supreme Court opened to other banks the opportunity to establish new sub-branches or branches in newly opened court houses. In 2006, certain court houses, especially in the provinces, have selected a regional bank operating outside of Seoul or a regional bank operating outside of Seoul , together with Shinhan Bank, to perform the depositary services, and it is possible that such trend will continue. Currently, a total of 11 banks (including Shinhan Bank) provide these depositary services, and as of December 31, 2006, Shinhan Bank's market share for these serviced was 77.6% based on the deposit amount. The Korean Supreme Court may open up competitive bidding to the entire network of sub-branches and branches taking court deposits or require that a percentage of the profits from such depositary services be remitted to the court system. If the Supreme Court decides to select a bank for court deposits at all courts through competitive bidding, there can be no assurance that we will be selected. Because court deposits are a low-cost source of funding and we had total court deposits of W5,390 billion as of December 31, 2006, respectively, which accounted for 6.90% of our total Won deposits as of such date, the loss or reduction of such business may adversely affect our 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 W5,646 billion, and acceptances of W1,417 billion as of December 31, 2006. We provide an allowance for losses with respect to guarantees and acceptances as of each balance sheet date. We provided allowances for losses of W23 billion in respect of the guarantees and W12 billion in respect of acceptances as of December 31, 2006. 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.

We may incur significant costs in preparing for and complying with the new IFRS accounting standards, and may not be able to fully comply with such standards within the prescribed timeline.

In March 2007, the Korean government announced that all companies listed on the Korea Exchange will be required to comply with the International Financial Reporting Standards, or IFRS, by 2011. The IFRS are the financial reporting standards adopted in more than 110 countries and have requirements that are substantially different from those under Korean GAAP. We plan to establish a task force team in the second half of 2007 to prepare for the IFRS compliance. The preparation for the compliance, as well as actual compliance, is likely to result in significant costs for us and may have a material adverse effect on our results of operations. In addition, we may not be able to comply with the IFRS within the prescribed or recommended time line, and such non-compliance may result in serious regulatory sanctions as well as harm to our reputation.

Risks Relating to Our Credit Card Business

LG Card's profitability may fluctuate significantly.

In March 2007, we acquired the controlling interest in LG Card, one of Korea's largest credit card companies. Starting in 2003, LG Card experienced significant liquidity and asset quality problems and had been subject to a debt restructuring "workout" process with its creditors in November 2003 until our acquisition. The strengthened risk management efforts of LG Card have resulted in recent decreases in the delinquency ratio (ratio of amounts that are overdue by one day or more to total outstanding balances on a managed basis) from 17.24% to 7.89% and to 5.34% as of December 31, 2004, 2005 and 2006, respectively. In 2004, 2005 and 2006, under Korean GAAP, LG Card's net income (loss) amounted to W(82) billion, W1,363 billion and W1,194 billion, respectively. However, credit card delinquencies may increase in the future as a result of, among other things, adverse economic developments in Korea and the inability of Korean consumers to manage increased household debt, which may have a material adverse effect on LG Card's financial condition and results of operations.

Adverse economic developments in Korea have caused and could result in reduced economic growth and an increase in delinquencies in LG Card's credit card portfolios. For example, a rise in the unemployment rate or an increase in interest rates in Korea, which have been at historically low levels in recent years, could have an adverse impact on the ability of consumers to make payments on their debt and increase the likelihood of potential defaults, while reducing demand for consumer credit and credit card usage. Delinquencies may also increase as a result of the inability of Korean consumers to manage increasing levels of household debt. Furthermore, delinquencies may rise in the event that LG Card is unable to maintain adequate credit approval, credit monitoring or fraud prevention standards and procedures. Higher delinquencies or deterioration in the asset quality of LG Card's credit card portfolios would require it to increase its provision for doubtful accounts and write-offs, which would adversely affect its results of operations and financial condition including the capital adequacy ratio. Despite the recent successful efforts to improve LG Card's credit card asset quality and performance, LG Card's profitability may continue to fluctuate significantly in the future.

Increases in interest rates may negatively affect the margins and volumes of our credit card subsidiaries.

From 2000 to 2004, interest rates in Korea declined to historically low levels as the Government sought to stimulate economic growth through active interest rate-lowering measures. Interest rates started to rebound in the second half of 2005 and have stabilized since the first quarter of 2006. Although the general level of interest rates has stabilized since then, there remains a risk of volatility in interest rates.

A sustained increase in interest rates will raise the funding costs of LG Card and Shinhan Card, our credit card subsidiaries, which will have a negative impact on their operating margins unless they are able to pass through such rate increases to its customers in the form of increased fees and interest charged for its various products. The ability of our credit card subsidiaries to increase its interest and fee rates in a timely manner may be limited by regulatory restrictions, the competitive environment, public opinion and other factors. In addition, increases in the interest and fee rates of our credit card subsidiaries may result in a reduction in credit card usage and demand for customer credit and may result in higher delinquencies. Rising interest rates may also adversely affect the Korean economy and the financial condition and payment ability of the customers of our credit card subsidiaries, which in turn may lead to deterioration of the asset quality of our credit card subsidiaries.

