SHINHAN FINANCIAL GROUP CO LTD
Form 20-F
June 29, 2007

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As filed with the Securities and Exchange Commission on June 29, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 20-F

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

Commission File Number: 001-31798

Shinhan Financial Group Co., Ltd.
(Exact name of registrant as specified in its charter)

N/A	**The Republic of Korea**
(Translation of registrant s name into English)	*(Jurisdiction of incorporation or organization)*

120, 2-Ga, Taepyung-Ro, Jung-Gu
Seoul 100-102, Korea
(Address of principal executive offices)

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

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

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

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

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

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the last full fiscal year covered by this Annual Report: 374,437,647 shares of common stock, par value of Won 5,000 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:

Yes o No þ

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 o Item 18 þ

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2) of the Exchange Act:

Yes o No þ

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court:

Yes o No o

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EXPLANATORY NOTE

On August 19, 2003, we acquired 80.04% of the outstanding common shares of Chohung Bank. In December 2003, our ownership increased to 81.15% following our additional capital injection of W200 billion. 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. See Item 4. Information on the Company The Merger of Shinhan Bank and Chohung Bank . We delisted Chohung Bank from the Stock Market Division of the Korea Exchange on July 2, 2004. Effective as of April 3, 2006, we merged Shinhan Bank, our other principal banking subsidiary, into Chohung Bank, integrated their operations and renamed the merged bank as Shinhan Bank. Unless otherwise indicated, statistical and financial information relating to Shinhan Bank for the year ended December 31, 2006 include corresponding information of Chohung Bank for the period from January 1, 2006 through April 2, 2006.

CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

All references to Korea or the Republic contained in this document mean The Republic of Korea. All references to the government mean the government of The Republic of Korea. The Financial Supervisory Service is the executive body of the Financial Supervisory Commission . References to MOFE are to the Ministry of Finance and Economy. The terms we, us and our mean Shinhan Financial Group Co., Ltd. (Shinhan Financial Group) and/or its consolidated subsidiaries as the context requires or unless the context otherwise requires. The terms Shinhan , SFG or the Group mean Shinhan Financial Group and/or its consolidated subsidiaries unless the context otherwise requires. The terms Shinhan Bank and SHB refer to Shinhan Bank on a consolidated basis, unless otherwise specified or the context otherwise requires. The terms Chohung Bank , Chohung and CHB refer to Chohung Bank on a consolidated basis, unless otherwise specified or the context otherwise requires.

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

In this document, unless otherwise indicated, all references to Won or W are to the currency of the Republic, and all references to U.S. Dollars , Dollars , $ or US$ are to the currency of the United States of America. Unless otherwise indicated, all translations from Won to Dollars were made at W930.0 to US$1.00, which was the noon buying rate in The City of New York for cable transfers in Won per US$1.00 as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) in effect on December 31, 2006. On June 19, 2007, the Noon Buying Rate was W927.6= US$1.00. No representation is made that the Won or U.S. Dollar amounts referred to in this report could have been or could be converted into Dollars or Won, as the case may be, at any particular rate or at all.

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

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

FORWARD LOOKING STATEMENTS

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

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. All forward-looking statements are management s present expectations of future events and are subject to a number of factors and uncertainties that could cause actual

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results to differ materially from those described in the forward-looking statements. This document discloses, under the caption Item 3. Key Information Risk Factors and elsewhere, important factors that could cause actual results to differ materially from our expectations (Cautionary Statements). Included among the factors discussed under the caption Item 3. Key Information Risk Factors are the followings risks related to our business, which could cause actual results to differ materially from those described in the forward-looking statements: the risk of adverse impacts from an economic downturn; increased competition; market volatility in securities and derivatives markets, interest or foreign exchange rates or indices; other factors impacting our operational plans; or legislative or regulatory developments.

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

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

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

Not applicable.

ITEM 2. *OFFER STATISTICS AND EXPECTED TIMETABLE*

Not applicable.

ITEM 3. *KEY INFORMATION*

SELECTED FINANCIAL DATA

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

The selected consolidated financial data set forth below for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 and as of December 31, 2002, 2003, 2004, 2005 and 2006 have been derived from our consolidated financial statements which have been prepared in accordance with U.S. GAAP.

Our consolidated financial statements as of and for the year ended December 31, 2003 include Chohung Bank as of and for the period from September 1, 2003 to December 31, 2003. Unless otherwise indicated, the income statement information and other data relating to the results of operations of Chohung Bank in 2003 refer to the results of operations of Chohung Bank for the period from September 1, 2003 to December 31, 2003.

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

Consolidated Income Statement Data

	Year Ended December 31,					
	2002	2003	2004	2005	2006	2006
	(In billions of Won and millions of US$, except per common share data)					
Interest and dividend income	W 3,735	W 5,331	W 7,712	W 7,488	W 8,893	$ 9,562
Interest expense	2,305	2,998	4,138	4,014	4,912	5,282
Net interest income	1,430	2,333	3,574	3,474	3,981	4,280
Provision (reversal) for credit losses	246	965	135	(183)	226	243
Noninterest income	1,037	1,118	2,096	2,718	3,926	4,221
Noninterest expense	1,302	1,937	3,156	3,678	5,565	5,983
Income tax expense	320	248	764	942	617	664
Minority interest	10	26	153	16	18	19
	589	275	1,462	1,739	1,480	1,592

Income before extraordinary item and effect of accounting change						
Extraordinary gain			28			
Cumulative effect of a change in accounting principle, net of taxes			(23)		(10)	(11)
Net income	W 589	W 275	W 1,467	W 1,739	W 1,470	$ 1,581
Net income per common shares (in currency unit):						
Net income basic(1)	W 2,246	W 1,024	W 4,875	W 5,190	W 3,951	$ 4.25
Net income diluted	2,243	984	4,347	4,882	3,951	4.25
Weighted average common shares outstanding-basic (in thousands of common shares)	262,480	262,987	292,465	333,424	372,173	
Weighted average common shares outstanding-diluted (in thousands of common shares)	262,812	279,745	337,479	356,140	372,173	

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Notes:

(1) Basic earnings per share are calculated by dividing the net income available to common stockholders by the weighted average number of common shares issued and outstanding for the period.

(2) Dilutive earnings per share are calculated in a manner consistent with that of basic earnings per share, while giving effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common stock were converted into or exercised for common stock. We have two categories of potentially dilutive common shares: (i) shares issuable upon the exercise of stock options and (ii) shares issuable upon conversion of redeemable convertible preferred shares. In 2006, there was no dilutive effect on earnings per share due to a change in accounting policy in 2006 which resulted in the use of the number of the outstanding shares as of the beginning of the year and the election by us to grant cash in lieu of stock upon the exercise of stock options by our employees. We may in the future grant stock in lieu of cash upon the exercise of stock options by our employees, which may impact the dilutive earnings per share in the future.

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Consolidated Balance Sheet Data

	As of December 31,					
	2002	2003	2004	2005	2006	2006
	(In billions of Won and millions of US$, except per common share data)					
Assets						
Cash and cash equivalents	W 282	W 1,897	W 2,444	W 2,434	W 1,691	$ 1,819
Restricted cash	1,365	3,662	3,301	3,644	6,758	7,267
Interest-bearing deposits	125	409	220	627	725	780
Call loans and securities purchased under resale agreements	576	1,898	1,591	1,499	1,243	1,337
Trading assets:						
Trading securities and other	926	2,857	4,639	3,573	3,474	3,736
Derivatives assets	139	520	1,678	934	1,363	1,465
Securities:						
Available-for-sale securities	8,737	18,099	18,108	22,480	17,458	18,772
Held-to-maturity securities	4,408	3,605	3,099	2,963	7,581	8,152
Loans (net of allowance for loan losses of W996 billion in 2002, W3,631 billion in 2003, W2,311 billion in 2004, W1,512 billion in 2005 and W1,575 billion in 2006)	44,139	91,791	94,868	104,447	120,989	130,096
Customers liability on acceptances	928	2,365	2,012	1,879	1,417	1,524
Premises and equipment, net	828	2,003	1,848	1,876	2,097	2,255
Goodwill and intangible assets	219	1,676	1,660	2,957	2,584	2,778
Security deposits	466	966	968	1,078	1,108	1,191
Other assets	1,648	4,601	7,072	4,724	6,844	7,357
Total assets	W 64,786	W 136,349	W 143,508	W 155,115	W 175,332	$ 188,529
Liabilities and Stockholders Equity						
Liabilities:						
Deposits:						
Interest-bearing	W 35,886	W 82,161	W 79,934	W 83,278	W 91,578	$ 98,471
Non-interest-bearing	1,163	1,328	2,746	3,143	3,918	4,213
Trading liabilities	131	513	1,758	1,048	1,611	1,732
Acceptances outstanding	928	2,365	2,012	1,879	1,417	1,524
Short-term borrowings	6,994	11,204	10,954	11,968	10,995	11,823
Secured borrowings	4,706	6,316	6,308	7,502	8,103	8,713
Long-term debt	8,235	21,218	23,617	26,172	32,574	35,026
Future policy benefit				4,778	5,683	6,110

Accrued expenses and other liabilities	3,193	6,555	9,713	7,089	9,311	10,012
Total liabilities	61,236	131,660	137,042	146,857	165,190	177,624
Minority interest	288	583	66	80	162	174
Redeemable convertible preferred stock		711	736	368		
Stockholders equity:						
Common stock	1,462	1,472	1,596	1,795	1,908	2,051
Additional paid-in capital	1,048	1,073	1,658	2,407	2,710	2,914
Retained earnings	1,077	1,189	2,456	3,953	5,146	5,533
Accumulated other comprehensive income, net of taxes	70	58	158	(100)	378	405
Less: treasury stock, at cost	(395)	(397)	(204)	(245)	(162)	(173)
Total stockholders equity	3,262	3,395	5,664	7,810	9,980	10,730
Total liabilities, minority interest, Redeemable Convertible Preferred Stock and stockholders equity	W 64,786	W 136,349	W 143,508	W 155,115	W 175,332	$ 188,529

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Dividends

	Year Ended December 31,				
	2002(1)	2003(1)	2004(1)	2005(1)	2006(1)
	(In Won and US$, except ratios)				
U.S. GAAP:					
Cash dividends per share of common stock:					
In Korean Won	W 600	W 600	W 600	W 750	W 800
In U.S. dollars	$ 0.50	$ 0.50	$ 0.50	$ 0.74	$ 0.86
Cash dividends per share of preferred stock					
In Korean Won	N/A	N/A	W 135.12	W 365.34	W 365.34
In U.S. dollars	N/A	N/A	$ 0.13	$ 0.36	$ 0.36
Stock dividends per share of common stock					
Korean GAAP:					
Cash dividends per share of common stock:(2)					
In Korean Won	W 600	W 600	W 600	W 750	W 800
In U.S. dollars	$ 0.50	$ 0.50	$ 0.50	$ 0.74	$ 0.86
Dividend ratio(3)	12.00%	12.00%	12.00%	15.00%	16%
Cash dividends per share of preferred stock:					
In Korean Won	N/A	N/A	W 857	W 1,183	W 1,427
In U.S. dollars	N/A	N/A	$ 0.83	$ 1.17	$ 1.54
Dividend ratio(3)	N/A	N/A	17.14%	23.66%	28.54%
Stock dividends per share of common stock					

N/A = Not applicable.

Notes:

(1) Represents dividends declared on the common stock of Shinhan Financial Group for the year ended December 31, 2002, 2003, 2004, 2005 and 2006.

(2) Represents, under Korean GAAP, for the year ended December 31, 2002, dividends accrued on the common stock of Shinhan Financial Group for such year, and, for each year ended December 31, 2003, 2004, 2005 and 2006, dividends declared on common stock of Shinhan Financial Group in such year.

(3) Dividends declared and paid as a percentage of par value of W5,000 per common share of Shinhan Financial Group.

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Selected Statistical Information

Profitability Ratios

	Year Ended December 31,				
	2002	2003	2004	2005	2006
	(Percentages)				
Net income as a percentage of:					
Average total assets(1)	0.94%	0.29%	1.01%	1.16%	0.87%
Average stockholders equity(1)(2)	15.99	8.83	31.44	29.80	16.20
Including redeemable convertible preferred shares(3)	N/A	8.15	27.22	27.08	15.85
Dividend payout ratio(4)	25.59	57.20	15.87	15.99	22.92
Net interest spread(5)	2.39	2.48	2.63	2.64	2.54
Net interest margin(6)	2.58	2.65	2.78	2.70	2.74
Efficiency ratio(7)	52.78	56.13	55.63	59.29	68.74
Cost-to-average assets ratio(8)	2.08	2.01	2.18	2.45	3.22
Equity to average asset ratio(9):	5.89	3.24	3.22	3.91	5.37
Including redeemable convertible preferred shares(3)	N/A	3.51	3.72	4.30	5.48

N/A = Not applicable.

Notes:

(1) Average balances are based on (a) daily balances for Shinhan Bank (for each year ended December 31, 2002, 2003, 2004, 2005 and 2006, including Chohung Bank) and Jeju Bank and (b) quarterly balances for other subsidiaries.

(2) Does not include the Redeemable Preferred Stock or the Redeemable Convertible Preferred Stock described below.

(3) In August 2003, as consideration for our acquisition of Chohung Bank, we issued to Korea Deposit Insurance Corporation (i) 46,583,961 redeemable preferred shares, with an aggregate redemption price of W842,517,518,646 and (ii) 44,720,603 redeemable convertible preferred shares, which are convertible into our common stock, with an aggregate redemption price of W808,816,825,858. Pursuant to the terms of the redeemable preferred shares issued to Korea Deposit Insurance Corporation, we were required to redeem such shares in five equal annual installments commencing three years from the date of issuance. These redeemable preferred shares are treated as debt under U.S. GAAP. Pursuant to the terms of our redeemable convertible preferred shares, we were required to redeem the full amount of such shares outstanding five years from the date of issuance to the extent not converted into our common shares. Each share of our Redeemable Convertible Preferred Stock is convertible into one share of our common stock. The dividend ratios on the redeemable preferred shares and redeemable convertible preferred shares issued to Korea Deposit Insurance Corporation are 4.04% and 2.02%, respectively. In November 2005, Korea Deposit Insurance Corporation converted 22,360,302 of the redeemable convertible preferred shares held by it into 22,360,302 shares of our common stock, representing 6.22% of our total issued shares (or 5.86% of our total issued shares on a fully diluted basis) of our common stock. In April 2006, Korea Deposit Insurance Corporation sold to BNP Paribas S.A. and other institutional investors all of such common shares.

In August 2003, we raised W900 billion in cash through the issuance of 6,000,000 of redeemable preferred shares, all of which were sold in the domestic fixed-income market through Strider Securitization Specialty Co., Ltd., a special purpose vehicle. These redeemable preferred shares have terms that are different from the redeemable preferred shares issued to Korea Deposit Insurance Corporation. We are required to redeem these preferred shares issued to the special purpose vehicle in three installments in 2006, 2008 and 2010. See Item 4. Information on the Company The Merger of Shinhan Bank and Chohung Bank Liquidity and Capital Resources and Item 10. Additional Information Articles of Incorporation Description of Capital Stock Description of Redeemable Preferred Stock .

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In January 2007, we raised W3,750 billion in cash through private placements of 28,990,000 redeemable preferred shares at the purchase price of W100,000 per share and 14,721,000 redeemable convertible preferred shares at the purchase price of W57,806 per share to institutional investors and governmental entities in Korea. These preferred shares have a term of 20 years and may be redeemed at our option from the fifth anniversary of the date of issuance to the maturity date. The redeemable convertible preferred shares may be converted into our common shares at a conversion ratio of one-to-one from the first anniversary of the issue date to the fifth anniversary of the issue date. The dividend ratio on the redeemable preferred shares is initially 7.00% per annum subject to certain adjustments. The dividend ratio on the redeemable convertible preferred shares is initially 3.25% per annum subject to certain adjustments. These preferred shares have terms that are different from the preferred shares issued previously. See Item 10 Additional Information Articles of Incorporation Description of Capital Stock Description of Redeemable Preferred Stock Series 10 Redeemable Preferred Stock and Description of Redeemable Convertible Preferred Stock Series 11 Redeemable Convertible Preferred Stock .

(4) Represents the ratio of total dividends declared on common stock as a percentage of net income.

(5) Represents the difference between the yield on average interest-earning assets and cost of average interest-bearing liabilities.

(6) Represents the ratio of net interest income to average interest-earning assets.

(7) Represents the ratio of noninterest expense to the sum of net interest income and noninterest income, a measure of efficiency for banks and financial institutions. Efficiency ratio may be reconciled to comparable line-items in our income statements for the periods indicated as follows:

	Year Ended December 31,				
	2002	**2003**	**2004**	**2005**	**2006**
	(In billions of Won, except percentages)				
Non-interest expense(A)	W 1,302	W 1,937	W 3,156	W 3,678	W 5,565
Divided by					
The sum of net interest income and noninterest income(B)	2,467	3,451	5,670	6,192	7,907
Net interest income	1,430	2,333	3,574	3,474	3,981
Noninterest income	1,037	1,118	2,096	2,718	3,926
Efficiency ratio ((A) as a percentage of(B))	52.78%	56.13%	55.66%	59.40%	70.38%

(8) Represents the ratio of noninterest expense to average total assets.

(9) Represents the ratio of average stockholders equity (not including the redeemable preferred shares or the redeemable convertible preferred shares) to average total assets.

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Asset Quality Ratios

	As of December 31,				
	2002	2003	2004	2005	2006
	(In billions of Won, except percentages)				
Total loans	W 45,052	W 95,295	W 97,080	W 105,848	W 122,446
Total allowance for loan losses	996	3,631	2,311	1,512	1,575
Allowance for loan losses as a percentage of total loans	2.21%	3.81%	2.38%	1.43%	1.29%
Total non-performing loans(1)	W 518	W 1,844	W 1,750	W 1,594	W 1,253
Non-performing loans as a percentage of total loans	1.15%	1.94%	1.80%	1.51%	1.02%
Non-performing loans as a percentage of total assets	0.80%	1.35%	1.22%	1.03%	0.72%
Impaired loans(2)	W 1,263	W 3,488	W 2,646	W 2,285	W 1,375
Allowance for impaired loans	480	1,349	885	704	865
Impaired loans as a percentage of total loans	2.80%	3.66%	2.73%	2.16%	1.12%
Allowance for impaired loans as a percentage of impaired loans	38.00%	38.68%	33.47%	30.81%	62.91%

Notes:

(1) Non-performing loans are defined as loans, whether corporate or consumer, that are past due more than 90 days.

(2) Impaired loans include loans that are classified as substandard or below according to the asset classification guidelines of the Financial Supervisory Commission, loans that are past due for 90 days or more and loans that qualify as troubled debt restructurings under U.S. GAAP.

Capital Ratios

	As of December 31,				
	2002	2003	2004	2005	2006
	(Percentages)				
Requisite capital ratio(1)	130.93%	118.41%	129.41%	132.81%	139.28%
Total capital adequacy ratio for Shinhan Bank(2)	10.92	10.49	11.94	12.23	12.01
Tier I capital adequacy ratio	6.81	6.34	7.45	8.16	7.81
Tier II capital adequacy ratio	4.11	4.15	4.49	4.07	4.20
Total capital adequacy ratio for Chohung Bank(2)	8.66	8.87	9.40	10.94	N/A
Tier I capital adequacy ratio	4.61	4.47	4.99	6.52	N/A
Tier II capital adequacy ratio	4.05	4.40	4.49	4.42	N/A

Adjusted equity capital ratio of Shinhan Card(3)	10.86	13.78	16.48	17.68	17.47
Solvency ratio for Shinhan Life Insurance(4)	238.9	224.7	265.7	232.1	232.6

N/A = Not available

Notes:

(1) We were restructured as a financial holding company on September 1, 2001 and became subject to minimum capital requirements as reflected in the requisite capital ratio. Under the guidelines issued by the Financial Supervisory Commission applicable to financial holding companies, we, at the holding company level, are required to maintain a minimum requisite capital ratio of 100%. Requisite capital ratio represents the ratio of net aggregate amount of our equity capital to aggregate amounts of requisite capital (all of which are described in Item 4. Information on the Company Supervision and Regulation Principal Regulations Applicable to

Financial Holding Companies Capital Adequacy). This computation is based on our consolidated financial statements prepared in accordance with Korean GAAP.

(2) Chohung Bank was merged with Shinhan Bank in April 2006. Accordingly, the capital adequacy ratio information for 2006 is not available for Chohung Bank.

(3) Represents the ratio of total adjusted shareholders equity to total adjusted assets and is computed in accordance with the guidelines issued by the Financial Supervisory Commission for credit card companies. Under these regulations, Shinhan Card, which was established on June 4, 2002, is required to maintain a minimum adjusted equity capital ratio of 8%. This computation is based on Shinhan Card s nonconsolidated financial statements prepared in accordance with Korean GAAP.

(4) Solvency ratio is the ratio of Solvency Margin to Standard Amount of Solvency Margin and is computed in accordance with the regulations issued by the Financial Supervisory Commission for life insurance companies. Under these regulations Shinhan Life Insurance is required to maintain a minimum solvency ratio of 100%. Based on the calculation, Shinhan Life Insurance s solvency ratio as of March 31, 2007 was 224.8%.

EXCHANGE RATES

The following table sets forth, for the periods and dates indicated, certain information concerning the Noon Buying Rate in Won per US$1.00.

Year Ended December 31,	At End of Period	Average(1)	High	Low
		(Won per US$1.00)		
2000	1,267.0	1,130.9	1,267.0	1,105.5
2001	1,313.5	1,292.0	1,369.0	1,234.0
2002	1,186.3	1,250.3	1,332.0	1,160.6
2003	1,192.0	1,192.1	1,262.0	1,146.0
2004	1,035.1	1,139.3	1,195.1	1,035.1
2005	1,010.0	1,023.8	1,059.8	997.0
2006	930.0	950.1	1,002.9	913.7
2007 (through June 19)	927.6	934.3	949.1	923.3
January	941.0	936.8	942.2	925.4
February	942.3	936.9	942.3	932.5
March	941.1	942.9	949.1	937.2
April	931.0	930.7	937.0	926.1
May	927.4	927.6	934.0	922.3
June (through June 19)	927.6	928.7	932.3	926.5

Source: Federal Reserve Bank of New York

Note:

(1) The average of the Noon Buying Rates over the relevant period.

We have translated certain amounts in Korean Won, which appear in this document, into dollars for convenience. This does not mean that the Won amounts referred to could have been, or could be, converted into dollars at any particular rate, the rates stated above, or at all. All translations from Won to dollars are based on the Noon Buying Rate in effect on December 31, 2006, which was W930.0 to US$1.00. The exchange rates used for convenience translations differ from the actual rates used in the preparation of our consolidated financial statements.

RISK FACTORS

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

Risks Relating to Competition

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

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

The Korean commercial banking industry has undergone dramatic changes recently as a number of significant mergers and acquisitions in the industry have taken place. There may be additional consolidation in the Korean commercial banking industry, including Korea s regional banks in particular. In November 2001, Kookmin Bank and Housing & Commercial Bank, two of the strongest banks in Korea, merged to form Kookmin Bank. The newly merged bank is significantly larger and has more financial resources than us. Also in 2001, Woori Bank restructured itself as a financial holding company and significantly realigned its businesses and products to compete with other larger banks in Korea. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last few years. In 2002, there was a merger of Hana Bank and Seoulbank. In 2003, Lone Star acquired a controlling interest in Korea Exchange Bank. In 2004, Citibank acquired KorAm Bank through a tender offer and subsequently renamed it Citibank Korea. In 2005, Standard Chartered Bank acquired Korea First Bank. In addition, notwithstanding the failed sale of it in 2007, Korea Exchange Bank may be subject to a merger or sale in the near future. At present, these and other banks resulting from mergers or acquisitions may have more financial resources or more experience in providing certain banking or financial services than us. Increased competition and continuing consolidation in the Korean banking industry may lead to decreased margins. There can be no assurance that we will be able to compete successfully with such banks.

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

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

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Successful acquisition of these fee generating businesses by our competitors may result in increased competition in the area of investment trust business. Recently, Woori Securities has acquired LG Investment & Securities, Hana Bank has acquired Daehan Investment & Securities, and Dongwon Financial Holding has acquired Korea Investment & Securities. In March 2007, we acquired the controlling equity interest in LG Card, the largest credit card company in Korea in terms of the number of cardholders which had been in a workout program since November 2003 . We cannot assure you that we will be able to successfully integrate the operations of LG Card into the rest of our operations, achieve the intended synergy effects or otherwise manage LG Card successfully.

Intense competition in the fee-based business will require us to create a new market and innovative products and services in a highly competitive environment. Our failure to do so could adversely affect our future results of operations.

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

Most of our funding requirements, principally those of Shinhan Bank and Chohung Bank, are met through short-term funding sources, primarily in the form of customer deposits, which are subject to significant price competition. As of December 31, 2006, approximately 89.91% of our total deposits had current maturities of one year or less or were payable on demand. In the past, a substantial portion of such customer deposits has been rolled over upon maturity or otherwise maintained with us, and such short-term deposits have been a stable source of funding over time. For example, of Shinhan Bank s total time deposits outstanding as of December 31, 2006 with remaining maturities of four months or less, approximately 32.64% were rolled over or otherwise maintained with Shinhan Bank. No assurance can be given, however, that such stable source of funding will continue, including as a result of intense price competition. If a substantial number of depositors fail to roll over deposited funds upon maturity or withdraw such funds from us, our liquidity position could be materially adversely affected, and we may be required to seek more expensive sources of short-term and long-term funds to finance our operations.

Risks Relating to Our Banking Business

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

Our loans to small- and medium-sized enterprises meeting the definition of such enterprises under the Basic Act on Small- and Medium-sized Enterprises and its Presidential Decree increased from W38,713 billion as of December 31, 2004 to W39,943 billion as of December 31, 2005 and to W47,159 billion as of December 31, 2006. These balances represent 39.9%, 37.7% and 38.5%, respectively, of our total loan portfolio as of December 31, 2004, 2005 and 2006. For a definition of small- and medium-sized enterprises, see Item 4. Information on the Company Business Overview Our Principal Activities Corporate Banking Services Small- and medium-sized Enterprises Banking . Non-performing loans to small- and medium-enterprises as described above were W1,005 billion as of December 31, 2004, W1,015 billion as of December 31, 2005 and W775 billion as of December 31, 2006, representing 2.60%, 2.54% and 1.64%, respectively, of our total loans to small- and medium-sized enterprises as of December 31, 2004, 2005 and 2006.

From 2002 to 2004, due to an aggressive lending policy with insufficient regard to asset quality followed by a downturn in Korean economy, the industry-wide delinquency ratios for loans to small- and medium-sized enterprises under Korean GAAP significantly increased. The delinquency ratio for loans to small- and medium-sized enterprise is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal payments are overdue by one day or more or interest payments are overdue by 14 days or more (if prior interest payments on a loan were made late on more than three occasions, in which case the loan is considered delinquent if interest payments are overdue by one day or more) to (2) the aggregate outstanding balance of such loans. According to data compiled by the Financial Supervisory Service, the delinquency ratio (net of charge-offs, which has also increased significantly) for loans by Korean banks to small- and medium-sized enterprises increased from 1.9% as of December 31, 2001 to 3.2% as of May 31, 2004. Under Korean GAAP, Shinhan Bank s delinquency ratio for such loans increased from 1.07% as of December 31, 2002 to 1.80% as of December 31, 2004, and Chohung Bank s delinquency ratio for such loans increased from 1.53% as of December 31, 2002 to 2.21% as of

December 31, 2004. In 2002, 2003 and 2004, under Korean GAAP, Shinhan Bank charged off loans to small-and medium-sized enterprises of W43 billion, W36 billion and W101 billion, respectively, while Chohung Bank charged off loans to small- and medium-sized enterprises of W49 billion, W73 billion and W55 billion, respectively. In addition, Chohung Bank sold loans to small- and medium-sized enterprises of W28 billion in 2002, none in 2003 and W357 billion in 2004. Shinhan Bank did not sell any of its loans to small- and medium-sized enterprises in 2002 and 2003, but sold W146 billion in 2004, in the absence of which the delinquency ratios would have been higher. In 2005 and 2006, due to an active campaign to improve asset quality, under Korean GAAP, Shinhan Bank s delinquency ratio for such loans decreased from 1.80% as of December 31, 2004 to 1.44% as of December 31, 2005 and to 1.10% as of December 31, 2006 and Chohung Bank s delinquency ratio for such loans decreased from 2.21% as of December 31, 2004 to 1.70% as of December 31, 2005. In 2004, 2005 and 2006, under Korean GAAP, Shinhan Bank charged off loans to small- and medium-sized enterprises of W101 billion, W82 billion and W82 billion, respectively, while Chohung Bank charged off loans to small- and medium-sized enterprises of W255 billion, W118 billion in 2004, 2005, respectively. In addition, under Korean GAAP, in 2004, 2005 and 2006, Chohung Bank sold W357 billion and W175 billion and Shinhan Bank sold W146 billion, W126 billion and W83 billion of its loans to small- and medium-sized enterprises, respectively, in the absence of which the delinquency ratios would have been higher. While Shinhan Bank adopts a more strict system for asset quality control in respect of loans to small- to medium-sized enterprises, loans to such enterprises continue to represent a significant percentage of Shinhan Bank s total loans, which was 38.5% as of December 31, 2006, and we cannot assure you that the delinquency ratio for such loans will not increase in the future, especially if Korean economy experiences a significant downturn in the future or if the interest rate in Korea rises significantly.

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

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

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

and home equity loans, will not deteriorate.

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

Consistent with practices in the Korean banking sector, a substantial majority of our mortgage and home equity loans have maturity of one to three years and are renewable based on our credit decisions. Since early 2004, however, we have begun offering longer-term mortgage and home equity loans with maturities of ten to 30 years similar to those offered in the United States. As of December 31, 2006, we had W13,585 billion of such long-term mortgage and home equity loans outstanding, for which we established an allowance for loan losses of W1 billion. This relatively low amount of allowance for loan losses compared to the amount of the long-term mortgage and home equity loans were primarily due to the fact that these loans are oversecured and are made subject to the condition of relatively low loan-to-value ratios. For mortgage and home equity loans, we establish allowances based on loss factors taking into consideration historical performance of the portfolio, previous loan loss history and charge-off information. Due to the limited history of extending these longer term mortgage and home equity loans, we cannot assure you that the allowances we have established against these loans will be sufficient to cover all future losses arising from these loans in the future. Although we adjust the loss factors derived from the migration analysis as appropriate to reflect the impact of any current conditions on loss recognition that has not been adequately captured by our historical analysis, we cannot assure you that we may adequately do so in time or at all.

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

Borrowers homes, other real estate and other securities secure substantial portions of our loans. As of December 31, 2006, under Korean GAAP, the secured portion of our Won-denominated loans of Shinhan Bank amounted to W58,795 billion, or 65.62% of such loans. We cannot assure you that the collateral value may not materially decline in the future. Shinhan Bank s general policy is to lend up to 50% 70% of the appraised value of collateral, which appraisal value we believe is, in general, lower than the market value. However, downturns in the real estate market as well as decreases in the value of securities collateral in the past have resulted in a number of loans whose principal amount exceeds the value of the underlying collateral at times. Declines in the value of securities and/or real estate prices in Korea that result in shortfalls in collateral values compared to loan amounts would require us to increase loan loss provisions and may have a material adverse effect on us. For a description of our collateral valuation policy, see Item 4. Information on the Company Description of Assets and Liabilities Risk Management Credit Risk Management of Shinhan Bank Credit Evaluation and Approval Consumer Loans and Item 4. Information on the Company Business Overview Our Principal Activities Retail Banking Services Consumer Lending Activities .

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

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

Our total consumer portfolio is comprised of three principal product types, namely mortgage and home equity loans, credit cards and other consumer loans (which include principally unsecured consumer loans). From 2000 to 2002, credit card and other consumer lending, including lending to small unincorporated businesses, in Korea experienced significant growth as a result of government policies and a greater focus on these sectors by commercial banks and credit card companies. However, as a result of, among other things, weak economic conditions as well as an increase in unemployment in 2003 and 2004, this growth led to an industry-wide decline in the overall credit quality, with increased delinquencies, provisions and charge-offs. While the overall credit quality and the level of delinquencies, provisions and charge-offs improved in 2005 and 2006 due to aggressive efforts by credit card companies and other consumer lending companies to write off non-performing loans and issue new credit only to select customers with good credit ratings, we cannot assure you that such trends will continue or will not materially worsen in the future as competition again intensifies in the credit card industry for market shares and new sources of revenues. In addition, the credit card and other consumer loan sectors may still experience credit quality problems and there can be no assurance that these problems will not have a material adverse effect on our results of operations.

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

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

In 2003 and 2004, adverse developments in the credit card industry in recent years such as industry-wide increases in delinquencies and resulting increases in provisioning for loan losses have had a negative impact on investors perception of credit card companies in the Korean corporate debt market, thereby significantly limiting the ability of credit card companies to obtain financing through issuances of debt securities. As a result, Korean credit card companies experienced significant financial and liquidity difficulties. Although the average industry-wide delinquency ratio (defined as the ratio of credit card balances that are delinquent for more than 30 days over total outstanding balances, including delinquent balances rewritten as credit card loans) of credit card companies in Korea as reported by the Financial Supervisory Commission has decreased from 9.03% as of December 31, 2004 to 4.04% as of December 31, 2006, the level of delinquencies experienced by the credit card industry in Korea remains relatively high and we cannot assure you that the credit card companies will not face a similar crisis in terms of its business and liquidity in the future.

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

As a result of the unfavorable financial and economic conditions in Korea, a number of chaebols have experienced and continue to experience financial difficulties. We have significant exposure to chaebols and large corporate borrowers. Of our twenty largest corporate exposures as of December 31, 2006, six are companies that are members of the 36 largest chaebols in Korea. If the quality of the exposures extended by us to chaebols declines, we would require additional loan loss provisions in respect of loans and would record impairment losses in respect of securities, which would adversely affect our financial condition, results of operations and capital adequacy. In addition, with respect to those companies that are in or in the future enter into workout or liquidation proceedings, we may not be able to make any recoveries against such companies. We may, therefore, experience future losses with respect to those loans, which may have a material adverse impact on our financial condition, results of operations and capital adequacy.

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

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

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

As of December 31, 2006, our loans to companies that were under troubled debt restructurings amounted to W343 billion, or 0.28% of our total loans, and our allowances for losses on these loans amounted to W222 billion, or 64.8% of such loans. As of the same date, our guarantees and acceptances to companies that were under troubled debt restructurings amounted to W20 billion, or 0.29% of our total guarantees and acceptances, and our allowance for such guarantees and acceptances amounted to W11 billion, or 53.4% of such guarantees and acceptances. These allowances may not be sufficient to cover all future losses arising from our exposure to these companies. Furthermore, under the Corporate Restructuring Promotion Act which was abolished in December 2005, if any of our borrowers became subject to corporate restructuring procedures, we could have been forced to restructure our credits pursuant to restructuring plans approved by other creditor financial institutions holding 75% or more of the total outstanding debt (and 75% or more of the total outstanding secured debt, if the restructuring plan included the restructuring of existing secured debt) of the borrower, or to dispose of our credits to other creditors on unfavorable terms. Although the Corporate Restructuring Promotion Act was abolished and is no longer effective, the National Assembly is currently in the process of reviving this law so that it will remain effective until December 2010.

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

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

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

In the normal course of our banking activities, we make various commitments and incur certain contingent liabilities in the form of guarantees and acceptances. Certain guarantees issued or modified after December 31, 2002 that are not derivative contracts have been recorded on our consolidated balance sheet at their fair value at inception. Other guarantees are recorded as off-balance sheet items in the footnotes to our financial statements and those guarantees that we have confirmed to make payments on become acceptances, which are recorded on the balance sheet. We had aggregate guarantees of W5,646 billion, and acceptances of W1,417 billion as of December 31, 2006. We provide an allowance for losses with respect to guarantees and acceptances as of each balance sheet date. We provided allowances for losses of W23 billion in respect of the guarantees and W12 billion in respect of acceptances as of December 31, 2006. If we experience significant asset quality deterioration in our guarantees and acceptances exposures, no assurance can be given that such allowances will be sufficient to cover any actual losses resulting in respect of these liabilities, or that the losses we incur on guarantees and acceptances will not be larger than those experienced on corporate loans.

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

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

Risks Relating to Our Credit Card Business

LG Card s profitability may fluctuate significantly.

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

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

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

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

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

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

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

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

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

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

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

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

Over the past several years, substantially all commercial banks and financial institutions in Korea have focused their business on, and engaged in aggressive marketing campaigns and made significant investments in, the credit card sector. The growth and profitability of our credit card subsidiaries credit card operations may decline as a result of growing market saturation in this sector, intensified interest rate competition, pressure to lower the fee rates and higher marketing expenses. As the market further saturates from this common focus and as the volume of transactions as well as the number of cardholders reaches maturity, it is expected that the market growth will be significantly limited. As a result, it may become increasingly difficult for our credit card subsidiaries to attract new customers who meet the credit criteria set by them. As a result of such market factors, our credit card subsidiaries would have to shift its focus from an aggressive growth strategy to one of obtaining and retaining high credit quality customers.

The ability of our credit card subsidiaries to continue its asset growth in the future will depend on, among other things, its success in developing and marketing new products and services, its capacity to generate funding at commercially reasonable rates and in amounts sufficient to support further asset growth, its ability to develop the personnel and systems infrastructure necessary to manage its growing and increasingly diversified business operations and its ability to manage increasing delinquencies. In addition, external factors such as competition and government regulation in Korea may limit our credit card subsidiaries ability to maintain its growth. Also, economic and social developments in Korea, such as changes in consumer confidence levels, spending patterns or public perception of credit card usage and consumer debt, could have an adverse impact on the growth rate of our credit card subsidiaries credit card portfolios in the future. If the rate of growth of our credit card subsidiaries assets declines or becomes negative, its results of operations and financial condition may be adversely affected.

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Risks Relating to Our Strategy

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

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

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

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

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

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

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

We aim to capitalize over time on the combined strengths of LG Card and Shinhan Card in terms of market share, product and service mix, customer base and cost efficiencies. We have not established a specific timeline for integration of these two subsidiaries. Our ability to achieve the benefits of the acquisition is subject to risks and uncertainties, some of which are beyond our control, including:

difficulties in operating the integrated information technology system, risk management and other systems;

difficulties in harmonizing the two corporate cultures;

difficulties in integrating the currently separate labor unions of LG Card and Shinhan Card; and

difficulties in retaining and attracting customers that overlapped between LG Card and Shinhan Card prior to the acquisition.

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

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

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

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

Risks relating to Our Other Businesses

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

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

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

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

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

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

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

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

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

We rely on our information technology systems for our daily operations including billing, effecting online and offline banking transactions and record keeping. In connection with the acquisition of LG Card in March 2007, we plan to integrate the information technology system of Shinhan Card into that of LG Card by the end of 2008. We may experience disruptions, delays or other difficulties from our information technology systems, which may have an adverse effect on our business and adversely impact our customers confidence in us.

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

Operational risk is risk that is difficult to quantify and subject to different definitions. In addition to internal audits and inspections, the Financial Supervisory Service conducts general annual audits of operations at Shinhan Financial Group and also performs general annual audits of our operations. The Financial Supervisory Service also performs special audits as the need arises on particular aspects of our operations such as risk management, credit monitoring and liquidity. In the ordinary course of these audits, the Financial Supervisory Service routinely issue warning notices where it determines that a regulated financial institution or such institution s employees have failed to comply with the applicable laws or rules, regulations and guidelines of the Financial Supervisory Service. We have in the past received, and expect in the future to receive, such notices and we have taken and will continue to take appropriate actions in response to such notices.

No assurance can be given, however, that these remedial measures would be sufficient to prevent similar or more adverse operational risks from materializing.

Risks Relating to Government Regulation and Policy

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

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

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

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

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

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

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

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

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

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

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Risks Relating to Korea and the Global Economy

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

We are incorporated in Korea, and substantially all of our operations are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. Financial turmoil in Asia in the late 1990 s adversely affected the Korean economy and in turn Korean financial institutions. In addition, investors reactions to developments in one country can have adverse effects on the securities of companies in other countries, including Korea. In addition, the economic indicators in 2003, 2004, 2005 and 2006 have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control.

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

failure of restructuring of *chaebols* and accounting irregularities of and regulatory proceedings against *chaebols,* together with its negative effect on the Korean financial markets and on the small- and medium-sized enterprises market;

failure of restructuring of large troubled companies, including troubled credit card companies and financial institutions;

volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including continued weakness of the U.S. dollar and/or the appreciation of the Korean Won against foreign currencies), interest rates and stock markets;

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

adverse developments in the economies of countries to which Korea exports goods and services (such as the United States, China and Japan), or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;

the continued emergence of China, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and relocation of the manufacturing base from Korea to China);

social and labor unrest or declining consumer confidence or spending resulting from lay-offs, increasing unemployment and lower levels of income;

uncertainty and volatility in real estate prices arising, in part, from the Korean government s policy-driven tax and other regulatory measures;

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

political uncertainty or increasing strife among or within political parties in Korea, including as a result of the increasing polarization of the positions of the ruling progressive party and the conservative opposition;

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

the failure by the legislative body of the United States or Korea to approve the Free Trade Agreement or the failure by Korean economy to achieve the desired economic benefits from such Free Trade Agreement.

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

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

Relations between Korea and North Korea have been tense over most of Korea s history. The level of tension between Korea and North Korea has fluctuated and may increase or change abruptly as a result of current and future events, including ongoing contacts at the highest levels of the governments of Korea and North Korea and increased hostility between North Korea and the United States. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency, and has reportedly resumed activity at its Yongbyon power plant. In January 2003, North Korea announced its intention to withdraw from the Nuclear Non-Proliferation Treaty, demanding that the United States sign a non-aggression pact as a condition to North Korea dismantling its nuclear program. In August 2003, representatives of Korea, the United States, North Korea, China, Japan and Russia held multilateral talks in an effort to resolve issues relating to the nuclear weapons program of North Korea. In February 2005, North Korea announced that it possessed nuclear weapons. In September 2005, North Korea agreed to end its nuclear weapons program, and the six participating nations signed a draft preliminary accord pursuant to which North Korea agreed to dismantle its existing nuclear weapons, abandon efforts to produce new future weapons and readmit international inspectors to its nuclear facilities. In return, the other five nations participating in the talks, China, Japan, Korea, Russia and the United States, expressed willingness to provide North Korea with energy assistance and other economic support. The six parties agreed to hold further talks in November 2005. However, one day after the joint statement was released, North Korea announced that it would not dismantle its nuclear weapons program unless the United States agreed to provide civilian nuclear reactors in return, a demand that the United States rejected. In July 2006, North Korea conducted several missile tests, which increased tensions in the region and raised strong objections from Japan and the United States. In response, the United Nations Security Council passed a resolution condemning such missile tests and banning any United Nations member state from conducting transactions with North Korea in connection with material or technology related to missile development or weapons of mass destruction. In October 2006, North Korea announced that it had successfully conducted a nuclear test, which increased tensions in the region and raised strong objections from Korea, the United States, Japan, China and other nations worldwide. In response, the United Nations Security Council passed a resolution which prohibits any United Nations member state from conducting transactions with North Korea in connection with any large-scale arms and material or technology related to missile development or weapons of mass destruction, providing luxury goods to North Korea, and imposes freezing of assets and an international travel ban on persons associated with North Korea s weapons programs, and calls upon all United Nations member states to take cooperative action, including through inspection of cargo to or from North Korea. In February 2007, the six parties entered a new accord under which North Korea would begin to disable its nuclear facilities in return for fuel oil and aid. We cannot assure you that these recent events constitute a final agreement on North Korea s nuclear program, including critical details such as implementation, timing and verification, or that North Korea will fulfill its obligations under such accord.

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

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

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

Enacted on January 20, 2004 and effective January 1, 2005, the Act on Class Actions regarding Securities allows class action suits to be brought by shareholders of companies listed on the Korea Exchange, including ours, for losses incurred in connection with the purchase and sale of securities and other securities transactions arising from (i) false or inaccurate statements provided in registration statements, prospectuses, business reports and audit reports; (ii) insider trading and (iii) market manipulation. This law permits 50 or more shareholders who collectively hold 0.01% or more of the shares of a company at the time when the cause of such damages occurred to bring a class action suit against, among others, the issuer and its directors and officers. It is uncertain how the courts will apply this law, however, as this law has been enacted only recently. Litigation can be time-consuming and expensive to resolve, and can divert valuable management time and attention from the operation of a business. We are not aware of any basis for such suit being brought against us, nor, to our knowledge, are there any such suits pending or threatened. Any such litigation brought against us could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

Risks Relating to Our American Depositary Shares

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

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

The value of your investment may be reduced by future conversion of our redeemable convertible preferred shares.

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

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

Ownership of our shares is restricted under Korean law.

Under the Financial Holding Companies Act, any single shareholder (together with certain persons in a special relationship with such shareholder) may acquire beneficial ownership of up to 10% of the total issued and outstanding shares with voting rights of a bank holding company controlling national banks such as us. In addition, any person, except for a non-financial business group company (as defined below), may acquire in excess of 10% of the total voting shares issued and outstanding of a financial holding company which controls a national bank, provided that a prior approval from the Financial Supervisory Commission is obtained each time such person s aggregate holdings exceed 10% (or 15% in the case of a financial holding company controlling regional banks only), 25% or 33% of the total voting shares issued and outstanding of such financial holding company. The Korean government and the Korea Deposit Insurance Corporation are exempt from this limit. Furthermore, certain non-financial business group companies (i.e., (i) any same shareholder group with aggregate net assets of all non-financial business companies belonging to such group of not less than 25% of the aggregate net assets of all members of such group; (ii) any same shareholder group with aggregate assets of all non-financial business companies belonging to such group of not less than W2 trillion; or (iii) any mutual fund in which a same shareholder group identified in (i) or (ii) above owns more than 4% of the total shares issued and outstanding of such mutual fund) may not acquire beneficial ownership in us in excess of 4% of our outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of up to 10% of our outstanding voting shares with the approval of the Financial Supervisory Commission under the condition that such non-financial business group companies will not exercise voting rights in respect of such shares in excess of the 4% limit. See Item 4. Information on the Company Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restriction on Financial Holding Company Ownership . To the extent that the total number of shares of our common stock that you and your affiliates own together exceeds these limits, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Supervisory Commission may order you to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in a fine of up to W50 million.

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

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

- a registration statement filed by us under the US Securities Act of 1933, as amended, is in effect with respect to those shares; or

- the offering and sale of those shares is exempt from or is not subject to the registration requirements of the US Securities Act.

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

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

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

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

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

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

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

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

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

Other Risks

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

We, including our subsidiaries such as Shinhan Bank and LG Card, are not required to and do not prepare interim financial information on a U.S. GAAP basis. U.S. GAAP differs in significant respects from Korean GAAP, particularly with respect to the establishment of provisions and loan loss allowance and determination of the scope of consolidation. See Item 5. Operating and Financial Review and Prospects Selected Financial Information under Korean GAAP and Reconciliation with Korean Generally Accepted Accounting Principles . As a result, provision and allowance levels reflected under Korean GAAP in our results for the three months ended March 31, 2006 and 2007 may differ significantly from comparable figures under U.S. GAAP for these and future periods.

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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.

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ITEM 4. *INFORMATION ON THE COMPANY*

HISTORY AND DEVELOPMENT OF SHINHAN FINANCIAL GROUP

Introduction

We are the largest financial holding company in Korea in terms of total assets, total deposits and stockholders equity. We were formed in 2001 as the holding company for Shinhan Bank and related financial services companies. On August 19, 2003, we acquired 80.04% of the shares of Chohung Bank and began to merge its operations with those of Shinhan Bank subject to a three-year transition period. 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. Following the merger of Shinhan Bank and Chohung Bank in April 2006, Shinhan Bank s total assets grew to W154,207 billion (US$165,813 million) as of December 31, 2006, as published by the Financial Supervisory Commission. In February 2007, we acquired 85.7% shares of LG Card, the largest credit card service provider in Korea with 17.2% market share of credit card customers.

From this expanded platform, we serve all major components of the corporate and retail banking and financial services markets. In the corporate sector, we serve the large corporate community, established and developing small- and medium- sized enterprises as well as certain small unincorporated businesses. In the retail sector, we provide mortgages and home equity finance as well as general unsecured consumer lending to retail customers ranging from high net worth customers to the mass retail market. As of March 31, 2007, LG Card had approximately 10.6 million cardholders and Shinhan Card had approximately 5.4 million cardholders. Through our banking and non-banking subsidiaries, we engage in a comprehensive range of related financial services including securities brokerage, investment banking, investment trust management and insurance. We have also entered into joint ventures with BNP Paribas, our shareholder, in the areas of investment trust management and bancassurance to bring an international perspective to these operations.

Following the merger of Shinhan Bank and Chohung Bank, we currently operate the second largest nationwide branch network in Korea with 471 branches in the Seoul and its metropolitan area, 373 branches in Kyunggi Province and six major cities in Korea and 163 branches throughout the rest of the country. As of December 31, 2006, Shinhan Bank had over 198,000 corporate deposit customers and over 12.7 million retail deposit customers with an aggregate average deposit of W84,975 billion. This combined customer base provides us with a large, stable and cost effective core funding base, and access to an established corporate and retail customer base to whom we can market the full range of our financial products and services.

