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 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 W 11,690 billion as of December 31, 2001 to W 14,649 billion as of December 31, 2002 and to W 38,055 billion as of December 31, 2003. These balances represent 34.7%, 32.5% and 40.0%, respectively, of our total loan portfolio as of December 31, 2001, 2002 and 2003. 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 W 222 billion as of December 31, 2001, W 159 billion as of December 31, 2002 and W 605 billion as of December 31, 2003, representing 1.90%, 1.09% and 1.59% of our total loans to small- and medium-sized enterprises as of December 31, 2001, 2002 and 2003.

Since 2002, the industry-wide delinquency ratios for loans to small- and medium-sized enterprises have been rising under Korean GAAP. According to data compiled by the Financial Supervisory Service, the delinquency ratio (net of charge-offs, which has also increased significantly) for loans by Korean banks to small- and medium-sized enterprises increased from 1.65% as of December 31, 2001 to 2.19% as of December 31, 2003. The delinquency ratio for loans to small- and medium-sized enterprise is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal payments are overdue by one day or more or interest payments are over due by 14 days or more (if prior interest payments on a loan were made late on more than three occasions, in which case the loan is considered delinquent if interest payments are overdue by one day or more) to (2) the aggregate outstanding balance of such loans. Shinhan Bank’s delinquency ratio for such loans increased from 1.36% as of December 31, 2001 to 1.75% as of December 31, 2003 and Chohung Bank’s delinquency ratio for such loans increased from 1.60% as of December 31, 2001 to 3.49% as of December 31, 2003. These delinquencies may rise further in 2004 compared to 2002 and 2003. In 2002 and 2003, under Korean GAAP, Shinhan Bank charged off loans to small- and medium-sized enterprises of W 43 billion and W 36 billion, respectively, while Chohung Bank charged off loans to small-and medium-sized enterprises of W 49 billion and W 73 billion, respectively. In addition, Chohung Bank sold loans to small- and medium-sized enterprises of W 28 billion in 2002. No such sales were made in 2003. Shinhan Bank did not sell any of its loans to small- and medium-sized enterprises in 2002 and 2003. Absent these charge-offs and loan sales, the delinquency ratios would have been higher.

We, in particular Chohung Bank, 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 W 4,552 billion, or 8.99% of total corporate loans (Shinhan Bank and Chohung Bank combined), as of December 31, 2002 to W 6,132 billion, or 11.34% of total corporate loans, as of December 31, 2003. In addition, our loans to the hotel and leisure industry as of December 31, 2003 aggregated W 1,977 billion, or 3.66% of total corporate loans. However, the real estate, leasing and service industry and the hotel and leisure industry have been experiencing significant difficulties recently resulting in higher delinquencies and impairment. As of December 31, 2003, under Korean GAAP, the delinquency ratios for loans to the real estate, leasing and service industry were 3.97% for Chohung Bank and 1.38% for Shinhan Bank, in each case net of charge-offs and loan sales. As of December 31, 2003, under Korean GAAP, the delinquency ratios for loans to the hotel and leisure industry were 5.06% for Chohung Bank and 1.59% for Shinhan Bank, in each case net of charge-offs and loan sales. A continued deterioration in asset quality of loans to this industry sector may materially and adversely affect our financial condition and results of operations.

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

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

In recent years credit card and other consumer lending, including lending to small unincorporated businesses, in Korea have experienced significant growth as a result of government policies and a greater focus on these sectors by commercial banks and credit card companies. This growth, however, has led to industry-wide declines in overall credit quality, with increased delinquencies, provisions and charge-offs, as a result of, among other things, weak economic conditions as well as an increase in unemployment. The unemployment rate in Korea has increased from 2.8% as of June 30, 2002 to 3.3% as of June 30, 2003 and to 3.6% as of March 31, 2004.

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). Over the past two years, our delinquency ratio for total consumer loans increased from 2.68% to 3.95%. The amount of credit card loans has increased from W 2,763 billion as of December 31, 2002 to W 6,112 billion as of December 31, 2003. In addition, our other consumer loans have increased from W 4,962 billion as of December 31, 2002 to W 14,580 billion as of December 31, 2003. While the bulk of these increases resulted from our acquisition of Chohung Bank, the underlying portfolio growth at both Shinhan Bank and Chohung Bank has resulted in increasing delinquencies in this portion of our portfolio. The credit card and other consumer loan sectors continue to experience credit quality problems and there can be no assurance that a continuation of these problems will not have a material adverse effect on our results of operations.

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

Borrowers’ houses, other real estate or securities secure substantial portions of our loans. As of December 31, 2003, the secured portion of Won-denominated loans of Shinhan Bank amounted to W 24,049 billion, or 64.9% of such loans, and the secured portion of Won-denominated loans of Chohung Bank amounted to W 14,530 billion, or 43.6% of such loans under Korean GAAP. No assurance can be given that the collateral value may not materially decline in the future. Until recently, it was Shinhan Bank’s general policy to lend up to 50%-70% of the appraised value of collateral, which appraisal value we believe was, in general, lower than the market value. Chohung Bank’s policy is to lend up to the estimated recovery value of the collateral, which Chohung Bank calculates based on the value of collateral published by the courts as recovered through court-approved auctions and further adjusted to take into account the existence of any lien or other security interest that is prior to Chohung Bank’s security interest. We believe that such estimated recovery value of the collateral is in general, lower than the market value. However, downturns in the real estate market as well as decreases in the value of securities collateral in the past have resulted at times in the principal amount of a number of loans exceeding the value of the underlying collateral. Declines in the value of securities and/or real estate prices in Korea that result in shortfalls in collateral values to loan amounts would require us to increase loan loss provisions and may have a material adverse effect on us. For a description of our collateral valuation policy, see “Item 4. Information on the Company — Description of Assets and Liabilities — Risk Management — Credit Risk Management of Shinhan Bank — Credit Evaluation and Approval — Consumer Loans" and "Item 4. Information on the Company — Business Overview — Our Principal Activities — Retail Banking Services — Consumer Lending Activities".