If external financing resources are not sufficiently available at commercially reasonable terms or at all, our credit card subsidiaries may not be able to implement its business strategy and future plans.

Our credit card subsidiaries are dependent on external sources of funding both to generate the liquidity necessary to extend credit cards and other financing to its customers and to provide them with the capital necessary to meet its operating needs. Unlike commercial banks, which can fund their credit card operations through customer deposits, our credit card subsidiaries are not licensed to take deposits and therefore has historically relied on issuances of commercial paper and long-term and medium-term bonds, securitization of receivables and capital contribution from its major shareholders, for most of its funding requirements. Events that disrupt the capital markets and other factors beyond the control of our credit card subsidiaries could also make its funding sources more expensive or unavailable.

Under Korean GAAP, as of December 31, 2005 and 2006, LG Card's balance of domestic debentures (which generally have maturities ranging from one to three years) was W3,457 billion and W4,219 billion, respectively, and LG Card's balance of commercial papers (which generally have maturities ranging from 30 to 90 days) was W1,354 billion and W546 billion, respectively. LG Card securitized its card assets in the aggregate amount of W2,097 billion in 2005 and W472 billion in 2006. To satisfy its liquidity and other funding requirements, LG Card will need to issue additional equity or debt securities in the Korean or international capital markets, incur additional bank borrowings or securitize its card assets. On a reported basis, as of December 31, 2005 and 2006, Shinhan Card's balance of debentures (which generally have maturities ranging from one to three years) was W180 billion and W1,236 billion, respectively, and Shinhan Card's balance of commercial papers (which generally have maturities ranging from 30 to 90 days) was W120 billion and W50 billion, respectively. Shinhan Card did not securitize its card assets in 2005 or 2006. To satisfy its liquidity and other funding requirements, Shinhan Card will need to issue additional equity or debt securities in the Korean or international capital markets, incur additional bank borrowings or securitize its card assets.

Although our credit card subsidiaries are attempting to diversify its funding sources, particularly through reducing their reliance on domestic sources as part of its efforts to reduce funding costs and establish a more stable funding portfolio, the ability of our credit card subsidiaries to rely on alternative sources of funding will depend on its financial position, the liquidity of the Korean and international capital markets and the Government’s policies regarding Korean Won and foreign currency borrowings. In particular, reliance on securitizations as a funding source may increase as liquidity in the bond and capital markets tighten, and our credit card subsidiaries’ ability to rely on such funding sources will depend on many factors, many of which are beyond their control, including continued demand and development of the market for receivables and asset-backed securities in Korea and elsewhere and the maintenance of the asset quality of their receivables. Future economic, legal, regulatory, accounting or tax changes may make asset-backed securitization more difficult, more expensive or unavailable on any terms. As a result, our credit card subsidiaries may have to seek other, more expensive sources of funding, and the failure to obtain sufficient financing on commercially reasonable terms could delay or derail their ability to pursue its business strategy, which could materially and adversely affect its business, financial condition and results of operations.

Competition in the Korean credit card industry is intense, and our credit card subsidiaries may lose market share and/or experience declining margins.

Competition in the credit card and consumer finance businesses has increased substantially in recent years and is intense as existing credit card companies, commercial banks, consumer finance companies and other financial institutions in Korea have made significant investments and engaged in aggressive marketing campaigns and promotions in these areas. For example, other credit card issuers may compete with our credit card subsidiaries for customers by offering lower interest rates and fees and/or higher credit limits. Our credit card subsidiaries may lose entire accounts, or may lose account balances, to competing credit card issuers. Customer attrition from any or all of our credit card subsidiaries’ products, together with any lowering of interest rates or fees that our credit card subsidiaries might implement to retain customers, could reduce their revenues and therefore their earnings.

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

Over the past several years, 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, the credit card sector. The growth and profitability of our credit card subsidiaries’ credit card operations may decline 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 the market further saturates from this common focus and as the volume of transactions as well as the number of cardholders reaches maturity, it is expected that the market growth will be significantly limited. As a result, it may become increasingly difficult for our credit card subsidiaries to attract new customers who meet the credit criteria set by them. As a result of such market factors, our credit card subsidiaries would have to shift its focus from an aggressive growth strategy to one of obtaining and retaining high credit quality customers.

The ability of our credit card subsidiaries 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 systems infrastructure necessary to manage its growing and increasingly diversified business operations and its ability to manage increasing delinquencies. In addition, external factors such as competition and government regulation in Korea may limit our credit card subsidiaries’ ability to maintain its growth. Also, economic and social developments in Korea, such as changes in consumer confidence levels, spending patterns or public perception of credit card usage and consumer debt, could have an adverse impact on the growth rate of our credit card subsidiaries’ credit card portfolios in the future. If the rate of growth of our credit card subsidiaries’ assets declines or becomes negative, its results of operations and financial condition may be adversely affected.