History and Organization

On September 1, 2001, we were formed as a financial holding company under the Financial Holding Companies Act, by acquiring all of the issued shares of the following companies from the former shareholders in exchange for shares of our common stock:

- Shinhan Bank, a nationwide commercial bank;
- Shinhan Securities Co., Ltd., a securities brokerage company;
- Shinhan Capital Co., Ltd., a leasing company; and

Shinhan Investment Trust Management Co., Ltd., an investment trust management company.

Shinhan Bank and Shinhan Securities were previously listed on the Korea Stock Exchange and Shinhan Capital was previously registered with Korea Securities Dealers Association Automated Quotation, or KOSDAQ, whereas Shinhan Investment Trust Management was privately held. On September 10, 2001, we listed the common stock of our holding company on the Korea Stock Exchange See Item 9 The Offer and Listing Market Price Information and Trading Market The Korean Securities Market .

In December 2001, we concluded an agreement with our strategic partner and our largest shareholder, the BNP Paribas Group, pursuant to which BNP Paribas purchased a 4.00% equity interest in us. In September 2003, BNP Paribas increased its equity interest in us to 4.61%. As a result of the issuance of additional shares of our common stock in connection with transactions involving our acquisition of minority shares in our subsidiaries and the additional over-the-counter acquisition by BNP Paribas of 20,124,272 shares of our common stock from Korea Deposit Insurance Corporation in April 2006, BNP Paribas is our largest shareholder with ownership of 9.06% of our total issued common shares as of December 31, 2006.

In April 2002 and July 2002, we acquired an aggregate of 62.4% equity stake in Jeju Bank, a regional bank incorporated in 1969 to engage in commercial banking and trust businesses.

During 2002, through a series of transactions, we acquired 31.7% of common stock (or 30.7% of voting equity securities) of Good Morning Securities. Subsequently, we merged Shinhan Securities into Good Morning Securities and renamed it Good Morning Shinhan Securities Co., Ltd. As of December 31, 2002, following the foregoing transactions, we effectively owned 60.5% of Good Morning Shinhan Securities. In December 2004, Good Morning Shinhan Securities became our wholly-owned subsidiary after we acquired the remaining shares of Good Morning Shinhan Securities. In January 2005, Good Morning Shinhan Securities was delisted from the Korea Exchange.

On June 4, 2002, the credit card division of Shinhan Bank was spun off and established as our wholly-owned subsidiary, Shinhan Card Co., Ltd. Effective as of April 3, 2006, the credit card division of Chohung Bank was split off and merged into Shinhan Card.

Shinhan Credit Information Co., Ltd. was established on July 8, 2002 as our wholly-owned subsidiary, which engages in the business of debt collection and credit reporting.

On August 9, 2002, we signed a joint venture agreement with BNP Paribas Asset Management, the asset management arm of BNP Paribas, in respect of Shinhan Investment Trust Management. On October 24, 2002, we sold to BNP Paribas Asset Management 3,999,999 shares of Shinhan Investment Trust Management, representing 50% less one share, which was subsequently renamed Shinhan BNP Paribas Investment Trust Management Co., Ltd.

On October 1, 2002, SH&C Life Insurance Co., Ltd., a bancassurance joint venture, was established under a related joint venture agreement with Cardif S.A., the bancassurance subsidiary of BNP Paribas.

On August 19, 2003, we acquired 80.04% of common shares of Chohung Bank, a nationwide commercial bank in Korea. See The Merger of Shinhan Bank and Chohung Bank. In December 2003, we acquired an additional 1.11% of common shares of Chohung Bank. In June 2004, we acquired the common shares of Chohung Bank that we previously did not own, which were 135,548,285 shares, or 18.85% of total common shares of Chohung Bank outstanding as of December 31, 2003, through a cash tender offer followed by a small-scale share swap under Korean law, as a result of which, we came to own 100% of Chohung Bank. The common shares of Chohung Bank were delisted from the Stock Market Division of the Korea Exchange on July 2, 2004. The merger of Shinhan Bank and Chohung Bank occurred effective as of April 3, 2006, with Chohung Bank becoming the legal surviving entity. The newly merged bank then changed its name to Shinhan Bank.

In December 2005, in a series of related transactions, we acquired 100% of Shinhan Life Insurance, an insurance company, through a small scale share exchange mechanism provided under applicable Korean law, pursuant to which we issued 17,528,000 new shares of our common stock to the shareholders of Shinhan Life Insurance in exchange for all outstanding common stock of Shinhan Life Insurance held by them for an aggregate purchase price of W612 billion, or W15,300 per share. As part of this share exchange, Shinhan Bank exchanged 5,524,772 shares of common stock of Shinhan Life Insurance previously held by it into 2,420,955 shares of our common stock and Good Morning Shinhan Securities exchanged 464,800 shares of common stock of Shinhan Life Insurance previously held by it into 203,675 shares of our common stock, all of which were sold in the market in June 2006. Similarly, as part of this transaction, Shinhan Life Insurance also exchanged 9,000 shares of its common stock, which Shinhan Life Insurance acquired as a result of the exercise of appraisal rights by dissenting shareholders of Shinhan Life Insurance, into 3,943 shares of our common stock. All of such shares of our common stock received by Shinhan Life Insurance were sold in the market on December 29, 2005. As of December 31, 2006, Shinhan Bank held 7,129,967 treasury shares of our common stock, all of which have been sold in the market as of June 21, 2007.

In February 2007, we acquired from the Creditor Committee and other shareholders of LG Card 85.73% of common shares of LG Card.

We also own the following subsidiaries that were subsidiaries of Chohung Bank and whose names were changed as of April 3, 2006, the date of the merger of Shinhan Bank and Chohung Bank.

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SH Asset Management, previously known as Chohung Investment Trust Management Co., Ltd., was established in 1988 and engages in investment management services. In 1997, the company changed its name from Chohung Investment Management Co., Ltd. to Chohung Investment Trust Management Co., Ltd. and, on April 3, 2006, to SH Asset Management Co., Ltd. As of December 31, 2006, its capital stock amounted to W45 billion of which Shinhan Bank owned 79.8%.

Shinhan Asia Limited, formerly known as Chohung Finance Ltd., is engaged in various merchant banking activities in Hong Kong. As of December 31, 2006, its capital stock amounted to US$15 million, of which Shinhan Bank owns 100.0%.

Shinhan Bank America was formerly known as CHB America Bank, a wholly-owned subsidiary of Chohung Bank in the United States. On April 3, 2006, it became a wholly-owned subsidiary of Shinhan Bank in connection with the merger of Shinhan Bank and Chohung Bank. It offers full banking services to Korean residents in New York and in California. As of December 31, 2006, Shinhan Bank America s capital stock amounted to US$14 million.

Shinhan Bank Europe GmbH, formerly known as Chohung Bank (Deutschland) GmbH was established in 1994 as a wholly-owned subsidiary of Chohung Bank in Germany. On April 3, 2006, it became a wholly-owned subsidiary of Shinhan Bank. As of December 31, 2006, its capital stock amounted to EUR 15.3 million.

Shinhan Vina Bank, formerly known as Chohung Vina Bank, was established in November 2000 as a joint venture between Chohung Bank and Vietcom Bank, and engages in banking activities in Vietnam. Its capital stock as of December 31, 2006 was US$20 million, of which Shinhan Bank currently owns 50.0%.

In December 2004, we established Shinhan Private Equity Inc. as our wholly-owned subsidiary with initial paid-in-capital of W10 billion. In August 2005, Shinhan Private Equity established a private equity fund named Shinhan NPS PEF 1st. Shinhan Private Equity owns 5.0% and other subsidiaries of Shinhan Financial Group own 31.7% of Shinhan NPS PEF 1st.

As of the date hereof, we have 12 direct and 13 indirect subsidiaries. The following diagram shows our organization structure as of the date hereof:

Notes:

(1) Includes 7.1% held by Shinhan Bank.

(2) Currently in liquidation proceedings.

(3) We and our subsidiaries currently own an additional 31.7%.

With the exception of Shinhan Finance Limited and Shinhan Asia Limited, which are incorporated in Hong Kong, Shinhan Bank America and Good Morning Shinhan Securities USA Inc., which are incorporated in the United States, Good Morning Shinhan Securities Europe Ltd., which is incorporated in United Kingdom, Shinhan Bank Europe GmbH which is incorporated in Germany, and Shinhan Vina Bank, which is incorporated in Vietnam, all of our other subsidiaries are incorporated in Korea.

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Our legal name is Shinhan Financial Group Co., Ltd. and commercial name is Shinhan Financial Group. Our registered office and principal executive offices are located at 120, 2-Ga, Taepyung-Ro, Jung-gu, Seoul 100-102, Korea. Our telephone number is 82-2-6360-3000. Our agent in the United States, Shinhan Bank, New York branch, is located at 32nd Floor, 800 Third Avenue, New York, NY 10022, U.S.A. Our agent s telephone number is (212) 371-8000.

Our Strategy

Since our establishment as a holding company in 2001, we have actively realigned our market position in a rapidly changing environment of the Korean banking and financial industry. In particular, with our acquisition of Chohung Bank in 2003, we have emerged as the second largest financial institution in terms of assets and distribution network in Korea. With the acquisition of Chohung Bank, we currently believe that we have completed our reconfiguration of our corporate structure in the area of commercial banking. Furthermore, with our acquisition of LG Card in February 2007, we believe we have positioned ourselves as a balanced provider of banking and non-banking services with diversified revenue sources and enhanced synergy opportunities, including cross-selling.

Our vision is to enhance shareholder value by securing a solid position as the leading provider of total financial solutions in Korea by achieving global standards in corporate governance, operational efficiencies and integration of process and services. To this end, we are focusing, in the medium-term, on the successful completion of the integration of our banking operations to create total financial solutions by providing a full range of financial products and services to meet the needs of both corporate and retail customers. To achieve this vision, we are implementing and will continue to implement the following strategies:

Creating synergies within our holding company structure. Since our reconfiguration into a holding company structure in 2001, we have focused on achieving synergy through cross-selling of products and services. Shinhan Bank, Good Morning Shinhan Securities and Shinhan Life Insurance are assuming the roles of primary distribution channel while the rest of our non-bank subsidiaries are focusing on developing competitive products and services. Examples of our principal products for cross-selling in the retail segment include bancassurance, credit cards, beneficiary certificates and Financial Network Accounts , which are integrated accounts for banking, brokerage and insurance services. In the corporate segment, Good Morning Shinhan Securities provide to corporate customers of Shinhan Bank financial services including underwriting of initial public offerings, asset securitization, M&A advisory and issuance of debt or equity securities.

Enhancing the core competency of our operating subsidiaries. In order to provide the highest quality products and services from each of our banking and financial businesses, we intend to focus on enhancing the core competency of each of our operating subsidiaries by taking the following initiatives:

in commercial banking, we have sought to achieve economies of scale by acquiring Chohung Bank, enabling us to, among other things, capitalize on greater mass market penetration and large corporate portfolio as a complement to Shinhan Bank s greater emphasis on small- and medium-sized enterprises and high net worth individuals.

in credit cards, we have focused on and will continue to focus on improved credit initiation through higher credit scoring requirements, risk management through continued credit scoring reviews and improved collection results through coordinated call centers and increased collection staff, as well as enhanced marketing. Upon the merger of Shinhan Bank and Chohung Bank in April 2006, we split off the credit card services division of Chohung Bank and merged it into Shinhan Card. As of December 31, 2006, Shinhan Card had W4 trillion in assets, W27 trillion in total credit card use (excluding corporate cards) and approximately 5 million customers. In terms of the amount of the total credit card use, Shinhan Card currently ranks fifth among credit card service providers (including banks) following the split-merger. In addition, we believe the acquisition in March 2007 of LG Card, which is the largest credit card service provider in Korea in terms of asset size and the number of cardholders, will help to expand our cardholder base, create further cross-selling opportunities, achieve cost savings and offer competitive edge in pricing,

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all of which are expected to contribute to the improvement of our market position in the credit cards market in Korea.

in securities brokerage services, we will continue to enhance our investment banking capabilities through Good Morning Shinhan Securities, by expanding its mutual funds and other indirect asset investment products business, derivative trading and sales, proprietary trading and principal investments, as well as promoting the traditional brokerage services.

in insurance, we have sought to achieve economies of scale by acquiring Shinhan Life Insurance in December 2005 in addition to SH&C Life Insurance, which joined the group in 2002, enabling the development and distribution of more diversified insurance products and services to meet the growing needs of our customers.

in areas where we lack core competency as compared to the leading global financial institutions, we will continue to expand our relationships through affiliations and business cooperation with world class financial institutions such as BNP Paribas and Macquarie.

Establishing and Consolidating the One Portal Network. In order to provide total financial solutions to our customers on a real-time basis, we are continuing to develop our one portal network. The one portal network refers to the ability of a corporate or retail customer to have access to our total financial solutions through any single point of contact with our group. In furtherance of this strategy, we have been implementing and will continue to implement the following initiatives:

integrating our physical and online distribution channels to offer products and services developed by all of our operating subsidiaries and businesses, including as follows:

making banking, securities brokerage, insurance and other services available at each branch;

enabling online cross access between commercial banking and our online securities brokerage service; and

integrating the customer service call centers for our commercial banking, credit card and securities brokerages services.

focusing on retail and corporate customers with total financial solutions designed to meet their respective needs and utilizing specialized branches to provide convenient access and trained employees to offer and provide relevant products and services, including as follows:

in retail banking, utilizing private banking centers to provide high net worth customers convenient access to total financial solutions that link banking to brokerage services, asset management and insurance; as well as penetrating the mass market penetration by enhancing brand and customer loyalty through focus on cross selling of products and strengthened customer relationship management;

in corporate banking, expanding and enhancing the capabilities of our large corporate and small-and medium-sized enterprises specialist branch network and leveraging our increased large corporate customer base to provide total financial solutions that combine banking and non-banking financial products, such as asset backed securities, structured finance, M&A advice; syndication and equity derivatives, acting more as a financial advisor for larger, well established small-and-medium-sized enterprises by providing underwriting, rights offerings and offering related investment banking services in addition to lending, deposit and foreign exchange products and services and focusing on investment in corporate debt securities and initial public offerings for smaller businesses;

developing and promoting integrated financial products customized to meet the needs and demands of our customer segments, such as Financial Network Accounts that combine banking services and securities brokerage services or that combine credit card services and securities brokerage services and Safe Loans that combine banking services and insurance services.

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enhancing customer loyalty by offering an All Plus Points System that combines customers banking, securities and credit card activities in a single report from which certain customer benefits are awarded.

developing joint products and services and joint sales support and enhancing cross-selling by sharing customer information through integrated data-warehousing and customer relationship management systems.

Achieving Cost Efficiency from our Holding Company Structure. We intend to achieve cost efficiency and to achieve maximum benefit from our holding company structure by:

preventing overlapping investments in solution development, information technology related investments, new investments in distribution channels, hiring and training of employees, and bulk-purchasing by member companies; and

identifying and realizing synergies such as combined information technology systems, call centers and shared customer services, distribution channels and new products and services;

THE MERGER OF SHINHAN BANK AND CHOHUNG BANK

History of Our Acquisition of Chohung Bank

Through the acquisition of Chohung Bank, our Board of Directors sought primarily to achieve greater scale and market share, and secure stronger distribution channels to fulfill the advantages of our holding company model. Prior to the acquisition, Shinhan Bank was the fifth largest bank in Korea in terms of assets as of December 31, 2002. The acquisition of Chohung Bank placed us second among Korean banks in terms of assets at the time of the acquisition. With these substantially enhanced resources, we constitute a broad-based nationwide financial services platform that enjoys a leadership position in the retail, corporate and small- and medium-sized enterprise banking sectors, as well as enhances our position in related financial services segments, including credit card, securities brokerage and investment trust management services. The acquisition has also enhanced our ability to optimize funding costs with a larger core deposit base and greater leverage in product sourcing. Through the acquisition, our Board of Directors also sought over time to benefit from synergies associated with combining and integrating the resources of Shinhan Bank and Chohung Bank, including combined information technology platforms, branch specialization, banking product and service development and the expansion and development of related financial services such as bancassurance and investment banking.

On August 19, 2003, we acquired 543,570,144 shares of common stock of Chohung Bank from Korea Deposit Insurance Corporation, which shares represent 80.04% of the outstanding shares of Chohung Bank. Korea Deposit Insurance Corporation had acquired the Chohung Bank shares in connection with a capital injection in 1999 during the Korean financial crisis. Our acquisition of these shares of Chohung Bank was the culmination of a lengthy process pursuant to which we were selected as the preferred bidder in January 2003 following which we entered into negotiations with Korea Deposit Insurance Corporation over a six-month period with respect to the price and terms of the acquisition.

The definitive terms of the acquisition were reflected in the Stock Purchase Agreement and the Investment Agreement, each dated July 9, 2003. The purchase price for the Chohung Bank shares consisted of (i) a maximum cash amount of W1,718,800,548,296, of which W900,000,000,000 was paid at the closing, with the W652,284,172,800 being due two years after the closing, subject to reduction if certain loan portfolio quality conditions existing as of December 31, 2002 under Korean GAAP are not maintained, and W166,516,375,496 being due two years after the closing, subject to reductions relating to the accuracy of representations and warranties contained in the Stock Purchase Agreement, (ii) 46,583,961 shares of our Redeemable Preferred Stock and (iii) 44,720,603 shares of our Redeemable Convertible Preferred Stock convertible into 12.28% of our common shares as of December 31, 2004. For the terms of these preferred stocks, see Item 10. Additional Information Articles of Incorporation Description of Capital Stock Description of Redeemable Preferred Stock.

The loan portfolio quality adjustment to the cash portion of the acquisition price referred to above was based on the Korean GAAP performance of Chohung Bank s portfolios of certain large corporate loans, including corporate loans sold with recourse to the Korea Asset Management Corporation, and credit card loans. Any loan loss provisions, net charge-offs or other losses or costs associated with such adjustments and with adjustments associated with accuracy of representations and warranties referred to above were reflected in the ordinary course on our consolidated income statement prepared under Korean GAAP. Any cash payments made when the amounts payable to Korea Depository Insurance Corporation can be estimated with reasonable certainty will be reflected on our consolidated balance sheet as additional goodwill from the acquisition.

W166,516,375,496, which was due two years after the closing subject to adjustments associated with accuracy of representations and warranties referred to above, was paid in 2005 and an adjustment in the corresponding amount was made to the goodwill in 2004. As for W652,284,172,800 due two years after the closing subject to reduction if certain loan portfolio quality conditions existing as of December 31, 2002 under Korean GAAP were not maintained, W220,713,909,507 was determined to be the final amount payable. Of this amount, W200,252,538,954 was paid in 2005 and W20,461,370,553 was paid in 2006, and a corresponding amount was added to the goodwill in 2005. We do not believe any further earnout amount is due and have so notified Korea Deposit Insurance Corporation.

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The Stock Purchase Agreement also provided for the resignation of the board of directors and officers of Chohung Bank and the election of persons specified by us, all of which has taken place and a new management and board of directors of Chohung Bank were formed. In December 2003, our ownership of Chohung Bank increased to 81.15% following our additional capital injection of W200 billion into Chohung Bank. In June 2004, we acquired the common shares of Chohung Bank that we previously did not own, which were 135,548,285 shares, or 18.85% of total common shares of Chohung Bank outstanding as of December 31, 2003, through a cash tender offer followed by a small-scale share swap under Korean law. We delisted the common shares of Chohung Bank from the Korea Exchange on July 2, 2004. In April 2006, we consummated the merger of Shinhan Bank and Chohung Bank as further described below in The Merger of Shinhan Bank and Chohung Bank.

The Merger of Shinhan Bank and Chohung Bank

To provide integration leadership during the initial phases of the integration, in September 2003, a joint management committee was established consisting of the CEO and the responsible Senior Executive Vice President at our holding company level, the CEOs and the responsible Senior Executive Vice Presidents of both Shinhan Bank and Chohung Bank and other members of our senior management, including those of our other subsidiaries as appropriate from time to time. Under the supervision of this joint management committee, and upon outside consulting, including review of global best practice to improve fairness and objectivity in our decision-making process, the merger of Shinhan Bank and Chohung Bank was implemented through two group-wide initiatives called One Bank and New Bank projects.

The One Bank initiative focused on achieving near-term synergies and operational efficiencies in advance of the physical and systems integration, such as in the areas of sharing retail distribution channels, joint proposals and credit policies for large-scale loans and joint investor relations and public relations. The day-to-day implementation of the One Bank initiative was handled by a joint work group established with working level employees participating from the holding company, Shinhan Bank and Chohung Bank, further broken down into task force teams and smaller work groups depending on the various areas of integration.

The New Bank initiative focused more on longer-term integration and upgrading of the merged bank s services platform. The areas of focus include upgrading retail service models, establishing the one portal channel network, business process reengineering, developing an integrated credit risk management system and upgrading our information technology systems. The day-to-day implementation is being handled by six upgrade project teams.

After both banks had substantially completed the implementation of these integration initiatives, on December 30, 2005, the respective board of directors of the two banks approved the terms of the merger (the Merger) as set out in the Merger Agreement by and between Chohung Bank and Shinhan Bank dated December 30, 2005 (the Merger Agreement). The board of directors of Chohung Bank also approved the terms of the spin-off of its credit card business and the merger of this business into Shinhan Card (the Split-Merger). For purposes of the Split Merger, Chohung Bank and Shinhan Card entered into a Split-Merger Agreement on December 30, 2005 (the Split-Merger Agreement). The respective meetings of the shareholders of Shinhan Bank and Chohung Bank were held on February 15, 2006 to approve the Merger and, in the case of Chohung Bank, also the Split-Merger. The creditor protection procedures under the Act on the Structural Improvement of the Financial Industry commenced on February 17, 2006 and terminated on February 27, 2006. The Merger and the Split Merger were approved by the Financial Supervisory Commission of Korea.

Pursuant to the terms of the Merger Agreement, effective on April 3, 2006, Shinhan Bank was merged into Chohung Bank with Chohung Bank being the surviving legal entity. In connection with the Merger, each share of common stock of Shinhan Bank was exchanged for 3.867799182 shares of common stock of Chohung Bank. Immediately after the Merger, Chohung Bank changed its name to Shinhan Bank .

Pursuant to the terms of the Split-Merger Agreement, effective on April 3, 2006, Chohung Bank s credit card business was spun-off and merged into Shinhan Card. In connection with the Split-Merger, 41,207,856 shares of common stock of Shinhan Card were issued to us in exchange for 42,008,463 shares of common stock of Chohung Bank and Shinhan Card assumed assets amounting to W1,967 billion, together with certain liabilities amounting to W1,797 billion relating to the credit card business of Chohung Bank. As a result of the Split-Merger, 42,008,463 shares of common stock of Chohung Bank were retired, resulting in a reduction in its shareholders equity of approximately W210 billion.

Relationship with the Labor Unions

Our acquisition of Chohung Bank encountered opposition from both the labor union and the senior management of Chohung Bank during the stages of negotiation. Beginning in mid-June 2003, the labor union of Chohung Bank undertook actions, including a strike, opposing our acquisition of Chohung Bank. In connection with the finalization of the Stock Purchase Agreement, our management, together with the managements of Korea Deposit Insurance Corporation and Chohung Bank, reached a written understanding with the labor union of Chohung Bank. Labor related issues relating to Chohung Bank will be resolved through consultation. The understanding contemplated that a merger of Shinhan Bank and Chohung Bank may take place three years after the closing and that during the transition period (i) the chief executive officer of Chohung Bank will be drawn from a pool of candidates with backgrounds at Chohung Bank and will, as such, manage Chohung Bank within the holding company structure, (ii) Chohung Bank and Shinhan Bank will have equal representation on the integration committee to be established two years after the acquisition and equal representation as senior executive officers of Shinhan Financial Group, and (iii) forcible lay-offs will not take place, employee compensation will be harmonized and seniority will be discussed. Upon completion of the merger, employee redundancy policy will be retained and, where feasible, branch redundancies will be avoided. This understanding was broadly consistent with our strategy and timetable for combining the resources of the two banks and was designed to enhance the support and cooperation of Chohung Bank s employees in the process. Neither of the labor unions of the two banks objected to the Merger or the Split Merger and, to date, we have not experienced any significant difficulties in our relationships with the respective labor unions of Shinhan Bank and Chohung Bank since our acquisition of Chohung Bank, including in connection with the Merger. The labor union of the former Chohung Bank continues to exist, comprised of Shinhan Bank employees who were former employees of Chohung Bank. The labor unions of Shinhan Bank and the former Chohung Bank agreed to a unified compensation and promotion mechanisms for the employees of the two banks, and are currently discussing the terms of the merger between the two unions. We have not experienced any significant difficulty due to the existence of two labor unions.

Liquidity and Capital Resources

As consideration for our purchase of Chohung Bank shares, at closing, we (i) paid cash of W900 billion, (ii) issued 46,583,961 redeemable preferred shares, with an aggregate redemption price of W842,517,518,646 and (iii) issued to 44,720,603 redeemable convertible preferred shares convertible with a redemption price of W808,816,825,858, in each case to Korea Deposit Insurance Corporation. In August 2003, we raised W900 billion in cash through the issuance of 6,000,000 redeemable preferred shares, all of which were sold in the domestic fixed-income market through Strider Securitization Specialty Co., Ltd., a special purpose vehicle. These redeemable preferred shares have terms that are different from the preferred shares issued to Korea Deposit Insurance Corporation. In 2006, we redeemed redeemable preferred shares in the aggregate principal amount of W525 billion that came due in August 2006. We are required to redeem the preferred shares issued to the special purpose vehicle in two more installments in 2008 and 2010, in the amounts of W365 billion and W10 billion, respectively.

Pursuant to the terms of the redeemable preferred shares issued to Korea Deposit Insurance Corporation, we are required to redeem such shares in five equal annual installments commencing three years from the date of issuance and, pursuant to the terms of the redeemable convertible preferred shares, we are required to redeem the full amount of such shares outstanding five years from the date of issuance to the extent not converted into our common shares. Each redeemable convertible preferred share is convertible into one share of our common stock. The dividend ratios on our redeemable preferred share and redeemable convertible preferred share are 4.04% and 2.02%, respectively, of their respective subscription amounts. See Item 10. Additional Information Articles of Incorporation Description of Capital Stock Description of Redeemable Preferred Stock .

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The following table sets forth the contractual scheduled maturities by type of preferred shares issued by us in connection with our acquisition of Chohung Bank.

	Due August 2007	2008	2009	2010	Total
	(In millions of Won)				
Redeemable preferred shares issued to KDIC	W 168,504	W 168,504	W 168,504	W 168,504	W 674,016
Redeemable preferred shares issued in the market through a special purpose vehicle		365,000		10,000	375,000
Redeemable convertible preferred shares(1)					
Total	W 168,504	W 533,504	W 168,504	W 178,504	W 1,049,016

Note:

(1) In November 2005 and August 2006, Korea Deposit Insurance Corporation converted all of our redeemable convertible preferred shares held by it into 44,720,603 of our common shares in the aggregate.

Pursuant to laws and regulations in Korea, we may redeem our preferred stock to the extent of our retained earnings of the previous fiscal year, net of certain reserves as determined under Korean GAAP. At this time, we expect that cash from our future operations should be adequate to provide us with sufficient capital resources to enable us to redeem our preferred stock pursuant to the scheduled maturities as described in the table above. In the event there is a short-term shortage of liquidity to make the required cash payments for redemption as a result of, among other things, failure to receive dividend payments from our operating subsidiaries on time or as a result of significant expenditures resulting from future acquisitions, we plan to raise cash liquidity through the issuance of long-term debt in the Korean fixed-income market in advance of the scheduled maturity on our preferred stock. To the extent we need to obtain additional liquidity, we plan to do so through the issuance of long-term debt and the use of our other secondary funding sources. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources .

Capital Adequacy

As of March 31, 2006, the business day before the merger of Shinhan Bank and Chohung Bank, the capital adequacy ratios were 12.55 and 10.77 for Shinhan Bank and Chohung Bank, respectively. As of the same date, the Tier I ratios were 8.36 and 6.91 for Shinhan Bank and Chohung Bank, respectively.

ACQUISITION OF LG CARD

In March 2007, we acquired the controlling interest in LG Card, one of Korea s largest credit card companies. The following provides a summary of the background of the acquisition.

Starting in 2003, LG Card experienced 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 W2 trillion credit facility, secured by credit card receivables, to enable LG Card to resume cash operations. Our portion of this commitment was W216.7 billion, consisting of W113.7 billion for Shinhan Bank and W103 billion for Chohung Bank. The maturity of this credit facility was extended in March 31, 2005 to December 31, 2005, and it was repaid in four equal installments over the course of one year following December 31, 2005. Certain of LG Card s creditor banks (including our subsidiaries) also agreed to extend the maturity of a portion of LG Card s debt coming due in 2003 for one year, after the chairman of LG Group pledged his personal stake in LG Corporation, the holding company for the LG Group, LG Investment & Securities and LG Card as collateral to offset future losses of LG Card.

After the failure to auction LG Card to a buyer in December 2003, the principal creditors of LG Card tentatively agreed to a rescue plan in January 2004 under which the Korea Development Bank would acquire a 25%

(subsequently adjusted to 26%) interest in LG Card and the other creditors would collectively acquire a 74% (subsequently adjusted to 73%) ownership interest following the completion of several debt-to-equity swaps contemplated for 2004. In addition, the creditors agreed to form a normalization steering committee for LG Card to oversee LG Card s business operations. An extraordinary shareholders meeting of LG Card was held in March 2004 and a new chief executive officer as well as directors nominated by the normalization steering committee were elected. In February 2004, the creditors exchanged indebtedness of W954 billion (including our portion of W77.5 billion) for shares constituting 54.8% of the outstanding share capital of LG Card. LG Group also funded an additional W800 billion to LG Card (in addition to a W200 billion capital contribution made in December 2003). In March 2004, the LG Group and the Korea Development Bank provided additional liquidity of W375 billion and W125 billion, respectively. In May 2004, LG Card completed a capital write-down of 97.7% of its outstanding common stock, which included the W954 billion converted into equity by the creditors in February 2004 (including our portion of W77.5 billion). In July 2004, the creditors also converted an additional W954 billion of indebtedness into equity of LG Card (including our portion of W77.5 billion) and W1.59 trillion of new loans extended to LG Card (including our portion of W154.4 billion) into equity of LG Card. In January 2005, the LG Group and the creditor banks converted an additional W1 trillion in the aggregate (including W25.3 billion for Shinhan Bank and W23.0 billion for Chohung Bank for our aggregate portion of W48.3 billion) into equity. In addition, the creditor banks also reduced the interest rate on existing credit facility of LG Card in the aggregate amount of W1 trillion from 7.5% per annum to 5.5% per annum and further extended the maturity of the credit facility to December 2006, subject to four equal quarterly installment repayments in 2006. In addition, the terms of the collateral for this facility was amended. Prior to this amendment, the creditor financial institutions were entitled to receive the cash inflows from collection on such collateral. LG Card was not required to maintain a minimum collateral ratio or to enhance its credit support through the provision of additional collateral. Thus, there was no guarantee against losses to the extent that collection results in a shortfall of the principal amount of the credit extended. As a result of the amendment, however, LG Card is entitled to the cash received from collection on condition that LG Card maintains a minimum collateral ratio of 105%. In March 2005, LG Card also completed a capital write-down of 81.8% of its outstanding common stock, which included the W2,417 billion of equity held by the creditors (including our portion of W216 billion).

In August 2005, the creditors of LG Card resolved to sell up to 90,364,299 shares, including 8,312,240 shares held by us, by way of an auction conducted by the creditors, with Korea Development Bank taking the lead role. In April 2006, we submitted a letter of intent indicating our wish to participate in the bidding for the controlling equity stake in LG Card. In August 2006, we were selected as the preferred bidders and commenced negotiation with the creditors for the purchase of their shares in LG Card. Following due diligence, we signed a stock purchase agreement with the creditors in December 2006. Pursuant to the terms of the stock purchase agreement, we made a public tender offer during a 20-day period from February 28, 2007 to March 19, 2007, as a result of which we acquired 98,517,316 shares, or 78.6%, of the common stock of LG Card at the price of W67,770 per share, or an aggregate price of W6,676 billion. When counted together with 8,960,005 shares, or 7.1%, of the common stock of LG Card held by Shinhan Bank prior to the public tender offer, we held 107,477,321 shares, or 85.7%, of the common stock of LG Card immediately after the public tender offer. Since LG Card no longer meets the listing requirement related to the 10% minimum holding requirement of its capital stock to be held by small investors (defined as holders of less than 1% of capital stock), we currently plan to delist LG Card from the Korea Exchange in the second half of 2007 following the acquisition of the remaining shares through a small-scale share swap under Korean law.

As of December 31, 2006, our total exposure to LG Card was W802 billion, including W218 billion of loans, W64 billion of debt securities and W520 billion of equity securities. We made an allowance for loan losses of W0.1 billion for the loans. As a result of the satisfactory progress on scheduled debt restructuring of LG Card, we recorded reversal of loan loss provisions of W0.6 billion and recognized securities impairment losses of W0 billion in respect of our exposures to LG Card. In connection with the LG Card rescue plan, Shinhan Bank transferred W10 billion of exposure in its performance-based trust account to the bank account in January 2004 and Chohung Bank also transferred W30 billion of exposure in its performance-based trust account to the bank account in February

2004, resulting in an increase in our total exposure to LG Card. These exposures were included in our credit exposure that was converted into equity in connection with the rescue plan of LG Card as described above.

We believe that the acquisition of LG Card will have substantial synergy effects, including an expanded customer base, cost savings from shared infrastructures and bulk purchases, greater opportunities for cross-selling and diversified revenue streams from non-banking businesses.

After the acquisition of LG Card, a Co-Management Committee was formed in April 2007 to integrate the operations of LG Card and Shinhan Card. The Committee consists of members of senior management from the SFG, LG Card and Shinhan Card and meets once every month to discuss strategic issues related to integration. In addition to the Co-Management Committee, there are also ten working-level sub-committees that focus on specific integration issues such as risk management, marketing, product development and investor relations.

Relationship with the Labor Union

We did not, and do not plan to, significantly change the employment policy, including with respect to redundancy, of LG Card in connection with our acquisition of LG Card. The labor union of LG Card did not object to our acquisition of LG Card, and to date, we have not experienced any significant difficulties in our relationships with the labor union of LG Card.

Liquidity and Capital Resources

As consideration for our public tender offer for the shares of LG Card, we paid W6,676 billion in cash. In January 2007, we raised W3,750 billion in cash through private placements of 28,990,000 redeemable preferred shares at the purchase price of W100,000 per share and 14,721,000 redeemable convertible preferred shares at the purchase price of W57,806 per share to institutional investors and governmental entities in Korea. These preferred shares have a term of 20 years and may be redeemed at our option from the fifth anniversary of the date of issuance to the maturity date. The redeemable convertible shares may be converted into our common shares at a conversion ratio of one-to-one from the first anniversary of the issue date to the fifth anniversary of the issue date. The dividend ratios on the redeemable preferred shares and the redeemable convertible preferred shares are initially 7.00% and 3.25%, respectively, per annum subject to certain adjustments. These preferred shares have terms that are different from the preferred shares issued previously. See Item 10 Additional Information Articles of Incorporation Description of Capital Stock Description of Redeemable Preferred Stock Series 10 Redeemable Preferred Stock and Description of Redeemable Convertible Preferred Stock Series 11 Redeemable Convertible Preferred Stock .

In addition, as part of obtaining the funding for the LG Card acquisition, from November 2006 to February 2007, we also issued corporate bonds in the aggregate principal amount of W2,550 billion and commercial papers in the aggregate principal amount of W380 billion. The corporate bonds have maturity ranging from 2.5 years to seven years from the issue date. The amounts due under the corporate bonds are W1,050 billion in 2009, W500 billion in 2010, W200 billion in each of 2011 and 2012 and W300 billion in each of 2013 and 2014. The commercial papers mature on the first anniversary of the issue date.

BUSINESS OVERVIEW

Unless otherwise specifically mentioned, the following business overview is presented on a consolidated basis under U.S. GAAP.

In the overview of our business that follows, we provide you with information regarding our branch network and other distribution channels and a detailed look at our principal group activities.

Our Branch Network and Distribution Channels

Through branches maintained at various levels of our subsidiaries, we offer a variety of financial services to retail and corporate customers. The following table presents the geographical distribution of our domestic branch network, according to our principal subsidiaries with branch networks, as of December 31, 2006.

	Shinhan Bank		Jeju Bank	Good Morning Shinhan Securities	Shinhan Card(1)	Shinhan Life Insurance	Total
	Retail	Corporate					
Seoul and metropolitan	378	93	2	37	10	55	575
Kyunggi Province	166	32		11	4	11	224
Six major cities:	145	30	1	18	8	30	232
Incheon	38	9		2	1	7	57
Busan	41	8	1	5	2	8	65
Kwangju	13	2		2	1	4	22
Taegu	23	6		4	2	6	41
Ulsan	11	2		2	1	1	17
Taejon	19	3		3	1	4	30
Sub-total	689	155	3	66	22	96	1,031
Others	137	26	33	14	5	31	246
Total	826	181	36	80	27	127	1,277

Note:

(1) Represents sales offices focusing on attracting new customers.

Banking Branch Network

As of December 31, 2006, Shinhan Bank had 1,007 branches in Korea. Shinhan Bank s branch network is designed to focus on providing one-stop banking services tailored to one of the three customer categories: retail customers, small-and medium-sized enterprises customers and large corporate customers. Under the customer oriented branch network, branch officers operate under the sole and independent supervision of their respective division profit centers, providing one-stop banking services tailored to their respective customer groups. Of the 1,007 total domestic branches, nine branches specialize in serving large corporations, 172 branches concentrate on small- and medium-sized enterprises, 826 branches focus on retail customer, 126 branches focus on institutional banking and 12 branches focus on private banking.

This branch network includes the extensive nation-wide branch network of the former Chohung Bank, which had a total of 537 branches in Korea as of April 3, 2007, the date of its merger into Shinhan Bank. With key branches located in high traffic locations such as airports, hospitals and other public facilities, we believe that the branch network of the former Chohung Bank provided, and will continue to provide, its former customers with convenience and efficiency that enabled the former Chohung Bank to secure a significant source of stable funding at competitive rates. Of the 537 total branches, six branches specialize in serving large corporations, 83 branches concentrate on small- and medium enterprises and 448 branches focus on retail customers.

We believe that targeting specific service areas and offering differentiated services to each group of customers will improve our profitability and productivity.

Retail Banking Branches

In Korea, many retail transactions are conducted in cash or with credit cards, and conventional checking accounts are generally not offered or used as widely as in other countries. As a result, an extensive retail branch network plays an important role for Korean banks as customers generally handle most transactions through bank branches.

Shinhan Bank has 378 retail branches located near Seoul and its metropolitan area targeting and servicing high net worth individuals. Through the merger with Chohung Bank, Shinhan Bank acquired an extensive nationwide network of 826 retail branches covering all regions of Korea.

Our private banking relationship managers are representatives who, within target customer groups, assist clients in developing individual investment strategies. We believe that our relationship managers help us foster enduring relationships with our clients. Private banking customers also have access to our retail branch network and other general banking products we offer through our retail banking operations.

Corporate Banking Branches

In order to service corporate customers and attract high-quality borrowers, in particular from the small-and medium-sized enterprises sector, Shinhan Bank has developed a relationship management system within its domestic branch network and strengthened its marketing capability. Shinhan Bank s relationship managers help us foster enduring relationships with our corporate customers, the small- and medium-sized enterprises in particular. As of December 31, 2006, Shinhan Bank had 172 corporate banking branches with these relationship management teams focusing on serving its small-and medium-sized enterprises customers. Shinhan Bank expects its headquarters to be much better positioned to effect policies and business strategies throughout its branch network. This should lead to greater efficiency and better services being provided to these customers. Shinhan Bank has nine corporate branches solely dedicated to large corporate customers, all of which are located in Seoul, Korea.

Self-Service Terminals

In order to complement our branch network, we have established an extensive network of automated banking machines, which are located in branches and in unmanned outlets. These automated banking machines consist of ATMs, cash dispensers and passbook printers. As of December 31, 2006, Shinhan Bank had 1,472 cash dispensers and 5,513 ATMs. We have actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. We believe that the use of our automated banking machines has increased in recent years. In 2006, automated banking machine transactions accounted for approximately 19.0% of total deposit and withdrawal transactions of Shinhan Bank.

The following table sets forth information, for the periods indicated, regarding the number of transactions and the fee revenue of our ATMs and cash dispensers.

	For the Year Ended December 31,		
	2004(1)	**2005(1)**	**2006(1)**
Shinhan Bank:			
ATMs and cash dispensers	2,459	2,751	6,985
Number of transactions (millions)	105	111	324
Fee revenue (billions of Won)	W 20	W 20	W 56

Chohung Bank:					
ATMs and cash dispensers		4,397		4,395	N/A
Number of transactions (millions)		262		205	N/A
Fee revenue (billions of Won)	W	34	W	33	N/A

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N/A = Not applicable

Note:

(1) Includes information for Chohung Bank, which was merged with Shinhan Bank in April 2006. For 2006, the information for Shinhan Bank and Chohung Bank is presented on a combined basis to reflect the merger of the two banks in April 2006.

Electronic Banking

Since launching Korea s first internet banking service in July 1999, Shinhan Bank has been widely acknowledged in the print and electronic media as the internet banking leader among Korean commercial banks. Shinhan Bank s internet banking services are more comprehensive than those available at the counter, including such services as 24 hour account balance posting, real-time account transfer, overseas remittance and loan requests. Consistent with the fact that Korea has the highest internet supply rate in the world and an active e-business market, internet banking has continued to grow at a rapid pace. In 2006, internet banking transactions made up 47.6% of total banking transactions of Shinhan Bank. In the case of loans, in particular, an average of approximately 9,006 requests are made per month. Among the electronic banking service customers of Shinhan Bank as of December 31, 2006, approximately 3,093,011 were retail customers and 245,163 were corporate customers. Chohung Bank s electronic bank services were fully integrated into those of Shinhan Bank in October 2006.

In March 2004, we launched the Mobile Banking service, which enables customers to make speedy, convenient and secure banking transactions using IC chip-installed mobile phones. As of December 31, 2006, Shinhan Bank had 124,549 Mobile Banking subscribers who used the service for approximately 10 million transactions per year amounting to W2,046,047 million.

The following table sets forth information, for the periods indicated, on the number of users and transactions and the fee revenue of the above services provided to our retail and corporate customers.

	For the Year Ended December 31,		
	2004	2005	2006(5)
Shinhan Bank:			
Telephone banking(1):			
Number of users(2)	1,398,827	1,685,031	2,665,538
Number of transactions (in thousands)	36,646	41,608	130,889
Internet banking(1):			
Number of users(2)	1,339,571	1,656,196	3,338,174
Number of transactions (in thousands)(3)	359,160	403,869	814,092
Total fee revenue (millions of Won)	W 29,884	W 26,693	W 63,924
Chohung Bank:			
Telephone banking(1):			
Number of users(2)	720,492	976,606	N/A
Number of transactions (in thousands)(3)	108,745	82,349	N/A
Internet banking(1):			
Number of users	2,472,415	1,395,770(4)	N/A

Number of transactions (in thousands)(3)		166,937		298,452	N/A
Total fee revenue (millions of Won)	W	45,007	W	43,953	N/A

N/A = Not applicable

Notes:

(1) Includes customers simultaneously using both telephone banking and internet banking.

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(2) Includes customers using services of both Shinhan Bank and Chohung Bank.

(3) Includes balance transfers.

(4) The decrease in the number of internet banking users of Chohung Bank was due primarily to Chohung bank s efforts during 2005 to close non-active user accounts (meaning accounts that were not used for six months or more).

(5) For 2006, the information for Shinhan Bank and Chohung Bank is presented on a combined basis to reflect the merger of the two banks in April 2006.

E-banking functions primarily as a cost-saving method, rather than a profit-generating platform. Accordingly, substantially all of electronic banking transactions do not generate fee income as many transactions, such as balance inquiries, consultations with customer representatives or transfers of money within our banking institutions, are not charged fees. This is especially the case for phone banking services where a majority of the transactions are balance inquiries or consultations with customer representatives. Firm banking services, which are electronic banking services offered to corporate customers, have also contributed to reducing expenditures on operations and administrative costs.

In line with our strategy to provide high quality and comprehensive customer service, we are in the process of establishing a group-wide integrated call center designed to provide comprehensive customer service and marketing.

Overseas Branch Network

The table below sets forth Shinhan Bank s overseas banking subsidiary and branches as of December 31, 2006.

Business Unit	**Location**	**Year Established or Acquired**
Subsidiaries		
Shinhan Asia Ltd.(1)	Hong Kong SAR, China	1982
Shinhan Bank Europe GmbH(2)	Germany	1994
Shinhan Bank America(3)	U.S.A.	2003
Shinhan Vina Bank(4)	Vietnam	2000
Branches		
Tokyo	Japan	1988
Osaka	Japan	1986
Fukuoka	Japan	1997
New York	U.S.A.	1989
Singapore(5)	Singapore	1990
London	United Kingdom	1991
Tianjin(5)	China	1994
Ho Chi Minh City	Vietnam	1995
Mumbai(5)	India	1996
Shanghai	China	2003
Qingdao	China	2005
Hong Kong	China	2006
New Delhi	India	2006

Notes:

(1) Formerly Chohung Finance Ltd., Hong Kong before the merger of Shinhan Bank and Chohung Bank on April 3, 2006.

(2) Formerly Chohung Bank (Deutschland) GmbH before the merger of Shinhan Bank and Chohung Bank on April 3, 2006.

(3) Created as a result of a merger of Chohung Bank of New York and California Chohung Bank in March 2003. Shinhan Bank America has offices in New York City, New York and Los Angeles, California; Formerly CHB America Bank before the merger of Shinhan Bank and Chohung Bank on April 3, 2006.

(4) Formerly Chohung Vina Bank before the merger of Shinhan Bank and Chohung Bank on April 3, 2006.

(5) Formerly branches of Chohung Bank before the merger of Shinhan Bank and Chohung Bank on April 3, 2006.

The principal activities of overseas branches and subsidiaries of Shinhan Bank, including those of the former Chohung Bank, are providing trade financing and local currency funding for Korean companies and Korean nationals in the overseas markets and providing foreign exchange services in conjunction with our headquarters. On a limited basis, these overseas branches and subsidiaries also engage in investment and trading of securities of foreign issuers.

Credit Card Distribution Channels

As part of our strategy to focus on cross-selling of credit card products and services to our banking customers, we generally market our credit card products and services to our customers through our established retail distribution channels, primarily through retail and corporate banking branch network of Shinhan Bank, including automated transaction machines. In addition, as of December 31, 2006, Shinhan Card had 16 sales offices nationwide, which primarily focus on attracting new credit card customers.

LG Card primarily uses credit card planners to acquire new cardholders. The credit card planners are independent contractors who provide cardholders with comprehensive services, including assistance with completing credit card applications. In 2006, LG Card engaged approximately 3,000 credit card planners through 30 agencies, who sourced approximately 50% of the new cardholders for LG Card in 2006. LG Card also uses the following channels to acquire new cardholders: (i) sales alliance partners, with whom LG Card issues co-branded or affinity cards, (ii) direct marketing by LG Card, including telemarketing, (iii) LG Card s Internet home page and other advertisements on the Internet, and (iv) referrals by LG Card employees. Following our acquisition of LG Card in March 2007, LG Card also began to use the branch networks of Shinhan Bank as a distribution channel, which is expected to result in cost savings in terms of new cardholder acquisition costs.

Securities Brokerage Distribution Channels

Our securities brokerage services is conducted principally through Good Morning Shinhan Securities. As of December 31, 2006, Good Morning Shinhan Securities had 80 branches nationwide and two overseas subsidiaries based in New York and London to service our customers in this business.

Approximately 62.5% of our brokerage branches are located in the Seoul metropolitan area with a focus to attract high net worth individual customers and also to achieve synergy with our retail and corporate banking branch network. In the corporate sector in particular, we continue to explore new opportunities through cooperation between Good Morning Shinhan Securities and Shinhan Bank.

Insurance Sales and Distribution Channels

We sell and provide our insurance services primarily through Shinhan Life Insurance and SH&C Life Insurance. SH&C Life Insurance specializes in bancassurance products, which it distributes solely through our bank branches. In contrast, Shinhan Life, in addition to distributing bancassurance products through our bank branches, also distributes a wide range of life insurance products through its own branch network, an agency network of financial planners and telemarketers as well as through the Internet. As of December 31, 2006, Shinhan Life Insurance had 122 branches and five customer support centers. These branches are staffed by financial planners, telemarketers and account managers to meet the various needs of our insurance and lending customers. Our customer support centers provide lending services to our insurance customers as well as other customers, and also handle insurance payments.

Our Principal Activities

Our principal group activities consist of deposit-taking activities from our retail and corporate customers, which provide us with funding necessary to offer a variety of commercial banking, securities brokerage, investment banking and other financial services.