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

We may not be able to sustain the rate of growth in our mortgage and home equity lending.

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 W 2,376 billion at December 31, 2000 to W 11,539 billion at December 31, 2002 and to W 20,517 billion at December 31, 2003. Such increase represents 26.9% of the overall increase in our loan portfolio over that period. Of our total consumer loan portfolio, 56.4%, 59.9% and 49.8%, respectively, was attributable to mortgage and home equity lending as of December 31, 2001, 2002 and 2003. The volume of such lending is significantly dependent on competitive conditions, real estate prices, interest rate levels and government policies affecting these markets. There can be no assurance that these factors will support continued significant growth of our mortgage and home equity lending business.

Government regulation of our consumer and credit card operations has increased significantly which may materially and adversely affect our credit card and consumer operations.

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. In particular, the Financial Supervisory Commission and the Financial Supervisory Service began to apply, and then subsequently increased, the minimum allowance required, stated as a certain percentage of outstanding balance, under the rules and guidelines issued by the Financial Supervisory Commission and the Financial Supervisory Service. This calculation is performed on a Korean GAAP basis and does not affect our U.S. GAAP provisioning policy. See "Item 5. Operating and Financial Review and Prospects — Reconciliation with Korean Generally Accepted Accounting Principles". In addition, the Financial Supervisory Commission and the Financial Supervisory Service have announced a number of changes to the rules governing the reporting of credit card balances (determined on a Korean GAAP basis), as well as the procedures governing which persons may receive credit cards. The Korean government has also revised the calculation formula for capital adequacy ratios and delinquency ratios applicable to credit card companies, imposing sanctions against credit card companies with capital adequacy ratios of 8% or below and/or delinquency ratios of 10% or above. As of December 31, 2003, Shinhan Card's adjusted equity capital ratio was 13.78% and its delinquency ratio (as reported to the Financial Supervisory Service) was 7.01%. In October 2003, the Financial Supervisory Commission announced proposed changes to the calculation of delinquency ratios, to include charged-off and securitized balances, which, if adopted, will result in a significant increase in delinquency ratios reported by credit card issuers. This may heighten public concern regarding the financial health of credit card companies and potentially exacerbate the liquidity problems experienced by credit card companies. The Korean government may also adopt further regulatory changes in the future that affect the credit card industry, which in turn may adversely affect our credit card operations. See “Item 4. Information on the Company — Business Overview — Our Principal Activities — Credit Card Services”.

In the consumer loan sector, the Korean government enacted a number of changes to laws governing retail lending volumes, including the lowering of maximum loan-to-value ratio of mortgage and home equity loans to 60%, and in certain cases to 40%. We believe that the Korean government will continue to announce regulatory changes restricting the growth of consumer loans, in particular, mortgage and home equity lending.

These regulations may significantly reduce the level of credit card accounts and mortgage and home equity loans that may be made 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.

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

LG Card, one of Korea’s largest credit card companies, has been experiencing significant liquidity and asset quality problems. In November 2003, the creditor banks of LG Card (including Shinhan Bank and Chohung Bank) agreed to provide a new W 2 trillion credit facility, secured by credit card receivables, to enable LG Card to resume its operations. Our portion of this commitment was W 216.7 billion, consisting of W 113.7 billion for Shinhan Bank and W 103 billion for Chohung Bank. The maturity of this credit facility was extended to December 2005. The chairman of LG Group pledged his personal stake in LG Corporation, the holding company for the LG Group, LG Investment & Securities and LG Card as collateral to offset future losses of LG Card.

After the failure to auction LG Card to a buyer in December 2003, the principal creditors of LG Card tentatively agreed to a rescue plan in January 2004 under which the Korea Development Bank would acquire a 25% (subsequently adjusted to 26%) interest in LG Card and the other creditors would collectively acquire a 74% (subsequently adjusted to 73%) ownership interest following the completion of several debt-to-equity swaps contemplated for 2004. In addition, the creditors agreed to form a normalization steering committee for LG Card to oversee LG Card’s business operations. An extraordinary shareholders’ meeting of LG Card was held in March 2004 and a new chief executive officer as well as directors nominated by the normalization steering committee were elected. In February 2004, the creditors exchanged indebtedness of W 954 billion (including our portion of W 77.5 billion) for shares constituting 54.8% of the outstanding share capital of LG Card. LG Group also funded an additional W 800 billion to LG Card (in addition to a W 200 billion capital contribution made in December 2003). In May 2004, LG Card completed a capital write-down of 97.7% of its outstanding common stock, which included the W 954 billion converted into equity by the creditors in February 2004 (including our portion of W 77.5 billion). The creditors plan to convert an additional W 954 billion of indebtedness into equity of LG Card (including our portion of W 77.5 billion). The creditors also extended W 1.59 trillion of new loans to LG Card (including our portion of W 154.4 billion), which will subsequently be converted into equity. In addition, in March 2004, the LG Group and the Korea Development Bank provided additional liquidity of W 375 billion and W 125 billion, respectively. Following all such debt-to-equity conversions, we expect to own a 9.0% equity interest in LG Card and have W 484.5 billion of credit exposure outstanding to LG Card, consisting of W 245.3 billion in loans, W 200.4 billion in asset-backed securities and W 38.8 billion in debt securities.

As of December 31, 2003, our total exposure to LG Card was W 312 billion, including W 292 billion of loans and W 20 billion of debt securities. We made an allowance for loan losses of W 90 billion for the loans. In addition, as of such date, we had approximately W 30 billion of aggregate exposure to LG Card in our guaranteed trust accounts of Shinhan Bank and Chohung Bank, with respect to which we may experience further losses. As a result of the deteriorating financial condition of LG Card, we recorded loan loss provisions of W 40 billion and recognized securities impairment losses of W 74 billion in respect of our exposures to LG Card. In addition, we also had exposure in the form of senior asset-backed securities in the amount of W 153.2 billion, whose underlying assets consist of credit card assets of LG Card. In connection with the

LG Card rescue plan, Shinhan Bank transferred W 10 billion of exposure in its performance-based trust account to the bank account in January 2004 and Chohung Bank also transferred W 30 billion of exposure in its performance-based trust account to the bank account in February 2004, resulting in an increase in our total exposure to LG Card in the first quarter of 2004.