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 LG Card, our ability to pay dividends on our common shares will mainly depend on dividend payments from Shinhan Bank and LG Card, as well as our 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 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 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.

Shinhan Bank is currently considered to be "well-capitalized" under the Banking Act and the Financial Supervisory 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 and Shinhan Card in terms of market share, product and service mix, customer base and cost efficiencies. We have not established a specific timeline for integration of these two subsidiaries. Our ability to achieve the benefits of the acquisition is subject to risks and uncertainties, some of which are beyond our control, including:

- difficulties in operating the integrated information technology system, risk management and other systems;
- difficulties in harmonizing the two corporate cultures;
- difficulties in integrating the currently separate labor unions of LG Card and Shinhan Card; and
- difficulties in retaining and attracting customers that overlapped between LG Card and Shinhan Card prior to the acquisition.

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 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 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. In connection with the acquisition of LG Card in March 2007, we plan to integrate the information technology system of Shinhan Card into that of LG Card by the end of 2008. 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.

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 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 prudent 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 setting 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 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.

In addition, currently different types of financing business are regulated by individual acts that relate to the type of financing business, such as the Banking Act, the Insurance Business Act, the Securities and Exchange Act, the Indirect Investment Asset Management Business Act and Futures Trading Act. However, the Korean government is preparing for a combined financial act, which will comprehensively regulate securities and futures, operation of indirect investment asset, trust and any other financing businesses other than banking and insurance businesses in order to allow investment bank type of financial organization to be established to comprehensively manage such businesses other than banking and insurance. If such regulation is enacted, competition may be fierce among existing banks, insurance companies, securities companies and other financial organizations, and may lead to significant changes in the current Korean financial market which can have an adverse effect on our business, financial conditions or results of operations.

Structural reforms in the Korean economy and its 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 its financial sector. One of these policy packages involved 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 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 Supervisory 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.

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 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. 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, 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 remains with us and is made based on our credit approval procedures and our risk management system, independently of government policies.

A draft of the Act on Financial Investment Business and Capital Market is under the review of the National Assembly and expected to be approved this year or early next year. This Act intends, inter alia, to reorganize regulatory frame of financial business from financial institutions-oriented to financial function-oriented and to strengthen the protection of investors. Accordingly, if this Act is enacted, competition among financial institutions is expected to be intensified in general.

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 2003, 2004, 2005 and 2006 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 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 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;

• 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 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 the nuclear weapons program of North Korea. In February 2005, North Korea announced that it possessed nuclear weapons. In September 2005, North Korea agreed to end its nuclear weapons program, and the six participating nations signed a draft preliminary accord pursuant to which North Korea agreed to dismantle its existing nuclear weapons, abandon efforts to produce new future weapons and readmit international inspectors to its nuclear facilities. In return, the other five nations participating in the talks, China, Japan, Korea, Russia and the United States, expressed willingness to provide North Korea with energy assistance and other economic support. The six parties agreed to hold further talks in November 2005. However, one day after the joint statement was released, North Korea announced that it would not dismantle its nuclear weapons program unless the United States agreed to provide civilian nuclear reactors in return, a demand that the United States rejected. In July 2006, North Korea conducted several missile tests, which increased tensions in the region and raised strong objections from Japan and the United States. 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, which increased tensions in the region and raised strong objections from Korea, the United States, Japan, China and other nations worldwide. 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 parties entered a new accord under which North Korea would begin to disable its nuclear facilities in return for fuel oil and aid. We cannot assure you that these recent events constitute a final agreement on North Korea's nuclear program, including critical details such as implementation, timing and verification, or that North Korea will fulfill its obligations under such accord.

In addition, in October 2004, the United States proposed plans to withdraw approximately one-third of the 37,500 troops currently stationed in Korea by the end of 2008. However, details regarding the timing and other aspects of the proposed reduction in U.S. troops are not yet finalized and talks between the governments of the United States and Korea are ongoing.

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, test 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, 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 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.

After the merger of Shinhan Bank and Chohung Bank on April 3, 2006, the labor union of the former Chohung Bank continues to exist in addition to the labor union of Shinhan Bank. Currently, there is no deadline for integrating the two unions. Disagreements between the labor union of the former Chohung Bank on the one hand and the labor union of Shinhan Bank or our management on the other regarding the process and direction of the integration following the merger of Shinhan Bank and Chohung Bank or the integration of the two unions and actions taken to delay or disrupt the process could have a material adverse effect on our ability to realize the anticipated benefits of the merger of Shinhan Bank and Chohung Bank and have an adverse effect on our results of operations and the price of our common shares or American depositary shares.

In addition, 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 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 W2 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 these limits, 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 W50 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 LG Card, 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 and determination of the scope of consolidation. 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, 2006 and 2007 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.