The comprehensive financial services that we provides are:

- Commercial banking services, consisting of the following:
  - Retail banking services;
  - Corporate banking services, comprised of two divisions:

Small- and medium-sized enterprises banking; and

Large corporate banking;

  - Treasury and securities investment
- Other banking services, such as trust account management services
- Credit card services
- Securities brokerage services
- Insurance Services
  - Life insurance services
  - Bancassurance
  - Other insurance services
  - Reinsurance for life insurance and other insurance services
- Asset management services, including brokerage and trading of various securities, related margin lending and deposit and trust services, and other asset management to the extent permitted by law
- Other services, including leasing and equipment financing, investment trust management, regional banking, investment banking advisory and loan collection and credit reporting.

In addition to the above business activities, we have a corporate center at the holding company level to house those functions that support the cross-divisional management in our organization.

Deposit-Taking Activities

We offer many deposit products that target different customer segments with features tailored to each segment s financial profile and other characteristics. Our deposit products principally include the following:

Demand deposits, which either do not accrue interest or accrue interest at a lower rate than time or savings deposits. Demand deposits allow the customer to deposit and withdraw funds at any time and, if they are interest bearing, accrue interest at a fixed or variable rate depending on the period and the amount of deposit. Retail and corporate demand deposits constituted approximately 8.1% of our total deposits as of December 31, 2005 and paid an average interest of 1.90% in 2005, and approximately 7.7% of our total deposits as of December 31, 2006 and paid average interest of 1.83% in 2006.

Time deposits, which generally require the customer to maintain a deposit for a fixed term during which the deposit accrues interest at a fixed rate or variable rate based on certain financial indexes, including the Korea Composite Stock Price Index (KOSPI). If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The term for time deposits typically ranges from one month to five years. Retail and corporate time deposits constituted approximately 42.7% of our total deposits as of December 31, 2005 and paid average interest of 3.69% in 2005, and approximately 43.0% of our total deposits as of December 31, 2006 and paid average interest of 3.57% in 2006.

Mutual installment deposits, which generally require the customer to make periodic deposits of a fixed amount over a fixed term during which the deposit accrues interest at a fixed rate. If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The term for installment deposits typically ranges from six months to five years. Mutual installment deposits constituted approximately 1.8% of our total deposits as December 31, 2005 and paid average interest of 4.16% in 2005, and approximately 0.9% of our total deposits as of December 31, 2006 and paid average interest of 3.88% in 2006.

Savings deposits, which allow the customer to deposit and withdraw funds at any time and accrue interest at an adjustable interest rate, which is lower than time or installment deposits. Currently, interest on savings deposits ranges from zero to 4.6%. Saving deposits constituted approximately 31.4% of our total deposits as of December 31, 2005 and paid average interest of 0.96% in 2005, and approximately 30.4% of our total deposits as of December 31, 2006 and paid average interest of 2.12% in 2006.

Marketable deposits, consisting of certificates of deposit, cover bills and bonds sold under repurchase agreements that have maturities ranging from 30 days to two years. Interest rates on marketable deposits are determined based on the length of the deposit and prevailing market interest rates. Certificate of deposits are sold on a discount to their face value, reflecting the interest payable on the certificate of deposit. Under U.S. GAAP, cover bills sold are reflected as short-term borrowings and bonds sold under repurchase agreements are reflected under secured borrowings.

Foreign currency deposits, which accrue interest at an adjustable rate and are available to Korean residents, nonresidents and overseas immigrants. Shinhan Bank offers foreign currency demand and time deposits and checking and passbook accounts in 20 currencies. Deposits in foreign currency constituted approximately 4.41% of our total deposits as of December 31, 2005 and paid average interest of 1.77% in 2005, and approximately 4.36% of our total deposits as of December 31, 2006 and paid average interest of 3.46% in 2006.

We also offer deposits which provide the holder with preferential rights to housing subscriptions under the Housing Construction Promotion Law, and eligibility for mortgage loans. These products include:

Housing subscription time deposits, which are special purpose time deposit accounts providing the holder with a preferential right to subscribe for new private apartment units under the Housing Construction Promotion Law. This law is the basic law setting forth various measures supporting the purchase of houses and the supply of such houses by construction companies. If a potential home-buyer subscribes for these deposit products and holds them for a certain period of time as set forth in the Housing Construction Promotion Law, such deposit customers obtain the right to subscribe for new private apartment units on a priority basis under this law. Such preferential rights are neither transferable nor marketable in the open market. These products accrue interest at a fixed rate for one year and at an adjustable rate after one year, which are consistent with other time deposits. Deposit amounts per account range from W2 million to W15 million depending on the size and location of the dwelling unit. These deposit products target high and middle income households.

Housing subscription installment savings deposits, which are monthly installment savings programs providing the holder with a preferential subscription right for new private apartment units under the Housing Construction Promotion Law. Such preferential rights are neither transferable nor marketable in the open market. These deposits require monthly installments of W50,000 to W500,000, have maturities between three and five years and accrue interest at fixed rates depending on the term, which are consistent with other installment savings deposits. These deposit products target low- and middle-income households.

For information on our deposits in Korean Won based on the principal types of deposit products we offer, see Item 4. Information on the Company Description of Assets and Liabilities Funding Deposits .

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The following table sets forth the number of the deposit customers of Shinhan Bank and Chohung Bank by category as well as the number of domestic branches as of the dates indicated.

	As of December 31,		
	2004	2005	2006(4)
	(In thousands, except branches)		
Shinhan Bank:			
Retail deposit customers(1)	5,934	6,436	12,760
Active retail deposit customers(2)	1,753	1,727	3,523
Corporate deposit customers	113	121	198
Domestic branches	372	402	1,028
Chohung Bank:			
Retail deposit customers(1)	10,361	9,063	N/A
Active retail deposit customers(3)	2,563	2,932	N/A
Corporate deposit customers	142	145	N/A
Domestic branches	533	537	N/A

N/A = Not available

Notes:

(1) Based on the classification for the purpose of customer management, retail deposit customers include individual deposit customers, foreigners, sole proprietorships and certain small- and medium-sized enterprises deposit customers classified as retail customers depending on a number of factors, including those small- and medium-sized enterprises to whom a credit of less than W1 billion has been extended and who are sole proprietors.

(2) For Shinhan Bank, represents customers (i) whose average monthly account balance is W300,000 or more or (ii) who is 20 years of age or more, has an average loan balance during the year, and accordingly is required to maintain a deposit account with Shinhan Bank to service payment of interest on, and principal of, such loans.

(3) For Chohung Bank, represents customers whose aggregate of outstanding balances of all accounts as of December 31 of each year was W100,000 or more.

(4) For 2006, the information for Shinhan Bank and Chohung Bank is presented on a combined basis to reflect the merger of the two banks in April 2006.

We offer varying interest rates on our deposit products depending on the rate of return on our interest earning assets, average funding costs and interest rates offered by other nationwide commercial banks.

We believe that, as of December 31, 2005, Chohung Bank held the largest amount of deposits made by litigants in connection with legal proceedings in Korean courts or by persons involved in disputes. In Korea, a debtor may discharge his obligation by depositing the subject of performance with the court for the creditor if a creditor refuses to accept payment of debt or is unable to receive it, or if the debtor cannot ascertain without any negligence who is entitled to the payment. Also, in instances in which there has been a preliminary attachment of real property, the property owner may deposit in cash the amount being claimed by such preliminary attachment holder in escrow with the court, in which case the court will remove such lien or attachment. Chohung Bank performed such court deposit services since 1958, and developed an infrastructure of equipment, software and personnel for such business. Following the merger, Shinhan Bank provides such court deposit services, which services may also be provided by other regional banks beginning in July 2006. Such deposits in the past have carried interest rates, which were generally lower than market rates (on average approximately 2% per annum). Such deposits totaled W4,329 billion, W5,002 billion and W5,390 billion as of December 31, 2004, 2005 and 2006, respectively.

The Monetary Policy Committee of the Bank of Korea imposes a reserve requirement on Won currency deposits of commercial banks which, effective as of December 23, 2006, ranges from 0% to 7%, based generally on the term to maturity and the type of deposit instrument. See Item 4. Information on the Company Supervision and Regulation Principal Regulations Applicable to Banks Liquidity . The Monetary Policy Committee also regulates maximum interest rates that can be paid on certain deposits. Under the Korean government s finance reform plan issued in May 1993, controls on deposit interest rates have been gradually reduced. Currently, only maximum interest rates payable on demand deposits are subject to regulation by the Bank of Korea.

The Depositor Protection Act provides for a deposit insurance system where the Korea Deposit Insurance Corporation guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of W50 million per depositor per bank. See Item 4. Information on the Company Supervision and Regulation Principal Regulations Applicable to Banks Deposit Insurance System .

Retail Banking Services

Overview

We provide retail banking services primarily through Shinhan Bank, and, to a significantly lesser extent, through Jeju Bank, a regional commercial bank. The consumer loans of Shinhan Bank amounted to W47,849 billion (not including credit cards) as of December 31, 2006.

Retail banking services include mortgage, small business and consumer lending as well as demand, savings and fixed deposit-taking, checking account services, electronic banking and ATM services, bill paying services, payroll and check-cashing services, currency exchange and wire fund transfer. We believe that the provision of modern and efficient retail banking services is important both in maintaining our public profile and as a source of fee-based income. We believe that our retail banking services and products will become increasingly important in the coming years as the domestic and regional banking sectors further develop and become more diverse.

Retail banking of Shinhan Bank has been and will continue to remain one of our core businesses. Shinhan Bank s strategy in retail banking is to provide prompt and comprehensive services to retail customers through increased automation and improved customer service, as well as a streamlined branch network focused on sales. Prior to the merger, Chohung Bank leveraged its customer information database to actively market and cross-sell to, as well as focus more resources on, its most profitable customers. In addition, Chohung Bank, through its Product Development Division, offered a wider variety of products differentiated and targeted towards differentiated customer segments with a greater focus on the high margin, high net worth individuals. The retail segment places an emphasis on targeting high net worth individuals. As of December 31, 2006, Shinhan Bank had approximately 93,268 high net worth customers with deposits of W100 million or more.

Consumer Lending Activities

We offer various consumer loan products, consisting principally of household loans, which target different segments of the population with features tailored to each segment s financial profile and other characteristics, including each customer s profession, age, loan purpose, collateral requirements and the length of time a borrower has been our customer. Household loans consist principally of the following:

Mortgage and home equity loans, mostly comprised of mortgage loans which are loans to finance home purchases and are generally secured by the home being purchased; and

Other consumer loans, which are loans made to customers for any purpose (other than mortgage and home equity loans) and the terms of which vary based primarily upon the characteristics of the borrower and which are either unsecured or secured or guaranteed by deposits or a third party.

As of December 31, 2006, mortgage and home-equity loans and other consumer loans accounted for 59.53% and 40.47%, respectively, of our consumer loans (excluding credit cards).

For secured loans, including mortgage and home equity loans, Shinhan Bank s policy is to lend up to 40%-60% of the appraisal value of the collateral, by taking into account the value of any lien or other security interest that is prior to our security interest (other than petty claims). As of December 31, 2006, the loan-to-value ratio of mortgage and home equity loans, under Korean GAAP, of Shinhan Bank was approximately 46.02%.

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Due to the rapid increase in mortgage and home equity loans in Korea, in 2005 and 2006, the Financial Supervisory Commission implemented stringent regulations and guidelines that are designed to suppress the increase of loans secured by housing. These regulations include restrictions on banks maximum loan-to-value ratios, guidelines with respect to appraisal of collateral, internal control and credit approval policy requirements with regard to housing loans as well as provisions designed to discourage commercial banks or other financial institutions from instituting incentive-based marketing and promotion of housing loans. In addition to the existing regulations and guidelines, from the second half of 2005 to the first quarter of 2007, the Financial Supervisory Commission implemented additional guidelines to reduce mortgage and home equity loans and stabilize the real estate market, including (i) restricting the number of extensions on loans secured by the borrower s apartment to one, (ii) reducing the maximum loan-to-value ratio for loans secured by the borrower s apartment in highly speculated areas, (iii) forbidding to extend mortgage or home equity loans to minors and (iv) expanding the application of each of the debt-to-income ratio the loan-to-value ratio to 40% in respect of loans by banks and insurance companies for the purpose of assisting the purchase of apartments located in highly speculated areas with a purchase price of less than W600 million. We believe that Government regulations relating to the real estate market will also reduce the rate of growth in the mortgage and home equity markets.)

As of December 31, 2006, substantially all of our mortgage and home equity loans were secured by residential property.

In Korea, contrary to general practices in the United States, it is a common practice in Korea for construction companies in Korea to require buyers of new homes (particularly apartments under construction) to make installment payments of the purchase price well in advance of the title transfer of the home being purchased. In connection with this common practice, we provide advance loans, on an unsecured basis for the time being, to retail borrowers where the use of proceeds is restricted to financing of home purchases. A significant portion of these loans are guaranteed by third parties, which may include the construction company receiving the installment payment, until construction of the home is completed. Once construction is completed and the titles to the homes are transferred to the borrowers, which may take several years, these loans become secured by the new homes purchased by these borrowers. As of December 31, 2003, we had approximately W634 billion of such unsecured loans, classified as mortgage and home equity loans and representing approximately 3.1% of our total mortgage and home equity loans. Recognizing the unsecured nature of such loans, we classified such loans as other consumer loans as of December 31, 2004. As of December 31, 2005 and 2006, we had approximately W1,340 billion and W4,827, respectively, of such unsecured loans to construction companies, classified as other consumer loans.

The following table sets forth the portfolio of our consumer loans.

	As of December 31,		
	2004	**2005**	**2006**
	(In billions of Won, except percentages)		
Consumer loans(1)			
Mortgage and home-equity	W 22,180	W 25,840	W 30,097
Other consumer	15,546	17,874	20,458
Percentage of consumer loans to total gross loans	38.9%	41.3%	41.3%

Notes:

(1) Before allowance for loans losses and excludes credit card accounts.

Pricing

The interest rates on consumer loans made by Shinhan Bank are either periodic floating rates (which is based on a base rate determined for three-month, six-month or twelve-month periods derived using our internal transfer price system, which reflects our cost of funding in the market, further adjusted to account for our expenses related to lending and profit margin) or fixed rates that reflect our cost of funding, as well as our expenses related to lending and profit margin. Fixed rate loans are currently limited to maturities of three years and offered only on a limited basis. For unsecured loans, both types of rates also incorporate a margin based on, among other things, the borrower s credit score as determined during our loan approval process. For secured loans, credit limit is based on

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the type of collateral, priority with respect to the collateral and loan to value. We can adjust the price to reflect the borrower s current and/or expected future contribution to our profitability. The applicable interest rate is determined at the time a loan is extended. If a loan is terminated prior to its maturity, the borrower is obligated to pay us an early termination fee of approximately 0.5% to 2.0% of the loan amount in addition to the accrued interest, depending on the timing, the nature of the credit and the amount.

As of December 31, 2006, Shinhan Bank s three-month, six-month and twelve-month base rates were approximately 4.83%, 4.94% and 5.02%, respectively. As of December 31, 2006, Shinhan Bank s fixed rates for home equity loans with a maturity of one year, two years and three years were 7.8%, 8.1% and 8.4%, respectively, and Shinhan Bank s fixed rates for other consumer loans with a maturity of one year ranged from 8.75% to 13.25%, depending on the consumer credit scores of its customers.

As of December 31, 2006, approximately 84.80% of Shinhan Bank s consumer loans were priced based on a floating rate and approximately 15.20% were priced based on a fixed rate. As of the same date, approximately 99.04% of Shinhan Bank s consumer loans with maturity of over one year were priced based on a floating rate and approximately 0.96% were priced based on a fixed rate.

Private Banking

Historically, we have focused on customers with higher net worth. Our retail banking services provide a private banking service to our high net worth customers who seek personal advice in complex financial matters. Our aim is to help enhance the private wealth and increase the financial sophistication of our clients by offering them portfolio/fund management services, tax consulting services and real estate management service. To date, our fee revenues from these activities have not been significant.

We believe that we were one of the first banks to initiate private banking in Korea. We opened our first Private Banking Center in Seoul in 2002 to serve the needs of high net worth customers, in particular those customers with deposits of W1 billion or more, and we currently have seven private banking centers, all of which are located in the greater Seoul metropolitan area. While we believe that the market for private banking services in Korea is still at an early stage of development, in connection with our strategy to target high net worth retail customers, we established a separate private banking department in 2003 to further develop and improve our services in this area. With the launch of our New Bank initiative, our private banking department was spun off from its original organization and was elevated to the Private Banking Group. As of May 31, 2007, we operated 12 private banking centers nationwide, including eight in Seoul, one in the suburbs of Seoul and three in other cities located in other regions in Korea. Through these efforts, we believe that our private banking service marked the year 2006 with notable growth. The combined customer base grew to 3,056 people and assets under management increased 168% from W4.7 trillion in 2005 to W7.9 trillion in 2006.

Corporate Banking Services

Overview

We provide corporate banking services, primarily through Shinhan Bank, to small- and medium-sized enterprises and, to a lesser extent, to large corporations, including corporations that are affiliated with chaebols. We also lend to government-controlled companies.

The following table sets forth the balances and percentage of our total lending attributable to each category of our corporate lending business as of the dates indicated.

	As of December 31,								
	2004			2005			2006		
	(In billions of Won, except percentages)								
Small- and medium-sized enterprises loans(1)	W	38,713	39.9%	W	39,943	37.7%	W	47,159	38.5%
Large corporate loans(2)		15,909	16.4		17,948	16.9		20,808	17.0
Total corporate loans	W	54,622	56.3%	W	57,891	54.6%	W	67,967	55.5%

Notes:

(1) Represents the principal amount of loans extended to corporations meeting the definition of small- and medium-sized enterprises under the Basic Act on Small- and Medium-sized Enterprises and its Presidential Decree. Certain loans to sole proprietorships are included under retail lending.

(2) Includes loans to government-controlled companies.

Small- and Medium-sized Enterprises Banking

The small- and medium-sized enterprise loans of Shinhan Bank amounted to W43,198 billion as of December 31, 2006. Under the Basic Act on Small and Medium-sized Enterprises and its Presidential Decree, small- and medium-sized enterprises are defined as companies which (i) do not have employees and assets exceeding the number or the amount, as the case may be, specified in accordance with their types of businesses in the Presidential Decree and (ii) do not belong to a conglomerate as defined in the Monopoly Regulations and Fair Trade Act. As of December 31, 2006, we had approximately 87,443 small- and medium-sized enterprises loan customers. Shinhan Bank s small- and medium-sized enterprises business has historically focused on larger and well-established small- and medium-sized enterprises in Korea that prepared financial statements audited by independent auditors. This focus is based on our belief and historical observation that the larger and, in many cases, more sound businesses tend to engage independent auditors and strengthen investor confidence. Chohung Bank had traditionally focused on large corporate and retail banking and, as a result, its small- and medium-sized enterprises lending portfolio increased during recent years prior to the merger, with a focus on higher profit, higher risk customers who are comparatively smaller than Shinhan Bank s customers.

Our small- and medium-sized enterprises banking business has traditionally been and will remain one of our core businesses. However, the small- and medium-sized enterprise business is currently 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. During recent years, most of the nationwide banks have shifted their focus to or increased their emphasis on this type of lending, as opportunities in the large corporate and retail sectors diminished. While we expect competition in this sector to intensify, we believe that our established customer base, quality brand image and experienced lending staff will provide an opportunity to maintain steady growth in this environment.

We believe that Shinhan Bank, which has traditionally focused on small- and medium-sized enterprises lending, possesses the necessary elements to succeed in the small- and medium-sized enterprises market, including its marketing capabilities (which we believe have provided Shinhan Bank with significant brand loyalty) and its credit rating system for credit approval. To maintain or increase its market share of small- and medium-sized enterprises lending, Shinhan Bank has:

positioned itself based on accumulated expertise. We believe Shinhan Bank has a good understanding of the credit risks embedded in this market segment and to develop loan and other products specifically tailored to the needs of this market segment;

begun operating a relationship management system to provide targeted and tailored customer service to small- and medium-sized enterprises. Shinhan Bank has 172 corporate banking branches with relationship management teams. These relationship management teams market products and review and approve smaller loans that pose less credit risks; and begun to focus on cross-selling loan products with other products. For example, when Shinhan Bank lends to small- and medium-sized enterprises, it also explores opportunities to cross-sell consumer loans or deposit products to the employees of those companies or to provide financial advisory services.

The former Chohung Bank, prior to its merger with Shinhan Bank, focused on small- and medium-sized enterprise lending as its principal areas of growth and increased its small- and medium-sized enterprises customer base to include relatively smaller enterprises, such as small unincorporated businesses and sole proprietorships. While lending to these customers has resulted in growth of Chohung Bank s corporate lending portfolio, it also increased its credit risk exposure relative to its other existing customers.

Since 2005, the industry-wide delinquency ratios for loans to small- and medium-sized enterprises have been falling. According to data compiled by the Financial Supervisory Service, the delinquency ratio (net of charge-offs, which has also increased significantly) for Won-denominated loans by Korean banks to small- and medium-sized enterprises decreased from 1.5% as of December 31, 2005 to 1.1% as of December 31, 2006. 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, calculated under Korean GAAP, for such loans decreased from 1.80% as of December 31, 2004 to 1.44% as of December 31, 2005 to 0.85% as of December 31, 2006. Prior to the merger, Chohung Bank s delinquency ratio, calculated under Korean GAAP, for such loans decreased from 2.21% as of December 31, 2004 to 1.70% as of December 31, 2005. Shinhan Bank s delinquency ratios, calculated under Korean GAAP, for Won-denominated loans to small- and medium-sized enterprises that do not prepare audited financial statements were 1.95% as of December 31, 2004, 1.95% as of December 31, 2005 and 0.90% as of December 31, 2006. Such delinquency ratios for Chohung Bank prior to the merger were 2.74% as of December 31, 2004 and 1.45% as of December 31, 2005. Shinhan Bank s delinquency ratios for loans to small unincorporated businesses and sole proprietorships were 2.07% as of December 31, 2004, 1.64% as of December 31, 2005 and 0.99% as of December 31, 2006. Such delinquency ratios for Chohung Bank prior to the merger were 2.00% as of December 31, 2004 and 1.64% as of December 31, 2005. While the current outlook for Korean economy is positive for 2007, we cannot assure that these delinquencies will continue to fall in 2007. The current focus of our small- and medium-sized enterprise lending business is to improve the asset quality and maintain the profitability of our loans to small- and medium-sized enterprises.

Large Corporate Banking

Large corporate customers consist primarily of member companies of chaebols and financial institutions. Large corporate loans of Shinhan Bank amounted to W19,814 billion as of December 31, 2006. As a late entrant into the Korean commercial banking industry, large corporate banking has not been a core business of Shinhan Bank and its focus of business in this customer sector has been on investments in corporate debt securities and fee-based businesses rather than conventional lending activities. On the other hand, the former Chohung Bank traditionally focused on large corporate customers as its core corporate banking business.

In recent years, our Corporate & Investment Banking Group has begun providing investment banking services. We provide services as an arranger, trustee and liquidity provider for asset-backed securities. We also participate in and administer syndicated loans and project financings. We provide advisory services in the area of social overhead capital projects such as highway, port, power and water and sewage projects, as well as equity and venture financing, real estate financing and mergers and acquisitions advice.

Corporate Lending Activities

Our principal loan products for corporate customers are working capital loans and facilities loans. Working capital loans, which include discounted notes and trade financing, are, in general, loans used for general working capital purposes. Facilities loans are provided to finance the purchase of equipment and the establishment of manufacturing won-denominated plants. As of December 31, 2006, working capital loans and facilities loans amounted to W38,173 billion and W5,838 billion, respectively, representing 86.74% and 13.26% of our total Won-denominated corporate loans under Korean GAAP. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three years in the case of unsecured loans and five years in the case of secured loans. Facilities loans, which are generally secured, have a maximum maturity of ten years.

Loans to corporations may be unsecured or secured by real estate, deposits or guaranty certificates. As of December 31, 2006, under Korean GAAP, secured loans and guaranteed loans (including loans secured by guaranty certificates issued by credit guarantee insurance funds) accounted for 45.60% and 7.92%, respectively, of Shinhan Bank s Won-denominated loans to small- and medium-sized enterprises. Among the secured loans, approximately 86.48% were secured by real estate.

When evaluating the extension of loans to corporate customers, we review the corporate customer s creditworthiness, credit scoring, value of any collateral or third party guarantee. The value of any collateral is defined using a formula that takes into account the appraised value of the property, any prior liens or other claims against the property and an adjustment factor based on a number of considerations including, with respect to property, the average value of any nearby property sold in a court-supervised auction during the previous year. We revalue any collateral when a secured loan is renewed or if a trigger event occurs with respect to the loan in question.

As of December 31, 2006, in terms of outstanding loan balance, 33.69% of our corporate loans were extended to borrowers in the manufacturing industry, 14.66% were to borrowers in the retail and wholesale industry, 20.18% were to the borrowers in the real estate, leasing and service industry, 7.92% were to borrowers in the construction industry, and 4.31% were extended to borrowers in the finance and insurance industry. Beginning in 2004, loans to corporate borrowers in the real estate, leasing and service industry and the hotel and leisure industry, which are principally small- and medium-sized enterprises, began experiencing an increase in delinquencies as well as deterioration in credit quality. Under Korean GAAP, delinquency ratio for Won-denominate loans to the real estate, leasing and service industry was 0.61% for Shinhan Bank as of December 31, 2006, net of charge-offs and loan sales. Under Korean GAAP, delinquency ratio for Won-denominate loans to the hotel and leisure industry was 0.96% for Shinhan Bank as of December 31, 2006, net of charge-offs and loan sales. Shinhan Bank s Won-denominate corporate loans classified as substandard or below under the guidelines of the Financial Supervisory Commission was W527 billion, net of charge-offs and loan sales, as of December 31, 2006.

Pricing

We establish the price for our corporate loan products of Shinhan Bank based principally on their respective cost of funding and the expected loss rate based on a borrower s credit risk. As of December 31, 2006, 65.81% of Shinhan Bank s corporate loans with outstanding maturities of one year or more had interest rates that were not fixed but were variable in reference to Shinhan Bank s market rate.

Shinhan Bank generally determines pricing of its corporate loans as follows:

Interest rate = (Shinhan Bank s periodic market floating rate *or* reference rate) *plus* transaction cost *plus* a credit spread *plus* risk premium *plus or minus* a discretionary adjustment rate.

Depending on the situation and Shinhan Bank s agreement with the borrower, Shinhan Bank may use either its periodic market floating rate or the reference rate as the base rate in calculating its pricing. As of December 31, 2006, Shinhan Bank s periodic market floating rates (which are based on a base rate determined for three-month, six-month, one-year, two-year, three-year or five-year periods derived using Shinhan Bank s market rate system) were 4.83% for three months, 4.94% for six months, 5.02% for one year, 5.09% for two years, 5.12% for three years and 5.18% for five years. As of the same date, Shinhan Bank s reference rate was 8.75%.

Transaction cost is added to reflect the standardized transaction cost assigned to each loan product and other miscellaneous costs, including contributions to the Credit Guarantee Fund and education taxes.

The credit spread is added to the periodic floating rate to reflect the expected loss from a borrower s credit rating and the value of any collateral or payment guarantee. In addition, we add a risk premium that is measured by the unexpected loss that exceeds the expected loss from the credit rating assigned to a particular borrower.

A discretionary adjustment rate is added or subtracted to reflect the borrower s current and/or future contribution to Shinhan Bank s profitability. In the event of additional credit provided by way of a guarantee of another, the adjustment rate is subtracted to reflect such change in the credit spread. In addition, depending on the price and other terms set by competing banks for similar borrowers, we may reduce the interest rate Shinhan Bank charges to compete more effectively with other banks.

Electronic Corporate Banking

Shinhan Bank launched its electronic corporate banking services connecting its corporate customers through dedicated subscriber lines in 1991. Shinhan Bank has since developed its electronic corporate banking services to offer to corporate customers a web-based total cash management service through Shinhan Bizbank . Shinhan

Bizbank supports all types of banking transactions from basic transaction history inquiries and fund transfers to opening letters of credit and trade finance. Products and services related to cash management include payment management, collection management, sales settlement service, acquisition settlement service, B2B settlement service, sweeping and pooling. By offering such information technology-related products and services such as purchase cards, loans for purchasing goods, e-biz loans, and a B2B settlement service, Shinhan Bank is able to continue to reinforce its image as one of the leaders in electronic corporate banking. Through the enhancement of Shinhan Bizbank and its cash management service, we intend to improve the support service system related to customer cash management. Shinhan Bank s electronic corporate banking services are being integrated with the services Chohung Bank had developed prior to the merger. Shinhan Bizbank s services were being used by approximately 245,163 corporations as of December 31, 2006 and, in 2005, its number of transactions and aggregate transaction amount were approximately 28,368,555 and W1,108,432 billion, respectively.

Treasury and Securities Investment

Through relevant departments at the newly merged Shinhan Bank, we engage in treasury and securities investment business, which involves, among other things, the following activities:

- treasury;
- securities investment and trading;
- derivatives trading; and
- international business.

Recent Regulatory Changes

The formation and operation of private equity funds were permitted as of October 5, 2004 under the Indirect Investment Asset Management Business Act. The purpose of a private equity fund is to provide diverse investment opportunities for qualified investors and to utilize funds in the market place for mergers and acquisitions or corporate restructuring. In April 2006, the Government amended the Presidential Decree of the Indirect Investment Asset Management Business Act and regulations thereunder in order to facilitate the formation and operation of private equity funds by lowering the required minimum equity investment, relaxing the mandatory investment ratio, allowing the value of the purchased shares of listed companies to be estimated by the purchase price of such shares reflecting control premium as well as its market price and allowing private equity funds to invest in non-performing loans. The key provisions of the Indirect Investment Asset Management Business Act relating to private equity funds are as follows:

- A private equity fund is a limited partnership company that is incorporated in accordance with the Korean Commercial Code, which has not less than one general partner and not less than one limited partner.
- The minimum value of the equity investment by limited partners is W1 billion for an individual investor or W2 billion for a legal entity.
- Details of the private equity fund, such as its objective, name, location, term of existence, information concerning partners, a summary of the operation, shall be registered with the Financial Supervisory Service.
- A private equity fund shall apply 50% of its assets (provided that, if the Fund (as defined under the Framework Act on Fund Management) is a partner and its method of contribution is other than as capital commitment, such

contribution shall be excluded from the calculation of assets), within two years after capital injection by the partners, to (1) an investment in excess of 10% of the total number of shares issued by the target company, (2) an investment that makes it possible for the private equity fund to exercise *de facto* control over major corporate governance matters including appointments and dismissals of officers, (3) an investment in Investment Securities (as defined under the Indirect Investment Asset Management Business Act) issued by SOC Investment Companies (as defined under the Promotion of Social Overhead Capital Investment Act) or (4) an investment in securities or equities of Investment Purpose Companies (as defined under the Indirect Investment Asset Management Business Act) under the Indirect Investment Asset

Management Business Act. In addition, a private equity fund shall hold the acquired shares for at least six months following the date of investment.

As a special rule, if a private equity fund meets the above requirements for investment, for ten years from the date on which such requirements are met, (1) the provisions governing holding companies as provided in the Monopoly Regulation and Fair Trade Act shall not apply and (2) the private equity fund shall not be deemed a financial holding company as provided in the Financial Holding Companies Act.

In May 2005, the amendment to the Presidential Decree of the Indirect Investment Asset Management Business Act allowed a direct or indirect subsidiary of a financial holding company to invest as a limited partner in a private equity fund which is another direct or indirect subsidiary of the same financial holding company. Prior to such amendment, under the Financial Holding Companies Act, a direct or indirect subsidiary of a financial holding company was prohibited from acquiring the shares of another subsidiary of the same financial group.

In addition, pursuant to the amendment of the Presidential Decree of the Indirect Investment Asset Management Business Act and regulations thereunder in April 2006, in an effort to relax the regulatory barriers to the business of operating indirect investment, when the asset management companies operate indirect investment assets, such companies are allowed to engage in trading certain derivatives or borrowing Investment Securities (as defined under the Indirect Investment Asset Management Business Act), and the maximum limit by such companies to invest in notes issued by government-invested organization and in foreign loans has increased.

Furthermore, in March 2007, the Supervisory Regulations of the Indirect Investment Asset Management Business Act was amended to ease the restrictions on the methods of computing the net capital ratio for overseas subsidiaries in which a Korean asset management company holds 50% or more equity interest and the investment limits on subordinated debts.

Treasury

At Shinhan Bank, the Treasury Department provides funds to all of its business operations and ensures the liquidity of Shinhan Bank s operation. To secure long-term stable funds, we use fixed and floating rate notes, debentures, structured financing, and other advanced funding methods. As for overseas funding, we constantly explore the feasibility of raising funds in currencies other than the U.S. dollar, such as Japanese Yen and the Euro. In addition, Shinhan Bank makes call loans and borrow call money in the short-term money market. Call loans are short-term lending among banks and financial institutions in either Korean Won or foreign currencies, in amounts exceeding W100 million, with maturities of 30 days or less. Typically, call loans have maturities of one day.

Securities Investment and Trading

We invest in and trade securities for our own account in order to maintain adequate sources of liquidity and generate interest and dividend income and capital gains. Our trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Korean government agencies, local governments or certain government-invested enterprises and debt securities issued by financial institutions. Our equity securities consist of equities listed on the Stock Market and KOSDAQ Market of Korea Exchange. For a detailed description of our securities investment portfolio, see Description of Assets and Liabilities Investment Portfolio .

Derivatives Trading

We provide and trade a range of derivatives products. The derivatives products that we offer, through Shinhan Bank, include:

Interest rate swaps, options, and futures relating to Korean Won interest rate risks and LIBOR risks, respectively;

Cross-currency swaps largely for Korean Won against U.S. dollars, Japanese Yen and Euros;

Equity and equity-linked options;

Foreign currency forwards, swaps and options;

Commodity forwards, options and swaps;

Credit derivatives; and

KOSPI 200 indexed equity options.

Shinhan Bank s trading volume in terms of notional amount was W102,226 billion, W179,762 billion and W356,190 billion, in 2004, 2005 and 2006, respectively, and prior to the merger, Chohung Bank s trading volume in terms of notional amount was W151,482 billion and W186,761 billion in 2004 and 2005, respectively. Such derivative operations have focused on addressing the needs of our corporate clients to hedge their risk exposure and back-to-back derivatives entered into to hedge our risk exposure that results from such client contracts.

We also enter into derivative trading contracts to hedge the interest rate and foreign currency risk exposure that arise from our own assets and liabilities. Many of these non-trading derivative contracts, however, do not qualify for hedge accounting under U.S. GAAP and are accordingly accounted for as trading derivatives in the financial statements. In addition, on a limited basis, we engage in proprietary trading of derivatives within our regulated open position limits. See Description of Assets and Liabilities Derivatives .

International Business

We are also engaged in treasury and trading and securities investment in international capital markets, principally engaged in foreign currency denominated securities trading, foreign exchange trading and services, trade-related financial services, international factoring services and foreign retail banking operations through our overseas branches and subsidiaries. Due to the volatility in the Asian capital markets since the economic and financial crisis of the late 1990 s, we had reduced our international capital markets activities and our international securities investment portfolio. We currently plan to resume these activities.

Other Banking Services

The revenue-generating activities in other banking services of Shinhan Bank consist primarily of their respective trust account management services. As a result, our discussion in this subsection will focus on our trust account management services.

Trust Account Management Services

Overview

Our trust account management services offer trust accounts managed by the banking operations of Shinhan Bank consisting primarily of money trusts. In Korea, a money trust is a discretionary trust over which (except in the case of a specified money trust) we have investment discretion (subject to applicable law) and is commingled and managed jointly for each type of trust account. The specified money trusts are established on behalf of customers who give us specific directions as to the investment of trust assets. Trust account customers are typically individuals seeking higher rates of return than those offered by bank account deposits. Because there are fewer regulatory restrictions on trust accounts than on bank account deposits, including no deposit reserve requirements, we have historically been able to offer higher rates of return on trust account products than on bank account deposits. Trust account products, however, generally require higher minimum deposit amounts compared with comparable bank account deposit products. Assets of the trust accounts are invested primarily in securities and loans, except that a greater percentage of the assets of the trust accounts are invested in securities compared to the bank accounts because trust accounts generally require more liquid assets due to their limited funding source compared to bank accounts. As a result of the recent low interest environment, we have not been able to offer attractive rates of return on our trust account products.

Under Korean law, assets accepted in trust accounts are segregated from other assets of the trustee bank and are not available to satisfy the claims of the depositors or other creditors of such bank. Accordingly, trust accounts are accounted for and reported separately from the bank accounts. See Supervision and Regulation . Trust accounts are regulated by the Trust Act, the Trust Business Act and the Indirect Investment Asset Management Business Act of Korea and most national commercial banks offer similar trust account products. We earn income from trust account management services, which is reflected in our accounts as net trust management fees. See Item 5. Operating and Financial Review and Prospects Operating Results 2006 compared to 2005 Noninterest Income .

Under U.S. GAAP, generally, we have not consolidated trust accounts in our financial statements except for the Guaranteed Fixed Rate Trust Accounts or recognized the acquisition of such accounts in accordance with the purchase method of accounting due to the fact that these are not our assets but customer assets. As of December 31, 2004, 2005 and 2006, under Korean GAAP, Shinhan Bank had total trust assets of W14,099 billion, W15,386 billion and W23,750 billion,, respectively, comprised principally of securities investments of W4,855 billion, W5,422 billion and W10,130 billion, respectively, and loans in the principal amount of W357 billion, W291 billion and W391 billion,, respectively. Securities investments consisted of corporate bonds, government-related bonds and other securities, primarily commercial paper. As of December 31, 2004, 2005 and 2006 under Korean GAAP, equity securities constituted 6.0%, 4.3% and 5.0%, respectively, of our total trust assets. Loans made by trust accounts are similar in type to those made by our bank accounts, except that they are made only in Korean Won. As of December 31, 2004, 2005 and 2006, under Korean GAAP, approximately 65.1%, 68.5% and 89.8%, respectively, of the amount of loans from the trust accounts were collateralized or guaranteed. In making investment from funds received for each trust account, each trust product maintains investment guidelines applicable to each such product which sets forth, among other things, company, industry and security type limitations.

As of December 31, 2004 and 2005, under Korean GAAP, Chohung Bank had total trust assets of W4,634 billion and W6,289 billion, respectively, comprised principally of securities investments of W3,361 billion and W3,455 billion, respectively, and loans in the principal amount of W59 billion and W86 billion, respectively. As of December 31, 2004 and 2005, under Korean GAAP, equity securities constituted 10.1% and 7.0%, respectively, of Chohung Bank s total trust assets. As of December 31, 2004 and 2005, under Korean GAAP, approximately 84.3% and 93.0%, respectively, of the amount of loans from the trust accounts of Chohung Bank were collateralized or guaranteed.

The balance of the money trusts managed by our trust account business was W12,192 billion as of December 31, 2006 under Korean GAAP, showing an increase of 23.9% compared to W9,837 billion as of December 31, 2005.

Trust Products

Our trust account management services offer individuals primarily two basic types of money trust accounts: guaranteed fixed rate trusts and variable rate trusts.

Guaranteed Fixed Rate Trust Accounts. Guaranteed fixed rate trust accounts offer customers a fixed-rate of return and guaranteed principal. We receive any amounts remaining after taking into account the guaranteed return and all expenses of the trust accounts, including provisions for valuation losses on equity securities, loan losses and special reserves. We maintain two types of guaranteed fixed rate trust accounts: general unspecified money trusts and development money trusts. Korean banks, including Shinhan Bank, have been restricted from establishing new general unspecified money trusts since January 1, 1996, and development money trusts effective January 1, 1999. As a result, the size of general unspecified money trusts and development money trusts has decreased substantially and most of development money trusts matured by the end of 2001 and most of general unspecified money trusts matured by the end of 2002. As of December 31, 2004, 2005 and 2006, under Korean GAAP, Shinhan Bank s development money trusts amounted to W0.04 billion, W0.04 billion and W0.02 billion,, respectively, and general unspecified money trusts amounted to an aggregate of W0.2 billion, W0.2 billion and W9.6 billion, respectively. As of December 31, 2005, under Korean GAAP, Chohung Bank s development trusts had no outstanding balance and general unspecified money trusts amounted to an aggregate of W9.1 billion. See Note 35 in the notes to our consolidated financial statements included in this annual report.

Variable Rate Trust Accounts. Variable rate trust accounts are trust accounts for which we do not guarantee the return on the trust account but, in certain instances described below, the principal of the trust account is guaranteed. In respect of variable rate trust accounts, we are entitled to receive fixed rate of trust fees. We also receive fees upon the termination of trust accounts prior to their stated maturities. However, the recent trend has been to offer products with stated maturities that are significantly shorter than those offered in the past, resulting in lower fees from early termination.

We are required to set aside allowances for trust assets which are not marked to market and provide special reserves under Korean GAAP for principal guaranteed variable rate trust accounts in addition to guaranteed fixed rate trust accounts. Provisions for variable rate trust assets that are not marked to market are reflected in the rate of return to customers, and thus, have no impact on our income while provisions for guaranteed fixed rate trust accounts could reduce our income in case of a deficiency in the payment of the guaranteed amount. We provide special reserves with respect to guaranteed fixed rate and principal-guaranteed variable rate trust account credits by deducting the required amounts from trust fees for such trust accounts in accordance with the Trust Act and Trust Business Act.

Korean banks are currently allowed to guarantee the principal of the following types of variable rate trust account products: (i) existing individual pension trusts, (ii) new individual pension trusts, (iii) existing retirement pension trusts, (iv) new retirement pension trusts, (v) pension trusts and (vi) employee retirement benefit trusts.

Payments from Bank Accounts to Guaranteed Fixed Rate Trust Accounts. If income from a guaranteed fixed rate trust account is insufficient to pay the guaranteed amount, such deficiency must be satisfied from (i) first, special reserves maintained in such trust accounts, (ii) secondly, trust fees and (iii) lastly, funds transferred from the bank accounts of Shinhan Bank, as the case may be. Chohung Bank recorded zero or a negligible amount of such obligations as of December 31, 2004 and 2005. Shinhan Bank made no such payments from its bank accounts to cover such deficiencies during 2004, 2005 and recorded an obligation of W0.1 billion as of December 31, 2006, primarily due to a decrease in the balance of Shinhan Bank s guaranteed fixed rate trust accounts, which resulted from the legal prohibition against providing such accounts beginning in 1996 with respect to general unspecified money trusts and beginning in 1999 for development money trusts, as well as the improving economic condition in Korea. The decrease in the balance of Shinhan Bank s guaranteed fixed rate trust accounts, in turn, has generally translated into a decrease in non-performing credits. There can be no assurance, however, that such transfers will not be required in the future.

Distribution Channels and Marketing

We distribute our trust products primarily through the branch network of our retail banking services. See Our Branch Network and Distribution Channels above.

Recent Regulatory Developments

Under the Indirect Investment Asset Management Business Act, which took effect on January 5, 2004, all banks engaged in the money trust business (except for specified money trust business) based on their approval received under the Trust Business Act had to qualify as an asset management company by July 5, 2004 and are not permitted to offer unspecified money trust products after such date (except under certain limited circumstances). Once a bank qualifies as an asset management company under the Indirect Investment Asset Management Business Act, such bank may continue to engage in the investment trust business as long as it is limited to investment trust products and does not include unspecified money trust products. As a result, we ceased offering unspecified money trust account products from our banking subsidiaries and instead began to offer products developed by our asset management business that fulfills the requirements as an asset management company.

The Act on the Structural Improvement of the Financial Industry was amended in January 2007 and took effect in April 2007, which, among others, (i) permitted the ratification of a shareholding by a financial institution of a non-financial company s shares beyond the prescribed limit under exceptional circumstances, such as capital reduction, (ii) specified the standards for approving such excessive shareholding and (iii) imposed a penalty on those who do not comply with the order by the Financial Supervisory Services as to the disposition of such excessive holdings.

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Credit Card Services

Overview

As of December 31, 2006, our total credit card balance outstanding was W3,924 billion, or 3.20% of our total loans outstanding as of the same date.

On June 4, 2002, Shinhan Bank spun-off its credit card business into Shinhan Card Co., Ltd., a monoline credit card subsidiary. Despite the spin-off, Shinhan Bank continues to manage a substantial portion of our credit card operations, including the collections and receiving and processing of applications, pursuant to an agency agreement between the two subsidiaries.

Prior to the merger of Shinhan Bank and Chohung Bank in April 2006, Chohung Bank had an active credit card business division. Chohung Bank was a member of BC Card Co., Ltd. (BC Card), which is owned by 11 consortium banks with Chohung Bank holding 14.85% equity interest in BC Card. BC Card issues credit cards under the names of the member banks, substantially all of which are licensed to use MasterCard, Visa or JCB. This allows holders of BC Card to use their cards at any establishment which accepts MasterCard, Visa or JCB, as the case may be.

Upon the merger of the two banks in April 2006, we split off the credit card services division of Chohung Bank and merged it into Shinhan Card. Following such split-merger, Shinhan Card had, as of April 3, 2006, W4 trillion in assets, W25 trillion in total credit card use (excluding corporate cards) and 5.2 million customers ranking fourth among credit card service providers (including banks) in terms of the total credit card use.

In February 2007, we acquired the controlling equity interest in LG Card, the largest credit card company in Korea in terms of the number of cardholders. As of December 31, 2006, LG Card had W9.6 trillion in assets, W55 trillion in total credit card use (excluding corporate cards) and 12 million customers ranking first among credit card service providers (including banks) in terms of the total credit card use. We believe that the acquisition of LG Card will help to significantly increase our market share in the Korea credit card industry and diversify our revenue sources from our non-banking operations. In addition, in light of the improving credit quality of the cardholders in line with the general improvements of the Korean economy and the expanded opportunities for credit card use for payments of utilities, we believe that our credit card business will improve its profitability.

After experiencing a boom as a result of government initiatives designed to promote the use of credit cards, such as providing tax benefits to businesses that accept credit cards and tax deductions for consumers up to certain amounts charged to credit cards, since mid-2002, the Korean credit card industry has suffered setbacks when credit card delinquencies began to increase and concerns arose regarding the rapid growth in credit card usage and significant deterioration in asset quality. Throughout 2002 and during the first half of 2003, the Financial Supervisory Commission strengthened regulations designed to address these concerns relating to the credit card industry. Since 2006, the industry has seen an increase in the use of lump-sum card purchases, whereas the card with higher default risk, such as card loans and cash advances, have been on the decline, in each case as a percentage of the total card use.

See Item 3. Key Information Risk Factors Risks Relating to Our Credit Card Business and Item 4. Information on the Company Supervision and Regulation .

Products and Services

We offer a variety of credit card products and services that target select customer profiles and focus on:

offering cards that provide additional benefits such as frequent flyer miles and reward program points that can be redeemed by the customer for complementary services, prizes and cash;

offering gold cards, platinum cards and other preferential members cards which have higher credit limits and provide additional services in return for higher annual membership fees;

acquiring new customers through strategic alliances and cross-marketing with wholesalers and retailers;

encouraging increased use of credit cards by existing customers through special offers for dormant customers;

introducing new features to preferred customers, such as revolving credit cards, travel services and insurance;

developing fraud detection and security systems to prevent the misuse of credit cards and to encourage the use of credit cards over the Internet;

providing loans to consumers for the installment purchase of expensive items such as automobiles based on an individual consumer s credit rating; and

issuing smart cards and preparing for a cardless business environment in which customers can use credit cards to make purchases by phone or over the Internet.

Cardholders have several options for repayment of balances as follows:

general purchases of goods and services on credit, which are repayable on a lump-sum basis at the end of a monthly billing cycle;

installment purchases, which require payment approximately within 18 to 48 days after purchase and are repayable on an even-payment installment basis over a period of time ranging from two months to two years and generally accrue interest;

cash advances, which are repayable on a lump-sum basis at the end of a monthly billing cycle and generally accrue interest effective annual rates of approximately 9.8% to 26.8%; and

payments on a revolving payment basis, which allow customers to roll over their balance into a revolving basis with fixed minimum percentage or amount of the total outstanding balance.

Credit card loans are generally unsecured, have initial maturities of one year and currently accrue interest at the effective annual rates of approximately 9.8% to 17.8%.

Income from the credit card business consists of annual fees paid by cardholders, installment purchase fees, cash advance fees, interest on late and deferred payments and fees paid by merchants, with fees from merchants and cash advance fees constituting the largest source. Merchant discount fees, which are processing charges on the merchants, can be up to 4.5% of the purchased amount depending on the merchant used, with the average charge being 2.3% in 2006.

Although the revolving credit system is more common in the United States and many other countries, this payment system is still in early stages of development in Korea. Credit card holders in Korea are required to pay for their purchases within approximately 18 to 48 days of purchase depending on their payment cycle and, except in the case of installment purchases where the charged amounts are repaid in installments, typically during the following three to six months. Credit card accounts that remain unpaid after this period are deemed to be delinquent accounts. We charge penalty interest on delinquent accounts and closely monitor such accounts. For purchases made by installments, we charge interest on unpaid amounts at rates that vary according to the terms of repayment.