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

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

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

Adverse developments in the credit card industry in recent years such as industry-wide increases in delinquencies and resulting increases in provisioning for loan losses have had a negative impact on investors’ perception of credit card companies in the Korean corporate debt market, thereby significantly limiting the ability of credit card companies to obtain financing through issuances of debt securities. According to a press release issued by the Financial Supervisory Commission, the average industry-wide delinquency ratio (defined as ratio of credit card balances that are delinquent for more than 30 days over total outstanding balances) of credit card companies in Korea was approximately 14.31% as of December 31, 2003. As a result, Korean credit card companies have been experiencing significant financial and liquidity difficulties. As of March 31, 2004, such delinquency ratio was reported to have decreased to 12.18%. As of December 31, 2003, we held debt securities issued by credit card companies (including through asset-backed securitization) in the aggregate principal amount of W 314 billion in our investment portfolio.

In light of the financial market instability in Korea resulting from the liquidity problems faced by credit card companies during the first quarter of 2003, the Korean government announced temporary measures in April 2003 intended to provide liquidity support to credit card companies. These measures included, among other things:

- a request by the government for credit card companies to effect capital increase in the aggregate amount of W 4.6 trillion, as part of their self-rescue efforts;
- banks and other financial institutions agreeing with each other to extend the maturity of all debt securities of credit card companies that they hold;
- asset management companies agreeing with each other to extend the maturity of 50% of the aggregate amount of the debt securities of credit card companies that they hold which are scheduled to mature by June 2003; and
- with respect to the remaining 50% of such credit card company debt securities, banks and other financial institutions agreeing with each other to contribute W 5.6 trillion in the aggregate to purchase such debt securities from asset management companies.

Pursuant to the above measures, we, at the holding company level, injected new capital of W 100 billion in the form of subordinated debt into Shinhan Card in April 2003. In addition, Shinhan Bank agreed to extend the maturities of W 436 billion of credit card company debt securities that we held in April 2003 or that have become due in June 2003 (including W 426 billion of such debt securities we transferred from our trust accounts to our bank accounts). Of the W 5.6 trillion aggregate contribution made by Korean financial institutions to purchase credit card company debt securities held by asset management companies, the portion allocated for Shinhan Bank to purchase was approximately W 263 billion, all of which were repaid as of July 31, 2003. Chohung Bank also agreed to extend the maturities of the W 177 billion of loans and debt securities of credit card companies that it held in April 2003 or that have become due in June 2003. Of the W 5.6 trillion aggregate contribution made by Korean financial institutions to purchase credit card company debt securities held by asset management companies, the portion allocated for Chohung Bank to purchase was approximately W 183 billion, all of which were repaid as of July 31, 2003. See also "— Risks Relating to Government Regulation and Policy — 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".

As of December 31, 2003, we had loans outstanding to credit card companies in the aggregate principal amount of W 455 billion. These are considered performing in accordance with our internal credit rating methodology and therefore we have not recognized a specific loan loss allowance against these. See "Item 4. Information on the Company — Description of Assets and Liabilities — Loans — Loan Concentrations — Exposures to the Credit Card Industry". To the extent that financial and liquidity difficulties experienced by credit card companies are not resolved on a timely basis, the asset quality of our exposure to credit card companies may become significantly impaired, resulting in losses that are materially adverse to our financial condition and results of operations and capital adequacy.

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

As of December 31, 2003, our total exposure outstanding to SK Networks (formerly, SK Global) alone was W 827 billion, or 0.64% of our total exposure, consisting of W 492 billion in loans, W 70 billion in debt securities, W 182 in equity securities and W 83 billion in guarantees and acceptances. Of our total loans outstanding to SK Networks, W 21 billion was secured for which we made no allowance for loan losses. For the remaining unsecured loans of W 471 billion, we made allowance for loan losses of W 177 billion. With respect to the guarantees and acceptances outstanding, we made allowances of W 35 billion.

In the first quarter of 2003, accounting irregularities were discovered at SK Networks to which most commercial banks in Korea, including ourselves, have substantial exposure. These irregularities had concealed the weak financial condition of SK Networks over a period of several years. In March 2003, the principal creditor banks of SK Networks acknowledged that SK Networks is a troubled company subject to formal workout procedures under the Corporate Restructuring Promotion Act of Korea and agreed to postpone the maturity of all domestic credits of SK Networks until June 18, 2003.

In June 2003, the domestic creditors of SK Networks agreed to a workout program under which the creditors participating in this program will buy out the outstanding credits of the dissenting creditors by providing cash equal to 30% of the outstanding loans, which we did not participate in. In addition, in July 2003, the domestic creditors' committee and the steering committee of the overseas creditors of SK Networks agreed to a workout program under which the domestic creditors will buy out the outstanding credits of the dissenting foreign creditors by providing cash equal to 43% of the outstanding loans as well as providing a 5% incentive in the form of bonds with warrants. The cash payment are repaid in four installments, two installments of 40% on December 31, 2003 and 30% on March 31, 2004 were paid and, two more of 20% on June 30, 2004 and 10% on September 30, 2004 remain outstanding. The bonds with warrants, which warrants can be exercised in 2005, will be due in April 2008, without any interest, and will be repaid in a one-time payment.

The terms of the finalized workout program for SK Networks, agreed to by the creditors and SK Corporation, the then largest shareholder of SK Networks, are as follows:

- maturities of outstanding loans were extended to December 2007;

- interest on loans were fixed at 5% for unsecured Won-denominated loans and 5.5% for secured loans;

- foreign currency loans were converted to unsecured Won-denominated loans;

- approximately W 2.2 trillion of loans were converted into equity interest in SK Networks, consisting of W 850 billion of common shares, W 1,000 billion of redeemable preferred shares and W 380 billion of convertible bonds, with a lock-up until December 2007;

- Mr. Tae-Won Choi, the chairman of the SK Group, pledged his personal stake in three of the member companies of SK Group to the creditors as collateral; and

- SK Corporation converted W 850 billion of trade receivables from SK Networks into equity shares.