In certain cases, credit card companies in Korea, including Shinhan Card, have been allowed to rewrite delinquent credit card balances for purchase and cash advance as credit card loans. Shinhan Card has historically rewritten a small number of card balances as a means of maximizing collection related to a relatively small number of borrowers who are suffering from temporary financial difficulties where it believes it is probable that all or substantially all principal and interest will ultimately be recovered. Prior to the split-merger, Shinhan Card offered the borrower the option of either repaying the rewritten balance either on a monthly installment basis over five years or as a term loan due at the end of one year while credit card customers of Chohung Bank could apply for entry into the rewritten loan program when the loan balance is past due one month or more. Following the split-merger, Shinhan Card currently provides two repayment programs: (1) the installment repayment program, under which a cardholder with an account which has been delinquent for less than four months repays at least 90% of the original amount owed within a period chosen by such cardholder (provided that the period is between two to 36 months); and (2) the re-aged loan program, under which a qualified cardholder with a guarantor or security repays the full

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original principal amount, whereas a cardholder without a guarantor or security repays at least 90% of the original full amount owed, in both instances within a maximum period of five years. Except in limited circumstances, borrowers applying for entry into this program in general are required to secure one or more guarantors meeting certain asset and credit quality criteria. In general, rewritten credit card loans are due at the end of one year. Shinhan Card segregates this portfolio for performance measurement and monitoring purposes due to the higher credit risk. The balance of rewritten loans of Shinhan Card were W9 billion, W4 billion and W98 billion as of December 31, 2004, 2005 and 2006 respectively, against which we recognized an allowance of W2 billion, W1 billion and W20 billion, respectively. The balance of rewritten loans of Chohung Bank were W495 billion and W269 billion as of December 31, 2004 and 2005, respectively, against which Chohung Bank made an allowance of W180 billion and W99 billion, respectively. See Financial and Statistical Information below. The balance of such rewritten loans has been decreasing since Shinhan Card provides rewritten loans on a very limited basis.

Customers and Merchants

As we believe that internal growth through cross-selling can only be limited, we also seek to enhance our market position by selectively targeting new customers with high net worth and good creditworthiness through the use of a sophisticated and market-oriented risk management system. Credit card applicants are screened and appropriate credit limits are assessed according to internal guidelines based on our credit scoring system.

The following table sets forth the number of customers and merchants of Shinhan Card and Chohung Bank s credit card business as of the dates indicated.

	As of December 31,		
	2004	2005	2006(3)
	(In thousands, except percentages)		
Shinhan Card:			
Number of credit card holders	3,002	3,467	5,256
Personal accounts	2,905	3,370	4,767
Corporate accounts	97	96	489
Active ratio(1)	50.7%	63.8%	66.6%
Number of merchants	2,513	2,934	3,107
Chohung Bank:			
Number of credit card holders	2,819	2,494	N/A
Personal accounts	2,756	2,434	N/A
Corporate accounts	63	60	N/A
Active ratio(1)	50.9%	56.4%	N/A
Number of merchants(2)	2,165	2,225	N/A
LG Card:			
Number of credit card holders	11,916	11,647	11,988
Personal accounts	11,863	11,589	11,954
Corporate accounts	53	58	34
Active ratio(1)	56.2%	59.5%	60.6%
Number of merchants(2)	3,550	3,930	4,350

N/A = Not applicable

Notes:

(1) Represents the ratio of accounts used at least once within the last six months to total accounts as of year end.

(2) Represents the number of merchants of BC Card s merchant network.

(3) For 2006, the information for Shinhan Bank and Chohung Bank is presented on a combined basis to reflect the merger of the two banks in April 2006.

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As of December 31, 2006, Shinhan Card had approximately 5,256,000 card customers, which represents an increase of approximately 1,789,000 customers from approximately 3,467,000 as of December 31, 2005. As of December 31, 2005, Chohung Bank had approximately 2,494,000 credit card customers. Of all the customers outstanding as of December 31, 2006, the number of platinum and gold card members, whose higher creditworthiness entitles them to certain benefits, was approximately 2,246,204.

The number of Shinhan Card s merchants also increased to approximately 3,107,000 as of December 31, 2006 from approximately 2,934,000 as of December 31, 2005. The number of merchants that used Chohung Bank s credit card division was approximately 2,225,000 as of December 31, 2005.

Financial and Statistical Information

The following table sets forth certain financial and statistical information relating to the credit card operations of Shinhan Card, Chohung Bank and LG Card as of the dates or for the period indicated. LG Card became our subsidiary in March 2007.

Shinhan Card and Chohung Bank:

	As of or for the Year Ended December 31, (In billions of Won, except percentages)				
	2004		2005		2006
	Shinhan Card	Chohung Bank(1)	Shinhan Card	Chohung Bank(1)	Shinhan Card(13)
Interest income:					
Installments	W 40	W 84	W 49	W 64	W 72
Cash advances	30	212	111	181	189
Card loans(2)	34	97	30	60	62
Annual membership	2	5	9	4	9
Revolving(3)	6	71	6	49	33
Late payments	6	11	18	15	14
Total	W 118	W 480	W 223	W 373	W 379
Credit card fees:					
Merchant fees(4)	W 146	W 200	W 188	W 211	W 430
Other fees	8	2	10	5	12
Total	W 154	W 202	W 198	W 216	W 442
Charge volume:(5)					
General purchases	W 4,835	W 5,519	W 6,255	W 6,039	W 15,365
Installment purchases	1,247	2,099	1,650	2,003	3,721
Cash advances	4,355	6,875	3,488	5,564	8,296
Total	W 10,437	W 14,493	W 11,393	W 13,606	W 27,382

Outstanding balance (at year end):(6)										
General purchases	W	456	W	538	W	539	W	528	W	1,128
Installment purchases		292		563		333		497		869
Cash advances		474		653		423		575		860
Revolving purchases		158		200		89		199		294
Card loans		233		529		255		289		525
Others		376		213		284		190		204
Total	W	1,989	W	2,696	W	1,923	W	2,278	W	3,880
Average balance	W	2,186	W	3,288	W	1,916	W	2,618	W	3,535

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	As of or for the Year Ended December 31,				
	2004		2005		2006
	Shinhan Card	Chohung Bank(1)	Shinhan Card	Chohung Bank(1)	Shinhan Card(13)
	(In billions of Won, except percentages)				
Delinquent balances:(7)					
From 1 day to 1 month	W 67	W 109	W 49	W 92	W 147
Over 1 month:					
From 1 month to 3 months	W 35	W 71	W 17	W 31	W 36
From 3 months to 6 months	38	44	18	29	42
Over 6 months					
Sub-total	73	115	35	60	78
Total	W 140	W 224	W 84	W 152	W 225
Delinquency ratios:(8)					
From 1 day to 1 month	3.37%	4.04%	2.53%	4.04%	3.79%
Over 1 month:					
From 1 month to 3 months	1.76%	2.63%	0.87%	1.34%	0.93%
From 3 months to 6 months	1.91	1.63	0.95	1.30	1.08%
Over 6 months(9)					
Sub-total	3.67	4.27	1.82	2.64	2.01%
Total	7.04%	8.33%	4.36%	6.68%	5.80%
Rewritten loans(10)	W 9	W 495	W 4	W 269	W 98
Gross charge-offs	W 223	W 649	W 94	W 227	W 209
Recoveries	20	35	25	47	69
Net charge-offs	W 203	W 614	W 69	W 180	W 140
Gross charge-off ratio(11)	10.20%	19.74%	4.92%	8.66%	5.91%
Net charge-off ratio(12)	9.29%	18.67%	3.62%	6.87%	3.96%

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LG Card (14):

	As of or for the Year Ended December 31,		
	2004	2005	2006
	(In billions of Won, except percentages)		
Operation revenue:			
Credit card income	W 2,010	W 1,693	W 1,707
Installation financing income	184	93	109
Credit financing income	940	754	722
Others	71	61	84
Total	W 3,205	W 2,601	W 2,622
Charge volume:			
General purchases	W 18,542	W 19,971	W 23,125
Installment purchases	6,810	7,584	9,446
Revolving purchases	30	2,252	5,643
Cash advances	23,919	20,619	17,262
Installment financing	428	561	912
Credit financing	2,223	2,970	3,813
Others	66	265	436
Total	W 52,018	W 54,222	W 60,637
Outstanding balance (a year end):(6)			
Credit card receivables, net	W 6,360	W 6,917	W 7,457
Installment receivables, net	875	658	965
Loans receivables, net	4,665	3,325	2,932
Others	291	347	576
Total	W 12,191	W 11,247	W 11,930

Notes:

(1) Represents the credit card business of Chohung Bank, consisting of both BC Card and Forever Card, which we acquired in 2003. Effective as of April 3, 2006, the credit card division of Chohung Bank was split off and merged into Shinhan Card.

(2) Card loans consist of loans that are provided on either a secured or unsecured basis to cardholders upon prior agreement. Payment of principal, fees and interest on such a loan can be due either in one payment or in installments after a fixed period.

(3)

Revolving purchases were introduced in October 1998 for certain creditworthy credit card customers (e.g., customers who have not been delinquent for more than three times in the past one year) of Shinhan Card and in March 25, 2000 for certain creditworthy credit card customers of Chohung Bank.

(4) Merchant discount fees consist of merchant membership and maintenance fees, charges associated with prepayment by Shinhan Card or Chohung Bank (on behalf of customers) of sales proceeds to merchants, processing fees relating to sales and membership applications.

(5) Represents the aggregate cumulative amount charged during the year.

(6) Represents amounts before allowance for loan losses.

(7) Includes the unbilled balances of installment purchases.

(8) Represents the ratio of delinquent balances to outstanding balances for the year.

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(9) Our charge-off policy for Shinhan Card (and Chohung Bank prior to the split-merger of its credit card division into Shinhan Card) has been to charge off all credit card balances which are 180 days past due. LG Card s charge-off policy is to charge off all credit card balances which are 180 days past due.

(10) Represents delinquent credit card balances for purchase and cash advance which have been rewritten as credit card loans, thereby reducing the balance of delinquent accounts.

(11) Represents the ratio of gross charge-offs for the year to average balance for the year.

(12) Represents the ratio of net charge-offs for the year to average balances for the year.

(13) Does not include the information for the credit card division of Chohung Bank from January 1, 2006 to March 31, 2006.

(14) Presented on the Korean GAAP basis.

Supervisory Statistical Information prepared in accordance with Korean GAAP

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. 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, as well as the procedures governing which persons may receive credit cards. In addition, 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. These computations are all based on financial information prepared in accordance with Korean GAAP, as required by regulatory guidelines, which differs significantly from U.S. GAAP. As of December 31, 2004, 2005 and 2006, under Korean GAAP, Shinhan Card s delinquent balances (defined as credit card accounts delinquent for over 30 days) were W121 billion, W57 billion and W92 billion, respectively, representing delinquency ratios (defined as the ratio of delinquent balances to outstanding balances) of 6.03%, 2.96% and 2.84%, respectively. As of December 31, 2004 and 2005, calculated on the same basis, Chohung Bank s delinquent credit card balances were W97 billion and W51 billion, respectively, representing delinquency ratios of 3.60% and 2.25%, respectively. In certain cases, credit card companies in Korea have been allowed to rewrite delinquent credit card balances for purchase and cash advance as credit card loans, thereby reducing the balance of delinquent accounts. As of December 31, 2004, 2005 and 2006, calculated on the same basis, LG Card s delinquent balances were W1,455 billion, W619 billion and W516 billion, respectively, representing delinquency ratios (defined as the ratio of delinquent balances to outstanding balances) of 13.50%,6.18% and 5.09%, respectively. Shinhan Card s delinquent credit card balances that were rewritten as loans as of December 31, 2004, 2005 and 2006, under Korean GAAP, were W10 billion, W4 billion and W99 billion, respectively. Chohung Bank s delinquent credit card balances that were rewritten as loans as of December 31, 2004 and 2005, under Korean GAAP, were W497 billion and W270 billion, respectively. LG Card s delinquent credit card balances that were rewritten as loans as of December 31, 2004, 2005 and 2006, under Korean GAAP, were W3,398 billion, W1,731 billion and W1,043 billion, respectively. Net charge-offs for Shinhan Card, under Korean GAAP, during 2004, 2005 and 2006 were W212 billion, W88 billion and W111 billion, respectively, representing net charge-off ratios (defined as the ratio of net charge-offs for the year to average balances for the year) of 9.70%, 5.07% and 3.31%, respectively. Net charge-offs for Chohung Bank, under Korean GAAP, during 2004 and 2005 were W625 billion and W180 billion, respectively, representing net charge-off ratios (defined as the ratio of net charge-offs for the year to average balance for the year) of 9.88% and 6.90%, respectively. As of December 31, 2006, Shinhan Card s adjusted equity capital ratio was 17.47%.

Recent Regulatory Changes

According to regulations under the Specialized Credit Financial Business Act, as amended on June 16, 2004, the formula for calculating capital adequacy ratios for each credit card company was revised to increase the proportion of adjusted total assets by including certain risk-weighted asset-backed securitization assets which may incur contingent liability. In addition, the Financial Supervisory Service changed the standards for calculating the delinquency ratios by including delinquent balances that were rewritten as credit card loans in the calculation of such ratios as if such underwriting of rewritten loans had not occurred (referred to as substantial delinquency ratio herein). This resulted in credit card companies and credit card businesses of commercial banks reporting higher delinquency ratios in 2004 as compared to prior years, despite the improvement in asset quality of credit card assets. On a pro forma basis, the substantial delinquency ratios for the Korean credit card industry as announced by the Financial Supervisory Service were 18.25% as of December 31, 2004, 13.27% as of June 30, 2005, 10.05% as of December 31, 2005, 6.5% as of June 30, 2006, 4.58% as of December 31, 2006 and 4.37% as of March 31, 2007.

Further, in July 2004, the Financial Supervisory Service required each credit card company with a substantial delinquency ratio of 10% or more to enter into a memorandum of understanding with the Financial Supervisory Service specifying the credit card company s proposed plan to reduce its substantial delinquency ratio to less than 10% by the end of 2006 in accordance with the Specialized Credit Financial Business Act. Since the substantial delinquency ratio of Shinhan Card was less than 10%, Shinhan Card did not enter into such a memorandum of understanding.

Personal Workout and Debt Forgiveness Program

In an effort to resolve the problems caused by consumer credit delinquencies, the Korean government established Hanmaum Financial Company and the Credit Counseling & Recovery Service on May 20, 2004. Hanmaum Financial Company is a so-called bad bank , a type of private asset management company that acquires non-performing assets from banks and other financial institutions for the purpose of providing long-term financial aid to certain qualified delinquent consumers who apply for this program to enable them to pay off their financial debts. After restructuring delinquent debts of approximately 170,000 consumers, Hanmaum Financial Company was wound down. The Korean government established a second bad bank known as Himangmoah in May 2005 to aid the delinquent consumers who did not benefit from Hanmaum Financial Company despite being qualified to do so. The second bad bank provides relief by collecting 3% of the debt amount in advance, allowing delinquent cardholders to repay their delinquent debts within eight years. The second bad bank raises its funds to purchase the delinquent debts from financial institutions through a special purpose company in an asset-backed securitization transaction. The second bad bank distributes the debt amount collected in excess of the initial purchase price to the selling financial institutions. At this time, we cannot accurately predict the number of applicants and amounts subject to the second bad bank program. To the extent the second bad bank achieves less-than-expected level of collection of, and recovery on, non-performing assets, commercial banks and credit card companies, including Shinhan Bank and Shinhan Card , may realize less gains from recoveries.

Unlike the bad bank program that provides loans directly to consumers, the Credit Counseling & Recovery Service has adopted an individual workout program. For delinquent consumers who are deemed to be capable of repaying their debts, the Credit Counseling & Recovery Service will, pursuant to an agreement with the creditor financial institution, provide opportunities to repay in installments, provide repayment grace periods, reduce debt amounts, or extend the maturity date of the debts. Currently, a substantial number of financial institutions, including banks and insurance companies, are parties to the Credit Recovery Support Agreement, pursuant to which such financial institutions, have agreed to provide such support described above to those consumers who meet the following qualifications: (i) income exceeding minimum living expenses promulgated by the Ministry of Health and Welfare of Korea, (ii) debt not exceeding W500 million in total amount, and (iii) official records being on file at Korea Federation of Banks as to the default status of debt. Each application for credit recovery is reviewed by the Credit Counseling & Recovery Service and approval of each application requires the approval by creditors representing at least one-half of the unsecured debt amount and at least two-thirds of the secured debt amount.

In September 2004, a court-administered individual workout program was adopted under the Individual Debtor Recovery Act. Under this program, a qualified individual debtor may file a petition for an individual workout program with a competent court. Subject to the court s approval, the debtor may repay the debt over a period of less than five years (or from three to eight years for those debtors who filed before the effective date of the Debt Recovery and

Bankruptcy Act and continue to be subject to the Individual Debtor Recovery Act) and will be exempted from other debts without declaring bankruptcy. To qualify, an individual delinquent debtor must have less than W500 million in debt (in the case of unsecured debt) or W1 billion in debt (in the case of secured debts), and must have regular and reliable income or have the potential to earn recurring income on an ongoing basis.

The Debtor Rehabilitation and Bankruptcy Act, promulgated on March. 31, 2005 and effective as of April 1, 2006, consolidated all existing bankruptcy-related laws in Korea, namely, the Corporate Reorganization Act, the Composition Act, the Bankruptcy Act and the Individual Debtor Recovery Act. See Description of Assets and Liabilities Loans Credit Exposures to Companies in Workout, Court Receivership and Composition .

Securities Brokerage Services

Overview

Through Good Morning Shinhan Securities, our securities brokerage subsidiary, we provide a full range of brokerage services, including investment advice and financial planning, to our retail customers as well as international and institutional brokerage services to our corporate customers. As of December 31, 2006, our market share was approximately 5.7% in the Korean equity brokerage market and is ranked seventh in the industry in terms of brokerage volume.

Recent Regulatory Changes

The Presidential Decree of the Securities and Exchange Act and regulations thereof, recently amended the scope of securities to include derivative securities (including, without limitation, credit linked derivative securities) and equity of limited partnerships such as private equity funds. Furthermore, securities company can provide trust account management services in accordance with the Trust Business Act. See Item 4. Information on the Company Supervision and Regulation Principal Regulations Applicable to Securities Companies . Good Morning Shinhan Securities is taking steps to provide the trust account management services.

Products and Services

We offer a variety of financial and advisory services through three main business groups of Good Morning Shinhan Securities, consisting of the Retail Business Group, the Wholesale Business Group and the Trading/Derivative Business Group.

Retail Business Group provides equity and bond brokerage, investment advisory and financial planning services to retail customers, with a focus on high net worth individuals. In 2006, revenues generated by the Retail Business Division represented approximately 85% of total revenues of our Securities Brokerage Services in 2006. The Retail Business Division earns fees by managing client assets as well as commissions as a broker for our clients in the purchase and sale of securities. In addition, we generate net interest revenue by financing customers securities transactions and other borrowing needs through security-based lending and also receive commissions and other sales and service revenues through the sale of proprietary and third-party mutual funds.

Wholesale Business Group offers a variety of brokerage services, including brokerage of corporate bonds, futures and options, to our institutional and international customers. In addition, through our research center with more than 50 research analysts, we produce equity, bonds and derivatives research to serve both institutional and international investor clients. This group also provides research and investment banking services, including capital markets and mergers and acquisitions advisory services.

Trading/Derivative Business Group offers a wide array of investment banking services, including selling institutional financial products and trading equity and derivatives and, to a lesser extent, M&A advisory and underwriting, to our corporate customers.

Other Services

Through our other operating subsidiaries, we also provide leasing and equipment financing, investment trust management, regional banking and investment banking and advisory services. In addition, we have also established a bancassurance joint venture to offer life insurance and other insurance-related products and services following deregulation of this industry in September 2003. In December 2005, we also acquired an insurance company to offer a diversified range of life insurance products in addition to bancassurance services. See Life Insurance below.

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Leasing and Equipment Financing

We provide leasing and equipment financing services to our corporate customers through Shinhan Capital, our leasing subsidiary. Established as a leasing company in 1991, Shinhan Capital provides customers with leasing, installment financing and new technology financing.

As of December 31, 2006, Shinhan Capital s total assets were W1,949 billion, showing a W548 billion increase from the previous year. In particular, our operating assets increased from W1,091 billion in 2004 to W1,287 billion in 2005 and to W1,840 billion in 2006. We believe that our strength is in leasing of ships, printing machines, automobiles and other specialty items. We continue to diversify our revenue base from this business by expanding our services, as demonstrated by our acting as corporate restructuring company for financially troubled companies beginning in 2002 and financing provided to real estate projects and infrastructure investments. Shinhan Capital s profitability continued to improve and stabilize gradually over the past few years. Shinhan Capital s operating income increased from W221 billion in 2004 and to W222 billion in 2005 but decreased to W200 billion in 2006, and its net income increased from W23 billion in 2004 to W37 billion in 2005 and W48 billion in 2006.

Asset Management and Investment Trust Services

In addition to personalized wealth management services provided by our private banking and securities brokerage services, we also engage two professional asset management companies, Shinhan BNP Paribas Investment Trust Management, our joint venture with BNP Paribas, and SH Asset Management, our subsidiary, to provide our customers with fund management services and offer them with new investment products. The investment products offered by these two companies include equity and equity-linked funds, fixed-income funds and alternative investment products. As a joint venture with BNP Paribas Asset Management, Shinhan BNP Paribas Investment Trust Management uses the expertise of BNP Paribas to offer local as well as international products while SH Asset Management focuses on traditional local market products.

The asset management industry in Korea is under transformation due to a number of regulatory and market factors. In 2004, the Korean government enacted the Act on the Business of Operating Indirect Investment and Asset, which removed and curtailed many existing restrictions on investment products and improved the corporate governance structure and operational transparency of the asset management companies for the benefit of the investors. As a result, an increasing number of retail investors began to use the investment management services of the asset management companies. The Korean government continues to deregulate the financial industry in Korea, which has significantly broadened the scope of investment products that the asset management companies may offer to its customers. In addition, the recent proliferation of corporate pension plans in Korea has led to a greater infusion of funds to the asset management companies, which as a result have been able to benefit from economies of scale and offer a broader range of products at competitive returns. The continued low interest rate and the government policy to hold down real estate prices have also contributed to a growing interest among retail investors in the investment products offered by the asset management companies.

We believe these trends will contribute to the growth and improved profitability of our asset management affiliates, notwithstanding the growing competition in the asset management industry, which has been driven in part by the entry into the industry by large overseas financial institutions with well-known global brands. In terms of the size of assets managed. Shinhan BNP Paribas Investment Trust Management s total assets under management grew from W7,353 billion as of the end of 2005 to W8,511 billion as of the end of 2006 to and SH Asset Management from W7,788 billion as of the end of 2005 to W11,041 billion as of the end of 2006.

Regional Banking Services

In April 2002, pursuant to a stock purchase agreement with Korea Deposit Insurance Corporation, we acquired a majority interest in Jeju Bank, which is engaged in providing commercial banking services on a regional basis, primarily on Jeju Island of Korea, through its network of 32 branches. As of December 31, 2006, Jeju Bank had total assets, total liabilities and total stockholders equity of W2,482 billion, W2,350 billion and W132 billion, respectively.

Investment Banking and Advisory Services

In addition to the investment banking services provided by the Investment Banking Department of Shinhan Bank and the Capital Markets Division of Good Morning Shinhan Securities, we also provide a variety of investment banking and advisory services through Shinhan Macquarie Financial Advisory, our 51:49 joint venture with Macquarie Bank of Australia. The advisory services offered by Shinhan Macquarie Financial Advisory (SMFA) include project and infrastructure finance, capital and debt raisings, corporate finance advisory, structured finance, mergers and acquisitions, cross-border leasing and infrastructure and specialized fund management advisory services. Since its inception SMFA has grown to become one of the leading infrastructure-related financial advisory companies. During the year ended December 31, 2006, we derived total revenues of W22 billion from advisory activities.

Bancassurance

The bancassurance market grew significantly in 2003 and 2004 as the banks took aggressive steps to establish market shares, but this growth slowed in 2005 and 2006 due to substantial market saturation. We expect that the bancassurance market will find an opportunity to grow again in 2008 when insurance companies are expected to be permitted to offer additional product types of health and life insurance and automobile insurance as a result of further deregulation of the insurance industry.

We offer bancassurance services primarily through SH&C Life Insurance, a 50:50 joint venture with Cardif S.A., an insurance arm of the BNP Paribas Group, which has developed various bancassurance products for our banking customers in part based on the expertise on the French bancassurance market provided by Cardif S.A. Largely due to synergy effects from our group-wide marketing and sales channels and its investment products focused on savings and investment rather than the traditional form of insurance only, SH&C Life Insurance s total premium income grew from W36 billion in fiscal year 2004 to W48 billion in fiscal year 2005 and W47 billion in fiscal year 2006. The fiscal year of SH&C Life Insurance ends on March 31. In addition, SH&C Life Insurance offers bancassurance products at other institutions such as Standard Charter Bank, Prudential Securities and other regional banks and is also a leading provider of variable savings products in Korea.

Life Insurance

Shinhan Life Insurance, a mid-tier insurance company with diversified distribution channels with balanced growth in the number of financial planners, telemarketers, account managers and bancassurance specialists, became our subsidiary on December 13, 2005. Shinhan Life Insurance has a leading telemarketing channel in the industry.

As of December 31, 2006, Shinhan Life Insurance s total assets were W6,226 billion, which increased from W5,129 billion as of December 31, 2005 and W4,056 billion as of December 31, 2004. Based on the insurance premium received during its fiscal year 2006, Shinhan Life Insurance ranked sixth among the 22 life insurance companies in Korea.

We expect the insurance premium received by Shinhan Life Insurance to increase as a result of growing demands for both investment-type and annuity-type products and potential synergy effects from interactions between Shinhan Life Insurance and our other subsidiaries.

Loan Collection and Credit Reporting

In order to centralize our loan collection, on July 8, 2002, we established Shinhan Credit Information Co. Ltd., our wholly-owned subsidiary engaged in credit collection and credit reporting. Shinhan Credit Information is capable of managing and collecting bad loans generated by our subsidiaries to improve our overall asset quality. We plan to expand Shinhan Credit Information s services to such areas as credit reporting, credit inquiry, credit card rating, civil application/petition services, lease and rental research and advisory and consulting services related to non-performing loan management. For the year ended December 31, 2006, our total revenues from this operation were W27 billion.

Information Technology

We believe that a sophisticated information technology system is crucial in supporting our operations management and providing high quality customer service. We employ a total of approximately 1,070 employees and plan to spend approximately W534 billion in connection with updating and integrating our information technology system by the end of 2007.

In order to maximize synergy among our subsidiaries, we are currently continuing to build and implement a single enterprise information technology system known as enterprise data warehouse for our subsidiaries. In addition, we are currently continuing to upgrade the information technology systems for each of our subsidiaries to enhance the quality of our customer service specific to such subsidiary. We are currently in the process of integrating the information systems of LG Card and Shinhan Card, which is currently scheduled to be completed by the end of 2008. We are also currently in the planning stage for the implementation of improved systems for our other subsidiaries, including Good Morning Shinhan Securities and Shinhan Life Insurance, with 2009 as the target completion date.

We plan to continue our efforts to improve our information technology systems by taking the following initiatives:

- building a customer-oriented system to provide customers with diversified and customized financial services;
- establishing a flexible platform which can quickly adapt to new financial products and services;
- introducing a group-wide strategic enterprise management system designed to facilitate swift managerial response;
- empowering the sales operation by a group-wide integrated enterprise data warehousing system and a group-wide integrated customer relationship management system, which are designed to provide us with comprehensive customer information, including transaction history, and thereby allow us to identify potential marketing and cross-marketing opportunities;
- further upgrading our information system in respect of the New Basel Capital Accord (Basel II), the initial layout for which was completed in March 2006;
- upgrading our information reporting system to enable us to monitor our internal control and to test its effectiveness and to enable us to comply with Section 404 of the Sarbanes-Oxley Act; and
- developing IT functions to improve comprehensive back office functions, including deposit taking, lending and foreign exchange activities, at the branch office level.

Our information technology system for each of our subsidiaries is currently backed up on a real time basis. We have established a completely duplicative back-up IT system in different locations in Korea, depending on the subsidiary, to provide a back-up system in the event of any system failure of our primary information technology center located in the suburbs of Seoul. See Properties . Our information technology system at the group level is currently able to fully resume operation within an hour even in the case of a complete disruption of the information technology system at our headquarters.

Competition

We compete principally with other national commercial banks in Korea, but also face competition from a number of additional entities, including regional banks, Korea s specialized banks and branches and subsidiaries of foreign banks operating in Korea, as well as various other types of financial service institutions, including savings institutions (such as mutual savings and finance companies and credit unions and credit cooperatives), investment institutions (such as securities brokerage firms, merchant banking corporations and asset management companies) and life insurance companies. Regulatory reforms in the Korean banking industry have increased competition among banks for deposits, generally leading to lower margins from lending activities. Prior to the beginning of the economic crisis in Korea in late 1997, there were 26 commercial banks, three development banks and four specialized banks. Due in part to the economic crisis, as of December 31, 1999, there were 17 commercial banks, two development banks and four specialized banks. Of these, two commercial banks were recapitalized by the Government. During 1999, four mergers were consummated and, in the first half of 2000, Korea First Bank sold its controlling interest to a foreign investor. In 2001, H&CB and Kookmin Bank merged to create the largest Korean bank in terms of assets. 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. In December 2002, Hana Bank merged with Seoulbank. In 2003, Lone Star acquired a controlling interest in Korea Exchange Bank. In May 2004, Citibank, through its affiliate, completed a tender offer pursuant to which it purchased a substantial majority interest in KorAm Bank. In September 2004, KorAm Bank was renamed Citibank Korea. In April 2005, Standard Chartered Bank completed its acquisition of Korea First Bank, the seventh largest commercial bank in Korea in terms of asset size. We believe that the financial industry in Korea, including banking, will continue to experience consolidation among institutions leading to increased competition in all areas in which we operate.

In March and May 2005, Korea Deposit Insurance Corporation sold its controlling interests in Korea Investment Trust Company and Daehan Investment Trust Company, which had been acquired and recapitalized by the Korea Deposit Insurance Corporation on behalf of the Korean government due to the financial difficulties these companies were experiencing, to Dongwon Financial Holdings and Hana Bank, respectively. Dongwon Financial Holdings is the third financial holding company to be launched in Korea, and Hana Bank is currently the fourth largest commercial bank in Korea in terms of asset size. As a result, competition in the Korean financial and banking industry, in particular for high net worth and high profit customers, has intensified.

See Item 3. Key Information Risk Factors 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 .

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DESCRIPTION OF ASSETS AND LIABILITIES

Unless otherwise specifically mentioned or the context otherwise requires, the following description of assets and liabilities is presented on a consolidated basis under U.S. GAAP.

Loans

As of December 31, 2006, our total gross loan portfolio was W122,446 billion, which represented an increase of 15.68% from W105,848 at December 31, 2005. The increase in the portfolio primarily reflects an increase in the mortgage and home equity loans and other commercial loans.

Loan Types

The following table presents our loans by type for the periods indicated. Except where specified otherwise, all loan amounts stated below are before deduction for loan loss allowances. Total loans reflect our loan portfolio, including past due amounts.

	As of December 31,				
	2002	2003	2004	2005	2006
	(In billions of Won)				
Corporate					
Commercial and industrial(1)	W 1 5,800	W 35,617	W 35,653	W 35,728	W 40,063
Other commercial(2)	9,352	17,378	17,988	21,409	27,319
Lease financing	636	1,091	981	754	585
Total Corporate	25,788	54,086	54,622	57,891	67,967
Consumer					
Mortgages and home equity	11,539	20,517	22,180	25,840	30,097
Other consumer(3)	4,962	14,580	15,546	17,875	20,458
Credit cards	2,763	6,112	4,732	4,242	3,924
Total Consumer	19,264	41,209	42,458	47,957	54,479
Total gross loans(4)	W 45,052	W 95,295	W 97,080	W 105,848	W 122,446

Notes:

(1) Consists primarily of working capital loans, general purpose loans, bills purchased, trade-related notes and inter-bank loans.

(2) Consists primarily of privately placed bonds, credit facility drawdowns and purchases of commercial paper or notes at a discount from its customers with recourse.

(3) Consists of general unsecured loans and loans secured by collateral other than housing to retail customers.

(4) As of December 31, 2004, 2005 and 2006, approximately 89.4%, 90.6% and 89.8% of our total gross loans, respectively, were Won-denominated.

Loan Concentrations

On a consolidated basis, our exposure to any single borrower and exposure to any single group of companies belonging to the same conglomerate is limited by law to 20% and 25%, respectively, of the Net Total Equity Capital Credit under Korean GAAP (as defined in Supervision and Regulation).

Twenty Largest Exposures by Borrower

As of December 31, 2006, our twenty largest exposures, consisting of loans, securities and guarantees and acceptances, totaled W24,016 billion and accounted for 15.11% of our total exposures. The following table sets forth our total exposures to these top twenty borrowers as of December 31, 2006.

	Loans in Won	Loans in Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposure	Impaired Loans and Guarantees and Acceptances
	(In billions of Won)						
The Bank of Korea	W	W	W	W 6,653	W	W 6,653	W
Ministry of Finance and Economy				3,375		3,375	
Korea Deposit Insurance Corporation	33		2,187			2,220	
Industrial Bank of Korea			4	1,213		1,217	
Korea Development Bank			3	1,063		1,066	
Samsung Card	325	19		683	4	1,031	
Samsung Electronics		505	146	18	285	954	
Kookmin Bank	66		16	823		905	
LG Card	218		520	116		854	
Military Mutual Aid Association	665					665	
SK Networks	259	50	218		92	619	
SK Corporation	213	84	150	45	110	602	
SH Corporation	540			30		570	
Woori Bank				565		565	
Hana Bank		10		517		527	
Korea Highway Corporation				450		450	
LG Electronics		388	23	33	1	445	
National Agricultural Cooperative Federation				434	3	437	
Korea Exchange Bank		19	3	411		433	
Kia Motors	24	252	17	101	34	428	
Total	W 2,343	W 1,327	W 3,287	W 16,530	W 529	W 24,016	W

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Exposure to Chaebols

As of December 31, 2006, 9.14% of our total exposure was to the thirty-six largest chaebols. The following table shows, as of December 31, 2006, our total exposures to the ten *chaebol* groups to which we have the largest exposure.

Chaebol	Loans in Won Currency	Loans in Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposure	Amounts of Impaired Loans and Guarantees and Acceptances
			(In billions of Won)				
Samsung	W 527	W 677	W 409	W 240	W 454	W 2,307	W
SK	914	254	385	98	250	1,901	
LG	201	726	594	107	126	1,754	
Hyundai Motors	390	643	40	232	197	1,502	
Lotte	429	24	1	228	59	741	
S-Oil	430	114	1		122	667	
LS	194	80	1	10	231	516	
Posco	69	33	235	30	86	453	
Hyundai Heavy Industries		4	4		409	417	
Hanhwa	194	23	5	50	100	372	
Total	W 3,348	W 2,578	W 1,675	W 995	W 2,034	W 10,630	W

Exposure to LG Card

LG Card, one of Korea s largest credit card companies, has experienced significant liquidity and asset quality problems in recent years. In November 2003, the creditor banks of LG Card (including Shinhan Bank and Chohung Bank) agreed to provide a new W2 trillion credit facility, secured by credit card receivables, to enable LG Card to resume cash operations. Our portion of this commitment was W216.7 billion, consisting of W113.7 billion for Shinhan Bank and W103 billion for Chohung Bank. The maturity of this credit facility was extended in March 31, 2005 to December 31, 2005, and it was repaid in four equal installments over the course of one year following December 31, 2005. Certain of LG Card s creditor banks (including our subsidiaries) also agreed to extend the maturity of a portion of LG Card s debt coming due in 2003 for one year, after the chairman of LG Group pledged his personal stake in LG Corporation, the holding company for the LG Group, LG Investment & Securities and LG Card as collateral to offset future losses of LG Card.

After the failure to auction LG Card to a buyer in December 2003, the principal creditors of LG Card tentatively agreed to a rescue plan in January 2004 under which the Korea Development Bank would acquire a 25% (subsequently adjusted to 26%) interest in LG Card and the other creditors would collectively acquire a 74% (subsequently adjusted to 73%) ownership interest following the completion of several debt-to-equity swaps contemplated for 2004. In addition, the creditors agreed to form a normalization steering committee for LG Card to oversee LG Card s business operations. An extraordinary shareholders meeting of LG Card was held in March 2004 and a new chief executive officer as well as directors nominated by the normalization steering committee were elected. In February 2004, the creditors exchanged indebtedness of W954 billion (including our portion of W77.5 billion) for shares constituting 54.8% of the outstanding share capital of LG Card. LG Group also funded an additional W800 billion to LG Card (in addition to a W200 billion capital contribution made in December 2003). In March 2004, the LG Group and the Korea Development Bank provided additional liquidity of W375 billion and W125 billion, respectively. In May 2004, LG Card completed a capital write-down of 97.7% of its outstanding common stock, which included the W954 billion converted into equity by the creditors in February 2004 (including our portion of W77.5 billion). In July 2004, the creditors also converted an additional W954 billion of indebtedness into equity of LG Card (including our portion of W77.5 billion) and W1.59 trillion of new loans extended to LG Card (including our portion of W154.4 billion) into equity of LG Card. In January 2005, the LG Group and the creditor banks converted an additional W1 trillion in the aggregate (including W25.3 billion for Shinhan Bank and W23.0 billion for Chohung Bank for our aggregate portion of W48.3 billion) into equity. In addition, the creditor banks also reduced the interest rate on existing credit facility of LG Card in the aggregate amount of W1 trillion from 7.5% per annum to 5.5% per annum and further extended the maturity of the credit facility to December 2006, subject to four equal quarterly installment repayments in 2006. In addition, the terms of the collateral for this facility was amended. Prior to this amendment, the creditor financial institutions were entitled to receive the cash inflows from collection on such collateral. LG Card was not required to maintain a minimum collateral ratio or to enhance its credit support through the provision of additional collateral. Thus, there was no guarantee against losses to the extent that collection results in a shortfall of the principal amount of the credit extended. As a result of the amendment, however, LG Card is entitled to the cash received from collection on condition that LG Card maintains a minimum collateral ratio of 105%. In March 2005, LG Card also completed a capital write-down of 81.8% of its outstanding common stock, which included the W2,417 billion of equity held by the creditors (including our portion of W216 billion).

In August 2005, the creditors of LG Card resolved to sell up to 90,364,299 shares, including 8,312,240 shares held by us, by way of an auction conducted by the creditors, with Korea Development Bank taking the lead role. In April 2006, we submitted a letter of intent indicating our wish to participate in the bidding for the controlling equity stake in LG Card. In August 2006, we were selected as the preferred bidders and commenced negotiation with the creditors for the purchase of their shares in LG Card. Following due diligence, we signed a stock purchase agreement with the creditors in December 2006. Pursuant to the terms of the stock purchase agreement, we made a public tender offer during a 20-day period from February 28, 2007 to March 19, 2007, as a result of which we acquired 98,517,316 shares, or 78.6%, of the common stock of LG Card at the price of W67,770 per share, or an aggregate price of W6,676 billion. When counted together with 8,960,005 shares, or 7.1%, of the common stock of LG Card held by Shinhan Bank prior to the public tender offer, we held 107,477,321 shares, or 85.7%, of the common stock of LG Card immediately after the public tender offer. Since LG Card no longer meets the listing requirement related to the 10% minimum holding requirement of its capital stock to be held by small investors (defined as holders of less than 1% of capital stock), we currently plan to delist LG Card from the Korea Exchange in the second half of 2007 following the acquisition of the remaining shares through a small-scale share swap under Korean law.

As of December 31, 2006, our total exposure to LG Card was W854 billion, including W218 billion of loans, W52 billion of securities listed through asset-backed securitization, W64 billion of debt securities and W520 billion of equity securities. We made an allowance for loan losses of W0.1 billion for the loans. As a result of the satisfactory progress on scheduled debt restructuring of LG Card, we recorded reversal of loan loss provisions of W0.6 billion and recognized securities impairment losses of W0 billion in respect of our exposures to LG Card. In connection with the LG Card rescue plan, Shinhan Bank transferred W10 billion of exposure in its performance-based trust account to the bank account in January 2004 and Chohung Bank also transferred W30 billion of exposure in its performance-based trust account to the bank account in February 2004, resulting in an increase in our total exposure to LG Card. These exposures were included in our credit exposure that was converted into equity in connection with the rescue plan of LG Card as described above.

Following our acquisition of the controlling equity interest in LG Card, we no longer have any significant exposure to LG Card.

Exposures to the Credit Card Industry

Following adverse developments in 2003 and 2004 such as industry-wide increases in delinquencies and resulting increases in provisioning in loan losses as a result of aggressive marketing without adequate regard to credit risks, the credit card companies in general have substantially improved their asset quality and capital adequacy by reducing non-performing loans and the generally riskier card loans and limiting issuance of new credit cards to only customers meeting certain credit quality thresholds. As a result, according to a report issued by the Financial Supervisory

Commission in 2006, the credit card companies have in general recorded profit for seven consecutive quarters since the second quarter of 2005.

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The following table shows, as of December 31, 2006, the breakdown of our total exposure to credit card companies.

Company	Debt Securities		Securities Issued Through Asset-backed Securitization(1)		Equity Securities		Loans in Won Currency		Guarantees and Acceptances		Loans in Foreign Currency		Total	
							(In billions of Won)							
Samsung Card	W	222	W	461	W		W	325	W	4	W	19	W	1,031
LG Card(2)		64		52		520		218						854
Lotte Card		130						50						180
Hyundai Card				150										150
Total	W	416	W	663	W	520	W	593	W	4	W	19	W	2,215

Notes:

(1) Securities issued by special purpose vehicles of credit card companies, established with credit card receivables as underlying assets. In general, these special purpose vehicles are entitled to credit or collateral support from such credit card companies.

(2) LG Card became our subsidiary in March 2007.

As of December 31, 2006, we had loans outstanding to credit card companies in the aggregate principal amount of W612 billion. Due to the improved financial conditions of the credit card companies following their financial difficulties in general in 2003 and 2004, our loans to these credit card companies are considered performing in accordance with our internal credit rating methodology, and therefore we have not recognized a specific allowance for loan losses against these. In light of the improvement in the asset quality of the credit card companies in general, we believe our general allowance of W0.2 billion against those loans to credit card company is sufficient to cover any incurred losses within these specific loans.

In addition, our investment portfolio includes beneficiary certificates representing interests in investment trusts whose assets include securities issued by troubled credit card companies. 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.

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.

Exposures to SK Group Companies

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

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

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

All of the indebtedness of SK Networks and its overseas subsidiaries held by Korean financial institution creditors was resolved either through an exchange for 43% of the principal amount in promissory notes and 5% of the principal amount in the form of bonds with warrants or in accordance with the Memorandum. Under the Memorandum, all of the indebtedness of SK Networks held by the Korean financial institution creditors was converted into common shares, redeemable preferred shares and mandatory convertible bonds of SK Networks. SK Corp., which is the parent company of SK Networks, also converted approximately US$760 million of its claims against SK Networks into the shares of common stock of SK Networks in connection with the Memorandum. SK Networks graduated from the workout in April 2007.

As a result of this corporate restructuring, we owned 10.02% of common shares of SK Networks (or 10.28% of total equity ownership in SK Networks including the Redeemable Preferred Stock) as of December 31, 2006.

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As of December 31, 2006, 1.20% of our total exposure was to the member companies of the SK Group. The following table shows, as of December 31, 2006, the breakdown of our total exposure by member companies of the SK Group.

Company	Loans in Won Currency	Loans in Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposure	Amounts of Impaired Loans and Guarantees and Acceptances
				(In billions of Won)			
SK Networks	W 259	W 50	W 218	W	W 92	W 619	W
SK Corporation	213	84	150	45	110	602	
SK Telecom Co., Ltd.	200		17			217	
SK Inchon Oil co., Ltd.	42	53			15	110	
K Power Co., Ltd.	67					67	
SK Chemical	10	10		23	9	52	
SK C&C Co., Ltd.	40					40	
SK Gas Co., Ltd.	2	36			1	39	
SKC Co., Ltd.	4	10		20	1	35	
Walkerhill	18				5	23	
SK Mobile Energy Co., Ltd.	20					20	
SK Construction				2	12	14	
Daehan City Gas Co., Ltd.	5			8		13	
Choongnam City Gas. Co., Ltd	11					11	
SK Petrochemical Co., Ltd.	1	8				9	
Pohang City Gas	7					7	
SK Telesys		3			3	6	
Pusan City Gas	5					5	
Chonnam City Gas Co., Ltd.	3					3	
InnoAce Co., Ltd.	2					2	
In2gen	1					1	
SK Sitech					1	1	
Infosec Co., Ltd.	1					1	
Kangwon Gas	1					1	
MRO Korea Co., Ltd.	1					1	
Encar Networks Ltd.	1					1	
Kumi City Gas co., Ltd.							
Chongju City Gas co., Ltd.							

SK E&S Co., Ltd.													
Total	W	914	W	254	W	385	W	98	W	249	W	1,900	W

As of December 31, 2006, our total exposure outstanding to SK Networks alone was W619 billion, or 0.39% of our total exposure, consisting of W309 billion in loans, W218 billion in equity securities and W92 billion in guarantees and acceptances. Of our total loans outstanding to SK Networks, W21 billion was secured. For the unsecured loans of W288 billion, we established an allowance for loan losses of W18 billion. With respect to the guarantees and acceptances outstanding, we established an allowance of W5 billion.

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In addition, as of December 31, 2006, our total exposure outstanding to SK Corporation, the controlling company of the SK Group, was W602 billion, or 0.38% of our total exposure, consisting of W297 billion in loans, W150 billion in equity securities, W45 billion in debt securities and W110 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 W19 billion against the loans to members of the SK Group, including SK Corporation, is sufficient to cover any incurred losses within this portfolio.

Loan Concentration by Industry

The following table shows the aggregate balance of our corporate loans by industry concentration as of December 31, 2006 under US GAAP.

Industry	**Aggregate Loan Balance**	**Percentage of Total Corporate Loan Balance**
	(In billions of Won)	**(Percentages)**
Manufacturing	W 22,900	33.69%
Retail and wholesale	9,964	14.66
Real estate, leasing, and service	13,714	20.18
Construction	5,380	7.92
Hotel and leisure(1)	2,741	4.03
Finance and insurance	2,929	4.31
Transportation, storage and communication	3,434	5.05
Other service	6,711	9.87
Other	194	0.29
Total	W 67,967	100.00%

Note:

(1) Consists principally of hotels, motels and restaurants.

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Loan Concentration by Size of Loans

The following table shows the aggregate balances of our loans by outstanding loan amount as of December 31, 2006.

		Aggregate Loan Balance (In billions of Won)	Percentage of Total Loan Balance (Percentages)
Commercial and industrial			
Up to W10 million	W	78	0.06%
Over W10 million to W50 million		1,408	1.15
Over W50 million to W100 million		1,962	1.60
Over W100 million to W500 million		10,101	8.25
Over W500 million to W1 billion		5,127	4.19
Over W1 billion to W5 billion		10,363	8.46
Over W5 billion to W10 billion		3,863	3.16
Over W10 billion to W50 billion		5,068	4.14
Over W50 billion to W100 billion		1,277	1.04
Over W100 billion		816	0.67
Sub-total	W	40,063	32.72%
Other commercial			
Up to W10 million	W	66	0.05%
Over W10 million to W50 million		636	0.52
Over W50 million to W100 million		687	0.56
Over W100 million to W500 million		3,234	2.64
Over W500 million to W1 billion		1,808	1.48
Over W1 billion to W5 billion		5,606	4.58
Over W5 billion to W10 billion		3,384	2.76
Over W10 billion to W50 billion		7,150	5.84
Over W50 billion to W100 billion		2,024	1.65
Over W100 billion		2,724	2.23
Sub-total	W	27,319	22.31%
Lease financing			
Up to W10 million	W	1	0.00%
Over W10 million to W50 million		11	0.01
Over W50 million to W100 million		17	0.01
Over W100 million to W500 million		86	0.07
Over W500 million to W1 billion		43	0.04
Over W1 billion to W5 billion		175	0.14
Over W5 billion to W10 billion		83	0.07
Over W10 billion to W50 billion		113	0.09

Over W50 billion to W100 billion		56	0.05
Over W100 billion			
Sub-total	W	585	0.48%
Mortgage and home equity			
Up to W10 million	W	355	0.29%
Over W10 million to W50 million		6,245	5.10
Over W50 million to W100 million		7,896	6.45
Over W100 million to W500 million		14,362	11.73
Over W500 million to W1 billion		1,064	0.87
Over W1 billion to W5 billion		175	0.14
Over W5 billion to W10 billion			
Over W10 billion to W50 billion			
Over W50 billion to W100 billion			
Over W100 billion			
Sub-total	W	30,097	24.58%
Other consumer			
Up to W10 million	W	3,361	2.75%
Over W10 million to W50 million		5,556	4.54
Over W50 million to W100 million		3,455	2.82
Over W100 million to W500 million		6,418	5.24
Over W500 million to W1 billion		908	0.74
Over W1 billion to W5 billion		657	0.54
Over W5 billion to W10 billion		62	0.05
Over W10 billion to W50 billion		41	0.03
Over W50 billion			
Over W100 billion			
Sub-total	W	20,458	16.71%
Credit cards			
Up to W10 million	W	2,988	2.44%
Over W10 million to W50 million		460	0.38
Over W50 million to W100 million		55	0.04
Over W100 million to W500 million		118	0.10
Over W500 million to W1 billion		15	0.01
Over W1 billion to W5 billion		56	0.05
Over W5 billion to W10 billion		17	0.01
Over W10 billion to W50 billion		215	0.17
Over W50 billion to W100 billion			
Over W100 billion			
Sub-total	W	3,924	3.20%
Total	W	122,446	100.00%

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Maturity Analysis

The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of December 31, 2006. The amounts disclosed are before deduction of attributable loan loss reserves.