The debt-to-equity swap by the creditors was preceded by a complete capital write-off by SK Corporation and 7-to-1 capital reduction by minority shareholders on October 25, 2003.

Both Shinhan Bank and Chohung Bank have decided to participate in the workout program. We believe that participation in the workout program will eventually yield more than the 30% cash buyout proposed for dissenting domestic creditors. At this time, it is difficult to predict how much of our loans to SK Networks will be converted into what percentage of equity securities of SK Networks or whether our loans to SK Networks will be subject to additional restructuring including extension of maturities and reduction of interest rates. However, we do not believe that our participation in the workout program will have any material adverse impact on us or our financial condition. While we believe that the level of our specific allowance for loan losses in respect of SK Networks are adequate to cover losses currently expected from our participation in, and implementation of, the workout program of SK Networks, no assurance can be given that our allowance for loan losses with respect to SK Networks will be sufficient to cover actual future losses.

We also have exposures to other companies belonging to the SK Group. As of December 31, 2003, our total exposure outstanding to Segae Trading Co. was W 3 billion, consisting of W 3 billion in loans. For the loans, we have made an allowance for loan losses of W 1 billion. In addition, as of December 31, 2003, our total exposure outstanding to SK Corporation, the controlling company of the SK Networks, was W 296 billion, or 0.23% of our total exposure, consisting of W 175 billion in loans, W 63 billion in equity securities, W 25 billion in debt securities and W 33 billion in guarantees and acceptances. We classify loans and guarantees and acceptances to other SK Group companies, including SK Corporation, as performing in accordance with our internal credit rating methodology and therefore no specific allowance is made against these loans or guarantees and acceptances. Our management believes the general allowance of W 705 billion against the performing element of the corporate loan portfolio in total is sufficient to cover any incurred losses within this portfolio, including those loans to companies within the SK Group, including SK Corporation and excluding SK Networks and Segae Trading Co.

For a more detailed discussion of our exposure to the SK Group as of December 31, 2003, see “Item 4. Information on the Company — Description of Assets and Liabilities — Loans — Loan Concentrations — Exposures to SK Group Companies”.

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

As a result of the unfavorable financial and economic conditions in Korea, a number of chaebols have experienced and continue to experience financial difficulties. We have significant exposure to chaebols and large corporate borrowers. Of our twenty largest corporate exposures as of December 31, 2003, seven are companies that are members of the twenty-nine largest chaebols in Korea. If the quality of the exposures extended by us to chaebols declines, we would require additional loan loss provisions in respect of loans and would record impairment losses in respect of securities, which would adversely affect our financial condition, results of operations and capital adequacy.

In particular, we have significant exposures to a number of former Hyundai Group companies, Daewoo Group companies and Ssangyong Group companies, a number of which have been experiencing financial difficulties. In 2001, creditor banks of several former Hyundai Group companies, including Hynix Semiconductor, Hyundai Engineering & Construction, Hyundai Petrochemical, Inchon Oil Refinery and Hyundai

Merchant Marine, agreed to provide financial assistance to these companies by way of additional loans, extensions of maturities of various outstanding obligations, debt-to-equity swap transactions, guarantees of overseas borrowings and injections of additional capital. In addition, restructuring procedures under the Corporate Restructuring Promotion Act were commenced in respect of Hynix Semiconductor and Hyundai Petrochemical.

As of December 31, 2003, we had total exposure outstanding to Hyundai Merchant Marine, Hyundai Petrochemical, Hynix Semiconductor, Inchon Oil Refinery and Hyundai Engineering & Construction of W 418 billion, W 64 billion, W 253 billion, W 105 billion and W 44 billion, respectively, including W 1 billion, W 189 billion, W 5 billion and W 42 billion of securities of Hyundai Petrochemical, Hynix Semiconductor, Inchon Oil Refinery and Hyundai Engineering & Construction, respectively. As of December 31, 2003, we recorded allowance for loan losses of W 80 billion, W 50 billion and W 71 billion in respect of Hyundai Merchant Marine, Hynix Semiconductor and Inchon Oil Refinery, respectively. Substantially no allowance for loan losses were recorded with respect to our loans and guarantees and acceptances outstanding to Hyundai Engineering & Construction.

In May 1997, in connection with the financing of US$850 million for the construction of a fabrication plant in Eugene, Oregon of Hyundai Semiconductor America, Hyundai Heavy Industries, Hyundai Merchant Marine and Hyundai Corporation entered into a group support agreement to unconditionally, irrevocably and jointly and severally guarantee the obligations of Hynix Semiconductor. This transaction resulted in a creation of joint and several obligations of these three companies in favor of the creditors of Hynix Semiconductor in the amount of US$850 million, of which US$842 million is currently outstanding, subject to scheduled repayment. Hynix Semiconductor’s failure to perform its obligations under this transaction will trigger this obligation and will give rise to significant liquidity problems and capital requirements for these three companies, further resulting in asset quality deterioration of our total exposure outstanding to these three companies.

In 1998, Daewoo Motors acquired Ssangyong Motors from the former Ssangyong Group, on condition that certain of the then existing liabilities of Ssangyong Motors be retained by the former Ssangyong Group. In connection with this transaction, nine member companies of the Ssangyong Group assumed in the aggregate W 1.8 trillion, which subsequently resulted in significant increases in interest expense for such companies, further aggravated by a sharp increase in interest rates during the financial crisis of the late 1990’s. Several of the Ssangyong Group companies, including Ssangyong Corporation, Ssangyong Cement Industrial and Ssangyong Engineering & Construction, have experienced significant financial and liquidity difficulties as a result and were subsequently placed under workout programs by their respective creditors. In particular, Chohung Bank is the largest creditor to Ssangyong Corporation and, as such, is the lead creditor bank under the workout program applicable to Ssangyong Group companies. As of December 31, 2003, our total exposure to Ssangyong Corporation and Ssangyong Cement Industrial amounted to W 338 billion and W 241 billion, respectively. Of our total loans and guarantees and acceptances to the Ssangyong Group, W 428 billion was classified as impaired.

The financial condition of the former Daewoo Group, which was one of the largest chaebols in Korea, has deteriorated over the past several years. In August 1999, the principal creditor banks of the former Daewoo Group commenced formal workout procedures with respect to 12 member companies of the Daewoo Group, including Daewoo Corporation, Daewoo Electronics, Daewoo Heavy Industries, Daewoo Telecom and Ssangyong Motors (acquired by Daewoo Motor in 1998). Currently, many of these companies either are subject to liquidation proceedings or have been liquidated, are under workouts or corporate reorganization proceedings, have been split up into more than one company or are looking for purchasers. As of December 31, 2003, our total exposure to the former members of the Daewoo Group was W 600 billion, including exposures to Ssangyong Motors, Daewoo Electronics Corp., Daewoo Shipbuilding & Marine Engineering and Daewoo Electronics Service of W 156 billion, W 69 billion, W 63 billion and W 30 billion, respectively. Of our total loans and guarantees and acceptances to the Daewoo Group companies, including Ssangyong Motors, Daewoo Electronics Service, Daewoo Motors and Daewoo Telecom, W 269 billion were classified as impaired, for which we made an aggregate allowance for loan losses and guarantees and acceptances of W 95 billion.

No assurance can be given that our allowance for loan losses with respect to our exposures to these companies will be sufficient to adequately cover any losses arising from this arrangement. In addition, there can be no assurance that other companies of the former Hyundai Group, to which we have outstanding exposures, do not have additional contingent or other obligations outstanding in favor of Hynix Semiconductor, which may have a material adverse effect on such companies and us. The foregoing may result in a material adverse effect on our financial condition and results of operations and capital adequacy. We cannot assure you that the allowances we have established against our exposures to the former Hyundai Group, Daewoo Group and Ssangyong Group companies will be sufficient to cover all future losses arising from these exposures. In addition, with respect to those companies that are in or in the future enter into workout or liquidation proceedings, we may not be able to make any recoveries against such companies. We may, therefore, experience future losses with respect to those loans, which may have a material adverse impact on our financial condition, results of operations and capital adequacy.

For a more detailed discussion of our exposure to the former Hyundai Group, Ssangyong Group and former Daewoo Group as of December 31, 2003, see "Item 4. Information on the Company — Description of Assets and Liabilities — Loans — Loan Concentrations — Exposures to Former Hyundai Group Companies", "— Exposures to Ssangyong Group Companies" and "— Exposures to Former Daewoo Group Companies".

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

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

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

As of December 31, 2003, our total loans and guarantees and acceptances to companies that were under troubled debt restructurings amounted to W 2,186 billion or 2.07% of our total loans and guarantees and acceptances. As of the same date, our allowances for losses on these loans and guarantees and acceptances amounted to W 674 billion, or 30.8% of these loans.

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

Chohung Bank's financial condition may deteriorate and may impact its ability to maintain the required minimum capital adequacy ratio.

Pursuant to the capital adequacy guidelines issued by the Financial Supervisory Commission, which are derived from standards established by the Bank for International Settlements, commercial banks in Korea are required to maintain a minimum Tier I and Tier II capital adequacy ratio of 8% on a consolidated basis where Tier II capital may not be recognized over 100% of Tier I capital. Chohung Bank's total Tier I and Tier II capital adequacy ratios as of December 31, 2001, 2002 and 2003 were 10.43%, 8.66% and 8.87%, respectively. Chohung Bank estimates that for every W 100 billion decrease in stockholders' equity or subordinated debt, its capital adequacy ratio will decrease by approximately 0.25%.

In June 2004, we acquired the remaining 18.85% of the outstanding shares of Chohung Bank that we previously did not own through a cash tender offer followed by a small-scale share swap pursuant to Korean law. This transaction was subject to the rights of dissenting shareholders of Chohung Bank, who had the right to require Chohung Bank to purchase the shares held by such dissenting shareholders at a price determined in accordance with Korean laws and regulations. The number of shares subject to such purchase by Chohung Bank is 66,363,126 shares, amounting to a purchase price of approximately W 204 billion. Chohung Bank is required to reduce its total Tier I and Tier II capital by such purchase price, resulting in an anticipated 0.50% decrease in Chohung Bank's total Tier I and Tier II capital adequacy ratio.

The economic crisis in Korea beginning late 1997 has caused deteriorations of the capital levels and capital adequacy position of Chohung Bank. Increased non-performing loans have led to increases in the provisioning for loan losses and declines in the financial condition and the results of operations of Chohung Bank and, as a result have reduced the capital adequacy ratio of Chohung Bank. Any deterioration of the Korean economy as well as any further financial difficulties of Korean corporations or consumers is likely to erode the capital adequacy of Chohung Bank. In addition, deterioration in property and other collateral values may require Chohung Bank to add provisions which would further erode the capital adequacy of Chohung Bank.

If a bank fails to maintain the required minimum capital adequacy ratios, the Financial Supervisory Commission may impose penalties ranging from a warning to a suspension or revocation of Chohung Bank's license. No assurance can be given that Chohung Bank's financial condition and other sources of capital will be sufficient to keep Chohung Bank's capital adequacy ratios above the minimum required amounts. Also, there can be no assurance that if Chohung Bank requires additional capital, it will be able to obtain, including from our holding company, such capital on favorable terms or at all. In addition, Chohung Bank's ability to obtain additional capital may be further restricted to the extent Korean banks and banks from other Asian countries are seeking to raise capital at the same time.

The loss of deposit accounts maintained by Korean courts with Chohung Bank may have a material adverse effect on Chohung Bank's financial position and results of operations.