	As of December 31, 2006			
	1 Year or Less	Over 1 Year but not More Than 5 Years	Over 5 Years	Total
	(In billions of Won)			
Corporate:				
Commercial and industrial	W 33,906	W 5,620	W 537	W 40,063
Other commercial	17,192	7,678	2,449	27,319
Lease financing	217	288	80	585
Total corporate	W 51,315	W 13,586	W 3,066	W 67,967
Consumer:				
Mortgage and home equity	W 7,745	W 3,017	W 19,335	W 30,097
Other consumer	13,451	5,377	1,630	20,458
Credit cards	3,668	256		3,924
Total consumer	W 24,864	W 8,650	W 20,965	W 54,479
Total gross loans	W 76,179	W 22,236	W 24,031	W 122,446

We may roll over our working capital loans and consumer loans (which are not payable in installments) after we conduct our normal loan review in accordance with our loan review procedures. Working capital loans of Shinhan Bank may be extended on an annual basis for an aggregate term of three years for unsecured loans and five years for secured loans and consumer loans may be extended for additional terms of up to 12 months for an aggregate term of ten years for unsecured loans and secured loans.

Interest Rate Sensitivity

The following table shows our loans by interest rate sensitivity as of December 31, 2006.

	As of December 31, 2006		
	Due Within 1 Year	Due After 1 Year	Total
	(In billions of Won)		
Fixed rate loans(1)	W 31,681	W 7,658	W 39,339
Variable rate loans(2)	44,498	38,609	83,107

Total gross loans	W 76,179	W 46,267	W 122,446

Notes:

(1) Fixed rate loans are loans for which the interest rate is fixed for the entire term. Includes W8,853 billion of loans due within one year and W1,009 billion of loans due after one year, which are priced based on one or more reference rates which may vary at our discretion. However, it is not our practice to change such reference rates during the life of a loan.

(2) Variable or adjustable rate loans are for which the interest rate is not fixed for the entire term.

For additional information regarding our management of interest rate risk of each of Shinhan Bank, see Risk Management Market Risk Management of Shinhan Bank.

Nonaccrual Loans and Past Due Accruing Loans

Except in the case of repurchased loans, we generally do not recognize interest income on nonaccrual loans unless it is collected. Generally, the accrual of interest is discontinued on loans (other than repurchased loans) when payments of interest and/or principal become past due by one day. Interest is recognized on these loans on a cash received basis from the date the loan is placed on nonaccrual status. Loans (other than repurchased loans) are not reclassified as accruing until interest and principal payments are brought current.

We do not generally request borrowers to make immediate repayment of the whole outstanding principal balances and related accrued interest on nonaccrual loans whose interest payments are past due for one to 14 days in case of commercial loans and 1 to 30 days in case of consumer loans. Except where specified otherwise, the amount of such past due loans within the repayment grace period is excluded from the amount of non-accrual loans disclosed in this document and from the basis for related foregone interest calculation.

Interest foregone is the interest due on nonaccrual loans that has not been accrued in our books of account. For the years ended December 31, 2004, 2005 and 2006, we would have recorded gross interest income of W184 billion, W186 billion and W140 billion, respectively, on loans accounted for on a nonaccrual basis throughout the respective years, or since origination for loans held for part of the year, had the loans been current with respect to their original contractual terms. The amount of interest income on those loans that was included in our net income for the years ended December 31, 2004, 2005 and 2006 were W142 billion, W117 billion and W107 billion, respectively.

The category accruing but past due one day includes loans which are still accruing interest but on which principal or interest payments are contractually past due one day or more. We continue to accrue interest on loans where the total amount of loan outstanding, including accrued interest, is fully secured by cash on deposits.

The following table shows, at the dates indicated, the amount of loans that are placed on a nonaccrual basis and accruing loans which are past due one day or more.

	As of December 31,				
	2002	**2003**	**2004**	**2005**	**2006(3)**
	(In billions of Won)				
Loans accounted for on a nonaccrual basis					
Corporate	W 741	W 1,536	W 1,681	W 1,475	W 1,187
Consumer	111	580	479	367	241
Credit cards	358	1,016	294	210	226
Sub-total	1,210	3,132	2,454	2,052	1,654
Accruing loans which are contractually past due one day or more as to principal or interest					
Corporate(1)	32	196	55	32	56
Consumer(2)	38	27	17	32	55
Credit cards			76	3	
Sub-total	70	223	148	67	111
Total	W 1,280	W 3,355	W 2,602	W 2,119	W 1,765

Notes:

(1) Includes accruing loans which are contractually past due 90 days or more in the amount of W2 billion, W113 billion, W12 billion, W5 billion and W5 billion, of corporate loans as of December 31, 2002, 2003, 2004, 2005 and 2006, respectively.

(2) Includes accruing loans which are contractually past due 90 days or more in the amount of W10 billion, W7 billion, W6 billion, W7 billion and W23 billion, of consumer loans as of December 31, 2002, 2003, 2004, 2005 and 2006, respectively.

(3) For the year ended December 31, 2006, nonaccrual loans, including the past due loans within the repayment grace period, totaled W2,099 billion.

Troubled Debt Restructurings

The following table presents, at the dates indicated, our loans which are troubled debt restructurings as defined under U.S. GAAP. These loans consist of corporate loans that have been restructured through the process of workout, court receivership and composition. See Credit Exposures to Companies in Workout, Court Receivership and Composition . These loans accrue interest at rates lower than the original contractual terms, or involve the extension of the original contractual maturity as a result of a variation of terms upon restructuring.

	As of December 31,				
	2002	2003	2004	2005	2006
	(In billions of Won)				
Loans not included in nonaccrual and past due loans which are classified as troubled debt restructurings	W 145	W 1,179	W 916	W 735	W 111

For the year ended December 31, 2006, interest income that would have been recorded under the original contract terms of restructured loans amounted to W5 billion, out of which W4 billion was reflected as our interest income during 2006.

Credit Exposures to Companies in Workout, Court Receivership and Composition

Shinhan Bank s exposures in restructuring are managed and collected by our Corporate Credit Collection Department. As of December 31, 2006, 0.28% of our total exposure, or W437 billion, was under restructuring. The legal form of our restructurings is principally either workout, court receivership or composition.

Workout

Under the Corporate Restructuring Promotion Act, which became effective in September 2001, all creditors to borrowers that are financial institutions were required to participate in a creditors committee. The Corporate Restructuring Promotion Act was mandatorily applicable to more than 420 financial institutions in Korea, which include commercial banks, insurance companies, asset management companies, securities companies, merchant banks, the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation. Under this act, the approval of financial institution creditors holding not less than 75% of the total debt outstanding of a borrower approved such borrower s restructuring plan, including debt restructuring and provision of additional funds, which plan would be binding on all the financial institution creditors of the borrower, provided that any financial institution creditor that disagreed with the final restructuring plan approved by the creditors committee would have the right to request the creditors committee to purchase its claims at a mutually agreed price. In the event that the creditors committee and the dissenting financial institution creditor failed to come to an agreement, a mediation committee consisting of seven experts would be set up to resolve the matter. There was a risk that these procedures might require us to participate in a plan that we did not agree with or might require us to sell our claims at prices that we did not believe were adequate. As the Corporate Restructuring Promotion Act expired on December 31, 2005 and no other law replacing this Act or other law with the similar effect was enacted, the bill to extend the effective term of this Act until December 31, 2010 was presented to and is pending at the National Assembly of Korea. With respect to any workout for which the lead creditor bank called for a meeting of the creditors committee while the Corporate Restructuring Promotion Act was still effective, the procedures applicable to such creditors committee and the related workout remain subject to the Corporate Restructuring Promotion Act until the suspension or conclusion of such workout.

The total amount currently undergoing workout as of December 31, 2006 was W184 billion, including W130 of loans and W54 billion of other exposures.

Court Receivership and Composition

The Debtor Rehabilitation and Bankruptcy Act, promulgated on Mach 31, 2005 became effective as of April 1, 2006, which was designed to consolidate all existing bankruptcy-related laws in Korea, namely the Corporate Reorganization Act, the Composition Act, the Bankruptcy Act and the Individual Debtor Recovery Act.

Prior to the enactment of the Debtor Rehabilitation and Bankruptcy Act, court receivership or corporate reorganization procedures under the Corporate Reorganization Act were court-supervised procedures to rehabilitate an insolvent company. The restructuring plan was adopted at a meeting of interested parties and was subject to approval of a court. In a court receivership, the management of the company was taken over by a court appointed receiver. Creditors were required to file their claims with the court and if they failed to do so, their claims were discharged at the end of the reorganization proceeding. Creditors were allowed to recover on their claims only in compliance with the reorganization plan.

Under the Composition Act, composition was also a court-supervised procedure to rehabilitate an insolvent company. The restructuring plan was adopted at a meeting of interested parties and was subject to approval of a court. However, in composition proceedings the existing management of the company continued to operate the debtor s business. Claims not filed with the court were not discharged at the end of a composition proceeding although the creditors were required to file their claims with the court if they wanted to exercise their voting rights at the meeting of interested parties. In addition, secured creditors were allowed to enforce their security interest outside the composition proceeding unless they waived their security interest and consent to the composition plan.

Under the Debtor Rehabilitation and Bankruptcy Act, composition proceedings are abolished and recovery proceedings are introduced to replace the court receiverships. In a recovery proceeding, unlike the previous court receivership proceedings where the management of the debtor company was assigned to a court appointed receiver, the current chief executive officer of the debtor company may continue to manage the debtor company, provided that (i) neither fraudulent conveyance nor concealment of assets existed, (ii) financial failure of the debtor company was not due to the gross negligence of the chief executive officer, and (iii) no creditors meeting was convened to request, based on reasonable cause, a court-appointed receiver to replace the existing chief executive officer. While court receivership proceeding was permitted only with respect to joint stock companies *(chushik-hoesa)*, the recovery proceeding may be commenced by any insolvent debtor. In addition, in an effort to meet the global standards, international bankruptcy procedures are introduced in Korea, under which a receiver of a foreign bankruptcy proceeding may, upon receiving Korean court s approval of the ongoing foreign bankruptcy proceeding, apply for or participate in a Korean bankruptcy proceedings conducted in a Korean court. Similarly, a receiver in a domestic recovery proceeding or a bankruptcy trustee is allowed to perform its duties in a foreign country where an asset of the debtor is located to the extent the applicable foreign law permits.

However, any composition, corporate reorganization, bankruptcy and rehabilitation proceedings for individual debtors pending as of April 1, 2006, the effective date of the Debtor Rehabilitation and Bankruptcy Act, continue to proceed in accordance with the respective applicable laws.

The total amount currently subject to court receivership as of December 31, 2006 was W56 billion, including W17 billion of loans and W39 billion of other exposures.

The total amount currently subject to composition proceedings as of December 31, 2006 was W197 billion, including W196 billion of loans and W1 billion of other exposures.

Loans in the process of workout, court receivership or composition continue to be reported as loans on our balance sheet and are included as nonaccrual loans described in Nonaccrual Loans and Past Due Accruing Loans above since they are generally past due more than one day and interest generally does not accrue on such loans. Restructured loans that meet the U.S. GAAP definition of a troubled debt restructuring are included within Troubled Debt Restructurings described above. These are disclosed as loans or securities after the restructuring on our balance sheet depending on the type of instrument we receive.

The following table shows, as of December 31, 2006, our ten largest exposures that had been negotiated in workouts, composition or court receivership.

Company	Loans in Won Currency	Loans in Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposure(1)
				(In billions of Won)		
HK Corporation	W 81	W	W	W	W	W 81
Daewoo Electronics Corporation	30	3	11	5	4	53
Daewoo motor co., Ltd.			1	37		38
Daewoo Electronics Co., Ltd.	33			1		34
Daekyung Machinery & Engineering Co., Ltd.	12		4		7	23
Pantech & Curitel Communications, Inc.	10	7			3	20
Bogo MS Co., Ltd.	16		1	2		19
Saehan Industries, Inc.		6	8		3	17
Hyundai LCD Inc.	16					16
Panthech Co., Ltd.	12				2	14
Total	W 210	W 16	W 25	W 45	W 19	W 315

Note:

(1) Only includes the portion of total exposure identified by us as troubled debt restructuring and excludes amount of loans or other exposures to the same borrower that are not subject to workouts, composition or court receivership.

Potential Problem Loans

As of December 31, 2006, we had W161 billion of loans which are current as to payment of principal and interest but carries serious doubt as to the ability of the borrower to comply with repayment terms in the near future. These loans are classified as impaired and therefore included in our calculation of loan loss allowance under U.S. GAAP.

We have certain other interest-earning assets which, if they were loans, would be required to be disclosed as part of the nonaccrual, past due or troubled debt restructuring or potential problem loan disclosures provided above. As of December 31, 2006, the book value of our debt securities on which interest was past due was nil.

Provisioning Policy

We conduct periodic and systematic detailed reviews of our loan portfolios to identify credit risks and to evaluate the adequacy of the overall allowance for loan losses. Our management believes the allowance for loan losses reflects the best estimate of the probable loan losses incurred as of each balance sheet date.

Our loan loss allowance determined under U.S. GAAP consists of a specific allowance and a general allowance. The specific allowance is applied to corporate loans that are considered to be impaired and are either individually or collectively evaluated for impairment. The general allowance is applied to all other loans to reflect losses that have been incurred but not specifically identified.

Loan Classifications

For Korean GAAP and regulatory reporting purposes, Shinhan Bank bases its provisioning on the following loan classifications that classify corporate and consumer loans, with the exception of credit card receivables which are classified based on the number of days past due, as required by the Financial Supervisory Commission.

Loan Classification	Loan Characteristics
Normal	Loans made to customers whose financial position, future cash flows and nature of business are deemed financially sound. No problems in recoverability are expected.
Precautionary	Loans made to customers whose financial position, future cash flows and nature of business show potential weakness, although there is no immediate risk of nonrepayment.
Substandard	Loans made to customers whose adverse financial position, future cash flows and nature of business have a direct effect on the repayment of the loan.
Doubtful	Loans made to customers whose financial position, future cash flows and nature of business are so weak that significant risk exists in the recoverability of the loan, to the extent the outstanding amount exceeds any collateral pledged.
Estimated loss	Loans where write-off is unavoidable.

Corporate Loans

We review all corporate loans annually for potential impairment through a formal credit review, however, our loan officers also consider the credits for impairment throughout the year should information be presented that may indicate an impairment event has occurred.

Under U.S. GAAP, a loan is impaired when, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the agreement. We use our loan classifications as a basis to identify impaired loans. We consider the following loans to be impaired loans for the purpose of determining our specific allowance:

- loans classified as substandard or below according to the asset classification guidelines of the Financial Supervisory Commission;
- loans that are 90 days or more past due; and
- loans which are troubled debt restructurings as defined under U.S. GAAP.

Specific loan loss allowances for corporate loans are established based on whether a particular loan is impaired. Smaller balance corporate loans are evaluated collectively for impairment as these loans are managed collectively.

Loans individually identified for review and considered impaired

Consistent with the internal credit risk monitoring policies, we evaluate larger-balance impaired loans (which are impaired loans in excess of W1 billion for all of our subsidiaries) individually for impairment. Loan loss allowances for these loans are generally established by discounting the estimated future cash flows (both principal and interest) we expect to receive using the loan s effective interest rate. We consider the likelihood of all possible outcomes in determining our best estimate of expected future cash flows. Management consults closely with individual loan officers and reviews the cash flow assumptions used to ensure these estimates are valid.

Alternatively, for impaired loans that are considered collateral dependent, the amount of impairment is determined by reference to the fair value of the collateral. We consider the reliability and timing of appraisals and determine the reasonableness of fair value estimates, taking into account the time to value the collateral and current market conditions.

We may also measure impairment by reference to the loan s observable market price, however the availability of this information is not commonplace in Korea.

We establish a specific allowance when the discounted cash flow (or collateral value) is lower than the carrying amount of the loan. The specific allowance is equal to the difference between the discounted cashflow (or collateral value) amount and the related carrying amount of the loan.

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Loans collectively evaluated for impairment

We also establish specific allowances for smaller-balance impaired corporate loans. These loans are managed on a portfolio basis and are therefore collectively evaluated for impairment since it is not practical to analyze or provide for our smaller loans on an individual, loan by loan basis. The allowance is determined based on loss factors taking into consideration past performance of the portfolio, previous loan loss history and charge-off information.

These loss factors are developed through a migration model that is a statistical tool used to monitor the progression of loans through different classifications over a specific time period. We adjust these loss factors developed for other qualitative or quantitative factors that affect the collectibility of the portfolio as of the evaluation date including:

- Prevailing economic and business conditions within Korea and foreign jurisdictions in which we operate;
- Industry concentrations;
- Changes in the size and composition of the relevant underlying portfolios; and
- Changes in lending policies and procedures, including underwriting standards and collection, charge-offs, and recovery practices.

The following table sets out, at the dates indicated, our loan loss allowances as a percentage of outstanding loans allocable to our impaired corporate borrowers based on their loan classification.

	As of December 31,		
	2004	2005	2006
	(Percentages)		
Normal	1.87%	2.42%	3.11%
Precautionary	8.25	7.92	32.12
Substandard	27.79	22.41	38.55
Doubtful	83.15	47.60	76.00
Estimated loss	92.58	87.19	90.60

Loans not specifically identified as impaired

We establish a general allowance for non-impaired corporate loans to reflect losses incurred within the portfolio which have not yet been specifically identified. The general allowance is also determined based on loss factors developed through a migration model and are adjusted, as appropriate using similar criteria as above.

Leases

For leases, we follow a similar approach to corporate loans collectively evaluated for impairment and establish allowances based on loss factors developed through a migration model and adjusted for specific circumstances related to individual borrowers of the leased asset.

Consumer loans

Consumer loans are segmented into the following product types for the purposes of evaluation of credit risk:

Mortgage and home equity loans;

Other consumer loans (consisting of unsecured and secured consumer loans); and

Credit cards.

Mortgage and home equity loans and other consumer loans

For loan losses on mortgages, home equity loans and other consumer loans, we also establish allowances based on loss factors taking into consideration historical performance of the portfolio, previous loan loss history and charge-off information.

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We adjust the loss factors derived from the migration analysis as appropriate to reflect the impact of any current conditions on loss recognition that has not been adequately captured by our historical analysis. These include:

Changes in economic and business conditions such as levels of unemployment and house prices;

Change in the nature and volume of the portfolio, including any concentrations of credits; and

The effect of external factors such as regulatory or government requirements.

Credit Cards

We establish an allowance for the credit card portfolio using a roll-rate model. A roll-rate model is a statistical tool used to monitor the progression of loans based on aging of the balance and established loss rates. The actual loss rates derived from this model are used to project the percentage of losses within each aging category based on performance over an established period of time.

The expected percentage of loss reflects estimates of both default probability within each loan aging bucket and severity of loss. All loans in excess of six months past due are charged off. We adjust our loan loss rate for severity of loss when considering historical recovery of charged off credits when establishing the allowance.

We further segment our credit card portfolio and perform separate roll-rate analyses for card balances, card loans and rewritten card loans to reflect the different risks and characteristics of these portfolios.

We adjust the results from the roll-rate analysis as appropriate to reflect the impact of any current conditions on loss recognition that has not been adequately captured by our historical analysis. These include:

Delinquency levels of cardholders;

Current government involvement within the credit card industry (such as the 2001 Government Amnesty Program);

Key retail performance indicators (such as ratios of household debt to disposable income and household liabilities to financial assets).

The actual amount of incurred loan losses may vary from the estimate of incurred losses due to changing economic conditions or changes in industry or geographic concentrations. We have procedures in place to monitor differences between estimated and actual incurred loan losses, which include detailed periodic assessments by senior management of both individual loans and credit portfolios and the models used to estimate incurred loan losses in those portfolios.

Loan Aging Schedule

The following table shows our loan aging schedule (excluding accrued interest) as of the dates indicated.

As of December 31,	Current Amount	%	Past Due up to 3 Months Amount	%	Past Due 3-6 Months Amount	%	Past Due More than 6 Months Amount	%	Total Amount
	(In billions of Won, except percentages)								

2002	W	43,962	97.58	W	572	1.27	W	121	0.27	W	397	0.88	W 45,052
2003		91,940	96.48		1,511	1.59		714	0.75		1,130	1.18	95,295
2004		94,480	97.32		855	0.88		431	0.45		1,314	1.35	97,080
2005		103,601	97.87		652	0.62		243	0.23		1,352	1.28	105,848
2006		120,222	98.18		971	0.79		172	0.14		1,081	0.89	122,446

Non-Performing Loans

Non-performing loans are defined as loans past due by greater than 90 days. These loans are generally rated substandard or below.

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The following table shows, as of the dates indicated, certain details of the total non-performing loan portfolio.

	As of December 31,				
	2002	2003	2004	2005	2006
	(In billions of Won, except percentages)				
Total non-performing loans	W 518	W 1,844	W 1,750	W 1,594	W 1,253
As a percentage of total loans	1.15%	1.94%	1.80%	1.51%	1.02%

Analysis of Non-Performing Loans

The following table sets forth, for the periods indicated, the total non-performing loans by type of borrower.

As of December 31,										
02		2003			2004			2005		
Non- Per rming Loans	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans
(In billions of Won, except percentages)										
211	1.34%	W 35,617	W 739	2.07%	W 35,653	W 898	2.52%	W 35,728	W 868	2.43%
205	2.19	17,378	558	3.21	17,988	468	2.60	21,409	387	1.81
1	0.16	1,091	8	0.73	981	19	1.94	754	8	1.06
417	1.62	54,086	1,305	2.41	54,622	1,385	2.54	57,891	1,263	2.18
34	0.29	20,517	133	0.65	22,180	126	0.57	25,840	111	0.43
19	0.38	14,580	232	1.59	15,546	155	1.00	17,875	172	0.96
48	1.74	6,112	174	2.85	4,732	84	1.78	4,242	48	1.13
101	0.52	41,209	539	1.31	42,458	365	0.86	47,957	331	0.69

W	518	1.15%	W	95,295	W	1,844	1.94%	W	97,080	W	1,750	1.80%	W	105,848	W	1,594	1.51%	W

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Top Twenty Non-Performing Loans

As of December 31, 2006, our twenty largest non-performing loans accounted for 26.58% of our total non-performing loan portfolio. The following table shows, at the date indicated, certain information regarding our twenty largest non-performing loans.

			As of December 31, 2006	
		Industry	Gross Principal Outstanding	Allowance for Loan Losses
			(In billions of Won)	
1	Borrower A	Manufacturing	W 81	W 52
2	Borrower B	Manufacturing	55	55
3	Borrower C	Manufacturing	33	33
4	Borrower D	Manufacturing	27	16
5	Borrower E	Real estate, leasing and service	16	
6	Borrower F	Manufacturing	16	16
7	Borrower G	Real estate, leasing and service	12	3
8	Borrower H	Real estate, leasing and service	11	
9	Borrower I	Other service	10	10
10	Borrower J	Other service	9	5
11	Borrower K	Manufacturing	7	7
12	Borrower L	Retail and wholesale	7	7
13	Borrower M	Manufacturing	7	5
14	Borrower N	Other service	7	
15	Borrower O	Manufacturing	7	
16	Borrower P	Real estate, leasing and service	6	
17	Borrower Q	Real estate, leasing and service	6	2
18	Borrower R	Manufacturing	6	3
19	Borrower S	Manufacturing	5	4
20	Borrower T	Other service	5	3
			W 333	W 221

Non-Performing Loan Strategy

One of our primary objectives is to prevent our loans from becoming non-performing. Through our corporate credit rating system, we believe that we have reduced our credit risk relating to future non-performing loans. Our credit rating system is designed to prevent our loan officers from extending new loans to borrowers with high credit risks based on the borrower s credit rating. Our early warning system is designed to bring any sudden increase in a borrower s credit risk to the attention of our loan officers, who then closely monitor such loans.

Notwithstanding the above, if a loan becomes non-performing, an officer at the branch level responsible for monitoring non-performing loans will commence due diligence of the borrower s assets, send a notice demanding payment or a notice that we will take legal action or prepare for legal action.

At the same time, we also initiate our non-performing loan management process, which begins with:

identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;

identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and

on a limited basis, identifying commercial loans subject to normalization efforts based on the cash-flow situation of the borrower.

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Once the details of a non-performing loan are identified, we pursue early solutions for recovery. Actual recovery efforts on non-performing loans are handled by several of our departments or units, depending on the nature of, including the borrower, such loans.

The officers or agents of the responsible departments and units use a variety of methods to resolve non-performing loans, including:

- making phone calls and paying visits to the borrower requesting payment;
- continuing to assess and evaluate assets of our borrowers; and
- if necessary, initiating legal action such as foreclosures, attachments and litigation.

In order to promote speedy recovery on loans subject to foreclosures and litigation, our policy is to permit the branch responsible for handling these loans to transfer them to the relevant unit at headquarters or regional headquarters.

Our policy is to commence legal action within one month after default on promissory note and four months after delinquency of payment on loans. For loans to insolvent or bankrupt borrowers, we take legal action immediately.

In addition to making efforts to collect on these non-performing loans, we also undertake measures to reduce the level of our non-performing loans, which include:

- selling non-performing loans to third parties including the Korea Asset Management Corporation;
- entering into asset-backed securitization transactions with respect to non-performing loans;
- managing consumer loans that are three months or more past due through Shinhan Credit Information under an agency agreement in the case of Shinhan Bank; and
- using third-party collection agencies including the Solomon Credit Information.

Allocation of Allowance for Loan Losses

The following table presents the allocation of our loan loss allowance by loan type.

	As of December 31,									
	2002		2003		2004		2005		2006	
	Amt.	Loans% of Total Loans	Amt.	Loans% of Total Loans	Amt.	Loans% of Total Loans	Amt.	Loans% of Total Loans	Amt.	Loan of To Loa
	(In billions of Won, except percentages)									
rate										
ercial and rial	W 341	35.07%	W 1,383	37.38%	W 1,065	36.72%	W 753	33.75%	W 900	32
commercial	365	20.76	626	18.24	410	18.53	305	20.23	359	22
financing	22	1.41	45	1.14	24	1.01	16	0.71	10	0

corporate	728	57.24	2,054	56.76	1,499	56.26	1,074	54.69	1,269	55
mer ages and equity	30	25.61	53	21.53	36	22.85	19	24.41	4	24
consumer	59	11.02	659	15.30	368	16.01	183	16.89	175	16
cards	179	6.13	865	6.41	408	4.88	236	4.01	127	3
consumer	268	42.76	1,577	43.24	812	43.74	438	45.31	306	44
llowance n losses	W 996	100.00%	W 3,631	100.00%	W 2,311	100.00%	W 1,512	100.00%	W 1,575	100

Our total allowance for loan losses increased by W63 billion, or 4.17%, to W1,575 billion as of December 31, 2006 from W1,512 billion as of December 31, 2005. During 2005, the allowance for loan losses decreased by W799 billion primarily as a result of continued improvement in the credit quality of our overall loan portfolios. During 2006, the allowance for loan losses increased by W63 billion primarily as a result of an increase in the

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amount of total loan balance. The total loan balance increased by W16,598 billion in 2006, 25.7% of which, or W4,257 billion, was accounted for by the increase in mortgage and home equity loans which are considered to have a lower credit risk than other types of loans. On the other hand, our credit card portfolio which tends to have a higher credit risk decreased by W318 billion in 2006. In addition, the ratio of nonaccrual loans (including loans that are past due but within the repayment grace period) to total loans decreased from 1.94% as of December 31, 2005 to 1.71% as of December 31, 2006. The ratio of non-performing loans to total loans also decreased to 1.02% as of December 31, 2006 from 1.51% as of December 31, 2005. Accordingly, this improvement in the credit quality of our loan portfolios resulted in a sizable decrease in the amount of loans charged off in 2006.

The allowance for corporate loan losses decreased by W425 billion, or 28.4%, from W1,499 billion as of December 31, 2004 to W1,074 billion as of December 31, 2005, primarily due to the improved credit quality of our loans to large corporations and small- to medium enterprises. The allowance for corporate loan losses increased by W195 billion, or 18.2%, from W1,074 billion as of December 31, 2005 to W1,269 billion as of December 31, 2006. This increase is primarily attributable to a higher loss rate for impaired corporate loans and an increase in the amount of total corporate loans.

In the consumer sector, our allowance for loan losses decreased by W374 billion, or 46.1%, from W812 billion as of December 31, 2004 to W438 billion as of December 31, 2005, primarily due to the reduction in Chohung Bank-originated credit card loans (including revolving loans) and favored customer loans and improved credit quality in unsecured loans to individuals. The allowance for loan losses decreased by W132 billion, or 30.1%, from W438 billion as of December 31, 2005 to W306 billion as of December 31, 2006, primarily due to improved quality of loans.

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Analysis of the Allowance for Loan Losses

The following table presents an analysis of our loan loss experience for each of the years indicated.

	2002	2003	2004	2005	2006
	(In billions of Won, except percentages)				
Balance at the beginning of the period	W 720	W 996	W 3,631	W 2,311	W 1,512
Amounts charged against income	236	1,011	195	(255)	252
Allowance relating to loans repurchased from the Korea Asset Management Corporation	65	32	2		
Gross charge-offs:					
Corporate:					
Commercial and industrial	105	255	465	297	130
Other commercial	22	223	26	18	76
Lease financing	10	6			
Consumer:					
Mortgage and home equity	2	12	18	19	
Other consumer	17	135	441	296	96
Credit cards	60	765	872	316	211
Total gross charge-offs	(216)	(1,396)	(1,822)	(946)	(513)
Recoveries:					
Corporate:					
Commercial and industrial	53	82	105	69	47
Other commercial	21	73	121	217	154
Lease financing	2		2	4	5
Consumer:					
Mortgage and home equity		1	1	3	5
Other consumer	1	23	22	34	43
Credit cards	17	69	56	72	70
Total recoveries	94	248	307	399	324
Net charge-offs	(122)	(1,148)	(1,515)	(547)	(189)
Acquisition of Chohung Bank	20	2,740			
Acquisition of Jeju Bank	77	2,740			
Acquisition of Good Morning Securities		2,740			
Acquisition of Shinhan Securities		2,740			
Acquisition of Shinhan Life Insurance				3	
Balance at the end of the period	W 996	W 3,631	W 2,311	W 1,512	W 1,575
Ratio of net charge-offs during the period to average loans outstanding during the	0.30%	1.74%	1.52%	0.53%	0.17%

period

Loan Charge-Offs

Our level of gross charge-offs increased from W216 billion in 2002 to W1,396 billion in 2003 primarily due to an increase in credit card charge-offs from W60 billion in 2002 to W765 billion in 2003 and our acquisition of Chohung Bank and the resulting increase in charge-offs of W776 billion. The charge-offs in 2003 included W128 billion in respect of SK Networks. Our level of gross charge-offs increased from W1,396 billion in 2003 to W1,822 billion in 2004 primarily due to an increase in charge-offs of marketing scoring system loans, which are loans offered to certain of our customers primarily based on the number of transactions such customers make with us rather than the credit rating of such customers. Our level of gross charge-offs decreased from W1,822 billion in 2004 to W946 billion in 2005 primarily due to a decrease in credit card charge-offs in 2005 compared to 2004, when charge-offs were aggressively made. Our level of gross charge-offs decreased from W946 billion in 2005 to W513 billion in 2006 primarily due to a decrease in consumer loan charge-offs in 2006 compared to 2005.

Basic Principles

We attempt to minimize loans to be charged off, by practicing a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans.

Loans To Be Charged-Off

Loans are charged-off if they are deemed to be uncollectible by falling under any of the following categories:

- loans for which collection is not foreseeable due to insolvency or bankruptcy, dissolution or the shutting down of the business of the debtor;
- loans for which collection is not foreseeable due to the death or disappearance of debtors;
- loans for which expenses of collection exceed the collectable amount;
- loans on which collection is not possible through legal or any other means;
- payments in arrears in respect of credit cards, which are overdue for more than six months;
- payments outstanding on unsecured consumer loans, which have been overdue for more than six months;
- payments in arrears in respect of leases, which have been overdue for more than twelve months; or
- the portion of loans classified as estimated loss , net of any recovery from collateral, which is deemed to be uncollectible.

Procedure for Charge-off Approval

An application for Shinhan Bank s loans to be charged-off is submitted by a branch to the Corporate Credit Collection Department in the case of corporate loans and foreign branches, and Consumer Credit Collection Department in the case of individual loans. An application for charge off must be submitted four months prior to the date of the write-off, which is the end of every quarter. The General Manager in charge of review evaluates the application. The General Manager of Audit and Examination Department conducts review of compliance with our internal procedures for charge-offs. The General Manager in charge of review gets approval from the President of Shinhan Bank.

Treatment of Loans Charged-Off

Once loans are charged-off, they are derecognized from our balance sheet. Shinhan Bank still continues its collection efforts in respect of these loans through third-party collection agencies including the Korea Asset Management Corporation and Shinhan Credit Information.

Treatment of Collateral

When Shinhan Bank determines that a loan collateralized by real estate cannot be recovered through normal collection channels, then Shinhan Bank will petition a court to foreclose and sell the collateral through a court-supervised auction within one month after default and insolvency and within four months after delinquency. However, this treatment does not apply to companies under restructuring, composition, workout or other court proceedings subjecting them to restrictions on such auction procedures. In our experience, the filing of this petition with the court generally encourages the debtor to repay the overdue loan. If a debtor ultimately fails to repay and the court grants its approval for foreclosure, we will sell the collateral and recover the full principal amount and accrued interest up to the sales price, net of expenses incurred from the auction. Foreclosure proceedings under laws and

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regulations in Korea typically take from seven months to one year from initiation to collection depending on the nature of the collateral.

U.S. GAAP Financial Statement Presentation

Our U.S. GAAP financial statements include as charges-offs all unsecured consumer loans, including credit cards, that are overdue for more than six months. Leases are charged-off when past due for more than twelve months.

Investment Portfolio

Investment Policy

We invest in and trade Won-denominated and, to a lesser extent, foreign currency-denominated securities for our own account to:

- maintain the stability and diversification of our assets;
- maintain adequate sources of back-up liquidity to match our funding requirements; and
- supplement income from our core lending activities.

In making securities investments, we take into account a number of factors, including macroeconomic trends, industry analysis and credit evaluation in determining whether to make investments in particular securities.

Our investments in securities are also subject to a number of guidelines, including limitations prescribed under the Financial Holding Companies Act and the Banking Act. Under these regulations, a financial holding company may not invest in securities as defined in the Securities and Exchange Act (other than those securities issued by its direct and indirect subsidiaries) in excess of the amount of its shareholders equity less the total amount of investment in subsidiaries, subject to certain exceptions. Generally, a financial holding company is prohibited from acquiring more than 5% of the total issued and outstanding shares of another company (other than its direct and indirect subsidiaries). Furthermore, under these regulations, Shinhan Bank must limit its investments in shares and securities with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and national government bonds) to 60.0% of our total Tier I and Tier II capital. Generally, Shinhan Bank is also prohibited from acquiring more than 15.0% of the shares with voting rights issued by any other corporation (other than for the purpose of establishing or acquiring a subsidiary). Further information on the regulatory environment governing our investment activities is set out in Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Investments in Property , Principal Regulations Applicable to Banks Restrictions on Shareholdings in Other Companies , Principal Regulations Applicable to Financial Holding Companies Liquidity and Principal Regulations Applicable to Financial Holding Companies Restrictions on Shareholdings in Other Companies .

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Book Value and Market Value

The following table sets out the book value and market value of securities in our investment portfolio as of the dates indicated.

	As of December 31, 2004		As of December 31, 2005		As of December 31, 2006	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
			(In billions of Won)			
Available-for-sale securities						
Marketable equity securities	W 507	W 507	W 1,978	W 1,978	W 1,760	W 1,760
Debt securities:						
Korean treasury and governmental agencies	8,835	8,835	8,299	8,299	4,397	4,397
Debt securities by financial institutions	5,675	5,675	9,255	9,255	7,243	7,243
Corporate debt securities	1,292	1,292	1,952	1,952	1,760	1,760
Debt securities issued by foreign government	57	57	50	50	29	29
Mortgage-backed and asset-backed securities	1,742	1,742	946	946	2,269	2,269
Total Available-for-sale	18,108	18,108	22,480	22,480	17,458	17,458
Held-to-maturity securities						
Debt securities:						
Korean treasury and governmental agencies	1,662	1,814	1,686	1,706	2,505	2,555
Debt securities by financial institutions	1,219	1,268	1,211	1,208	4,959	5,018
Corporate debt securities	218	225	66	66	64	64
Debt securities issued by foreign government					1	1
Mortgage-backed and asset-backed securities					52	52
Total Held-to-maturity	3,099	3,307	2,963	2,980	7,581	7,690
Trading Securities						
Marketable equity securities	312	312	465	465	507	507
Debt securities:						
Korean treasury and governmental agencies	1,995	1,995	493	493	494	494
Financial institutions	1,322	1,322	1,145	1,145	1,022	1,022
Corporations	965	965	1,307	1,307	1,315	1,315
	20	20	140	140	74	74

Mortgage-backed and asset-backed securities						
Other trading assets(1)	25	25	23	23	62	62
Total Trading	4,639	4,639	3,573	3,573	3,474	3,474
Total securities	W 25,846	W 26,054	W 29,016	W 29,033	W 28,513	W 28,622

Note:

(1) Consists of commodity indexed deposits.

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Maturity Analysis

The following table categorizes our securities by maturity and weighted average yield as of December 31, 2006.

	As of December 31, 2006										
	1 Year or Less		Over 1 But Within 5 Yrs		Over 5 but within 10 Yrs		Over 10 Yrs		Securities not Due in a Single Maturity(1)		
	Carrying Amount	Weighted Average Yield(2)	Carrying Amount	Weighted Average Yield(2)	Carrying Amount	Weighted Average Yield(2)	Carrying Amount	Weighted Average Yield(2)	Carrying Amount	Weighted Average Yield(2)	Car An
	(In billions of Won, except percentages)										
e for sale:											
curities											
encies	W 1,097	4.11%	W 2,553	4.19%	W 41	5.18%	W	6.77%	W 706	4.85%	W
ed by											
s	4,819	3.31	1,947	3.38	402	5.88	75	6.58			
rities	558	4.68	1,016	4.19	171	5.54	15	6.70			
ed by											
s	7	6.28	12	5.22	10	5.81					
ecurities											
ecurities	1,874	1.34	374	3.81	21	4.61					
	8,355	**3.07**	**5,902**	**3.90%**	**645**	**5.70%**	**90**	**6.60%**	**706**	**4.85%**	
ecurities:											
curities											
encies	310	3.82%	2,132	3.84%		4.46%	63	5.52%			
ed by											
s	1,616	2.97	2,949	2.44	244	6.25	150	6.32			
rities	25	5.71	39	4.73							
ed by											
s					1	4.00					
ecurities											
ecurities	12	0.76	28	3.19	2	4.00	10	5.23			
	1,963	**3.12%**	**5,148**	**3.04%**	**247**	**6.23%**	**223**	**6.05%**			
:											
curities											
encies	176	3.91%	228	4.22%	15	4.83%	55	4.03%	20	5.13%	
ed by											
s	725	3.34	297	2.88							
rities	573	2.28	742	0.13							
	74	5.12									

ecurities
ecurities

	1,548	**3.10%**	**1,267**	**1.52%**	**15**	**4.83%**	**55**	**4.03%**	**20**	**5.13%**	
ies	**W 11,866**		**W 12,317**		**W 907**		**W 368**		**W 726**		**W**

Notes:

(1) The principal repayment schedule for such securities is based on installment due on different maturity dates.

(2) The weighted-average yield for the portfolio represents the yield to maturity for each individual security, weighted using its amortized cost.

Concentrations of Risk

As of December 31, 2006, we held the following securities of individual issuers where the aggregate book value of those securities exceeded 10.0% of our stockholders equity at such date.

	As of December 31, 2006	
	Book Value	Market Value
	(In billions of Won)	
Name of issuer:		
Korean Government	W 3,651	W 3,678
Korea Deposit Insurance Corporation	2,187	2,197
Bank of Korea	6,653	6,670
Korea Development Bank	1,066	1,065
Korea Industrial Bank	1,216	1,219
Total	W 14,773	W 14,829

Our stockholders equity as of December 31, 2006 was W10,015 billion.

All of the above entities (other than the Korean government) are controlled and owned by the Korean government.

Credit-Related Commitments and Guarantees

In the normal course of our banking activities, we make various commitments and guarantees to meet the financing and other business needs of our customers. Commitments and guarantees are usually in the form of, among others, commitments to extend credit, commercial letters of credit, standby letter of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss amount if the account party draws down the commitment or we should fulfill our obligation under the guarantee and the account party fails to perform under the contract.

The following table sets forth our credit-related commitments and guarantees as of the dates indicated.

	As of December 31,		
	2004	2005	2006
	(In billions of Won)		
Commitments to extend credit:			
Corporate	W 39,323	W 46,336	W 55,580
Credit cards(1)	23,606	16,080	13,938
Consumer	5,961	5,863	6,127
Commercial letters of credit(2)	3,364	2,960	2,963
Standby letters of credit, other financial and performance guarantees and liquidity facilities to SPEs	3,407	4,604	5,353

Total	W 75,661	W 75,843	W 83,961

Notes:

(1) Relates to the unused portion of credit card limits that may be cancelled by us after notice to the borrower if we determine that the borrower s repayment ability is significantly impaired.

(2) These are generally short-term and collateralized by the underlying shipments of goods to which they relate.

We have credit-related commitments that are not reflected on the balance sheet, which primarily consist of commitments to extend credit and commercial letters of credit. Commitments to extend credit, including credit lines, represent unfunded portions of authorizations to extend credit in the form of loans. These commitments expire on fixed dates and a customer is required to comply with predetermined conditions to draw funds under the commitments.

Commercial letters of credit are undertakings on behalf of customers authorizing third parties to draw drafts on us up to a stipulated amount under specific terms and conditions. They are generally short-term and collateralized by the underlying shipments of goods which they relate to and therefore have less risk.

We also have guarantees that are recorded on the balance sheet at their fair value at inception which is amortized over the life of the guarantees. Such guarantees generally include standby letters of credit, other financial and performance guarantees and liquidity facilities to SPEs.

Standby letters of credit are irrevocable obligations to pay third party beneficiaries when our customers fail to repay loans or debt instruments, which are generally in foreign currencies. A substantial portion of these standby letters of credit are secured by underlying assets, including trade-related documents.

Other financial and performance guarantees are irrevocable assurance that we make payments to beneficiaries in the event that our customers fail to fulfill their obligations or to perform under certain contracts. Liquidity facilities to SPEs represent irrevocable commitments to provide contingent liquidity credit lines to SPEs established by our customers in the event that a triggering event such as shortage of cash occurs. See Note 31 in the notes to our consolidated financial statements included in this annual report for details.

The commitments and guarantees do not necessarily represent our exposure since they often expire unused.

Derivatives

As discussed under Business Overview Our Principal Activities Treasury and Securities Investment above, we engage in derivatives trading activities primarily on behalf of our customers so that they may hedge their risks and also enter into back-to-back derivatives with other financial institutions to cover exposures arising from such transactions. In addition, we enter into derivatives transactions to hedge against risk exposures arising from our own assets and liabilities, some of which are nontrading derivatives that do not qualify for hedge accounting treatment.

The following shows, as of December 31, 2006, the gross notional or contractual amounts of derivatives and foreign exchange contracts held or issued for (i) trading and (ii) nontrading that qualify for hedge accounting.

	As of December 31, 2006		
	Underlying Notional Amount(1)	Estimated Fair Value Assets	Estimated Fair Value Liabilities
	(In billions of Won)		
Trading:			
Foreign exchange contracts:			
Forward contracts	W 188,243	W 233	W 394
Options purchased	3,473	33	
Options written	4,121		65
Sub-total	195,837	266	459
Interest rate contracts:			
Swaps	54,789	285	458
Options purchased	402	3	

Options written	556		3
Sub-total	55,747	288	461
Cross currency swaps	15,653	593	379
Equity contracts:			
Swaps	725	56	56
Option purchased	2,262	160	
Option written	2,547		183
Sub-total	5,534	216	239

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	As of December 31, 2006					
	Underlying Notional Amount(1)		Estimated Fair Value Assets (In billions of Won)		Estimated Fair Value Liabilities	
Other derivatives:						
Commodity swaps		35				
Sub-total		35				
Credit derivatives		812				
Total	W	273,618	W	1,363	W	1,538
Nontrading:						
Hedge accounting:						
Interest rate swaps		844		5		7
Sub-total		844		5		7
Nontrading that do not qualify for hedge accounting(2):						
Interest rate swaps		8,887		51		184
Forward contracts		10				
Cross currency swaps		28				1
Total	W	8,925	W	51	W	185

Notes:

(1) Notional amounts in foreign currencies were converted into Won at prevailing exchange rates as of December 31, 2006.

(2) While we engage in derivatives trading activities to hedge the interest rate risk exposure that arises from our own assets and liabilities, as these nontrading derivative contracts do not qualify for hedge accounting under U.S. GAAP, they are accounted for as trading derivatives in the financial statements. These contracts include interest rate swaps, forward contracts and cross-currency swaps held for nontrading that do not qualify for hedge accounting treatment.

Funding

We obtain funding for our lending activities from a variety of sources, both domestic and foreign. Our principal source of funding is customer deposits obtained from our banking operations. In addition, Shinhan Bank acquires funding through call money, borrowings from the Bank of Korea, other short-term borrowings and other long-term debt.

Our primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail deposits. Customer deposits accounted for 63.6% of our total funding as of December 31, 2004, 61.6% of our total funding as of December 31, 2005 and 60.7% of our total funding as of December 31, 2006. As of December 31, 2004, 2005 and 2006, W4,329 billion, W5,002 billion and W5,390 billion, or 5.4%, 6.0% and 6.9%, respectively, of our total deposits in Korean Won were deposits made by litigants in connection with legal proceedings in Korean courts. Court deposits carry interest rates, which are generally lower than market rates.

In addition, we acquire funding through the issuance of bonds, primarily through Shinhan Bank. Our borrowings consist mainly of borrowings from financial institutions, the Korean government and Korean government-affiliated funds. Call money, which is available in both Won and foreign currencies, is obtained from the domestic call loan market, a short-term loan market for loans with maturities of less than one month.

In addition, we have also issued preferred shares, such as redeemable preferred shares and redeemable convertible preferred shares, as part of funding for major acquisitions, such as Chohung Bank and LG Card. See Item 10 Additional Information Articles of Incorportion Description of Capital Stock Description of

Redeemable Preferred Stock and Additional Information Articles of Incorportion Description of Capital Stock Description of Redeemable Convertible Preferred Stock .

Deposits

Although the majority of our bank deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, providing our banking operation with a stable source of funding.

The following table shows the average balances of our deposits and the average rates paid on our deposits for the periods indicated.

	2004		2005		2006	
	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid
	(In billions of Won, except percentages)					
Interest-bearing deposits:						
Interest-bearing demand deposits	W 7,880	1.33%	W 6,594	1.90%	W 7,964	1.83%
Savings deposits	21,987	1.24	26,100	0.96	27,279	2.12
Certificates of deposit	6,735	4.08	8,838	3.81	9,934	4.67
Other time deposits	41,863	3.83	39,031	3.69	39,644	3.57
Mutual installment deposits(2)	2,487	4.54	1,997	4.16	1,211	3.88
Total interest-bearing deposits(3)	W 80,952	2.93%	W 82,560	2.71%	W 86,032	3.08%

Notes:

(1) Average balances are based on daily balances for our primary banking operation and quarterly balances for subsidiaries.

(2) Mutual installment deposits are interest-bearing deposits offered by Shinhan Bank which enable customers to become eligible for loans while they maintain an account with us. The customer s account does not have to secure loan amounts once made but is a requirement for loan eligibility. Prior to qualifying for a loan a customer must make required periodic deposits to the mutual installment account for a contracted term of less than five years. A customer is not required to fulfill the deposit term prior to requesting a loan from Shinhan Bank, but loan amounts and terms are not as favorable in the event of a loan request prior to completing the deposit contract term.

(3) Under U.S. GAAP, interest-bearing deposits do not include cover bills sold or bonds sold under repurchase agreements, which are offered to our customers as deposit products. These are reflected as short-term borrowings and secured borrowings, respectively.

For a breakdown of retail deposit products, see Business Overview Our Principal Activities Deposit-taking Activities , except that cover bills sold are reflected on short-term borrowings and securities sold under repurchase agreements are reflected as secured borrowings.

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Certificates of Deposit and Other Time Deposits

The following table presents the balance and remaining maturities of our other time deposits, certificates of deposit and mutual installment deposits which had a fixed maturity in excess of W100 million or more as of December 31, 2006.

	As of December 31, 2006 (In billions of Won)			
	Certificates of Deposit	Other Time Deposits	Mutual Installment Deposits	Total
Maturing within three months	4,006	8,699	71	12,776
After three but within six months	1,527	2,358	62	3,947
After six but within 12 months	4,014	10,889	66	14,969
After 12 months	3,023	2,325	31	5,379
Total	12,570	24,271	230	37,071

A majority of our certificates of deposit accounts and other time deposits issued by our foreign offices is in the amount of US$100,000 or more.

Japanese Yen Deposits and Dispute with the Korean National Tax Service

We are currently in dispute with the Korean National Tax Service in respect of tax and tax withholding over certain deposit products that utilized Korean Won and Japanese Yen swaps, which we, together with other commercial banks in Korea, offered to customers. See Item 5. Operating and Financial Review and Prospects Overview Certain Income Tax Expenses and Provision for Other Losses .

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Short-term Borrowings

The following table presents information regarding our short-term borrowings (borrowings with an original maturity of one year or less) for the periods indicated.

	2004					2005				
e e g(1)	Highest Balances at Any Month-End	Weighted Average Interest Rate(2)	Year-end Interest Rate	Balance Outstanding	Average Balance Outstanding(1)	Highest Balances at Any Month-End	Weighted Average Interest Rate(2)	Year-End Interest Rate	Balance Outstanding	Avera Balan Outstand
	(In billions of Won, except for percentages)									
37	W 2,056	2.32%	2.002.50%	W 1,668	W 1,581	W 1,719	1.85%	0.104.65%	W 1,173	W 1
12	5,238	3.30%	0.755.00%	994	2,930	5,648	3.24%	1.906.80%	1,686	3
35	11,166	2.21%	0.0418.00%	9,306	10,464	11,945	2.23%	0.109.00%	8,136	9
34	W 18,460	2.48%		W 11,968	W 14,975	W 19,312	2.39%		W 10,995	W 13

Notes:

(1) Average outstanding balances have been calculated using daily balances for our primary banking operations and quarterly balances for subsidiaries.

(2) Weighted-average interest rates during this year are calculated by dividing the total interest expenses by the average amount borrowed.

(3) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings on foreign currencies.

(4) Other short-term borrowings included borrowings from trust accounts, bills sold, borrowings in domestic and foreign currencies and short-term debentures.

Our short-term borrowings have maturities of less than one year which are generally unsecured with the exception of borrowings from the Bank of Korea.

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Risk Management

Overview

As a financial services provider, we are exposed to various risks relating to our lending, credit card, insurance, securities investment, trading and leasing businesses, our deposit taking and borrowing activities and our operating environment. The principal risks to which we are exposed are credit risk, market risk, liquidity risk and operational risk. These risks are recognized, measured and reported in accordance with risk management guidelines established at our holding company level.

Our risk management is guided by several principles, including:

- identifying and managing all inherent risks;
- standardizing risk management process and methodology;
- ensuring supervision and control of risk management independent of business activities;
- continuously assessing risk preference;
- preventing risk concentration;
- operating a precise and comprehensive risk management system including statistical models; and
- balancing profitability and risk management through risk-adjusted profit management.

Organization

Risk management and oversight begins with the Group Risk Management Committee of the board of directors at the holding company level. The Group Risk Management Committee establishes the overall risk management guidelines and risk limits applicable to the group and each subsidiary, while delegating the day-to-day risk management and oversight functions to the Managing Director of Risk Management and the Risk Management Team. The Managing Director of Risk Management discusses the risk management policies and strategies of the Group and its subsidiaries at the Group Risk Management Council, comprised of the Managing Director of Risk Management, as its chairperson, and the executive officers of risk management from its subsidiaries. The Risk Management Team provides support to the Group Risk Management Committee, the Managing Director of Risk Management and the Group Risk Management Council, oversees the overall risk management for the Group and coordinates the risk management strategies among the Group s subsidiaries.

In order to maintain the Group s risk at an appropriate level, we have established a hierarchical limit system, where the Group Risk Management Committee establishes risk limits for the holding company and each subsidiary, and each subsidiary establishes and manages more detailed risk limits by type of risk and type of product for each department and division within the respective subsidiary. In accordance with the group risk management policies and strategies, each subsidiary s risk management committee establishes its own risk management policies and strategies in more detail and the respective risk management department implements those policies and strategies. The risk management department, operating independently from business operations of each subsidiary, monitors, assesses, manages and controls the overall risk of its operations and reports all major risk-related issues to the Group s Risk Management Team, which then reports to the Managing Director of Risk Management.

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The following table sets forth the levels of our risk management system.

Group Risk Management Committee

The Group Risk Management Committee consists of three outside directors of the holding company. The Group Risk Management Committee convenes at least once every quarter and may also convene on an *ad hoc* basis as needed. The Group Risk Management Committee makes decisions related to:

- establishing basic risk management policies consistent with business strategy;
- establishing risk limits appropriate for the group and each subsidiary;
- establishing and amending, as necessary, risk management regulations, which regulates risk management activities of the group as well as each subsidiary, establishes risk limits and provides risk management guidelines; and
- other risk management-related issues the board of directors or the Group Risk Management Committee see fit to discuss.

The results of Group Risk Management Committee meetings are reported to the board of directors of the holding company. The Group Risk Management Committee makes decisions through affirmative votes by a majority of the committee members.

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Group Risk Management Council

The Group Risk Management Council provides a forum for risk management executives from each subsidiary to discuss the group s risk management guidelines and strategy in order to maintain consistency in the group risk policies and strategies. The Group Risk Management Council consists of the holding company s Managing Director of Risk Management, as chairman, the executive officers in charge of risk management of each of our subsidiaries and the head of the Risk Management Team of the holding company. The Group Risk Management Council discusses:

- changes in risk management policies and strategies for each subsidiary;
- matters warranting discussion of risk management at the group level and cooperation among the subsidiaries;
- the effect of externalities on the group s risk; and
- other risk management-related matters.

The Group Risk Management Council has a sub-council, consisting of working-level risk management officers, to discuss the above-related matters in advance. The principal function of the Risk Management Team is to oversee the risk management operations at the subsidiary level.

Credit Risk Management of Shinhan Bank

Credit risk, which is the risk of loss from default by an obligor or counter-party, is the greatest risk we face. A substantial majority of our credit risk is derived from Shinhan Bank (including the operations of Chohung Bank after the merger), LG Card and Shinhan Card. The discussion in this section focuses on credit risk management of Shinhan Bank and takes into account the merger of Shinhan Bank and Chohung Bank which became effective on April 3, 2006.

Shinhan Bank s credit risk management is guided by the following principles:

- achieve profit level corresponding to the level of risks involved;
- improve asset quality and achieve optimal industrial and rating loan portfolio;
- focus on the small- and medium-sized enterprises and markets;
- avoid excessive loan concentration to a particular borrower or sector;
- focus on borrower s ability to repay the debt; and
- financially support our select customers growth.

Major policies for Shinhan Bank s credit risk management are determined by the Credit Policy Committee, the executive decision-making body for management of credit risk. The Credit Policy Committee is led by the Deputy President & head of Risk Management Group. The Credit Policy Committee further consists of chief officers from nine business divisions. The Credit Review Committee makes decisions by 2/3 or more votes of the attending members, which must constitute at least two-thirds of the committee members to satisfy the quorum.

Shinhan Bank performs credit risk management procedures pursuant to internal guidelines and regulations and continually monitors and improves these guidelines and regulations. Its credit risk management procedures include:

- credit evaluation and approval;
- credit review and monitoring; and
- credit risk assessment and control.

Credit Evaluation and Approval

All loan applicants and guarantors are subject to credit review evaluation before approval of any loans. Credit evaluation of loan applicants are carried out on a separate level by Credit Officer and Senior Credit Officer and (senior) credit officer committees consisting of loan evaluation specialists from different areas. Loan evaluation is carried out by a group rather than by an individual level through objective and deliberate process. Shinhan Bank uses a credit scoring system for consumer loans and credit-risk rating system for commercial loans.

Consumer loans

Loan applications for consumer loans are reviewed in accordance with Shinhan Bank s credit scoring system and the objective statistics methodology regarding secured and unsecured loans maintained and operated by Shinhan Bank s Retail Banking Division. The credit scoring system is an automated credit approval systems used to evaluate loan applications and determine the appropriate pricing for the loan.

Shinhan Bank s credit scoring system takes into account factors such as a borrower s personal information, transaction history with Shinhan Bank and other financial institutions and other relevant credit information. The applicant is given a score which is used to decide whether to approve loans as well as determine loan amounts. The score determines whether the applicant is approved for credit, conditionally approved, subject to further assessment, or denied. If the applicant becomes subject to further assessment, the appropriate discretionary body, either at the branch level or at the headquarters level, makes a reassessment, which considers qualitative factors as well as quantitative factors, such as credit history, occupation and past relationship with Shinhan Bank.

For mortgage loans and loans secured by real estate, Shinhan Bank evaluates the value of the real estate offered as collateral for a loan using a database Shinhan Bank has developed, which contains information about real estate values throughout Korea. In addition, Shinhan Bank uses information from a third party provider of information about the real estate market in Korea, which gives Shinhan Bank up-to-date market value information for Korean real estate values. Staffs from the processing centers appraise the real estate. In addition, for loans of W5 billion or more, Shinhan Bank hires certified appraisers to review the appraisal value of real estate collateral that have an appraisal value exceeding W10 billion, as initially determined by the processing centers. Shinhan Bank reevaluates internally, on a summary basis, the appraisal value of collateral at least every two years. To protect against fraudulent transfers, Shinhan Bank has established an underwriting standard for adequacy of collaterals and the procedure of legal screening for whether or not there is a perfection of ownership.

For loans secured by securities, Shinhan Bank evaluates the value of the securities based upon the market value of the securities. If the value of the securities declines over the life of a loan, the borrower will be required to post additional securities as collateral. For loans secured by deposits, Shinhan Bank will grant loans in an amount up to 95% of the deposit amount if the deposit is held with Shinhan Bank or, if the deposits are held with another financial institution, up to 90% of the deposit amount. Shinhan Bank also requires borrowers in respect of secured obligations to observe specified collateral ratios.

Corporate loans

Shinhan Bank rates all of its corporate borrowers using a rating system. Shinhan Bank uses internally developed credit evaluation models to rate potential borrowers. Shinhan Bank implemented a new corporate credit risk rating system in February 2005, as part of Chohung Bank s integration. The credit risk-rating systems take into account a variety of evaluation criteria in order to standardize credit decisions, by focusing on the quality of borrowers rather than the volume of loans. The systems include both quantitative factors based on the borrower s financial and other data, and qualitative factors based on the judgment of Shinhan Bank s credit officers. Financial evaluation factors Shinhan Bank considers include financial variables and ratios based on Shinhan Bank s customer s financial statements, such as return on assets and cash flow to total debt ratios. Non-financial evaluation factors include the industry in which the borrower operates, its competitive position in its industry, its operating and funding capabilities, Shinhan Bank s belief regarding its financial prospects, the quality of its management and controlling stockholders (based in part on interviews with its officers and employees), technological capabilities, labor relations, the status of its auditors and information gathered from outside sources such as rating agencies or industrial associations.

Shinhan Bank consults reports prepared by external credit rating services, such as Korea Information Service, National Information & Credit Evaluation Inc. and Korea Management Consulting & Credit Rating Corporation. Shinhan Bank uses these services to provide it with support for the accuracy of the credit review it conducts.

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Shinhan Bank monitors and improves the effectiveness of the credit risk-rating systems using a database that it updates continually with actual default records.

Based on the scores calculated under the credit rating system, which takes into account the evaluation criteria described above and the probability of default, Shinhan Bank assigns the borrower one of twenty grades (AAA to D). Grades AA through B are further broken down into + , 0 or - . Grades AAA through B- are classified as normal, grade CCC precautionary, and grades CC through D non-performing. The credit risk-rating model is further differentiated by the size of the corporate borrower and the type of credit facilities.

Loan Approval Process

Evaluations of general loans are approved after combined evaluation and approval of the relationship manager of each branch and the committee of the applicable business unit. Depending on the size and the importance of the loan, the approval process passes through review of Credit Officer Committee or Senior Credit Officer Committee. In the case where the loan is considered significant or the amount exceeds the discretion limit of the Senior Credit Officer Committee, the credit evaluation is carried out at the highest decision-making credit approval body, the Credit Review Committee. The Credit Review Committee evaluates and approves large credits in excess of W10 billion for unsecured and W15 billion for secured lending. Meetings to approve these large credits are held twice a week. The Credit Review Committee makes decisions by 2/3 or more votes of the attending members, which must constitute at least two-thirds of the committee members to satisfy the quorum.

The chart below summarizes the credit approval process of our banking operation. The Senior Credit Officer and the Head of Business Division does not make individual decisions on loan approval, but is part of the decision-making process at the group level.

The discretion at each level of the approval process is determined by the credit level of the applicant based on credit review, whether the loan is secured by collateral and the level of credit risk established by the credit rating system.

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The discretionary levels are divided into five categories depending on the credit rating assigned and the existence and value of collateral. The loan amount determines the approval body branch manager, branch manager and Credit Officer, Credit Officer Committee, Senior Credit Officer Committee or Credit Review Committee.

		Approval Limit of Loan Amount	
Category	**Approval Body**	**Grade B-**	**Grade AAA**
1	Retail Branch Manager		
	Unsecured	W100 million or less	W2 billion or less
	Secured	W500 million or less	W5 billion or less
2	Corporate Branch Manager		
	Unsecured	W200 million or less	W3 billion or less
	Secured	W2 billion or less	W6 billion or less
3	Branch Manager and Credit Officer		
	Unsecured	W500 million or less	W5 billion or less
	Secured	W3 billion or less	W10 billion or less
4	Credit Officer Committee		
	Unsecured	W1 billion or less	W10 billion or less
	Secured	W5 billion or less	W20 billion or less
5	Senior Credit Officer Committee		
	Unsecured	W10 billion or less	W30 billion or less
	Secured	W15 billion or less	W80 billion or less
6	Credit Review Committee		
	Unsecured	More than W10 billion	More than W 30 billion
	Secured	More than W15 billion	More than W 80 billion

Credit Review and Monitoring

Shinhan Bank continually reviews and monitors existing credit risks primarily with respect to borrowers. In particular, Shinhan Bank s automated early warning system conducts daily examination for borrowers using over 108 financial and non-financial factors, and the relationship manager and the credit officer must conduct periodic loan review and report to independent loan review team which analyzes in detail the results and adjusts credit rating accordingly. Based on these reviews, Shinhan Bank adjusts a borrower s credit rating, credit limit, applied interest rates and credit policies. In addition, the group credit rating of the borrower s group, if applicable, may be adjusted following a periodic review of the main debtor groups identified by the Governor of the Financial Supervisory Service based on their outstanding credit exposures, of which 42 were identified most recently in April 2007. Shinhan Bank also continually reviews other factors, such as industry conditions in which borrowers operate and their domestic and overseas asset base and operations, to ensure that ratings are appropriate. The Credit Review Department provides credit review reports, independent of underwriting, to Chief Risk Officer on a monthly basis.

The early warning system makes automatic daily check for borrowers with whom Shinhan Bank has more than W3 billion of exposure. The relationship manager and the Credit Officer monitor those borrowers, and then the Credit Review Department further reviews the results of the monitoring. In addition, Shinhan Bank carries out special review of each borrower in accordance with changing credit risk based on changing commercial environment. The results of such special review are continually reported to the Chief Risk Officer of Shinhan Bank.

Depending on the nature of the problem detected by the early warning system, a borrower may be classified as a deteriorating credit and undergo evaluation for a possible downgrade in its customer rating, or may be initially classified as a borrower showing early warning signs or re-attain normal borrower status. For borrowers classified as showing early warning signs, the relevant relationship manager gathers information and conducts a review of the borrower to determine whether it should be classified as a deteriorating credit or whether to impose management improvement warnings or implement joint creditors management. In the case where the borrower becomes non-performing, Shinhan Bank s collection department directly manages such borrower s account in order to maximize recovery rate, and conducts auctions, court proceedings, sale of assets or corporate restructuring as needed.

Credit Risk Assessment and Control

To assess credit risk in a systematic manner, Shinhan Bank has developed systems designed to quantify credit risks based on selection and monitoring of various statistic, including delinquency rate, non-performing loan ratio, expected loan loss and weighted average risk rating.

Shinhan Bank controls loan concentration by monitoring and managing loans at two levels portfolio level and individual loan account level. In order to prevent concentration of loans, Shinhan Bank has established a credit limit per country, industry, affiliates, corporation and financial institution, and has encouraged extension of credit to customers with good credit and reduction of credit to customers with less than good credit. In addition, Shinhan Bank utilizes the results of credit portfolio analysis in allocating asset quality based on forward looking criteria, increasing discretion and adjusting loan to value ratio.

Shinhan Bank measures credit risk using internally accumulated data. Shinhan Bank measures expected and unexpected losses with respect to total assets monthly, which Shinhan Bank refers to when setting risk limits for, and allocate capital to, its business groups. Expected loss is calculated based on the probability of default, the loss given default, the exposure at default and the past bankruptcy rate and recovery rate, and Shinhan Bank provides allowance for loan losses under Korean GAAP accordingly. Shinhan Bank selects the higher of the two provisioning levels, as determined by the Financial Supervisory Service requirement or Shinhan Bank s internal calculation. Unexpected loss is predicted based on Value at Risk, or VaR , under the historical simulation method. Shinhan Bank plans to apply the more advanced Monte Carlo simulation method rather than the historical simulation method going forward, and plans to operate an integrated and systematic credit risk management rather than risk management based on credit limitation.

Credit Card Approval Process of LG Card and Shinhan Card

Approval of credit card applications is processed using automated credit scoring system retooled for credit cards. Credit scoring system for credit cards is divided into two sub-systems: Application Scoring System and Behavior Scoring System. Behavior Scoring System is based largely on the credit history and Application Scoring System is based largely on personal information of the applicant. For credit card applicants with whom we have an existing relationship, credit scoring system factors in internally gathered information such as repayment ability, total assets, the length of the existing relationship and the applicant s contribution to profitability. Credit scoring system also automatically conducts credit checks on all credit card applicants. LG Card and Shinhan Card gather information about applicants transaction history with financial institutions, including banks and credit card companies, from a number of third party credit reporting agencies including Korea Federation of Banks, Korea Non-bank Financing Association, other credit card companies in Korea and credit bureau service agencies, such as Korea Information System and Korea Credit Bureau. Shinhan Card also gathers information from National Information & Credit Evaluation Inc. These credit checks reveal a list of the delinquent customers of all the credit card issuers in Korea.

If the credit score awarded to an applicant is above a minimum threshold, then the application is approved unless overridden by other policy factors such as delinquencies with other credit card companies. In respect of credit card applications by our long-standing customers with good credit history, Shinhan Card has discretion to waive the application of the awarded credit score unless overridden by other policy factors. All of these factors also act as the basis for setting a credit limit if Shinhan Card approves an application.

Market Risk Management of Shinhan Bank

Market risk is the risk of loss generated by fluctuations in market prices such as interest rates, foreign exchange rates and equity prices. The principal market risks to which we are exposed are interest rate risk and, to a lesser extent, equity price risk, foreign exchange risk and commodity risk. These risks stem from our trading and nontrading activities relating to financial instruments such as loans, deposits, securities and financial derivatives. We divide market risk into risks arising from trading activities and risks arising from nontrading activities.

Market risk to which we are exposed arises primarily from Shinhan Bank and the other subsidiaries do not incur significant market risk, except for Good Morning Shinhan Securities, our securities trading and brokerage subsidiary, which incurs market risk relating to its trading activities. For Shinhan Bank s market risk management, the Risk Management Committee establishes overall market risk management principles for both the trading and nontrading activities of Shinhan Bank. Based on these principles, the Asset & Liability Management Committee, or the ALM Committee, of Shinhan Bank assesses and controls market risks arising from trading and nontrading activities. The ALM Committee, which consists of eight executive vice presidents and the head of the Treasury Department, is the executive decision-making body for Shinhan Bank s risk management and asset and liability management operations. At least on a monthly basis, the ALM Committee reviews and approves reports, which include the position and value-at-risk, or VaR , with respect to Shinhan Bank s trading activities and the position, VaR, duration gap and market value analysis and net interest income simulation with respect to its nontrading activities. Shinhan Bank measures market risk with respect to all assets and liabilities in the bank accounts and trust accounts in accordance with the regulations promulgated by the Financial Supervisory Commission.

Good Morning Shinhan Securities manages its market risk based on its overall risk limit established by its risk management committee as well as the risk limits and detailed risk management guidelines for each product and department established by its management s committee. Good Morning Shinhan Securities assesses the adequacy of these limits at least annually.

Shinhan Life Insurance manages its market risk based on its overall risk limit established by its risk management committee. Shinhan Life Insurance manages market risk in regard to assets that are subject to market valuation.

Shinhan Card and LG Card do not have any assets with significant exposure to market risks and therefore do not maintain a risk management policy with respect to market risks.

We use Korean GAAP numbers on a nonconsolidated basis for our market risk management and, unless otherwise specified, the numbers presented for quantitative market risk disclosure were prepared in accordance with Korean GAAP on a nonconsolidated basis.

Market Risk Exposure from Trading Activities

Shinhan Bank s trading activities consist of:

- trading activities to realize short-term trading profits in debt and stock markets and foreign exchange markets based on Shinhan Bank s short-term forecast of changes in market situation and customer demand, for its own account as well as for the account of the trust accounts of Shinhan Bank s customers; and

- trading activities primarily to realize profits from arbitrage transactions in derivatives such as swap, forward, futures and option transactions, and, to a lesser extent, to sell derivative products to Shinhan Bank s customers and to cover market risk incurred from those trading activities.

As a result of these trading activities, Shinhan Bank is exposed to interest rate risk, foreign exchange risk and equity risk.

Interest Rate Risk

Shinhan Bank s exposure to interest rate risk arises primarily from Won-denominated debt securities, directly held or indirectly held through beneficiary certificates, and, to a lesser extent, from interest rate derivatives. Shinhan Bank s exposure to interest rate risk arising from foreign currency-denominated trading debt securities is minimal since its net position in those securities is not significant. As Shinhan Bank s trading accounts are marked-to-market daily, it manages the interest rate risk related to its trading accounts using VaR, a market value-based tool.

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Foreign Exchange Risk

Foreign exchange risk arises because of Shinhan Bank s assets and liabilities, including derivatives such as foreign exchange forwards and futures and currency swaps, which are denominated in currencies other than the Won. Shinhan Bank manages foreign exchange risk on an overall position basis, including its overseas branches, by covering all of its foreign exchange spot and forward positions in both trading and nontrading accounts.

Shinhan Bank s net foreign currency open position, which is the difference between its foreign currency assets and liabilities as offset against forward foreign exchange positions, is Shinhan Bank s foreign exchange risk. The ALM Committee oversees Shinhan Bank s foreign exchange exposure for both trading and nontrading activities by establishing limits for the net foreign currency open position, stop loss limits and VaR limits. The management of Shinhan Bank s foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage Shinhan Bank s overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps. Shinhan Bank sets forth the limit for net open position by currency and the limits for currencies other than the U.S. dollars and Japanese yen are restrictive to minimize other foreign exchange trading.

The net open foreign currency positions held by the other subsidiaries are not significant. In the case of Shinhan Capital which incurs a considerable amount of foreign exchange exposure from its leasing business, it maintains its net exposure below US$1 million by hedging its foreign exchange positions using forwards and currency swaps.

The following table shows Shinhan Bank s net foreign currency open positions as of December 31, 2004, 2005 and 2006 and Chohung Bank s net foreign currency open positions as of December 31, 2004 and 2005. Shinhan Bank s information as of December 31, 2006 is presented on a combined basis to reflect the merger of the two banks in April 2006. Positive amounts represent long exposures and negative amounts represent short exposures.

Currency	As of December 31, 2004		2005		2006	
	(In millions of US$)					
Shinhan Bank:						
U.S. dollars	US$	52.3	US$	(2.4)	US$	301.1
Japanese yen		(1.6)		(18.4)		(27.2)
Euro		0.9		(0.1)		25.5
Others		(1.7)		1.3		70.3
Total		49.9		(19.6)		369.7
Chohung Bank:						
U.S. dollars	US$	41.7	US$	18.0		N/A
Japanese yen		0.2		(6.1)		N/A
Euro		6.7		(5.0)		N/A
Others		10.5		9.8		N/A
Total	US$	59.1	US$	16.7		N/A

Equity Risk

Equity risk for Shinhan Bank s trading activities results from the trading of equity portfolio of Korean companies and Korea Stock Price Index futures and options. The trading equity portfolio consists of stocks listed on the Stock Market or the KOSDAQ Market of the Korea Exchange and nearest-month or second nearest-month futures contracts under strict limits on diversification as well as limits on positions. This has been an area of particular focus due to the level of volatility in the stock market. In addition, Shinhan Bank pays close attention to the loss limits. Although Shinhan Bank holds a substantially smaller amount of equity securities than debt securities in its trading accounts, the VaR of trading account equity risk is generally higher than that of trading account interest rate risk due to high volatility in the value of equity securities. As of December 31, 2004, 2005 and

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2006, Shinhan Bank held W60.3 billion, W59.8 billion and W92.0 billion, respectively, of equity securities in its trading accounts (including the trust accounts).

Management of Market Risk from Trading Activities

The following tables present an overview of market risk, measured by VaR, from trading activities of Shinhan Bank and Good Morning Shinhan Securities, respectively, for the year ended and as of December 31, 2006. For market risk management purposes, Shinhan Bank includes its trading portfolio in bank accounts and assets in trust accounts for which it guarantees principal or fixed return in accordance with the Financial Supervisory Commission regulations.

	Trading Portfolio VaR for the Year 2006(1)(2)			
	Average	Minimum	Maximum	As of December 31, 2006
	(In billions of Won)			
Shinhan Bank:				
Interest rate	W 12.76	W 5.98	W 17.13	W 11.1
Foreign exchange(3)	9.05	3.89	21.91	11.6
Equities	1.17	0.64	2.39	2.4
Less: portfolio diversification(4)	14.13	0.64	26.22	20.2
Total VaR(5)	W 8.85	W 4.75	W 12.41	W 4.8
Good Morning Shinhan Securities(6)**:**				
Interest rate	W 0.5	W 0.2	W 1.2	W 0.7
Equities	1.8	0.5	3.7	1.9
Beneficiary certificates(7)				
Less: portfolio diversification(4)	0.2		1.1	0.5
Total VaR	W 2.1	W 0.7	W 3.8	W 2.1

Notes:

(1) Includes the information for Chohung Bank, which merged with Shinhan Bank in April 2006.

(2) One-day VaR results with a 99% confidence level.

(3) Includes both trading and nontrading accounts as Shinhan Bank manages foreign exchange risk on a total position basis.

(4) Calculation of portfolio diversification effects for the minimum and maximum VaRs as the minimum and maximum may occur on different days for different risk components. The average and December 31, 2006 VaRs are less than the sum of the VaRs due to offsets resulting from portfolio diversification.

(5)

Includes trading portfolio in Shinhan Bank s bank accounts and assets in trust accounts for which it guarantees principal or fixed return.

(6) The change in market value of Good Morning Shinhan Securities trading portfolio was W0.8 billion per day.

(7) Beneficiary certificates that Good Morning Shinhan Securities holds temporarily in connection with its beneficiary certificate sales business. Most of its market risk arising from the holding of these beneficiary certificates is interest rate risk and there is minimal amount of equity risk.

Shinhan Bank generally manages its market risk from trading activities at the entire portfolio level. To control its market risk for trading portfolio, Shinhan Bank uses position limits, VaR limits, and stop loss limits. Shinhan Bank prepared its risk control and management guidelines for derivative trading based on the regulations and guidelines promulgated by the Financial Supervisory Commission.

Shinhan Bank measures market risk from trading activities to monitor and control the risk of its operating divisions and teams that perform trading activities.

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Value-at-Risk analysis. We use one-day VaRs to measure Shinhan Bank s market risk. Shinhan Bank calculates VaRs on a monthly basis based on data for the previous 12 months for the holding periods of one day. A one-day VaR is a statistically estimated maximum amount of loss that can occur for a day under normal market conditions. We use a 99% confidence level to measure the VaRs, which means the actual amount of loss may exceed the VaR, on average, once out of 100 business days.

We use one-day VaRs to measure market risk of Good Morning Shinhan Securities. Good Morning Shinhan Securities calculates VaRs on a daily basis based on data for the previous 12 months for the holding periods of one day. We use a 99% confidence level to measure the VaRs for Good Morning Shinhan Securities. Good Morning Shinhan Securities is currently using a variance-covariance methodology called delta-normal method for its overall VaR calculation and uses historical simulation and Monte Carlo simulation for stress test and calculation of VaRs for individual risks of options. Variance-covariance method assumes a normal distribution of risks which may underestimate market risk when the distribution of market risk is not normal. This method also does not provide accurate analysis for risks of non-linear products such as options.

Value-at-risk is a commonly used market risk management technique. However, VaR models have the following shortcomings:

By its nature as a statistical approach, VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, particularly potential future events that are extreme in nature.

This model may underestimate the probability of extreme market movements.

The time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate the potential loss.

The use of a 99% confidence level, does not take account of, nor makes any statement about, any losses that might occur beyond this confidence level.

VaR does not capture all complex effects of various risk factors on the value of positions and portfolios and could underestimate potential losses.

Currently, Shinhan Bank and Good Morning Shinhan Securities conduct back-testing of VaR results against actual outcomes on a daily basis.

When Shinhan Bank calculates the VaRs for trading accounts, it measures interest risk VaRs, but not equity risk VaRs, for its equity-linked securities which are insignificant in amount. As of December 31, 2006, Shinhan bank held no equity-linked securities in its trading accounts.

Shinhan Bank operates an integrated market risk management system which manages Shinhan Bank s Won-denominated and foreign-denominated accounts. This system uses historical simulation, Monte Carlo simulation and variance-covariance methods to measure both linear risks arising from such products as equity and debt securities and nonlinear risks arising from other products including options. Monte Carlo simulation method is similar to historical simulation, except that it uses random numbers to generate different levels of market values instead of using historical data. Variance-covariance method is a parameter-based methodology, which takes into account diversification effects among different market risk components as well as within the same risk component to calculate VaRs. We believe that this system enables Shinhan Bank to generate elaborate and consistent VaR numbers and perform sensitivity analysis and back testing to check the validity of the models on a daily basis.

Stress test. In addition to VaR, Shinhan Bank performs stress test to measure market risk. As VaR assumes normal market situations, Shinhan Bank assesses its market risk exposure to unlikely abnormal market fluctuations through stress test. Stress test is an important way of supplement VaR since VaR does not cover potential loss if the market moves in a manner which is outside Shinhan Bank s normal expectations. Stress test projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio.

Shinhan Bank uses relatively simple but fundamental seven scenarios for stress test taking into account four market risk components such as foreign exchange rates, stock prices and Won-denominated and foreign currency-denominated interest rates. For the worst case scenario, we assumed instantaneous and simultaneous movements in the four market risk components depreciation of Won by 20%, decrease in Korea Exchange Composite Index by 30%, and increases in Won-denominated and US dollar-denominated interest rates by 200 basis point and 200 basis point, respectively. In the case of this worst-case scenario, the changes in market value of Shinhan Bank s trading portfolio was a decline of W1,196.9 billion as of December 31, 2006. Shinhan Bank performs stress test at least semiannually and reports the results to the Risk Management Committee and the ALM Committee.

Good Morning Shinhan Securities uses five scenarios for stress test taking into account two market risk components: stock prices and Won-denominated interest rates. As of December 31, 2006, for the worst case scenario, which was in the case of instantaneous and simultaneous drops in Korea Stock Price Index 200 by 10% and a 1% point increase in the three-year government bond yield, the changes in market value of Good Morning Shinhan Securities trading portfolio was W12.5 billion for one day.

Shinhan Life Insurance uses actual events from the past for stress testing. One example of an actual-event evaluation relates to the evaluation of events over the course of one day following the stock market crash on April 17, 2000 following the news announcement of the accounts of SK Networks, and which resulted in a drop of the KOSPI index by 12.5% on the same date and was accompanied by a 50 basis-point increase in the three-year Government bond yield and a 5.9% depreciation of the Won against the U.S. dollar. Other examples include the evaluation of events over the course of 10 days following the sudden depreciation of the Won in December 1997 and the collapse of the Daewoo Group in July 1999, each of which was accompanied by a more than 10% drop of the KOSPI index, a more than 100 basis-point decrease in the Government bond yield and a more than 10% depreciation of the Won against the U.S. dollar.

Although Shinhan Bank and Shinhan Life Insurance have not set any limits on stress testing, they monitor the impact of market turmoil or any abnormality. Good Morning Shinhan Securities sets limits on stress testing for its overall operations as well as at its department level. In the case of Shinhan Bank, Good Morning Shinhan Securities and Shinhan Life Insurance, if the impact is large, their respective chief risk officer may request a portfolio restructuring or other proper action.

Hedging and Derivative Market Risk

The principal objective of our hedging strategy is to manage its market risk within established limits. We use derivative instruments to hedge its market risk as well as to make profits by trading derivative products within pre-approved risk limits. Our derivative trading includes interest rate and cross-currency swaps, foreign currency forwards and futures, stock index and interest rate futures, and stock index and currency options.

While we use derivatives for hedging purposes, derivative transactions themselves incur market risk as we take trading positions and trades them for the purpose of making profits. These activities consist primarily of the following:

- arbitrage transactions to make profits from short-term discrepancies between the spot and derivative markets or within the derivative markets;
- sales of tailor-made derivative products that meet various needs of our corporate customers, principally of Shinhan Bank and Good Morning Shinhan Securities, and related transactions to reduce its exposure resulting from those sales (in the case of Good Morning Shinhan Securities, these activities commenced from February 2003 when it acquired the relevant license);

- taking positions in limited cases when we expect short-swing profits based on its market forecasts; and
- trading to hedge our interest rate and foreign currency risk exposure as described above.

Market risk from derivatives is not significant since derivative trading activities of Shinhan Bank and Good Morning Shinhan Securities are primarily driven by arbitrage and customer deals with very limited open trading positions. Market risk from derivatives is also not significant for Shinhan Life Insurance as its derivative trading activities are limited to those within pre-approved risk limits and are subject to heavy regulations imposed on the insurance industry.

Market Risk Management for Nontrading Activities

Interest Rate Risk

Principal market risk from nontrading activities of Shinhan Bank is interest rate risk. Interest rate risk is the risk of loss resulting from interest rate fluctuations that adversely affect the financial condition and results of operations of Shinhan Bank. Shinhan Bank s interest rate risk arises primarily due to differences between the timing of rate changes for interest-earning assets and interest-bearing liabilities.

Interest rate risk affects Shinhan Bank s earnings and the economic value of Shinhan Bank s net assets:

Earnings: interest rate fluctuations have an effect on Shinhan Bank s net interest income by affecting its interest-sensitive operating income and expenses.

Economic value of net assets: interest rate fluctuations influence Shinhan Bank s net worth by affecting the present value of cash flows from the assets, liabilities and other transactions of Shinhan Bank.

Accordingly, Shinhan Bank measures and manages interest rate risk for nontrading activities by taking into account effects of interest rate changes on both its income and net asset value. Shinhan Bank measures and manages interest rate risk on a daily/monthly basis with respect to all interest-earning assets and interest-bearing liabilities in Shinhan Bank s bank accounts (including derivatives denominated in Won which are interest rate swaps for the purpose of hedging) and in the trust accounts, except that it measures VaRs on a monthly basis. Most of Shinhan Bank s interest-earning assets and interest-bearing liabilities are denominated in Won.

Interest Rate Risk Management

The principal objectives of Shinhan Bank s interest rate risk management are to generate stable net interest income and to protect Shinhan Bank s net asset value against interest rate fluctuations. To this end, the ALM Committee sets out Shinhan Bank s interest rate risk limits at least annually and the Risk Management Department monitors Shinhan Bank s compliance with these limits and reports the monitoring results to the ALM Committee on a monthly basis. Shinhan Bank uses interest rate swaps to control its interest rate exposure limits.

On a daily/monthly basis, Shinhan Bank uses various analytical methodologies to measure and manage its interest rate risk for nontrading activities, including the following:

Interest Rate Gap Analysis: Interest rate gap analysis measures the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and re-pricing date for a specific time frame.

Duration Gap Analysis: Duration gap analysis measures durations of Shinhan Bank s interest-earning assets and interest-bearing liabilities, which are weighted average maturities of these assets and liabilities calculated based on discounted cash flows from these assets and liabilities using yield curves.

Market Value Analysis: Market value analysis measures changes in the market value of Shinhan Bank s interest-earning assets and interest-bearing liabilities based on the assumption of parallel shifts in interest rates.

Net Interest Income Simulation Analysis: Net interest income simulation analysis uses deterministic analysis methodology to measure changes in Shinhan Bank s annual net interest income (interest income less interest expenses) under the current maturity structure, using different scenarios for interest rates (assuming parallel shifts) and funding requirements.

Interest Rate Gap Analysis

Interest rate gap analysis measures the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and re-pricing date by preparing interest rate gap tables in which Shinhan Bank s interest-earning assets and interest-bearing liabilities are allocated to the applicable time buckets based on the

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expected cash flows and re-pricing dates. On a daily basis, Shinhan Bank performs interest rate gap analysis for Won and foreign currency denominated assets and liabilities in its bank and trust accounts. Shinhan Bank s gap analysis includes Won-denominated derivatives (which are interest rate swaps for the purpose of hedging) and foreign currency-denominated derivatives (which are currency swaps for the purpose of hedging) whose management is centralized at the FX & Derivatives Department. Through the interest rate gap analysis that measures interest rate sensitivity gaps, cumulative gaps and gap ratios, Shinhan Bank assesses its exposure to future interest risk fluctuations.

For interest rate gap analysis, we assume and use the following maturities for different assets and liabilities:

With respect to the maturities and re-pricing dates of Shinhan Bank s assets, we assume that the maturity of Shinhan Bank s prime rate-linked loans is the same as that of its fixed-rate loans. We also assume that the debt securities in Shinhan Bank s trading accounts have maturities of three months. Shinhan Bank excludes equity securities from interest-earning assets.

With respect to the maturities and re-pricing of Shinhan Bank s liabilities, we assume that money market deposit accounts and non-core demand deposits under the Financial Supervisory Commission guidelines have a maturity of three months or less. With respect to core demand deposits under the Financial Supervisory Commission guidelines, we assume that they have maturities of eight different intervals ranging from one month to five years.

The following tables show Shinhan Bank s interest rate gaps as of December 31, 2006 for (1) Won-denominated nontrading bank accounts, including derivatives for the purpose of hedging and (2) foreign currency-denominated nontrading bank accounts, including derivatives for the purpose of hedging.

Won-denominated nontrading bank accounts (1)

	As of December 31, 2006						
	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2-3 Years	Over 3 Years	Total
	(In billions of Won, except percentages)						
nterest-earning assets	W 85,279	W 9,586	W 10,357	W 8,152	W 3,996	W 7,700	W 125,070
ixed rates	19,439	5,743	9,400	7,448	3,514	1,627	47,171
loating rates	65,840	3,843	627	154	242	288	70,994
nterest rate swaps			330	550	240	5,785	6,905
nterest-bearing liabilities	W 57,810	W 11,418	W 23,328	W 13,235	W 6,583	W 14,601	W 126,975
ixed liabilities	29,724	10,319	21,962	13,185	6,583	14,564	96,337
loating liabilities	21,181	1,099	1,366	50		37	23,733
nterest rate swaps	6,905						6,905
ensitivity gap	27,469	(1,832)	(12,971)	(5,083)	(2,587)	(6,901)	(1,905)
umulative gap	27,469	25,637	12,666	7,583	4,996	(1,905)	
of total assets	22.0%	20.5%	10.1%	6.1%	4.0%	(1.5)%	

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Foreign currency-denominated nontrading bank accounts (1)

	As of December 31, 2006					
	0-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Total
	(In millions of US$, except percentages)					
Interest-earning assets	$ 12,556	$ 1,875	$ 947	$ 1,009	$ 2,662	$ 19,049
Interest-bearing Liabilities	11,047	2,694	1,020	544	2,939	18,244
Sensitivity gap	1,509	(819)	(73)	465	(277)	805
Cumulative gap	1,509	690	617	1,082	805	
% of total assets	7.9%	3.6%	3.2%	5.7%	4.2%	

Note:

(1) Includes merchant banking accounts

Duration Gap and Market Value Analysis

Shinhan Bank performs a duration gap analysis to measure effects of interest rate risk on the market value of its assets and liabilities. Shinhan Bank measures, on a daily basis and for each operating department, account, product and currency, durations of interest-earning assets and interest-bearing liabilities. Shinhan Bank also measures, on a daily basis, changes in the market value of Shinhan Bank s interest-earning assets and interest-bearing liabilities.

The following tables show duration gaps and market values of Shinhan Bank s Won-denominated interest-earning assets and interest-bearing liabilities in its not-trading accounts as of December 31, 2006 and changes in these market values when interest rate increases by one percentage point.

Duration as of Dec 31, 2006 (for nontrading Won-denominated bank accounts)

	Duration as of December 31, 2006(1)
	(In months)
Interest-earning assets	9.8
Interest-bearing liabilities	13.5
Gap	(3.7)

Market Value as of Dec 31, 2006 (for nontrading Won-denominated bank accounts)

Market Value as of December 31, 2006(1)		
Actual	1% Point Increase	Changes
(In billions of Won)		

Interest-earning assets	W 130,255	W 129,881	W (374)
Interest-bearing liabilities	130,750	130,142	(608)
Gap	(495)	(261)	234

Note:

(1) Includes Merchant Banking accounts and derivatives for the purpose of hedging.

Net Interest Income Simulation

Shinhan Bank performs net interest income simulation to measure the effects of the change in interest rate on its results of operations. Such simulation measures the estimated changes in Shinhan Bank s annual net interest income (interest income less interest expenses) under the current maturity structure, using different scenarios for interest rates and funding requirements. For such simulation, Shinhan Bank applies three scenarios of parallel shifts in interest rate: (1) no change, (2) a 1% point increase in interest rates and (3) a 1% point decrease in interest rates.

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For funding requirement changes, Shinhan Bank uses two scenarios: (1) no change in funding requirement and (2) a 10% increase in funding requirement.

The following tables illustrate by way of an example the simulated changes in Shinhan Bank s annual net interest income for 2007 with respect to Won-denominated interest-earning assets and interest-bearing liabilities, using Shinhan Bank s net interest income simulation model, when it assumes (a) the maturity structure and funding requirement of Shinhan Bank as of December 31, 2006 and (b) the same interest rates as of December 31, 2006 and a 1% point increase or decrease in the interest rates.

Simulated Net Interest Income for 2007
(For Nontrading Won-denominated Bank Accounts)(1)

	Assumed Interest Rates			Change in Net Interest Income		Change in Net Interest Income	
	No Change	1% Point Increase	1% Point Decrease	Amount (1% Point Increase)	% Change (1% Point Increase)	Amount (1% Point Decrease)	% Change (1% Point Decrease)
	(In billions of Won, except percentages)						
Simulated interest income	W 6,879	W 7,615	W 6,142	W 736	10.7%	W (737)	10.7%
Simulated interest expense	4,141	4,502	3,777	362	8.7	(364)	8.8
Net interest income	2,739	3,113	2,365	374	13.7	(373)	13.6

Note:

(1) Includes merchant banking accounts.

Shinhan Bank s Won-denominated interest earning assets and interest-bearing liabilities in nontrading accounts have a maturity structure that benefits from an increase in interest rates, because the re-pricing periods of the interest-earning assets in Shinhan Bank s nontrading accounts are shorter than those of the interest-bearing liabilities in these accounts. This is primarily due to a continuous decrease in interest rate in the recent years in Korea, which resulted in a significant increase in floating rate loans, resulting in the maturities or re-pricing periods of Shinhan Bank s loans shorter. As a result, Shinhan Bank s net interest income increases when the interest rates rise.

Interest Rate VaRs for Nontrading Assets and Liabilities

Shinhan Bank measures VaRs for interest rate risk from nontrading activities on a monthly basis. The following table shows, as of and for the year ended December 31, 2006, the VaRs of interest rate mismatch risk for other assets and liabilities, which arises from mismatches in the re-pricing dates of Shinhan Bank s nontrading interest-earning assets and interest-bearing liabilities including available-for-sale investment securities. Under the Financial Supervisory Commission regulations, Shinhan Bank includes in calculation of these VaRs interest-earning assets and interest-bearing liabilities in its bank accounts and its merchant banking accounts.

	VaR for the Year 2006(1)			
	Average	Minimum	Maximum	As of December 31
	(In billions of Won)			
Interest rate mismatch other assets and liabilities	W 400	W 322	W 512	W 346

Note:

(1) One-year VaR results with a 99% confidence level, including information for Chohung Bank prior to the merger.

Equity Risk

Substantially all of our equity risk results from its equity portfolio of Korean companies. As of December 31, 2006, we held an aggregate amount of W0.17 billion of equity shares in unlisted foreign companies.

The equity securities in Won held in Shinhan Bank s investment portfolio consist of stocks listed on the Stock Market or the KOSDAQ Market of the Korea Exchange and certain non-listed stocks. Shinhan Bank measures VaRs for all of these equity securities but does not manage most of the related risk using VaR limits, as most of these securities are held for reasons other than normal investment purposes. As of December 31, 2006, Shinhan Bank held equity securities in an aggregate amount of W4,110.1 billion in its nontrading accounts, as well as unlisted securities that Shinhan Bank held for private equity investment in the amount of W2,632.1 billion other equity securities that it held, among other reasons, for management control purposes or as a result of debt-to-equity conversion as a part of reorganization proceedings of the companies to which it had extended loans.

As of December 31, 2006, Shinhan Bank held Won-denominated convertible and exchangeable bonds in the amount of W34.9 billion and foreign currency convertible and exchangeable bonds in the amount of W7.3 billion in its nontrading accounts. Shinhan Bank does not measure equity risk with respect to convertible and exchangeable bonds and the interest rate risk of these bonds are measured together with the other debt securities. As such, Shinhan Bank measures interest rate risk VaRs but not equity risk VaRs for these equity-linked securities.

The following table shows the VaRs of Shinhan Bank s equity risk from nontrading activities for the year and as of December 31, 2006.

	VaR for the Year 2006(1)			
	Average	Minimum	Maximum	As of December 31
	(In billions of Won)			
Equities	W 107.9	W 88.8	W 119.4	W 119.4

Note:

(1) One-day VaR results with a 99% confidence level.

Liquidity Risk Management

Liquidity risk is the risk of insolvency, default or loss due to disparity between inflow and outflow of funds, including having to obtain funds at a high price or to dispose of securities at an unfavorable price due to lack of available funds or losing attractive investment opportunities.

Shinhan Bank applies the following basic principles for liquidity risk management:

maintain an appropriate level of liquidity risk through liquidity risk management based on liquidity gap or debt-to-equity ratio at each maturity date;

assess and monitor net cash flows by currency and by maturity and continuously evaluate available sources of funds and possibility of disposal of any liquid assets;

diversify sources and uses of funds by product and by maturity to prevent excessive concentration in certain periods or products; and

prepare contingency plans to cope with liquidity crisis.

Each subsidiary manages liquidity risk in accordance with the risk limits and guidelines established internally as well as those directed by the relevant regulatory authorities. Pursuant to principal regulations applicable to financial holding companies and banks as promulgated by the Financial Supervisory Commission, We, at the holding company, are required to keep specific Won and foreign currency liquidity ratios. These ratios require us to keep the ratio of liquid assets to liquid liabilities above certain minimum levels.

Shinhan Bank manages its liquidity risk within the limits set on Won and foreign currency accounts in accordance with the regulations of the Financial Supervisory Commission. The Financial Supervisory Commission requires Korean banks to maintain a Won liquidity ratio of at least 100.0% and a foreign currency liquidity ratio of at least 85%. The Financial Supervisory Commission defines the liquidity ratio as liquid assets (including marketable securities) due within three months divided by liabilities due within three months.

The Treasury Department is in charge of liquidity risk management with respect to Shinhan Bank s Won and foreign currency funds. The Treasury Department submits Shinhan Bank s monthly funding and asset management plans to the ALM Committee for its approval, based on the analysis of various factors, including macroeconomic indices, interest rate and foreign exchange movements and maturity structures of Shinhan Bank s assets and liabilities. The Risk Management Department measures Shinhan Bank s liquidity ratio and liquidity gap ratio on a daily basis and reports whether they are in compliance with the limits to the ALM Committee on a monthly basis.

The following tables show Shinhan Bank s liquidity status and limits for Won and foreign currency accounts (including derivatives) as of December 31, 2006 in accordance with the regulations of the Financial Supervisory Commission.