Chohung Bank believes that it holds the largest amount of deposits made by litigants and applicants in connection with legal proceedings in Korean courts or by persons involved in disputes. Although Chohung Bank has been involved in this business for more than forty years and has acquired certain competitive advantages and entry barriers in connection therewith, no assurance can be given that Chohung Bank will be able to maintain its competitiveness in this area. The Korean Supreme Court in 1994 opened to other banks the opportunity to establish new sub-branches or branches in newly opened court houses. The Supreme Court may open up competitive bidding to the entire network of sub-branches and branches taking court deposits. If the Supreme Court decides to select a bank for court deposits at all courts through competitive bidding, there can be no assurance that Chohung Bank will be selected. Because court deposits are a low-cost source of funding and Chohung Bank had total court deposits of W 3,887 billion, W 3,872 billion and W 4,205 billion as of December 31, 2001, December 31, 2002 and December 31, 2003, respectively, which accounted for 10.7%, 9.2% and 10.8% of total Won deposits of Chohung Bank as of the same periods, the loss of such business would have a material adverse effect on Chohung Bank's financial condition and results of operations.

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

In the normal course of our banking activities, we make various commitments and incur certain contingent liabilities in the form of guarantees and acceptances. 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

W 7,761 billion, and acceptances of W 2,365 billion as of December 31, 2003. We provide an allowance for losses with respect to guarantees and acceptances as of each balance sheet date. We provided allowances for losses of W 156 billion in respect of the guarantees and W 28 billion in respect of acceptances as of December 31, 2003. If we experience significant asset quality deterioration in our guarantees and acceptances exposures, no assurance can be given that such allowances will be sufficient to cover any actual losses resulting in respect of these liabilities, or that the losses we incur on guarantees and acceptances will not be larger than those experienced on corporate loans.

Risks Relating to Our Strategy

If we are unable to adequately utilize our holding company structure to reap the expected benefits, our future earnings and the prices of our common shares and our American depositary shares may be materially adversely affected.

We realigned our business structure as a financial holding company in September 2001. We have no prior experience operating in a holding company structure. The success of the holding company structure, which entailed the reorganization and integration of various activities and/or operations of our subsidiaries, depends in part on our ability to realize the anticipated synergies, growth opportunities and cost savings from coordinating and, in certain cases, combining the businesses of our subsidiaries. Our future earnings, as well as the future value of our common shares and our American depositary shares and our ability to compete effectively, may be materially and adversely affected should we fail to achieve the anticipated benefits from the holding company structure or should costs to achieve these benefits be higher than we expect.

In particular, since each of our subsidiaries have operated independently within the financial holding company structure, the integration of the activities and/or operations of our subsidiaries is likely to require a significant amount of time, financial resources and management attention. To realize the anticipated benefits of the holding company structure, our management must implement a business plan that will effectively coordinate and/or combine activities and/or operations that are diverse in terms of management, compensation and business culture, as well as in terms of some of the products and services they offer and the regions and the customers they serve. If our management is not able to do so, we may not realize the anticipated benefits of the holding company structure on a timely basis, at levels we had expected or at all.

For risks relating to our acquisition of Chohung Bank, see "— Risks Relating to our Acquisition of Chohung Bank" below.

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 no operating assets other than the shares of our subsidiaries. Our source of funding and cash flow is dividends from, or disposition of our interests in, our subsidiaries or our cash resources, most of which are currently the result of borrowings. Since our principal asset is the outstanding capital stock of Shinhan Bank and Chohung Bank, our ability to pay dividends on our common shares will mainly depend on dividend payments from Shinhan Bank and Chohung Bank.

Dividend payments from Shinhan Bank and Chohung Bank to the holding company are subject to the Commercial Code of Korea, the Bank Act and to regulatory limitations, generally based on capital levels and retained earnings, imposed by the various regulatory agencies with authority over Shinhan Bank and Chohung Bank. As of December 31, 2003, Shinhan Bank could declare and pay W 747 billion of dividends to us without the approval of regulatory authorities. In respect of the fiscal year ended December 31, 2003, Shinhan Bank declared and paid dividends of W 244.8 billion to us in March 2004. The ability of Shinhan Bank to pay dividends, however, is always subject to regulatory restrictions if paying dividends would impair its unconsolidated profitability, financial condition or other cash flow requirements, including:

- Under the Commercial Code of Korea, dividends may only be paid out of distributable income, an amount which is calculated by subtracting the aggregate amount of a company's paid-in capital and certain mandatory legal reserves from its net assets, in each case as of the end of the prior fiscal year;

- Under the Bank Act, a bank also is required to credit at least 10% of its net profit to a legal reserve each time it pays dividends on distributable income until such time when this reserve equals the amount of its total paid-in capital; and

- Under the Bank Act and the requirements promulgated by the Financial Supervisory Commission, if a bank fails to meet its required capital adequacy ratio or otherwise subject to the management improvement measures imposed by the Financial Supervisory Commission, then the Financial Supervisory Commission may restrict the declaration and payment of dividend by such a bank.

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

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

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

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

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

Risks Relating to Our Other Businesses

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

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

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

In some of our businesses, protracted market movements, particularly price declines in assets, can reduce the level of activity in the market or reduce market liquidity. These developments can lead to material losses if we cannot close out deteriorating positions in a timely way. This may especially be the case for assets that are not traded on stock exchanges or other public trading markets, such as corporate debt securities issued by Korean companies, including credit card companies, and derivatives contracts, which may have values that we calculate using models other than publicly-quoted prices. For instance, the market value of debt securities in our portfolio as reflected on our balance sheet is determined by references to suggested prices posted by Korean rating agencies. These valuations, however, may differ significantly from the actual value that we may realize in the event we elect to sell these securities. As a result, we may not be able to realize the full “marked-to-market” value at the time of any such sale of these securities and thus may incur additional losses. Monitoring the deterioration of prices of assets like these is difficult and could lead to losses we did not anticipate.

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

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

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

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

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

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

Risks Relating to our Acquisition of Chohung Bank

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

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

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

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

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

Risks Relating to Competition

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

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

The Korean commercial banking industry has undergone dramatic changes recently as a number of significant mergers and acquisitions in the industry have taken place. There may be additional consolidation in the Korean commercial banking industry, including Korea’s regional banks in particular. In November 2001, Kookmin Bank and Housing & Commercial Bank, two of the strongest banks in Korea, merged to form Kookmin Bank. The newly merged bank is significantly larger and has more financial resources than us. Also in 2001, Woori Bank restructured itself as a financial holding company and significantly realigned its businesses and products to compete with other larger banks in Korea. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last few years. In 2002, there was a merger between Hana Bank and Seoulbank. In 2003, Lone Star acquired a controlling interest in Korea Exchange Bank. In 2003, Citibank acquired Koram Bank. At present, these and other banks resulting from mergers or acquisitions may have more financial resources or more experience in providing certain banking or financial services than us. Increased competition and continuing consolidation in the Korean banking industry will 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 us including Chohung Bank 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. Recently, several of our competitors have submitted bids to purchase LG Investment & Securities, Daehan Investment & Securities or Korea Investment & Securities. We have no interest in acquiring these businesses. Successful acquisition of these fee generating businesses by our competitors may result in increased competition in the area of investment trust business. Intense competition in the fee-based business will require us to create and market new 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, 2003, approximately 92.3% of our total deposits had current maturities of one year or less or were payable on demand. As of December 31, 2003, approximately 92.0% of Chohung Bank’s deposits in Korean Won and approximately 98.9% of Chohung Bank’s deposits in foreign currencies 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, 2003 with remaining maturities of four months or less, approximately 55.3% were rolled over or otherwise maintained with Shinhan Bank. Of Chohung Bank’s total time deposits maturing during the four months ended December 31, 2003, approximately 57.7% were rolled over or otherwise maintained with Chohung Bank. No assurance can be given, however, that such stable source of funding will continue, including as a result of intense price competition. If a substantial number of depositors fail to roll over deposited funds upon maturity or withdraw such funds from us, our liquidity position could be materially adversely affected, and we may be required to seek more expensive sources of short-term and long-term funds to finance our operations.

Table of Contents

Risks Relating to Government Regulation and Policy

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

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

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

In an effort to resolve the problems caused by consumer credit delinquencies, the Korean government caused the establishment of Hanmaum Financial Company and the Credit Recovery Support Committee on May 20, 2004. Hanmaum Financial is a so-called “bad bank”, a type of private asset management company that acquires non-performing assets from banks and other financial institutions for the purpose of providing long-term financial aid to certain qualified delinquent consumers who apply for this program to enable them to pay off their financial debts. Upon application, Hanmaum may grant a loan with a maturity of up to eight years (and repayable at anytime before maturity), at an interest rate per annum of 6%, after collecting 3% or 6% of the debt amount in advance from the individual. Banks and financial institutions are required to provide the full amount of any non-performing debt outstanding against an individual or any remaining unpaid amounts on such non-performing debt after repayment made through loans received from Hanmaum Financial as in-kind contribution to Hanmaum Financial in return for cash, preferred stock or deferred stock. At this time, we cannot accurately predict the number of applicants and amounts subject to this program. To the extent Hanmaum Financial achieves less-than-expected level of collection of, and recovery on, non-performing assets, commercial banks and credit card companies, including Shinhan Bank, Chohung Bank and Shinhan Card, may realize less gains from recoveries. Such financial aid shall be offered only for a limited period of time, which is, for the time being, three months starting May 17, 2004.

Unlike the “bad bank” program that provides loans directly to consumers, the Credit Recovery Support Committee has adopted an individual workout program. For delinquent consumers who are deemed to be capable of repaying their debts, the Credit Recovery Support Committee will, pursuant to an agreement with the creditor financial institution, provide such consumers an opportunity to repay in installments, provide a repayment grace period, reduce their debt amount or extend the maturity date of the debt. Currently, approximately 160 financial institutions, including banks and insurance companies, are parties to the Credit Recovery Support Agreement, pursuant to which such financial institutions, have agreed to provide such support described above to those consumers who meet certain qualifications. To the extent that amounts of non-performing assets subject to these programs are significant and collection on such assets are unsuccessful, these consumer debt workout programs and uncertainties surrounding them may result in an adverse effect on our ability to recover and collect on such assets. See “Item 4. Information on the Company — Business Overview — Our Principal Activities — Credit Card Services”.

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

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

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

If the Financial Supervisory Commission deems our financial condition, including the financial conditions of our operating subsidiaries, to be unsound or if our operating subsidiaries or we fail to meet the applicable requisite capital ratio or the capital adequacy ratio, as the case may be, set forth under Korean law, the Financial Supervisory Commission may order, among other things, at the level of the holding company or a subsidiary, capital increases or reductions, stock cancellations or consolidations, transfers of business, sales of assets, closures of branch offices, mergers with other financial institutions, or suspensions of a part or all of our business operations. If any of such measures are imposed on us or our operating subsidiaries by the Financial Supervisory Commission as a result of poor financial condition or failure to comply with minimum capital adequacy requirements or otherwise, such measures may materially harm our business and adversely affect the price of our common shares or our American 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 or make investments in particular industries or customer sectors, and, in certain cases, has provided lower cost funding through loans made by the Bank of Korea for further lending to specific customer sectors, such as the small- and medium-sized enterprises. The Korean government has in this manner encouraged commercial banks to step in to provide credit card companies with additional liquidity. While all loans or securities investments will be reviewed in accordance with our credit review policies or internal investment guidelines and regulations or those of Chohung Bank, as the case may be, we, on a voluntary basis, may factor the existence of such policies and encouragements into consideration in making loans or securities investments. However, the ultimate decision whether to make loans or securities investments always remains with us based on our credit approval procedures and our risk management system, independently of government policies.

Risks Relating to Korea and the Global Economy

Unfavorable financial and economic conditions in Korea and worldwide have had and will in the future continue to have a material adverse impact on our asset quality, liquidity and financial performance.

Economic conditions in Korea, elsewhere in Asia (including China), in the United States and elsewhere in the world materially affect our business. 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, as recently acknowledged by the Korean government, the Korean economy has been experiencing a recession which had and is expected to continue to have a material impact on our operations.