Won-denominated accounts (including derivatives and merchant banking accounts)

	As of December 31, 2006						
Won-Denominated Accounts	0-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Substandard or Below	Total
	(In billions of Won except percentage)						
Assets:	W 47,417	W 18,222	W 31,995	W 24,820	W 34,808	W 804	158,066
Liabilities:	42,193	12,154	29,430	21,821	38,907		144,505
For three months or less:							
Liquidity gap	5,224						
Liquidity ratio	112.38%						
Limit(1)	105%						

Foreign currencies denominated accounts (including derivatives and merchant banking accounts)

	As of December 31, 2006							
Foreign Currencies Denominated Accounts:	7 Days or Less	7 Days-1 Months	3 Months	3-6 Months	6-12 Months	Over 1 Year	Substandard or Below	Total
	(In millions of US$ except percentage)							
Assets:	$ 6,251	$ 3,857	$ 5,650	$ 6,171	$ 6,276	$ 10,436	$ 93	$ 38,734
Liabilities	5,456	4,664	4,976	6,401	6,648	11,225		39,370
For three months or less:								
Assets			15,758					
Liabilities			15,096					
Liquidity ratio			104.4%					
Limit(1)			85%					

Note:

(1) The limit under the Banking Law and the regulations promulgated by the Financial Supervisory Commission is 100%. Shinhan Bank maintains the 105% limit on a voluntary basis.

Shinhan Bank maintains diverse sources of liquidity to facilitate flexibility in meeting its funding requirements. Shinhan Bank funds its operations principally by accepting deposits from retail and corporate depositors, accessing the call loan market (a short-term market for loans with maturities of less than one month), issuing debentures and borrowing from the Bank of Korea. Shinhan Bank uses the funds primarily to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

Our subsidiaries other than Shinhan Bank fund their operations primarily through call money, bank loans, commercial paper, corporate debentures and asset-backed securities. Our holding company acts as a funding vehicle for long-term financing of our subsidiaries whose credit ratings are lower than the holding company, including Shinhan Card and Shinhan Capital, to lower the overall funding costs within regulatory limitations. We currently have no plans to provide funding to LG Card. Under the Monopoly Regulation and Fair Trade Act of Korea, however, a financial holding company is prohibited from borrowing funds in excess of 200% of its total stockholders equity. In addition, pursuant to our liquidity risk management policies designed to ensure compliance with required capital adequacy and liquidity ratios, we have set limits to the amount of liquidity support by our holding company to our subsidiaries to 70% of our total stockholders equity and the amount of liquidity support to a single subsidiary to 35% of our total stockholders equity.

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In addition to liquidity risk management under the normal market situations, we have contingent plans to effectively cope with possible liquidity crisis. Liquidity crisis arises when we would not be able to effectively manage the situations with our normal liquidity management measures due to, among other reasons, inability to access our normal sources of funds or epidemic withdrawals of deposits as a result of various external or internal factors, including a collapse in the financial markets or abrupt deterioration of our credit. We have contingency plans corresponding to different stages of liquidity crisis, cautionary stage , near-crisis stage and crisis stage , based on the following liquidity indices:

- indices that reflect the market movements such as interest rates and stock prices;
- indices that reflect financial market psychology such as the size of money market funds; and
- indices that reflect our internal financial condition.

Operational Risk Management

Operational risk is difficult to quantify and subject to different definitions. The Basle Committee defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from other external events. Similarly, we define operational risk as the risks related to our overall management other than credit risk, market risk, interest rate risk and liquidity risk. These include risks arising from system failure, human error or non-adherence to policy and procedures, from fraud or inadequate internal controls and procedures, from environmental changes, resulting in financial and non-financial loss, including reputational loss. We monitor and assess operational risks related to our business operations, including administrative risk, information technology risk, managerial risk, legal risk and reputation risk, with a view to minimizing such losses.

The Group Internal Audit Activity, reporting directly to our Audit Committee, is directly responsible for overseeing our operational risk management with a focus on legal, regulatory, operational and reputational risks. Our Audit Committee oversees and monitors our operational compliance with legal and regulatory requirements. At the holding company level, we define each subsidiary s operational process and establish an internal review system applicable to each subsidiary. Each subsidiary s operational risk is internally monitored and managed at the subsidiary level and the Group Internal Audit Activity continuously monitors the integrity of our subsidiaries operational risk management system. Our Board of Directors, the Group Risk Management Committee and our Audit Committee establish our basic policies for operational risk management at the group level.

To monitor and manage operational risks, Shinhan Bank maintains, a system of comprehensive policies and has in place a control framework designed to provide a stable and well-managed operational environment throughout the organization. Currently, the primary responsibility for ensuring compliance with our banking operational risk procedures remains with each of the business units and operational teams. In addition, the Audit Department, the Risk Management Department and the Compliance Department of Shinhan Bank also play important roles in reviewing and maintaining the integrity of Shinhan Bank s internal control environment.

The operational risk management system of Shinhan Bank is managed by the operational risk team under the Risk Management Department. The current system principally consists of risk control self-assessment, risk quantification using key risk indicators, loss data collection, scenario management and operational risk capital measurement. Shinhan Bank operates several educational and awareness programs with a view to familiarizing all of its employees to this new system. In addition, Shinhan Bank has a designated operational risk manager at each of its departments and branch offices, serving the role of a coordinator between the operational risk team at the headquarters and the employees in the field and seeking to provide centralized feedback to further improve the operational risk management system.

As of May 15, 2007, Shinhan Bank has conducted three risk control self-assessments on its departments as well as domestic and overseas branch offices, from which it collects systematized data on all of its branch offices, and uses the findings from such self-assessments to improve the procedures and processes for the relevant departments or branch offices. In addition, Shinhan Bank has accumulated risk-related data since 2003 based on approximately 44 key risk indicators, improved the procedures for monitoring operational losses and is developing risk simulation models. In addition, Shinhan Bank is currently assessing 135 risk indicators for inclusion into the key risk indicators to be used by the relevant departments and branch offices as well as for the entire bank.

The audit committee of Shinhan Bank, which consists of three board members, including two outside directors, is an independent inspection authority that supervises Shinhan Bank s internal controls and compliance with established ethical and legal principles. The audit committee performs internal audits of, among other matters, Shinhan Bank s overall management and accounting, and supervises the Audit Department of Shinhan Bank that assists the audit committee. The audit committee also reviews and evaluates Shinhan Bank s accounting policies and their changes, financial and accounting matters and fairness of financial reporting.

The Audit Committee and the Audit Department supervise and perform the following audits:

general audits, including full-scale audits performed annually for the overall operations, sectional audits of selected operations performed when necessary, and periodic and irregular spot audits;

special audits, performed when the Audit Committee or standing auditor deems it necessary or pursuant to requests by the chief executive officer or supervisory authorities such as the Financial Supervisory Service;

day-to-day audits, performed by the standing auditor for material transactions or operations that are subject to approval by the heads of Shinhan Bank s operational departments or senior executives;

real-time monitoring audits, performed by the computerized audit system to identify any irregular transactions and take any necessary actions; and

self-audits as a self-check by each operational department to ensure its compliance with our business regulations and policies, which include daily audits, monthly audits and special audits.

In addition to these audits and compliance activities, the Audit Department designates operational risk management examiners to monitor the appropriateness of operational risk management frameworks and the functions and activities of the board of directors, relevant departments and business units, and conducts periodic checks on the operational risk and reports such findings. The Audit Department also reviews in advance proposed banking products or other business or service plans with a view to minimizing operational risk

General audits, special audits, day-to-day audits and real-time monitoring audits are performed by our examiners, and self-audits are performed by the self-auditors of the relevant operational departments.

In addition to internal audits and inspections, the Financial Supervisory Service conducts general annual audits of operations at Shinhan Financial Group and also performs general annual audits of our operations. The Financial Supervisory Service also performs special audits as the need arises on particular aspects of our operations such as risk management, credit monitoring and liquidity. In the ordinary course of these audits, the Financial Supervisory Service routinely issue warning notices where it determines that a regulated financial institution or such institution s employees have failed to comply with the applicable laws or rules, regulations and guidelines of the Financial Supervisory Service. We have in the past received, and expect in the future to receive, such notices and we have taken and will continue to take appropriate actions in response to such notices.

We consider legal risk as a part of operational risk. The uncertainty of the enforceability of obligations of our customers and counterparties, including foreclosure on collateral, creates legal risk. Changes in laws and regulations could also adversely affect us. Legal risk is higher in new areas of business where the law is often untested in the courts although legal risk can also increase in our traditional business to the extent that the legal and regulatory landscape in Korea is changing and many new laws and regulations governing the banking industry remain untested. We seek to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers. The Compliance Department operates Shinhan

Bank s compliance inspection system. This system is designed to ensure that all of Shinhan Bank s employees comply with the law. The compliance inspection system s main function is to monitor the degree of improvement in compliance with the law, maintain internal controls (including ensuring that each department has established proper internal policies and that it complies with those policies) and educate employees about observance of the law. The Compliance Department also supervises the management, execution and performance of the self-audits.

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Proposed Upgrades and Integration of Risk Management

Since prior to their merger, Shinhan Bank and Chohung Bank have launched a joint task force, a Basel II project team, to address issues relating to the adoption of a new firm-wide system for operational risk management to apply a standardized approach that meets the recommendations by the BIS New Basle Accord for Measurement and Management of Operational Risk . The Basel II project team develops systems, processes and organizations that would meet the relevant qualitative and quantitative requirements by applying the foundation internal rating-based, or F-IRB, method to credit risks and a standard approach to operation risks by 2008 and the advanced internal rating-based, or A-IRB, method to credit risks and an advanced evaluation approach to operational risks by 2011 and, beginning in May 2004, have enlisted the support of a global consulting firm to benchmark the best practices of the more advanced global banks. In addition, in order to reflect the Basel II requirements on the entire lending processes at Shinhan Bank, the Basel II project team has working on the upgrade of such processes, including by the development of corporate and individual risk evaluation systems and the installation of systematic loan processes. We believe that the Basel II project helps us not only to meet the capital adequacy requirements in the future but also to secure a source of information that will be critical in making important decisions, such as managing risks within reasonable bounds and formulating an asset portfolio strategy, by enabling us to better our understanding of the risks embedded in substantially all aspects of our banking operations.

The Financial Supervisory Services is currently in the process of formulating detailed regulation related to the Basel II requirements, including the approval processes, and we expect that the Financial Supervisory Services will begin accepting applications for F-IRB approvals by the end of the first half of 2007. Shinhan Bank is currently taking steps to apply for the F-IRB approval within such time period.

SUPERVISION AND REGULATION

Principal Regulations Applicable To Financial Holding Companies

General

The Korean financial holding companies and their subsidiaries are regulated by the Financial Holding Companies Act (last amended on May 31, 2005 Law No. 7529). In addition, Korean financial holding companies and their subsidiaries are subject to the regulations and supervision of the Financial Supervisory Commission and the Financial Supervisory Service.

The Financial Supervisory Commission, established on April 1, 1998, exerts direct control over financial holding companies pursuant to the Financial Holding Companies Act, including approval for the establishment of financial holding companies, issuing regulations on capital adequacy of financial holding companies and their subsidiaries, and drafting regulations relating to the supervision of financial holding companies.

The Financial Supervisory Service was established on January 2, 1999, as a unified body of the former Banking Supervisory Authority (the successor to the Office of Bank Supervision, the Securities Supervisory Board, the Insurance Supervisory Board and the Credit Management Fund). The Financial Supervisory Service is subject to the instructions and directives of the Financial Supervisory Commission and carries out supervision and examination of financial holding companies and their subsidiaries. In particular, the Financial Supervisory Service sets requirements regarding financial holding companies liquidity and for capital adequacy and establishes reporting requirements within the authority delegated under the Financial Supervisory Commission regulations, pursuant to which financial holding companies are required to submit quarterly reports on business performance, financial status and other matters prescribed in the Presidential Decree of the Financial Holding Companies Act.

Under the Financial Holding Companies Act, the establishment of a financial holding company must be approved by the Financial Supervisory Commission. A financial holding company is required to be mainly engaged in controlling its subsidiaries by holding the shares or equities of the subsidiaries in the amount of not less than 50% of aggregate amount of such financial holding company s assets based on the latest balance sheet. A financial holding company is prohibited from engaging in any profit-making businesses other than controlling the management of its subsidiaries and certain ancillary businesses as prescribed in the Presidential Decree of the Financial Holding Companies Act which include the following businesses:

- financially supporting its subsidiaries and the subsidiaries of its subsidiaries (the direct and indirect subsidiaries);
- raising capital necessary for the investment in subsidiaries or providing financial support to its direct and indirect subsidiaries;
- supporting the business of its direct and indirect subsidiaries for the joint development and marketing of new product and the joint utilization of facilities or IT systems; and
- any other businesses exempted from authorization, permission or approval under the applicable laws and regulations.

The Financial Holding Companies Act requires every financial holding company (other than any financial holding company that is controlled by any other financial holding company) or its subsidiaries to obtain the prior approval from the Financial Supervisory Commission before acquiring control of another company or to file with the Financial Supervisory Commission a report within thirty (30) days after acquiring such control. Permission to liquidate or to merge with any other company must be obtained in advance from the Financial Supervisory Commission. A financial holding company must report to the Financial Supervisory Commission regarding certain events including:

- when there is a change of its officers;
- when there is a change of its largest shareholder;
- when there is a change of major shareholders of a bank holding company;

when there is a cause for dissolution; and

when it or its subsidiary ceases to control any of its respective direct and indirect subsidiaries by disposing of the shares of such direct and indirect subsidiaries.

Capital Adequacy

The Financial Holding Companies Act does not provide for a minimum paid-in capital of financial holding companies. All financial holding companies, however, are required to maintain a specified level of solvency. In addition, in its allocation of the net profit earned in a fiscal term, a financial holding company is required to set aside in its legal reserve an amount equal to at least 10% of the net income after tax each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

All financial holding companies must meet the minimum Requisite Capital Ratio of 100%, as regulated by the Financial Supervisory Commission.

Requisite Capital Ratio means the ratio of (1) Net Total Equity Capital , as defined below, to (2) Requisite Capital , as defined below.

1. Net Total Equity Capital means:

(a) the sum of:

(i) in the case of a financial institution subsidiary (except for a financial holding company s indirect subsidiary which is consolidated into a direct subsidiary of a financial holding company), that is subject to minimum capital requirements under the Financial Supervisory Commission regulations, the actual equity capital maintained by such financial institution (e.g., in the case of commercial banks and merchant banks, total Tier I and Tier II capital actually maintained by a bank or a merchant bank); and

(ii) in the case of a financial holding company or a financial institution subsidiary (except for a financial holding company s indirect subsidiary which is consolidated into a direct subsidiary of a financial holding company), that is not subject to minimum capital requirements under the Financial Supervisory Commission regulations, the total stockholders equity as recorded on its balance sheet less (x) intangible assets and (y) deferred tax assets, if any.

(b) less the sum of:

(i) the book value of investments between a financial holding company and its direct and indirect subsidiaries, if any; and

(ii) the book value of investments among direct and indirect subsidiaries, if any.

2. Requisite Capital means the sum of:

(a) in the case of a financial institution subsidiary (except for a financial holding company s indirect subsidiary which is consolidated into a direct subsidiary of a financial holding company), that is subject to minimum capital requirements under the Financial Supervisory Commission regulations, the minimum equity capital amount necessary to meet such requirements (e.g., in the case of commercial banks and merchant banks, the amount of Total Tier I and Tier II capital necessary to meet the 8% minimum capital adequacy ratio requirement);

(b) in the case of a financial institution subsidiary (except for a financial holding company s indirect subsidiary which is consolidated into a direct subsidiary of a financial holding company), that is not subject to minimum capital requirements under the Financial Supervisory Commission regulations, 8% of its total assets on its balance sheet (including off-balance sheet assets, if any); and

(c) in the case of a financial holding company, 8% of its total assets on its balance sheet (including off-balance sheet assets, if any, but excluding the book value of investments in and financial supports to its direct and indirect subsidiaries, if any).

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Liquidity

All financial holding companies are required to match the maturities of their assets to those of liabilities in accordance with the Financial Holding Companies Act in order to ensure liquidity. Financial holding companies are required to submit quarterly reports regarding their liquidity to the Financial Supervisory Service and, except for financial holding companies with a foreign currency liability ratio to total asset of less than 1%, must:

maintain a Won liquidity ratio (defined as Won assets due within three months, including marketable securities, divided by Won liabilities due within three months) of not less than 100%;

maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 80%;

maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days divided by total foreign currency assets of not less than 0%; and

maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month divided by total foreign currency assets of not less than negative 10%.

A financial holding company may not invest in securities as defined in the Securities and Exchange Act (other than those securities issued by its direct and indirect subsidiaries) in excess of the amount of its shareholders equity less the total amount of investment in subsidiaries, subject to certain exceptions such as capital reductions, a change in securities price, a merger of a financial holding company or an acquisition of all of the business by a financial holding company, a foreclosure of collateral or strict foreclosure of securities. A financial holding company whose investment exceeds the amount of its shareholders equity less the total amount of investment in subsidiaries as a result of these exceptions are required to take actions to comply with the foregoing limit within one year from the date it exceeded such limit.

Financial Exposure to Any Single Customer and Major Shareholders

Subject to certain exceptions, the total sum of credit (as defined in the Financial Holding Companies Act, the Banking Act, the Merchant Banking Act and the Securities and Exchange Act, respectively) of a financial holding company and its direct and indirect subsidiaries which are banks, merchant banks or securities companies (Financial Holding Company Total Credit) extended to a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act will not be permitted to exceed 25% of the Net Total Equity Capital.

Net Total Equity Capital for the purpose of the calculation of financial exposure to any single customer and Major Shareholder (as defined below) is defined under the Presidential Decree of the Financial Holding Companies Act as

(a) the sum of:

(i) in case of a financial holding company, the net asset which is total assets less total liabilities on balance sheet as of the end of the most recent quarter;

(ii) in case of a bank, the capital amount as defined in Article 2(1), item 5 of the Banking Act;

(iii) in case of a merchant bank, the capital amount as defined in Article 2, item 3 of the Merchant Banking Act; and

(iv) in case of a securities company, the total asset amount less the total liability amount in the balance sheet as of the end of the most recent fiscal year and adjusted as determined by the Financial Supervisory Commission, such as the amount of increase or decrease in paid-in capital after the end of the most recent fiscal year;

(b) less the sum of:

(i) the amount of shares of direct and indirect subsidiaries held by the financial holding company;

(ii) the amount of shares which are cross-held by each direct and indirect subsidiary that is a bank, merchant bank or securities company; and

(iii) the amount of shares of a financial holding company held by such direct and indirect subsidiaries which are banks, merchant banks or securities companies.

The Financial Holding Company Total Credit to a single individual or legal entity will not be permitted to exceed 20% of the Net Total Equity Capital. In addition, the Financial Holding Company Total Credit to a shareholder holding (together with the persons who have special relationship with such shareholder (as defined under the Presidential Decree of the Financial Holding Companies Act)) in aggregate more than 10% of the total issued and outstanding shares of the financial holding company will not be permitted to exceed the smaller of (x) 25% of the Net Total Equity Capital and (y) the amount of the equity capital of the financial holding company multiplied by the shareholding ratio of such shareholder (together with the persons who have special relationship with such shareholder).

Furthermore, the total sum of credits (as defined under the Financial Holding Companies Act, the Banking Act, the Merchant Bank Act and the Securities and Exchange Act, respectively) of a financial holding company controlling banks and its direct and indirect subsidiaries that are banks, merchant banks or securities companies as applicable (Bank Holding Company Total Credit) extended to a Major Shareholder (together with the persons who have special relationship with such Major Shareholder) (as defined below) will not be permitted to exceed the smaller of (x) 25% of the Net Total Equity Capital and (y) the amount of the equity capital of the financial holding company multiplied by the shareholding ratio of such Major Shareholder, except in certain cases.

Major Shareholder is defined under the Financial Holding Companies Act as follows:

(a) a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Financial Holding Companies Act) in excess of 10% (or in the case of a financial holding company controlling regional banks only, 15%) in the aggregate of the financial holding company s total issued and outstanding voting shares; or

(b) a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Financial Holding Companies Act) more than 4% in the aggregate of the total issued and outstanding voting shares of the financial holding company controlling national banks (other than a financial holding company controlling regional banks only), excluding shares related to the shareholding restrictions on non-financial business group companies as described below, where such shareholder is the largest shareholder or has actual control over the major business affairs of the financial holding company through, for example, appointment and dismissal of the officers pursuant to the Presidential Decree of the Financial Holding Companies Act.

In addition, the total sum of the Bank Holding Company Total Credit extended to all of a financial holding company s Major Shareholder must not exceed 25% of the Net Total Equity Capital. Furthermore, the financial holding company and its direct and indirect subsidiaries that intend to extend the Bank Holding Company Total Credit to the financial holding company s Major Shareholder not less than the lesser of (i) the amount equivalent to 0.1% of the Net Total Equity Capital or (ii) W5 billion, with respect to a single transaction, must obtain prior unanimous board resolutions and then immediately after the completion of the transaction, must file a report with the Financial Supervisory Commission and publicly disclose the filing of such report (e.g., via the Internet).

Restrictions on Transactions Among Direct and Indirect Subsidiaries and Financial Holding Company

Generally, a direct or indirect subsidiary of a financial holding company may not extend credit to the financial holding company which directly or indirectly controls such subsidiary. In addition, a direct and indirect subsidiary of a financial holding company may not extend credit to any other single direct or indirect subsidiary of the financial holding company in excess of 10% of its shareholders equity and to any other direct and indirect subsidiaries of the financial holding company in excess of 20% of its shareholders equity in the aggregate. The direct or indirect subsidiaries of a financial holding company must obtain an appropriate level of collateral for the credits extended to the other direct and indirect subsidiaries unless otherwise approved by the Financial Supervisory Commission. The appropriate level of collateral for each type of credit is as follows:

(i) For deposits and installment savings, obligations of the Korean government or The Bank of Korea, obligations guaranteed by the Korean government or The Bank of Korea, obligations secured by securities issued or guaranteed by the Korean government or The Bank of Korea: 100% of the amount of the credit extended;

(ii) (a) For obligations of local governments under the Local Autonomy Act, local public enterprises under the Local Public Enterprises Act, and investment institutions and other quasi-investment institutions under the Basic Act on the Management of Government-Invested Institution (hereinafter, the public institutions and others); (b) obligations guaranteed by the public institutions and others, and (c) obligations secured by the securities issued or guaranteed by public institutions and others: 110% of the amount of the credit extended; and

(iii) For any property other than those set forth in the above (i) and (ii): 130% of the amount of the credit extended.

Subject to certain exceptions, a direct or indirect subsidiary of a financial holding company is prohibited from owning the shares of any other direct or indirect subsidiaries (other than those directly controlled by the direct and indirect subsidiaries in question) in common control by the financial holding company. In April 2005, the Ministry of Finance and Economy announced that it will allow a direct or indirect subsidiary of a financial holding company to invest as a limited partner in a private equity fund that is a direct or indirect subsidiary of the same financial holding company, and the Presidential Decree of the Financial Holding Companies Act was amended in May 2005 accordingly. Before the amendment, under the Financial Holding Companies Act, a direct or indirect subsidiary of a financial holding company was prohibited from acquiring the shares of another subsidiary of the same financial holding company. A direct or indirect subsidiary of a financial holding company is also generally prohibited from owning the shares of the financial holding company controlling the direct or indirect subsidiary in question. The transfer of certain assets subject to or below the precautionary criteria between the financial holding company and its direct or indirect subsidiary or between the direct and indirect subsidiaries of a financial holding company is prohibited except for (i) the transfer to an asset-backed securitization company (an SPV), or the entrustment with a trust company, under the Asset-Backed Securitization Act, (ii) the transfer to a mortgage-backed securitization company under the Mortgage-Backed Securitization Company Act, ii) the transfer or in-kind contribution to a corporate restructuring vehicle under the Corporate Restructuring Investment Company Act or (iv) the acquisition by a corporate restructuring company under the Industrial Development Act.

Disclosure of Management Performance

For the purpose of protecting the depositors and investors in the subsidiaries of the financial holding companies, the Financial Supervisory Commission requires financial holding companies to disclose certain material matters including (i) financial condition and profit and loss of the financial holding company and its direct and indirect subsidiaries, (ii) how capital was raised by the financial holding company and its direct and indirect subsidiaries and how such capital was used, (iii) any sanctions levied on the financial holding company and its direct and indirect subsidiaries under the Financial Holding Companies Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry or (iv) occurrence of any non-performing assets or financial incident which may have a material adverse effect.

Restrictions on Shareholdings in Other Companies

Subject to certain exceptions, a financial holding company may not own more than 5% of the total issued and outstanding shares of another company (other than its direct and indirect subsidiaries). If the financial holding company owns shares of another company (other than its direct and indirect subsidiaries) which is not a finance-related company, the financial holding company is required to exercise its voting rights in the same manner and same proportion as the other shareholders of the company exercise their voting rights in favor of or against any resolutions under consideration at the shareholders meeting of the company.

Generally, a financial holding company is not allowed to own its subsidiary s outstanding shares in excess of its net assets (total assets *minus* total liabilities), except, among other reasons, (i) where the financial holding company invests in its subsidiary up to 130% of its net assets (total assets *minus* total liabilities) for the purpose of the improvement of the financial condition of a subsidiary which is classified as an unsound financial institution under the Law on the Improvement of Structure of Financial Industry or as an unsound or potentially unsound financial institution under the Depositor Protection Act, (ii) where the financial holding company invests in a company controlled by the indirect subsidiaries up to 130% of its net assets (total assets *minus* total liabilities) in order to make the company as a subsidiary of the financial holding company, (iii) where the financial holding company has already been holding the outstanding shares of its subsidiary not more than 130% of its net assets (total assets *minus* total liabilities) at the time when it becomes a financial holding company, (iv) where in order to make its subsidiary as a 100% owned subsidiary or a special purpose vehicle under the Asset Backed Securitization Act as its subsidiary, the financial holding company invests in such company up to 130% of its net assets, (v) where as the amount of investments in the subsidiaries increases, the financial holding company s net assets increase so that the ratio of the total amount of investments in subsidiaries divided by the financial holding company s net assets do not increase, or (vi) where the total investment amount in its subsidiaries exceeds its net assets due to (a) a reduction of the financial holding company s net assets, (b) a spin-off, merger or transfer of its whole business of a financial holding company, (c) a spin-off, merger or transfer of their whole business of its direct or indirect subsidiaries, or (d) a foreclosure of collateral or strict foreclosure. The financial holding company, however, must dispose of the ownership of excess shares within two years in case of (i) through (v) and within six months in case of (vi), unless such time period is otherwise extended by the Financial Supervisory Commission.

Restrictions on Shareholdings by Direct and Indirect Subsidiaries

Generally, a direct subsidiary of a financial holding company is prohibited from controlling any other company; *provided* that a direct subsidiary of a financial holding company may control (as an indirect subsidiary of the financial holding company): (i) subsidiaries in foreign jurisdiction which are engaged in the same business as the direct subsidiary, (ii) certain financial institutions which are engaged in the business that the direct subsidiary may conduct without any licenses or permits, (iii) certain financial institutions whose business is related to the business of the direct subsidiary as prescribed under the Presidential Decree of the Financial Holding Companies Act (e.g., the companies which a bank subsidiary may control are limited to credit information companies, credit card companies, trust business companies, securities investment management companies, investment advisory companies, futures business companies, and asset management companies), (iv) certain financial institutions whose business is related to financial business as prescribed by the regulations of the Ministry of Finance and Economy, (v) certain companies which are not financial institutions but whose business is related to the financial business of the financial holding company as prescribed by the Presidential Decree of the Financial Holding Companies Act (e.g. finance-related research company, finance-related IT company, etc.) and (vi) private equity funds established in accordance with the Indirect Investment Asset Management Business Act. Acquisition by the direct subsidiaries of such indirect subsidiaries requires prior permission from the Financial Supervisory Commission or report to be submitted to the Financial Supervisory Commission, depending on the types of the indirect subsidiaries and the amount of total assets of the indirect subsidiaries.

The indirect subsidiary of a financial holding company is prohibited from controlling any other company, provided, however, that in the case where a company held control over another company at the time such company initially became an indirect subsidiary of a financial holding company, such indirect subsidiary shall be required to dispose of its interest in such other company within two (2) years after becoming an indirect subsidiary of a financial holding company.

In April 2005, the Ministry of Finance and Economy announced that it will allow a subsidiary of a financial holding company to invest in a special purpose company as its largest shareholder for purposes of making investments under the Act on Private Investment in Social Infrastructure without being deemed as controlling such special purpose company. Accordingly, the Presidential Decree of the Financial Holding Companies Act was amended in May 2005 and such special purpose company is not considered as a subsidiary of the financial holding company under the Financial Holding Companies Act.

In addition, a private equity fund established in accordance with the Indirect Investment Asset Management Business Act is not considered to be a subsidiary of a financial holding company even if the financial holding company is the largest investor in the private equity fund unless the financial holding company is the asset management company for the private equity fund.

Restrictions on Transactions between a Financial Holding Company and its Major Shareholder

A financial holding company which controls banks and its direct and indirect subsidiaries is prohibited from acquiring (including acquisition by a trust account of its subsidiary bank) shares issued by such financial holding company s Major Shareholder in excess of 1% of the Net Total Equity Capital as used in the calculation of financial exposure to Major Shareholder. In addition, the financial holding company and its direct and indirect subsidiaries which intend to acquire shares issued by such Major Shareholder not less than the lesser of (i) the amount equivalent to 0.1% of the Equity Capital or (ii) W5 billion, with respect to a single transaction, must obtain prior unanimous board resolutions and then, immediately after the acquisition, must file a report with the Financial Supervisory Commission and publicly disclose the filing of such report (e.g., via the Internet).

Restriction on Financial Holding Company Ownership

Under the Financial Holding Companies Act, subject to certain exceptions, a financial institution may not control any financial holding company. In addition, any single shareholder and persons who stand in a special relations with such shareholder (as defined under the Presidential Decree to the Financial Holding Companies Act) may acquire beneficial ownership of up to 10% of the total issued and outstanding shares with voting rights of a financial holding company controlling national banks and 15% of the total issued and outstanding shares with voting rights of a financial holding company controlling regional banks only. The Government and the Korea Deposit Insurance Corporation are not subject to such ceiling.

However, non-financial business group companies (as defined below) may not acquire beneficial ownership of shares of a financial holding company which controls national banks in excess of 4% of such financial holding company s outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of up to 10% of such financial holding company s 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. In addition, any person (whether a Korean national or a foreigner), with the exception of non-financial business group companies described above, may also acquire in excess of 10% of total voting shares issued and outstanding of a financial holding company which controls national bank, provided that an approval from the Financial Supervisory Commission is obtained in instances where the total holding exceeds 10% (or 15% in the case of a financial holding company controlling regional banks only), 25% or 33% of the total voting shares issued and outstanding of such financial holding company which controls national banks. Also, in the event a person (whether a Korean national or a foreigner, but excluding persons prescribed under the Presidential Decree to the Financial Holding Companies Act) (i) acquires in excess of 4% of the total voting shares issued and outstanding of any financial holding company (other than a financial holding company controlling regional banks only), (ii) becomes the largest shareholder of such financial holding company in which such person acquired in excess of 4% of the total voting shares issued and outstanding, or (iii) has its shareholding in such financial holding company, in which it had acquired in excess of 4% of the total voting shares issued and outstanding shares, changed by not less than 1% of the total voting share issued and outstanding of such financial holding company, a report as prescribed by the Presidential Decree to the Financial Holding Companies Act shall be filed with the Financial Supervisory Commission.

Non-financial business group companies are defined under the Financial Holding Companies Act as the companies, which include:

(i) any same shareholder group with aggregate net assets of all non-financial business companies belonging to such group of not less than 25% of the aggregate net assets of all members of such group;

(ii) any same shareholder group with aggregate assets of all non-financial business companies belonging to such group of not less than W2 trillion; or

(iii) any mutual fund in which a same shareholder group identified in (1) or (2) above owns more than 4% of the total shares issued and outstanding of such mutual fund.

Principal Regulations Applicable to Banks

General

The banking system in Korea is governed by the Banking Act of 1950, as amended (the Banking Act) and the Bank of Korea Act of 1950, as amended (the Bank of Korea Act). In addition, Korean banks are subject to the regulations and supervision of the Bank of Korea, the Bank of Korea s Monetary Policy Committee, the Financial Supervisory Commission and its executive body, the Financial Supervisory Service.

The Bank of Korea, established in June 1950 under the Bank of Korea Act, performs the customary functions of a central bank. It seeks to contribute to the sound development of the national economy by price stabilization through establishing and implementing efficient monetary and credit policies. The Bank of Korea acts under instructions of the Monetary Policy Committee, the supreme policy-making body of the Bank of Korea.

Under the Bank of Korea Act, the Monetary Policy Committee s primary responsibilities are to formulate monetary and credit policies and to determine the operations, management and administration of the Bank of Korea. The Financial Supervisory Commission, established on April 1, 1998, exerts direct control over commercial banks pursuant to the Banking Act, including establishing guidelines on capital adequacy of commercial banks, and prepares regulations relating to supervision of banks. Furthermore, pursuant to the Amendment to the Government Organization Act and the Banking Act on May 24, 1999, the Financial Supervisory Commission, instead of the Ministry of Finance and Economy, now regulates market entry into the banking business.

The Financial Supervisory Service is subject to the instructions and directives of the Financial Supervisory Commission and carries out supervision and examination of commercial banks. In particular, the Financial Supervisory Service sets requirements both for prudent control of liquidity and for capital adequacy and establishes reporting requirements within the authority delegated to it under the Financial Supervisory Commission regulations, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

Under the Banking Act, permission to commence a commercial banking business or a long-term financing business must be obtained from the Financial Supervisory Commission. Commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of deposits for a period not exceeding one year or subject to the limitation established by the Financial Supervisory Commission, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of deposits with maturities of at least one year, or the issuance of bonds or other securities. A bank wishing to enter any business other than commercial banking and long-term financing businesses, such as the trust business, must obtain permission from the Financial Supervisory Commission. Permission to merge with any other banking institution, to liquidate, to close a banking business or to transfer all or a part of a business must also be obtained from the Financial Supervisory Commission.

If the Korean government deems a bank s financial condition to be unsound or if a bank fails to meet the applicable capital adequacy ratio set forth under Korean law, the government may order:

capital increases or reductions;

stock cancellations or consolidations;

transfers of a part or all of business;

sale of assets;

closures of branch offices;

mergers or becoming a subsidiary under the Financial Holding Companies Act of a financial holding company;

acquisition of a bank by a third party;

suspensions of a part or all of business operation; or

assignments of contractual rights and obligations relating to financial transactions.

Capital Adequacy

The Banking Act requires a minimum paid-in capital of W100 billion in the case of national banks, such as Shinhan Bank, and W25 billion in the case of regional banks such as our Jeju Bank.

In addition to minimum capital requirements, all banks including foreign bank branches in Korea are required to maintain a prescribed solvency position. Until March 31, 1999, a bank s outstanding liabilities arising from guarantees and other contingent liabilities (except those specifically excluded under the Banking Act) were not permitted to exceed 20 times its equity capital amount. However, beginning on April 1, 1999, such limitation on guarantees and contingent liabilities was eliminated and, for regulatory purposes, guarantees provided by banks are counted as an extension of credit and will be regulated accordingly. See Financial Exposure to Any Single Customer and Major Shareholders above. Also, in its allocation of the net profit earned in a fiscal term, a bank is required to credit at least 10% of such profit to a legal reserve each time it pays dividends on net profits earned until such time when the reserve equals the amount of its total paid-in capital.

Under the Banking Act, the capital of a bank is divided into two categories pursuant to Bank for International Settlements (BIS) standards, which were originally envisaged by the Basel Committee. Tier I capital (core capital) consists of stockholders equity, capital surplus, retained earnings, equity representing new types of equity securities deemed to be functionally equivalent to capital which are designated by the Financial Supervisory Commission and undistributed stock dividends. Tier II capital (supplementary capital) consists of revaluation reserves, gain on valuation of investment in securities, allowance for bad debts set aside for loans classified as normal or precautionary , perpetual subordinated debt, cumulative preferred shares, redeemable preferred shares (with a right to redeem after the fifth anniversary of the date of issuance) and certain other subordinated debt.

All banks must meet standards regarding minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with the Financial Supervisory Commission requirements that have been formulated based on BIS Standards. These standards were adopted by the Monetary Board and the Office of Bank Supervision (the predecessor of the Financial Supervisory Service) and became effective in 1993. Under these regulations, all domestic banks and foreign bank branches were required to satisfy at least 8% as of the end of 1995, and thereafter, in accordance with the standards regarding minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets.

The Financial Supervisory Commission amended the Regulation on the Supervision of the Banking Business in November 2002 to include a more conservative risk-weighting system on certain newly extended mortgage and home equity loans. As a result, for mortgage and home equity loans extended after November 13, 2002, Korean banks are required to calculate a risk-weight of 60% on certain mortgage and home equity loans if either of the following two conditions are satisfied, and a risk-weight of 70% if both of the following two conditions are satisfied: (1) if the mortgage and home equity loans are overdue for at least 30 consecutive days as of the date of calculating the bank s BIS capital adequacy ratio, or the total number of overdue days for the past one year from the date of calculating the bank s BIS capital adequacy ratio is at least 30 days; and (2) the borrower s debt ratio (i.e., total borrowed amount, including the borrowed amount provided by other financial institutions, of the borrower against the borrower s annual income) exceeds 250%. For all other home mortgages, a 50% risk-weight is applicable.

Under Korean GAAP, pursuant to the loan loss allowance guidelines established by the Financial Supervisory Commission, banks are generally required to maintain allowances for outstanding loans and other credits (including confirmed guarantees and acceptances and trust account loans) in an aggregate amount covering not less than 0.5% of normal credits (excluding confirmed guarantees and acceptances), 2% of precautionary credits (excluding

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confirmed guarantees and acceptances), 20% of substandard credits, 50% of doubtful credits and 100% of estimated loss credits.

In April 2002, the Financial Supervisory Service issued guidelines pursuant to which the minimum ratio of allowances for outstanding loans by banks to individuals and households was increased to 0.75% of normal credits, 5% of precautionary credits and 55% of doubtful credits, and the minimum ratio of allowances for their outstanding credit card receivables and credit card loans was increased to 1% of normal credits, 7% of precautionary credits and 60% of doubtful credits. In addition, in October 2002, the Financial Supervisory Service issued new guidelines pursuant to which the minimum ratio of allowance for their outstanding loans to individuals and households was increased to 8% of credits classified as precautionary and the minimum ratio of allowance for their outstanding credit card receivables and credit card loans was increased to 12% of credits classified as precautionary. These guidelines were reflected in the Regulation on Supervision of Banking Business prescribed by the Financial Service Commission in November 2002. In December 2006, the Regulation on Supervision of Banking Business was amended to increase the rates of required allowance as follows:

	Corporate		**Households**		**Credit Cards**	
Loan Type:	**Before**	**Current**	**Before**	**Current**	**Before**	**Current**
Normal	0.50%	0.70%	0.75%	1.00%	1.00%	1.50%
Precautionary	2.00%	7.00%	8.00%	10.00%	12.00%	15.00%

The rate of required allowance for the substandard or below categories were not changed. Under the amended Regulation, allowance must be reserved for all unused exposure (including both normal and precautionary) that may incur credit loss.

The BIS adopted changes to its capital adequacy standards to take into account market risk from equity securities, foreign exchange and derivative instruments held by banks. These changes have become applicable to most Korean banks commencing in 2002. Before 2002, all assets received risk weighting according to the risk weights applicable to the type of assets. For example, assets relating to government received a risk weight of 0%, assets relating to securities companies and banks received a 20% risk weight and assets relating to other companies received a risk weight of 100%. Starting from 2002, risk weights for assets that are subject to market risks, such as publicly-traded securities, foreign exchange and interest rate, are calculated in accordance with a formula based on market risk.

Basel II, the new convention entered into by the Basel committee in June 2004 for the purpose of improving risk management and increasing capital adequacy of banks is expected to be effective as of the end of 2007 in Korea. Pursuant to Basel II, operational risk, such as inadequate procedure, loss risk by employees, internal system, occurrence of unexpected event, as well as credit risk and market risk, should be taken into account in calculating the risk-weighted assets. However, as the current capital adequacy ratio of 8% for banks would be maintained, it would become more onerous for banks to satisfy the minimum capital requirements.

Liquidity

All banks are required to match the maturities of their assets and liabilities in accordance with the Banking Act in order to ensure adequate liquidity. Banks may not invest in excess of an amount exceeding 60% of their Tier I and Tier II capital (less any capital deductions) in stocks and other securities with a period remaining to maturity of over three years. However, this restriction does not apply to government bonds or to Monetary Stabilization Bonds issued by the Bank of Korea.

In 1999, the Financial Supervisory Commission adopted a new requirement to ascertain a bank s liquidity. Starting from January 1, 1999, the Financial Supervisory Commission requires each Korean bank to maintain a Won liquidity ratio (defined as Won assets due within three months, including marketable securities, divided by Won liabilities due within three months) of not less than 100% and to make quarterly reports to the Financial Supervisory Service. The Financial Supervisory Commission also requires each Korean bank to (1) maintain a foreign-currency liquidity ratio due within three months (defined as foreign-currency liquid assets due within three months divided by foreign-currency liabilities due within three months) of not less than 85%, (2) maintain a ratio of foreign-currency liquid assets due within seven days (defined as foreign-currency liquid assets due within seven days less foreign-currency liabilities due within seven days, divided by total foreign-currency assets) of not less than 0% and (3) maintain a ratio of foreign-currency liquid assets due within a month (defined as foreign-currency liquid assets due within a month less foreign currency liabilities due within a month, divided by total foreign-currency assets) of not less than negative 10%. The Financial Supervisory Commission also requires each Korean bank to submit monthly reports with respect to maintenance of these ratios.

The Monetary Policy Committee is authorized to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is 7.0% of average balances for Won currency demand deposits outstanding, 0.0% of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding and 2.0% of average balances for Won currency time and savings deposits, mutual installments, housing installments and certificates of deposit outstanding. For foreign currency deposit liabilities, a 2.0% minimum reserve ratio is applied to savings deposits outstanding and a 7.0% minimum reserve ratio is applied to demand deposits, while a 1.0% minimum reserve ratio is applied for offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Financial Exposure to Any Single Customer and Major Shareholders

Under the Banking Act, the sum of material credit exposures by a bank, that is, the total sum of its credits to single individuals, legal entities or business groups that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions), must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions), subject to certain exceptions. Beginning on January 1, 2000, subject to certain exceptions, no bank is permitted to extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and such other transactions which directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to a single individual or legal entity, and no bank may grant credit in excess of 25% of the sum of Tier I and Tier II capital (less any capital deductions) to a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act.

Pursuant to an amendment to the Banking Act, which became effective on July 28, 2002, the restrictions on extending credits to a major shareholder have been amended. The definition of a major shareholder is as follows:

a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Banking Act) in excess of 10% (or in the case of regional banks, 15%) in the aggregate of the bank s total issued and outstanding voting shares; or

a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Banking Act) more than 4% in the aggregate of the bank s (excluding regional banks) total issued and outstanding voting shares (excluding shares relating to the shareholding restrictions on non-financial group companies, which include:

any same shareholder group with the aggregate net assets of all non-financial companies belonging to such group of not less than 25% of the aggregate net assets of all members of such group;

any same shareholder group with aggregate assets of all non-financial companies belonging to such group of not less than W2 trillion; or

any mutual fund in which a same shareholder group identified in (1) or (2) above, owns more than 4% of the total shares issued and outstanding), where such shareholder is the largest shareholder or is able to actually control the major business affairs of the bank, for example, through appointment and dismissal of the chief executive officer or of the majority of the executives.

According to such amendment, banks are prohibited from extending credits in the amount greater than the lesser of (1) 25% of the sum of such bank s Tier I and Tier II capital (less any capital deductions) or (2) the relevant major shareholder s shareholding ratio multiplied by the sum of the bank s Tier I and Tier II capital (less any capital deductions) to a major shareholder (together with persons who have special relationship with such major

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shareholder as defined in the Presidential Decree of the Banking Act). Also, no bank is allowed to grant credit to its major shareholders in the aggregate in excess of 25% of its Tier I and Tier II capital (less any capital deductions).

Recently, there has been a rapid increase in the use of credit support agreements between banks and special purpose companies that have been established for asset-backed securitization. When managing the credit risk of banks, among the methods for providing credit support by banks, a loan agreement, a purchase agreement for asset-backed commercial papers, purchase of subordinate beneficiary certificates, and assumption of liability by providing warranty against default under asset-backed securitization are examples of creating financial exposure to banks.

Interest Rates

Korean banks remain dependent on the acceptance of deposits as their primary source of funds. There are no legal controls on interest rates on loans in Korea. Historically, interest rates on deposits and lending rates were regulated by the Monetary Board of the Bank of Korea. Under the government s Financial Reform Plan issued in May 1993, controls on deposit interest rates in Korea have been gradually reduced. In February 2004, the Korean government removed restrictions on all interest rates, except for the prohibition on interest payments on current account deposits. Deregulation of interest rates on deposits has increased competition for deposits based on interest rates offered and therefore may increase our banking operation s interest expense. However, pursuant to reenactment of the Usury Law in March 2007, effective from June 2007, maximum interest rate for loan agreements must be specified in the Enforcement Decree of this law not higher than 40% per annum. This restriction will apply to loan agreements executed before the re-enactment of this law.

Lending to Small- and Medium-Sized Enterprises

In order to obtain funding from the Bank of Korea at concessionary rates for their small- and medium-sized enterprise loans, banks are required to extend to small- and medium-sized enterprises a certain minimum percentage of any monthly increase in their Won currency lending. Currently, this minimum percentage is 45% in the case of national banks and 60% in the case of regional banks. If a bank does not comply with the foregoing, all or a portion of the Bank of Korea funds provided to such bank in support of loans to small-and medium-sized enterprises may have to be prepaid to the Bank of Korea or the credit limit from the Bank of Korea for such bank may be decreased.

Disclosure of Management Performance

For the purpose of enforcing mandatory disclosure of management performance so that the general public, especially depositors and stockholders, will be in a better position to monitor banks, the Financial Supervisory Commission requires commercial banks to disclose certain matters as follows:

- loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to such borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits) except where the loan exposure to a single business group is not more than W4 billion;

- occurrence of any financial event involving embezzlement, malfeasance or misappropriation of funds the amount of which exceeds 1% of the sum of the bank s Tier I and Tier II capital (less any capital deductions), unless the bank has lost or expects to lose not more than W1 billion as a result thereof, or the Governor of the Financial Supervisory Service has made a public announcement regarding such an occurrence;

- any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) as of the end of the previous month except where the loss is not more than W1 billion;

any event which can cause a material change in the financial status, such as resolutions for a capital increase or reduction, issuance of convertible bonds, bonds with warrants, exchangeable bonds, or depositary receipts or cancellation of shares with profit;

any event which can cause a material change in a bank s management, such as knowledge of a proposal or confirmation of a litigation that can have a material effect on the management of the bank such as litigation regarding the effectiveness of securities issuance or amendments of rights thereunder, appointment or dismissal of an officer, or a change in bank s largest shareholder, major shareholder, affiliate company, or a resolution for change of business objective;

any event which can cause a material change in the bank s property, such as a natural disaster which causes damages in an amount exceeding 5% (or 2.5% in the case of a Large Listed Company , which refers to a company that has total assets as of the end of the most recent fiscal year of W2 trillion or more) or more of its total assets as of the end of the most recent fiscal year, or giving or receiving of a gift in excess of 1% (or 0.5% in the case of a Large Listed Company) or more of the bank s Tier I and Tier II capital;

any event which can cause a material change in the bank s investment, such as investment in other companies in an amount exceeding 5% (or 2.5% in the case of a Large Listed Company) or more of the bank s Tier I and Tier II capital;

any event which can cause a material change in the bank s profit or loss, such as special profit or special loss of 10% (or 5% in the case of a Large Listed Company) or more of the bank s Tier I and Tier II capital; and

any other events which can have material effects on the bank s operation, including, among others, payment of cash dividend, acquisition or disposal of treasury shares, or distribution of stock option.

Restrictions on Lending

According to the Banking Act, commercial banks are prohibited from making any of the following categories of loans:

loans made for the purpose of speculation in commodities or securities;

loans made directly or indirectly on the pledge of a bank s own shares, or on the pledge of shares in excess of 20% of the issued and outstanding shares of any other corporation (subject to certain exceptions with respect to financing for infrastructure projects);

loans made directly or indirectly to enable a natural or legal person to buy the bank s own shares;

loans made directly or indirectly to finance political campaigns and other related activities;

loans made to any of the bank s officers or employees other than de minimis loans of up to (1) W20 million in the case of a general loan, (2) W50 million in the case of a general loan plus a housing loan, or (3) W60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;

credit (including loans) provided on the pledge of shares of a subsidiary corporation of the bank or to enable a natural or legal person to buy shares of a subsidiary corporation of the bank; and

loans made to any officers or employees of a subsidiary corporation of the bank other than de minimis loans of up to W20 million in the case of a general loan or W50 million in the aggregate in the case of general and housing loans.

Restrictions on Investments in Property

A bank may possess real estate property only to the extent necessary for the conduct of its business; provided that the aggregate value of such real estate property must not exceed 60% of the sum of its Tier I and Tier II capital (less any capital deductions). Any property acquired by a bank (1) through the exercise of its rights as a secured party or (2) the acquisition of which is prohibited by the Banking Act must be disposed of within one year, subject to certain exceptions.

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Restrictions on Shareholdings in Other Companies

Under the Banking Act, a bank may not own more than 15% of shares outstanding with voting rights of another company, except where, among other reasons:

- the company issuing such shares is engaged in category of financial businesses set forth by the Financial Supervisory Commission (including private equity funds); or
- the acquisition of shares by the bank is necessary for the corporate restructuring of the issuer and is approved by the Financial Supervisory Commission.