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

- failure of restructuring of *chaebols*, including financial difficulties experienced by SK Networks and other SK Group companies, 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;

- volatility in commodity prices (including oil prices), exchange rates, interest rates, stock markets or foreign currency reserves;

- increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;

- continued 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;

- social and labor unrest resulting from lay-offs, increasing unemployment and lower levels of income;

- a decrease in tax revenues and a substantial increase in the Korean government's expenditures for unemployment compensation and other social programs that together could lead to an increased government budget deficit; and

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

Deterioration in the Korean economy can also occur as a result of deterioration in the global economic conditions. The worldwide economy has been in a slump since the beginning of 2001, as the United States and other G8 countries have experienced recessionary conditions which have been exacerbated by the terrorist attacks in the United States on September 11, 2001 and the impact of Severe Acute Respiratory Syndrome, or SARS, on global exports or GDP growth rates. Any prolonged stagnation or future deterioration in global economic conditions would continue to have an adverse impact on the Korean economy. A significant adverse change in the Korean economy or a loss of investor confidence in the financial systems of emerging and other markets could have an adverse effect on us and the market price of our common shares or our American depositary shares.

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

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

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

During 1998 and 1999, there were large-scale protests and labor strikes in Korea. In July 2000, the Korean Financial Industry Union, which represents the employees of over 30 financial institutions, urged its members to participate in a strike to express their opposition to mergers of the banks and the possibility of further layoffs, when the Korean government announced its plan to implement the second phase of restructuring the Republic's banks, including the promulgation of a law which allows the formation of financial holding companies. The strike subsequently was cancelled after the Korean government and the union leaders reached an agreement whereby the Korean government would not require mandatory bank mergers. In December 2000, members of the Kookmin Bank and H&CB labor union participated in a strike that lasted seven days, opposing the contemplated merger between the two banks. Although we believe that our relationship with our labor unions is good, 76.9% of our full-time employees are members of the labor unions of our subsidiaries. No assurance can be given that further acquisitions or restructuring of our holding company structure will not meet labor union resistance and possible labor disputes.

In May 2003, truck drivers of the Korean Cargo Workers Federation of the Korean Confederation of Trade Unions went on strike and blockaded the land routes to major steel mills in Korea, a fundamental driver of the Korean economy, and also blockaded two major ports in Kwangyang and Busan resulting in significant disruptions to physical distribution and import and export activities in Korea. This strike was peacefully resolved soon thereafter. In late August 2003, the Korean Confederation of Trade Unions again called for a nationwide strike which lasted for several months. Similar events in the future could have a material adverse effect on the Korean economy and our operations.

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

Risks Relating to Our American Depositary Shares

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

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

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

Korea Deposit Insurance Corporation owns redeemable convertible preferred shares convertible into shares of our common stock representing approximately 12.64% of our total shares of common stock as of the date hereof. BNP Paribas currently owns approximately 4.39% of our outstanding shares (or 3.83% on a fully diluted basis taking into account the conversion of redeemable convertible preferred shares of Korea Deposit Insurance Corporation). Currently, we do not know when, how, or what percentage of, our redeemable convertible preferred shares will be converted by Korea Deposit Insurance Corporation and when, how or what percentage of our shares Korea Deposit Insurance Corporation will dispose of upon conversion or BNP Paribas will dispose of our shares, or to whom such shares will be sold. As a result, we cannot currently predict the impact of such sales on us.

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

Pursuant to the terms of the Investment Agreement, we are required to obtain the consent of the Korea Deposit Insurance Corporation, to the extent permitted under applicable law, in order to declare and pay dividends on our common shares in excess of W 750, representing 15% of par value (W 5,000), if our net income under Korean GAAP is below W 800 billion in a given fiscal year and any of the Redeemable Preferred Stock and Redeemable Convertible Preferred Stock are outstanding. Failure to obtain the consent of the Korea Deposit Insurance Corporation in such instances may lead to payment of dividends at a level that is lower than expected and may adversely affect the price of our common shares and our American depositary shares and further adversely affect the interest of our shareholders, including the holders of our American depositary shares.

Ownership of our shares is restricted under Korean law.

Under the Financial Holding Company Act of Korea, any single shareholder (together with certain persons in a special relationship with such shareholder) may acquire beneficial ownership of only up to 10% of the total issued and outstanding shares with voting rights of a bank holding company controlling nationwide banks such as us. 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 W 2 trillion; or (iii) any mutual fund in which a same shareholder group identified in (i) or (ii) above owns more than 4% of the total shares issued and outstanding of such mutual fund) may not acquire beneficial ownership in us in excess of 4% of our outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of up to 10% of our outstanding voting shares with the approval of the Financial Supervisory Commission under the condition that such non-financial business group companies will not exercise voting rights in respect of such shares in excess of the 4% limit. See “Item 4. Information on the Company — Supervision and Regulation — Principal Regulations Applicable to Financial Holding Companies — Restriction on Financial Holding Company Ownership”. To the extent that the total number of shares of our common stock that you and your affiliates own together exceeds such limit, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Supervisory Commission may order you to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in a fine of up to W 50 million.

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

The Commercial Code of Korea 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 Stock 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. The average of the Won to dollar exchange rates, based on the Noon Buying Rates, were W 1,292.00, W 1,250.31 and W 1,192.08 per US$1.00 in 2001, 2002 and 2003.

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 Stock Exchange, including our common shares, at the rate of 0.3% of the sales price if traded on the Korea Stock 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”.

Table of Contents

Other Risks

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

We, including our subsidiaries such as Shinhan Bank and Chohung Bank, are not required to and do not prepare interim financial information on a U.S. GAAP basis. U.S. GAAP differs in significant respects from Korean GAAP, particularly with respect to the establishment of provisions and loan loss allowance. See “Item 5. Operating and Financial Review and Prospects — Selected Financial Information under Korean GAAP” and “— Reconciliation with Korean Generally Accepted Accounting Principles”. As a result, provision and allowance levels reflected under Korean GAAP in our results for the three months ended March 31, 2003 and 2004 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.