In the above cases, a bank must satisfy either of the following requirements:

- the total investment in companies in which the bank owns more than 15% of the outstanding shares with voting rights does not exceed 15% of the sum of Tier I and Tier II capital (less any capital deductions); or
- the acquisition satisfies the requirements determined by the Financial Supervisory Commission.

According to an amendment to the Banking Act, which became effective on July 28, 2002, a bank using its bank accounts and its trust accounts is not permitted to acquire the shares issued by the Major Shareholder of such bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Restrictions on Bank Ownership

Under an amendment to the Banking Act, which became effective on July 28, 2002, subject to certain exceptions, a single shareholder and persons who stand in a special relationship with such shareholder (as described in the Presidential Decree to the Banking Act) may acquire beneficial ownership of up to 10% of a national bank s total issued and outstanding shares with voting rights and up to 15% of a regional bank s total issued and outstanding shares with voting rights. The government, the Korea Deposit Insurance Corporation and financial holding companies qualifying under the Financial Holding Companies Act are not subject to such ceilings. However, non-financial business group companies (i.e., (1) any same shareholder group with an aggregate net assets of all non-financial companies belonging to such group of not less than 25% of the aggregate net assets of all corporations that are members of such group, (2) any group with aggregate assets of all non-financial companies belonging to such group of not less than W2 trillion or (3) any mutual fund in which a same shareholder group, as described in items (1) and (2) above, owns more than 4% of the total shares issued and outstanding) may not acquire beneficial ownership of shares of a national bank in excess of 4% of such bank s outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of:

- up to 10% of a national bank s outstanding voting shares with the approval of the Financial Supervisory Commission under the condition that such non-financial group companies will not exercise voting rights in respect of such shares in excess of the 4% limit; and
- in the event that a foreigner, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a national bank s outstanding voting shares, up to 10% of such bank s outstanding voting shares without the approval of the Financial Supervisory Commission, and in excess of 10%, 25% or 33% of such bank s outstanding voting shares, with the approval of the Financial Supervisory Commission, up to the number of shares owned by such foreigner.

In addition, any person (whether a Korean national or a foreigner), with the exception of non-financial business group companies described above, may also acquire in excess of 10% of a national bank s total voting shares issued and outstanding, provided that an approval from the Financial Supervisory Commission is obtained in instances where the total holding exceeds 10% (or 15% in the case of regional banks), 25% or 33% of the bank s total voting shares issued and outstanding.

Deposit Insurance System

The Depositor Protection Act provides, through a deposit insurance system, insurance for certain deposits of banks in Korea. Under the Depositor Protection Act, all banks governed by the Banking Act, including Shinhan Bank, Chohung Bank and Jeju Bank, are required to pay to the Korea Deposit Insurance Corporation an insurance premium on a quarterly basis at such rate as determined by the Presidential Decree to the Depositor Protection Act, which shall not exceed 0.5% of the bank s insurable deposits in any given year. The current insurance premium is 0.025% of insurable deposits for each quarter. If the Korea Deposit Insurance Corporation pays the insured amount, it will acquire the claims of the depositors within the payment amount. Under current rules, the Korea Deposit Insurance Corporation insures only up to a total of W50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits. However, the maximum limit of W50 million is not applicable to interest-free settlement accounts (for example, a checking account), for any insurable event occurring during the period from January 1, 2001 to December 31, 2003.

Restrictions on Foreign Exchange Position

Under the Korean Foreign Exchange Transaction Regulations, a bank s net overpurchased and oversold positions are each limited to 50% of the stockholders equity as of the end of the prior month.

Trust Business

A bank that intends to enter into the trust business must obtain the approval of the Financial Supervisory Commission. Trust activities of banks are governed by the Trust Act and Trust Business Act. Banks engaged in the banking business and trust business are subject to certain legal and accounting procedures requirements, including the following:

under the Banking Act, assets accepted in trust by a bank in Korea must be segregated from its other assets in the accounts of such bank; accordingly, banks engaged in the banking and trust businesses must maintain two separate accounts, the banking accounts and the trust accounts, and two separate sets of records which provide details of their banking and trust businesses, respectively; and

assets comprising the trust accounts are not available to depositors or other general creditors of such bank in the event the trustee is liquidated or is wound up.

With respect to each unspecified money trust account for which a bank guarantees the principal amount and a minimum yield thereon, the bank must make a special reserve of 25% or more of fees and commissions from such trust account until the total reserve for such trust account equals 5% of the trust amount in such trust account. However, effective January 1, 1999, Korean banks have been prohibited from offering new guaranteed fixed rate trust account products whose principal and interest are guaranteed by the bank.

In addition, a trustee bank must deposit with a court an amount equal to 0.02% of its paid-in capital each year until the aggregate amount of such court deposits reaches 2.5% or more of its paid-in capital. In the event that a trustee bank breaches its duty of care as a trustee and causes loss to its customers, the court deposits will be available as compensation for such loss.

On January 17, 2005, in accordance with the amendment to the Trust Business Act, a comprehensive trust system was introduced to allow banks engaged in trust businesses to accept in trust two or more properties such as money, securities, or real estate with one trust deed. In addition, intellectual property rights can also be held as trust asset.

The Indirect Investment Asset Management Business Act, which applies to unspecified money trust account products under the Trust Business Act, securities investment trusts under the Securities Investment Trust Business Act, securities investment companies under the Securities Investment Company Act and variable insurance products under the Insurance Business Act, took effect on January 5, 2004. In accordance with the Indirect Investment Asset Management Business Act, we ceased offering unspecified money trust account products from our banking subsidiaries and instead began to offer products developed by our investment trust management business that fulfills the requirements as an asset management company.

In the event that a bank qualifies and operates as an asset management company, a trustee, a custodian or a general office administrator under the Indirect Investment Asset Management Business Act, it is required to establish relevant operation and management systems to prevent potential conflicts of interest among the banking business, the asset management business, the trustee or custodian business and general office administration. These measures include:

prohibitions against officers, directors and employees of one particular business operation from serving as an officer, director and employee in another business operation, except where an officer or a director (1) serving in two or more business operations with no significant conflict of interest in accordance with the Presidential Decree on the Indirect Investment Asset Management Business Act or (2) serving in a trustee business or a custodian business and simultaneously serving in a general office administrator business in accordance with the Indirect Investment Asset Management Business Act;

prohibitions against the joint use or sharing of computer equipment or office equipment; and

prohibitions against the sharing of information by and among officers, directors and employees engaged in the different business operations.

In addition, a bank is also required to establish an Indirect Investment Asset Management Committee consisting of three directors, two of whom must be outside directors of such bank.

A bank which qualifies and operates as an asset management company may engage in the sale of beneficiary certificates of investment trusts which are managed by such bank. However, such bank is prohibited from engaging in the following activities:

acting as trustee of an investment trust managed by such bank;

purchasing with such bank s own funds beneficiary certificates of an investment trust managed by such bank;

using in its sales activities information relating to the trust property of an investment trust managed by such bank;

selling through a financial institution established under the Banking Act beneficiary certificates of an investment trust managed by such bank;

establishing a short-term financial indirect investment vehicle; and

establishing a mutual fund.

Laws and Regulations Governing Other Business Activities

To enter the foreign exchange business, a bank must register with the Minister of the Ministry of Finance and Economy. The foreign exchange business is governed by the Foreign Exchange Transaction Law. To enter the securities business, a bank must obtain the permission of the Financial Supervisory Commission. The securities business is governed by regulations under the Securities and Exchange Act. Pursuant to the above-mentioned laws, banks are permitted to engage in the foreign exchange business and the underwriting business for government and other public bonds.

Principal Regulations Applicable to Credit Card Companies

General

Any person, including a bank, wishing to engage in the credit card business must obtain a license from the Financial Supervisory Commission. In addition, in order to enter the credit card business, a bank must obtain a license from the Financial Supervisory Commission (hereinafter, a bank which obtains such license is defined as licensed bank engaged in the credit card business). The credit card business is regulated and governed by the Specialized Credit Financial Business Act. As a result of recent amendments to the Specialized Credit Financial Business Act and regulations thereunder, a company in the same conglomerate group (as defined in the Monopoly Regulation and Fair Trade Act) may engage in the credit card business even though another company in the same conglomerate group is already engaged in such business, which was previously not permitted.

The Specialized Credit Financial Business Act establishes guidelines on capital adequacy and provides for other regulations relating to the supervision of credit card companies. The Specialized Credit Financial Business Act delegates regulatory authority over credit card companies to the Financial Supervisory Commission and its executive body, the Financial Supervisory Service.

A licensed bank engaging in the credit card business is regulated by the Financial Supervisory Commission and the Financial Supervisory Service.

The Financial Supervisory Commission exerts direct control over credit card companies and licensed banks engaged in the credit card business by establishing guidelines or regulations on management of such companies. Moreover if the Financial Supervisory Commission deems the financial condition of a credit card company or a licensed bank engaged in the credit card business to be unsound or such companies fail to satisfy the guidelines or regulations, the Financial Supervisory Commission may take certain measures to improve the financial condition of such companies.

Restrictions on Scope of Business

Under the Specialized Credit Financial Business Act, a credit card company may conduct only the following types of business: (i) credit card business as licensed pursuant to the Specialized Credit Financial Business Act; (ii) the businesses ancillary to the credit card business, (*i.e.*, providing cash advance loans to existing credit card members, issuing and settling of debit cards and issuing, selling and settling of pre-paid cards); (iii) provision of unsecured or secured loans; (iv) provision of discount on notes; (v) purchase, management and collection of account receivables originated by companies in the course of providing goods and services; (vi) provision of payment guarantee; (vii) asset management business under the Asset Backed Securitization Act; (viii) credit investigation; and (ix) other incidental businesses related to the foregoing. As a result of the amendment to the Specialized Credit Financial Business Act on January 27, 2005, a credit card company s scope of business presently includes businesses that utilize existing manpower, assets or facilities in a credit card company, as designated by the Financial Supervisory Commission . Under the current regulation established by the Financial Supervisory Commission, a credit card company may engage in various types of business including, but not limited to, e-commerce, operation of insurance agency, delegation of card issuance and supply of payment settlement system.

Pursuant to the Presidential Decree of the Specialized Credit Financial Business Act, as of the end of each quarter, a credit card company s average balance of claim amounts during such quarter from engaging in the businesses set forth above in (iii) and (iv), excluding claim amounts arising from the provision of loans to companies, extension of new loans in connection with rescheduling of outstanding loans, the provision of mortgage loans and the provision of cash advances or any other loans to credit card members, may not exceed the average balance of claim amounts during such quarter from engaging in the businesses set forth above in (i) and (v); provided, however, that with respect to any excess amount existing as of April 21, 2004, credit card companies have until December 31, 2008 to eliminate such excess amount.

Capital Adequacy

The Specialized Credit Financial Business Act provides for a minimum paid-in capital amount of: (i) W20 billion in the case of a specialized credit financial business company which wishes to engage in no more than two kinds of core businesses (i.e. credit card, installment finance, leasing and new technology business) and (ii) W40 billion in the case of an specialized credit financial business company, which wishes to engage in three or more kinds of core businesses.

Under the Specialized Credit Financial Business Act and regulations thereof, a credit card company must maintain a capital adequacy ratio, defined as the ratio of adjusted equity capital to adjusted total asset, of 8% or more and a delinquent claim ratio, defined as the ratio of delinquent claims to total claims as set forth under the regulations relating to the Specialized Credit Financial Business Act, of less than 10% for claims outstanding for one month or longer.

Under the Specialized Credit Financial Business Act and regulations thereof, the minimum ratio of allowances for losses on loans, leased assets (except assets subject to an operating lease) and suspense receivables as of the date

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of accounting settlement (including semiannual preliminary accounts settlement) would be 0.5% of normal assets, 1% of precautionary assets and 20% of substandard assets, 75% of doubtful assets and 100% of estimated loss assets, and the minimum ratio of allowances for losses on credit card receivables and cash advances would be 1% of normal assets, 0.5% of the amount calculated by deducting sum of cash advances which were actually drawn by card members, from the maximum limit of sum of cash advances times 0.75 (excluding the maximum limit of sum of cash advances for card members who have not drawn cash advances for the latest 6 months), 12% of precautionary assets and 20% of substandard assets, 60% of doubtful assets and 100% of estimated loss assets.

Liquidity

Under the Specialized Credit Financial Business Act and regulations thereof, a credit card company must maintain a Won liquidity ratio (Won-denominated current assets/Won-denominated current liabilities) of 100% or more. In addition, once a credit card company is registered as a foreign exchange business institution with the Minister of the Ministry of Finance and Economy, such credit card company is required to (1) maintain a foreign-currency liquidity ratio within three months (defined as foreign-currency liquid assets due within three months divided by foreign-currency liabilities due within three months) of not less than 80%, (2) maintain a ratio of foreign-currency liquid assets due within seven days (defined as foreign-currency liquid assets due within seven days less foreign-currency liabilities due within seven days, divided by total foreign-currency assets) of not less than 0% and (3) maintain a ratio of foreign-currency liquid assets due within a month (defined as foreign-currency liquid assets due within a month less foreign-currency liabilities due within a month, divided by total foreign-currency assets) of not less than negative 10%. The Financial Supervisory Commission requires a credit card company to submit quarterly reports with respect to maintenance of these ratios.

Restrictions on Funding

Under the Specialized Credit Financial Business Act, a credit card company may raise funds using only the following methods: (i) borrowing from financial institutions, (ii) issuing corporate debentures or notes, (iii) selling securities held by the credit card company, (iv) transferring claims held by the credit card company, (v) transferring claims held by the credit card company in connection with its businesses, or (vi) issuing securities backed by the claims held by the credit card company relating to its businesses.

Further, the credit card company may borrow funds offshore or issue foreign currency denominated securities once it is registered as a foreign exchange business institution with the Minister of the Ministry of Finance and Economy.

With respect to the issuance of debentures and notes, the credit card company may issue debentures up to an amount equal to ten times the company s total equity capital. In addition, a credit card company may issue, on a temporary basis, debentures exceeding the maximum limit for the purpose of redeeming the outstanding debentures, but must repay such outstanding debentures within one month after the date of issuance of new debentures.

Restrictions on Loans to Affiliate Companies

Under the Specialized Credit Financial Business Act and regulations thereof, a credit card company may not provide loans exceeding 100% of its equity capital, in the aggregate, to its specially related persons (as defined under the relevant laws) including, but not limited to, its affiliates.

Restrictions on Assistance to Other Companies

Under the Specialized Credit Financial Business Act, a credit card company shall not engage in any of the following acts in conjunction with other financial institutions or companies; (i) holding voting shares under cross shareholding or providing credit for the purpose of avoiding the restrictions on loans to affiliate companies; (ii) acquiring shares under cross shareholding for the purpose of avoiding the limitation on purchase of its treasury shares under the Korean Commercial Code or the Securities and Exchange Act; or (iii) other acts which are likely to have a material adverse effect on the interests of transaction parties as stipulated by the Presidential Decree to the Specialized Credit Financial Business Act, which are not yet provided.

A credit card company shall not extend credit for enabling another person to purchase the shares of such credit card company or to arrange financing for the purpose of avoiding the restrictions on loans to affiliate companies.

Restrictions on Investment in Real Estate

Under the Specialized Credit Financial Business Act and the regulations thereof, a credit card company is allowed to possess real estate only to the extent that such business conduct is designated by such laws and regulations, with certain exceptions such as for the purposes of factoring or leasing or as a result of enforcing its security rights, provided that the Financial Supervisory Commission may limit the maximum amount a credit card company may invest in real estate investments for business purposes up to a percentage equal to or in excess of 100% of its equity capital.

Restrictions on Shareholding in Other Companies

Under the Specialized Credit Financial Business Act and the Law on Improvement of Structure of Financial Industry, a credit card company and its affiliate financial institutions (together a group) are required to obtain prior approval of the Financial Supervisory Commission if such credit card company, together with its affiliate financial institutions, (i) owns 20% or more of outstanding voting shares of a target company or (ii) owns 5% or more of outstanding voting shares of a target company, and shall be deemed to have control of the target company, including being the largest shareholder of such target company or otherwise.

The indirect subsidiary of the financial holding company is prohibited from controlling any other company.

Disclosure and Reports

Pursuant to the Specialized Credit Financial Business Act and the regulations thereof, the ordinary disclosure requirement for a credit card company is to disclose any material matters relating to management performance, profit and loss, corporate governance, manpower or risk management within three months from the end of each fiscal year and within two months from the end of the first half of the fiscal year. Also, a credit card company is required to disclose on an on-going basis certain matters such as the occurrence of non-performing loans, a financial accident or the occurrence of losses exceeding certain amounts. Prior to December 29, 2005, a credit card company or a licensed bank engaging in the credit card business was required to submit its business reports and reports on actual results of management to the Financial Supervisory Commission within one month from the end of each quarter. However, after the amendment to the regulations issued by the Financial Supervisory Commission on December 29, 2005, a credit card company or a licensed bank engaging in the credit card business must submit such report as required by the Governor of Financial Supervisory Service, with certain important matters being reported as frequently as each month. In addition, all companies engaged in the specialized credit financial business under the Specialized Credit Financial Business Act, including, without limitation, credit card companies, must file a report with the Financial Supervisory Service regarding the result of settlement of accounts within one month after the end of its fiscal year. Also, these companies are required to conduct a provisional settlement of accounts for each quarter and file a report with the Financial Supervisory Service within one month after the end of such quarter.

Risk of Loss due to Lost, Stolen, Forged or Altered Credit Cards

Under the Specialized Credit Financial Business Act, upon notice from the holder of a credit card or debit card of its loss or theft, the credit card company or a licensed bank engaging in the credit card business, as the case may be, is liable for any loss arising from the unauthorized use of credit cards or debit cards thereafter as well as any loss from unauthorized transactions made within 60 days prior to such notice. However, a credit card company or a licensed bank engaged in the credit card business, as the case may be, may transfer to the cardholder all or part of the risks of loss associated with unauthorized transactions made within 60 days prior to such notice, in accordance with the standard terms and conditions agreed between the credit card company or a licensed bank engaged in the credit card business, as the case may be, and the cardholder, provided that the loss or theft must be due to the cardholder s willful misconduct or negligence. Disclosure of a cardholder s password under duress or threat to the cardholder s or his/her family s life or health will not be deemed as the cardholder s willful misconduct or negligence.

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Moreover, a credit card company or a licensed bank engaging in the credit card business, as the case may be, is also responsible for any losses resulting from the use of forged or altered credit cards, debit cards and pre-paid cards. However, a credit card company or a licensed bank engaging in the credit card business, as the case may be, may transfer all or part of this risk of loss to holders of credit cards in the event of willful misconduct or gross negligence by holders of such cards if the terms and conditions of the written agreement entered between the credit card company or a licensed bank engaging in the credit card business, as the case may be, and holders of such cards specifically provide for such transfer. For these purposes, disclosure of a customer s password that is made intentionally or through gross negligence, or the transfer of or giving as collateral of the credit card or debit card, is considered willful misconduct or gross negligence.

In addition, the Specialized Credit Financial Business Act prohibits a credit card company from transferring to merchants the risk of loss arising from lost, stolen, forged or altered credit cards, debit cards or pre-paid cards; provided, however, that a credit card company may enter into an agreement with a merchant under which the merchant agrees to be responsible for such loss if caused by the merchant s gross negligence or willful misconduct.

Each credit card company or a licensed bank engaged in the credit card business must institute appropriate measures such as establishing reserves, purchasing insurance or joining a cooperative association in order to fulfill its obligations when the risk of loss arises from unauthorized use due to lost, stolen, forged or altered credit cards, debit cards or pre-paid cards.

Pursuant to the Specialized Credit Financial Business Act, the Financial Supervisory Commission may either impose the limit or take other necessary measures against the credit card company or a licensed bank engaged in the credit card business including, without limitation, with respect to the following:

- maximum limits for cash advances on credit cards;
- use restrictions on debit cards with respect to per day or per transaction usage; or
- aggregate issuance limits and maximum limits on the amount per card on pre-paid cards.

Lending Ratio in Ancillary Business

Pursuant to the Presidential Decree to the Specialized Credit Financial Business Act, as amended in December 2003, a credit card company or a licensed bank engaging in the credit card business, as the case may be, must maintain an aggregate quarterly average outstanding lending balance to credit card holders (including cash advances and credit card loans, but excluding restructured loans and revolving cash advances) no greater than its aggregate quarterly average outstanding credit card balance arising from the purchase of goods and services (excluding receivables arising from the purchase of goods and services by specially-related persons using exclusive use card for business purposes (as defined in the Tax Incentives Limitation Act)) plus its aggregate quarterly amount of payments made by members using their debit cards; provided that, with respect to any excess amount existing as of December 31, 2003, the credit card companies have a grace period until December 31, 2007 to eliminate such excess amount.

Issuance of New Cards and Solicitation of New Card Holders

The Presidential Decree to the Specialized Credit Financial Business Act establishes the conditions under which a credit card company or a licensed bank engaging in the credit card business may issue new cards and solicit new members. Specifically, new credit cards may be issued only to the following persons: (i) persons who are at the age of 18 years or more at the time of applying for issuance of a credit card; (ii) persons whose capability to pay bills as they come due, as determined according to standards established by the credit card company or a licensed bank engaging in the credit card business, is verified; (iii) in the case of minors, persons who submit a guardian s consent along with documents evidencing income, such as an employment certificate or a tax certificate; and (iv) person whose identity has been verified.

In addition, a credit card company or a licensed bank engaging in the credit card business, as the case may be, may not engage in the following methods of soliciting credit card members: (i) providing economic benefits or conditioning such benefits in excess of 10% of the annual credit card fee (in the case of no-annual fee credit cards, the average annual fees will be W10,000) in connection with issuance of credit cards; (ii) street solicitation of card members on roads and private roads as prescribed under the Road Act and Private Road Act, public place and along corridors used by the general public; (iii) solicitation through visits, except those visits made upon prior consent and visits to a business area; (iv) solicitation through pyramid sales methods; and (v) solicitation through the Internet, as further discussed below.

Recent changes in the law have resulted in the application of more stringent standards in the issuance of credit cards and solicitation of credit card applicants, such as requiring a credit card company or a licensed bank engaged in the credit card business to check whether the credit card applicant has any delinquent debt owing to any other credit card company or other financial institutions which the applicant is unable to repay, and also requiring, in principle, with respect to solicitations made through the Internet, the certified electronic signature of the applicant. Moreover, persons who intend to engage in solicitation of credit card applicants must register with the Financial Supervisory Commission, unless the solicitation is made by officers or employees of a credit card company or a company in business alliance with such credit card company.

Compliance Rules on Collection of Receivable Claims

Pursuant to the Specialized Credit Financial Business Act and its regulations, a credit card company or a licensed bank engaging in the credit card business, are prohibited from collecting its claims by way of:

exerting violence or threat of violence;

informing a Related Party (a guarantor of the debtor, blood relative or fiancée of the debtor, a person living in the same household as the debtor or a person working in the same workplace as the debtor) of the debtor s liability without just cause;

providing false information relating to the debtor s obligation to the debtor or his/her Related Party;

threatening to sue or suing the debtor for fraud despite lack of affirmative evidence to establish that the debtor has submitted forged or false documentation with respect to his/her capacity to make payment;

visiting or telephoning the debtor during late hours between 9:00 p.m. 8:00 a.m.; and

utilizing other uncustomary methods to collect the receivables thereby invading the privacy or the peacefulness in the workplace of the debtor or his/her Related Party.

Principal Regulations Applicable to Securities Companies

General

The securities business is regulated and governed by the Securities and Exchange Act. Securities companies are under the regulation and supervision of the Financial Supervisory Commission, the Financial Supervisory Service and the Securities and Futures Commission.

Under the Securities and Exchange Act, permission to commence a brokerage business, a trading business or an underwriting business must be obtained from the Financial Supervisory Commission. A securities company may also engage in certain businesses ancillary to the primary business without obtaining any separate license and certain other additional businesses by obtaining separate licenses from the Financial Supervisory Commission. Permission to merge with any other entity or to transfer all or substantially all of a business must also be obtained from the Financial

Supervisory Commission.

Under the Act on Structural Improvement of Financial Industry, if the Korean government deems a securities company s financial condition to be unsound or if a securities company fails to meet the applicable Net Operating Equity Ratio (as defined below), the government may order any of the following:

- sanctions to a securities company or its officers or employees;
- capital increase or reduction;
- a stock cancellation or consolidation;

a transfer of business or assets;

closing of branch offices;

acquisition of such company by a third party;

a merger with any other entity;

becoming a subsidiary (under the Financial Holding Companies Act) of a financial holding company;

prohibition on acquiring risky assets or taking deposits at an excessively high interest rate;

a suspension or assignment of a part or all of business operation;

an assignment of contractual rights and obligations relating to financial transactions; or

suspension of officer s performance and appointment of a receiver; or

any other measures as necessary to protect financial soundness.

Scope of Business

The 2005 amendment to the Securities and Exchange Act and the Presidential Decree and regulations thereunder resulted in enlarging the scope of business of securities companies by allowing them to engage in the following businesses:

brokerage, trading, or underwriting business of equity of undisclosed association (as defined under the Korean Commercial Code) or limited partnership and certain derivative securities linked with prices, interest rates, indices and indicators relating to securities (under the Securities and Exchange Act and the Presidential Decree), foreign securities of similar character, currencies, commodities (under the Futures and Exchange Act), or linked with credit risks;

trust business under the Trust Business Act or over-the-counter derivative trading linked to credit risks, price of securities, interest rate or indices based on the foregoing, or currency rate, price of goods or indices based on the foregoing, if the company obtains necessary license from the Financial Supervisory Commission. A securities company intending to engage in the business of over-the-counter derivative trading will be subject to the limit of 30% of its equity capital as the total amount of risks from over-the-counter derivative trading, and further subject to the limit of 5% of equity capital for the amount of risks from a credit-linked derivative transaction with a person or a company (including specially-related person of such person or company), with the 300% of minimum equity capital regulation rate and with the W100 billion of minimum equity capital requirement (provided that the W100 billion requirement will be applicable only until March 28, 2007) in order to conduct over-the-counter derivative trading Pursuant to the amendment of the Trust Business Act effective as of July 29, 2005, a securities company is exempted from regulations under the Trust Business Act regarding the use of the word trust in the corporate name, the qualifications of officers, restrictions on the management of the trustee s own fund, and internal control standards; and

ancillary businesses such as (1) real estate brokerage or consulting business on real estates owned by clients who are being provided with services relating to brokerage on mergers and acquisitions or business management and financing consulting, (2) selling books, reports or electronic documents containing securities-related information and (3) arranging loans to customers of securities companies based on business alliances established with such securities companies.

Regulations on Financial Soundness Capital Adequacy

The Securities and Exchange Act and the Presidential Decree thereunder provide for a minimum paid-in capital of W50 billion in the case of a securities company engaged in the brokerage, trading and underwriting businesses.

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The financial soundness of a securities company is to be assessed under the Securities and Exchange Act and the regulations of the Financial Supervisory Commission in accordance with the net operating equity ratio of the company, which is to be calculated as follows and to be expressed as a percentage.

Net operating equity ratio = Net operating equity/Total risk × 100

The terms Net Operating Equity and Total Risk for the purpose of the above-stated formula are defined and elaborated in the regulations of the Financial Supervisory Commission. Generally, the net operating equity and the Total risk is to be calculated according to the following formula:

Net operating equity = Net assets (total assets − total liabilities) − the total of items that may be deducted + the total of items that may be added

Total risk = market risk + counterparty risk + basic risk + credit concentration risk − risk offsetting factor

The regulations of the Financial Supervisory Commission requires, among other things, securities companies to maintain the net operating equity ratio at a level equal to or higher than 100% (and 150%, in case of securities companies engaging in the foreign exchange business), at the end of the each quarter of the fiscal year.

In addition, all Korean companies, including securities companies, are required to set aside, as a legal reserve, 10% of the cash portion of the annual dividend or interim dividend in each fiscal year until the reserve reaches 50% of its stated capital.

Under the Securities and Exchange Act and regulations thereunder, the minimum ratio of allowances for losses on loans and suspense receivables specified under such regulations is 0.5% of normal assets, 2% of precautionary assets, 20% of substandard assets, 75% of doubtful assets and 100% of estimated loss assets.

The regulations of the Financial Supervisory Commission as amended in 2004 imposed stricter standards on the capital adequacy ratio by allowing term subordinated debt with a maturity of five years or more, to be recognized as an additional item to be added to the net operating equity and by also allowing only up to an amount equal to 50% of the net assets as an item to be added. By comparison, the amendment of the regulations of the Financial Supervisory Commission on June 29, 2005, in certain cases, allows treating a subordinated debt with a maturity of two years or more as an item to be added to the net operating equity under the Act on the Structural Improvement of the Financial Industry.

Other Provisions on Financial Soundness

The Securities and Exchange Act, the Presidential Decree of the Securities and Exchange Act and the regulations of the Financial Supervisory Commission also include certain provisions which are designed to regulate certain types of activities relating to the management of the assets of a securities company with certain exceptions. Such provisions include:

- restrictions on the holdings by a securities company of securities issued by another company which is the largest shareholder or the major shareholder (each as defined under the Securities and Exchange Act) of such securities company;

- restrictions on providing money or credit to the largest shareholder (including specially-related persons of such shareholder), major shareholders, officers and specially-related persons of the securities company; and special provisions concerning the payment guarantee by a securities company. For instance, a securities company is not allowed to provide payment guarantees for third parties other than its overseas subsidiaries.

A securities company may invest in shares, bonds (whether listed or unlisted) and stock price index futures and options or other derivative transactions. However, a securities company may not enter into cross-border financial futures, swaps, options or other derivative transactions without obtaining prior approval from the Bank of Korea, except in the case when such securities company, which has been registered as a foreign exchange business institution with the Minister of the Ministry of Finance and Economy, is confirmed by the Financial Supervisory Commission to satisfy certain conditions set forth in the Foreign Exchange Transaction Regulations and the counterparty (other than an individual) is an institutional investor, a company listed on the Stock Market Division or

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the KOSDAQ Market Division of the Korea Exchange or not a resident of Korea. Furthermore, a securities company that is registered as a foreign exchange business institution and licensed to engage in over-the-counter derivative transactions may enter into Won currency derivative transactions (except for credit-linked derivative transactions) without obtaining prior approval from the Bank of Korea. As a result of the 2005 amendment to the Securities and Exchange Act and the Presidential Decree and regulations thereunder, a securities company licensed to engage in over-the-counter derivative trading may enter into credit-linked derivative transactions. However, a securities company must obtain prior approval from the Bank of Korea when entering into a cross-border credit-linked derivative transaction even if the securities company is registered as a foreign exchange business institution.

The Securities and Exchange Act was amended in June 2005 and took effect on January 30, 2006 to prevent capital of the industrial business from dominating the financial markets. For this purpose, certain regulations were adopted to require a prior approval of the Financial Supervisory Commission to be a controlling shareholder. Controlling shareholder means the largest shareholder, its specially-related persons (only those holding 1% of outstanding voting shares), or major shareholders except for the government and the Deposit Insurance Corporation. Shares acquired without this approval can be ordered by the Financial Supervisory Commission to be disposed within six months.

Business Conduct Rules

Effective May 2001, the Financial Supervisory Commission adopted the business conduct rules applicable to securities companies. The business conduct rules impose greater responsibilities on securities companies, strictly banning unfair practices such as front running or scalping and ensuring suitability of investment solicitation by securities companies.

Disclosure and Reports

Pursuant to the Securities and Exchange Act, a securities company has a continuing obligation to disclose certain material matters including (i) financial condition and profit and loss of the securities company, (ii) any sanctions levied on the securities company under the Securities and Exchange Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry or (iii) occurrence of any matters which may have a material adverse effect on the operation or management of the securities company.

A securities company is also required to submit reports on actual results of operation to the Financial Supervisory Commission within 45 days from the end of each quarter. In addition, a securities company is required to submit financial documents, including financial statements and audit reports to the Financial Supervisory Commission, within three months from the end of the fiscal year.

A securities company engaging in over-the-counter derivative trading is required to submit a detailed report of such trading during each month on every 10^{th} day of the following month.

Customer Protection

Under Korean law, the relationship between a customer and a securities company in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the securities company) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent s creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a securities company, the customer of the securities company is entitled to the proceeds of the securities sold by the securities company.

As the cash deposited with a securities company is regarded as belonging to the securities company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the securities company if a bankruptcy or reorganization procedure is instituted against the securities company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that Korea Deposit Insurance Corporation will, upon the request of the investors, pay each investors up to W50 million per financial institution in case of the securities company s bankruptcy, liquidation, cancellation of securities business license or other insolvency events. Securities companies are required to pay the premiums related to this insurance.

Pursuant to the Securities and Exchange Act, securities companies are required to deposit the cash received from its customers with the Korea Securities Finance Corporation, a special entity established pursuant to the Securities and Exchange Act. Set-off or attachment of cash deposits by securities companies with the Korea Securities Finance Corporation is prohibited. In addition, in the event of bankruptcy or dissolution of the securities company, the cash so deposited shall be withdrawn and paid to the customer prior to payment to other creditors of the securities company.

Principal Regulations Applicable to Insurance Companies

General

Insurance companies are regulated and governed by the Insurance Business Act, as amended (the Insurance Business Act). In addition, Korean insurance companies are under the regulation and supervision of the Financial Supervisory Commission and its governing entity, the Financial Supervisory Service.

Under the Insurance Business Act, permission to commence an insurance business must be obtained from the Financial Supervisory Commission based on the type of insurance businesses, which are classified as life insurance business, non-life insurance business and third insurance business. Life insurance business means an insurance business which deals with life insurance policies or pension insurance policies (including retirement insurance policies). Non-life insurance business means an insurance business which deals with fire insurance policies, marine insurance policies, car insurance policies, guaranty insurance policies, reinsurance policies, liability insurance policies or other insurance policies prescribed under the Presidential Decree of the Insurance Business Act. Third party insurance business means an insurance business which deals with injury insurance policies, sickness insurance policies or nursing care insurance policies. According to the Insurance Business Act, insurance companies are not allowed to engage in both a life insurance business and a non-life insurance business, with certain exceptions.

If the Korean government deems an insurance company s financial condition to be unsound or if an insurance company fails to properly manage the business as set forth under relevant Korean law, the government may order:

- sanctions to a securities company or its officers or employees;
- capital increase or reduction;
- a stock cancellation or consolidation;
- a transfer of business or assets;
- closing of branch offices;
- acquisition of such company by a third party;
- a merger with any other entity;
- becoming a subsidiary (under the Financial Holding Companies Act) of a financial holding company;
- prohibition on acquiring risky assets or taking deposits at excessively high interest rate;
- a suspension or assignment of a part or all of business operation;
- an assignment of contractual rights and obligations relating to financial transactions;

suspension of officer s performance and appointment of a receiver; or

any other measures as necessary to protect financial soundness.

Capital Adequacy

The Insurance Business Act provides for a minimum paid-in capital of W300 billion for an insurance company, provided that the insurance company which intends to engage in only certain types of insurance policies may have a lower paid-in capital pursuant to the Presidential Decree of the Insurance Business Act.

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In addition to the minimum capital requirement, an insurance company is required to maintain a Solvency Ratio of 100% or more. Solvency Ratio is the ratio of Solvency Margin to Standard Amount of Solvency Margin. Solvency Margin is the aggregate amount of paid-in capital, reserve for dividends to policyholders, allowance for bad debt and subordinated debt amount and others similar thereto as set out in the regulation of the Financial Supervisory Commission, less unused expenses for new contracts, goodwill and others similar thereto as appearing in the regulation of the Financial Supervisory Commission. Standard Amount of Solvency margin is defined under the regulation of the Financial Supervisory Commission and is calculated as follows:

1. (Net premium type policy reserve – Non-amortized acquisition cost) × (Corresponding ratio of risk factor for policy reserve) (4%); and

2. (Net insurance benefits) × (Corresponding ratio of insurance risk factor).

Under the Insurance Business Act, the Presidential Decree and other regulations thereunder, for each accounting period, insurance companies are required to appropriate policy reserve that is earmarked for future payments of insurance money, refund and dividends to policyholders (hereinafter collectively referred to as Insurance Money) for each insurance contract. However, if an insurance company has reinsured a portion of its insurance contracts with a creditworthy reinsurance company in order to lower its overall risk, the insurance company is not required to appropriate policy reserve for the reinsured contracts but instead the reinsurance company is required to appropriate such policy reserve for the reinsured contracts. Further, insurance companies are required to submit written calculation methods for insurance premiums and policy reserves by insurance types when applying for the insurance business license. If an insurance company develops a new insurance product or amends the policy reserve calculation method, it is required to report such matters to the Financial Supervisory Commission and obtain approval thereof.

The policy reserve amount consists of the following; (i) premium reserves and prepaid insurance premiums which are calculated under the methods determined by the written calculation methods for insurance premiums and policy reserves by insurance types or by lapses of insurance period, with regard to the contracts for which the causes for payment of the Insurance Money have yet to occur as of the end of each accounting period, (ii) amounts for which a lawsuit is pending on the Insurance Money or amounts for which a payment has been fixed with regard to the contracts for which the causes for payment of Insurance Money have occurred as of the end of each accounting period, and amounts which have not been paid yet due to an unsettled amount for paying the Insurance Money, even if the causes for payment of the Insurance Money have already occurred; and (iii) amounts reserved by an insurance company for allocation to policyholders.

Pursuant to the regulations established by the Financial Supervisory Commission, insurance companies are required to maintain allowances for outstanding loans, accounts receivables and other credits (including accrued income, payment on account, and bills receivables or dishonored) in an aggregate amount covering not less than 0.5% of normal credits (excluding confirmed guarantees and acceptances), 2% of precautionary credits, 20% of substandard credits, 50% of doubtful credits and 100% of estimated loss credits, provided that the minimum ratio of allowances for certain type of outstanding loans by insurance companies to individuals and households (including, consumer loans, housing loans, and other forms of consumer loans extended to individuals not registered for business), is increased to 0.75% of normal credits and 5% of precautionary credits.

Liquidity

According to the Insurance Business Act and regulations thereunder, if an insurance company is registered as a foreign exchange business institution with the Ministry of Finance and Economy, such insurance company is required to (1) maintain a ratio of foreign-currency liquid assets due within three months (defined as foreign-currency liquid assets due within three months divided by foreign-currency liabilities due within three months) of not less than 80%,

(2) maintain a ratio of foreign-currency liquid assets due within seven days (defined as foreign-currency liquid assets due within seven days less foreign-currency liabilities due within seven days, divided by total foreign-currency assets) of not less than 0% and (3) maintain a ratio of foreign-currency liquid assets due within a month (defined as foreign-currency liquid assets due within a month less foreign-currency liabilities due within a month, divided by total foreign-currency assets) of not less than negative 10%, if the ratio of foreign-currency

liabilities to the Total Assets (defined as the assets on the balance sheet less unused expenses for new contracts, goodwill and assets in special accounts) is 1% or more.

Variable Insurance

Prior to the enactment of the Indirect Investment Asset Management Business Act on January 4, 2004, insurance companies were engaged in the variable insurance business by establishing special accounts pursuant to the Insurance Business Act. Although the assets held in each special account was separated from other assets held in other special account and other assets of the company and was required to have separate accounting, prior to the enactment of the Indirect Investment Asset Management Business Act, it was difficult to protect against the bankruptcy risk of an insurance company.

After the enactment of the Indirect Investment Asset Management Business Act, variable insurance is regulated pursuant to the Insurance Business Act and the Indirect Investment Asset Management Business Act. After the enactment of the Indirect Investment Asset Management Business Act, in order for an insurance company to sell variable insurance to a policyholder and operate such variable insurance, the insurance company must obtain an approval as an asset management company and register as a selling company with the Financial Supervisory Commission. In this case, according to the Indirect Investment Asset Management Business Act, an insurance company will be regulated as an investment trust and assets acquired in connection with variable insurance must be held by a trust company that is registered with the Financial Supervisory Commission pursuant to the Indirect Investment Asset Management Business Act. However, for those special accounts that were established prior to the enactment of the Indirect Investment Asset Management Business Act, the Insurance Business Act will apply, provided however, upon six months after its enactment, further enrollment into such special accounts is prohibited, with certain exceptions.

According to the Indirect Investment Asset Management Business Act, insurance companies may operate variable insurance through (i) mandating all of the management and the management instruction business to another asset management company, (ii) operating by way of discretionary investment all of the assets constituting the investment advisory assets out of the investment trust assets, or (iii) operating all of the investment trust assets into other indirect investment securities, thereby allowing all of the particular variable insurance assets to be outsourced. According to the Indirect Investment Asset Management Business Act and the Presidential Decree thereunder, indirect investment vehicles in principle may purchase only up to 20% of the indirect investment securities issued by another single indirect investment vehicle, provided that if such securities have been issued by listed index-linked indirect investment vehicles (as defined under the Indirect Investment Asset Management Business Act), the indirect investment vehicles may purchase up to 30% of such securities.

Insurance companies may not transfer assets held in a special account into a general account or a different special account, provided that, for efficient operation of a special account, insurance companies may transfer the initial investment funds held in a general account into a special account. The assets which may be transferred from a general account to a special account must be the lower of 1% of the total asset value in the account or \10 billion. If the value of the assets held in a special account is more than 200% of the initial investment fund at the end of any quarter, the initial investment fund must be transferred back to the general account within three months from the end of such quarter, the value of the assets to be transferred is estimated by the value of the assets in the special account at the time of such transfer.

Solicitation of Insurance Policy & Bancassurance Agents

Under the Insurance Business Act, the following persons are permitted to solicit subscription of insurance: (i) financial planners registered with the Financial Supervisory Service, (ii) insurance agents registered with the

Financial Supervisory Service, (iii) insurance brokers registered with the Financial Supervisory Service, (iv) officers and employees of insurance companies and (v) officers and employees of the insurance agents and brokers described above who are notified to solicit insurance subscription pursuant to the Insurance Business Act. In order for these persons to solicit subscription of insurance contracts that are required to be managed under a special account (including, without limitation, variable insurance contracts), they must pass the examination or complete additional training sessions administered or offered by the Financial Supervisory Commission.

The amendment to the Insurance Business Act which became effective on August 30, 2003 permits banks, securities companies, credit card companies and other financial institutions to register as insurance agents or insurance brokers and engage in the insurance business (the Bancassurance Agents). At the time of the amendments of the Insurance Business Act and the related regulations, the range of insurance products to be sold by the Bancassurance Agents was expected to expand in three stages, the first of which occurred at the time of the amendments, the second of which was to occur in April 2005 and the third of which was to occur in April 2007 when all types of life and non-life insurance products were to be sold by the Bancassurance Agents. However, when the amendment to the Enforcement Decree of the Insurance Business Act, which took effect as of April 2005, delayed and limited the scope of such deregulations, it became unclear whether or when the Bancassurance Agents would be allowed to solicit business insurance subscription.

No Bancassurance Agents with the total assets in excess of W2 trillion as of the end of the most recent operating year is permitted to solicit subscription for insurance products of any single life insurance company or non-life insurance company in excess of 25% of the total amount of the subscriptions for all life insurance products or all non-life insurance products, as the case may be, solicited by such Bancassurance Agents during any operating year. In addition, the aggregate amount of subscriptions solicited by any Bancassurance Agents for insurance products of any life insurance company or non-life insurance company and those of any other companies that have special relationships with such insurance company as prescribed under the Enforcement Decree of the Insurance Business Act is not allowed to exceed 33% of the total amount of the subscriptions for all life insurance products or all non-life insurance products, as the case may be, solicited by such Bancassurance Agents during any operating year. The Bancassurance Agents is only allowed to solicit subscription for insurance products at its office with no more than two persons per office who are officers or employees registered with the Financial Supervisory Service through face-to-face meetings with potential policyholders at designated places or is allowed to solicit subscription from the general public by introducing its products on its websites. The Bancassurance Agents is not allowed to cause officers or employees of insurance companies, financial planners, or insurance brokers or agents dispatched to such Bancassurance Agents to solicit subscription for insurance products, nor is it allowed to exert undue influence on the operation of insurance companies.

Financial Exposure to Any Single Borrower and Major Shareholders

Under the Insurance Business Act, an insurance company is not allowed to extend credit or any equivalent thereof to a single individual or legal entity, similarly situated borrowers (as defined below), its subsidiary or major shareholder, in each case in excess of the following amount:

with respect to the sum of credit to a single individual or legal entity, 3% of its Total Asset (as defined above);

with respect to the total amount of investment in the debentures or shares issued by a single legal entity, 7% of its Total Asset;

with respect to the sum of (i) credit to a single individual or legal entity and any other persons who share the credit risk of such individual or legal entity (the similarly situated borrowers) and (ii) the amount of investment in the debentures or shares issued by such similarly situated borrowers, 12% of its Total Asset;

with respect to the sum of the large credit which is credit to a single individual or legal entity, similarly situated borrowers or major shareholders that exceeds 1% of its Total Asset, 20% of its Total Asset;

with respect to the sum of credit to a single subsidiary, 10% of the Equity Capital (defined as the sum of paid-in capital, capital surplus, earned surplus and others equivalent thereto (excluding any recapitalization) that are obtained by subtracting the aggregate amount of items such as goodwill and others equivalent thereto prescribed by the Presidential Decree from the aggregate amount of the items prescribed by the Presidential Decree) of such insurance company;

with respect to the sum of credit to major shareholders or subsidiaries designated by the Presidential Decree, the lesser of (i) 40% of its Equity Capital and (ii) 2% of its Total Asset; and

with respect to the total amount of investment in the debentures or shares issued by major shareholders or subsidiaries designated by the Presidential Decree, the lesser of (i) 60% of its Equity Capital and (ii) 3% of its Total Asset.

According to the Insurance Business Act and the Presidential Decree thereunder, an insurance company which intends to extend credit to its major shareholder in an amount equal to or in excess of the lesser of 0.1% of its Equity Capital and W1 billion or to buy debentures or shares issued by such person for the purchase price equal to or in excess of such amount must obtain the unanimous approval of its board of directors. Furthermore, an insurance company is not allowed to, directly or indirectly, extend any credit for the purpose of assisting any major shareholder in equity investment in other companies, or transfer of any asset to the major shareholder without consideration, or sell or exchange any assets or extend any credit to the major shareholder on terms that are materially adverse to such company.

Restrictions on Investment of Assets

According to the Insurance Business Act, insurance companies are prohibited from making any of the following investment of assets:

subject to certain exceptions, owning precious metals, antiques and paintings and writings;

owning any real estate (excluding any real estate owned as a result of enforcing their own security interest) other than real estate for the conduct of its business as designated by the Presidential Decree. In any case, the total amount of real estate owned by an insurance company must not exceed 15% of its Total Asset;

loans made for the purpose of speculation in commodities or securities;

loans made directly or indirectly to enable a natural or legal person to buy their own shares;

loans made directly or indirectly to finance political campaigns and other similar activities; and

loans made to any of the insurance company s officers or employees other than loans based on insurance policy or de minimis loans of up to (1) W20 million in the case of a general loan, (2) W50 million in the case of a general loan plus a housing loan, or (3) W60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions.

In addition, insurance companies are not allowed to exceed the following limits in making the following investments:

with respect to holding unlisted stock, 10% of the asset of any special account;

with respect to holding foreign currency under the Foreign Exchange Transaction Act or owning offshore real estate, 20% of the asset of any special account; and

with respect to the sum of margins for a futures exchange designated by the Presidential Decree or a foreign futures exchange, 3% of the asset of any special account.

Life insurance companies are required to extend loans of not less than 35% of the annual increase in the corporate loans (with the exclusion of those to the banks and securities companies) to the small and medium-sized enterprises.

Restrictions on Shareholdings in Other Companies

Under the Insurance Business Act, an insurance company may not own more than 15% of the issued and outstanding voting shares of another company, except when the insurance company obtains approval of the Financial Supervisory Service with respect to having subsidiaries that are engaged in any of the following business:

- the finance-related business of the financial institutions as designated under the Act on Structural Improvement of Financial Industry;

The credit information business designated by the Use and Protection of Credit Information Act (excluding the credit evaluation business designated thereunder);

The business of administering insurance contracts including the maintenance, rescission, amendment and reinstatement and the like; and

Other businesses that do not undermine the soundness of the insurance business as prescribed under the Presidential Decree of the Insurance Business Act.

Disclosure of Management Performance

Pursuant to the Insurance Business Act and regulations thereunder, an insurance company is required to make a periodic disclosure of any material matters relating to management performance, profit and loss, corporate governance, workforce, risk management or others within three months following the end of each fiscal year and within two months following the end of the first half of the fiscal year.

Furthermore, an insurance company must disclose, on an ongoing basis, the public and the Financial Supervisory Service of the occurrence of any events designated by the regulations of the Financial Supervisory Commission and the guidelines of the Korea Life Insurance Commission or the Korea Non-Life Insurance Commission that may have a material adverse effect on the management of such insurance company immediately after such occurrence.

Deposit Insurance System

The Depositor Protection Act provides for, through a deposit insurance system, insurance for certain premiums and other amounts payable to policyholders by insurance companies (other than those relating to variable insurance contracts). Under the Depositor Protection Act, all insurance companies subject to the Insurance Business Act, including Shinhan Life Insurance, are required to pay to the Korea Deposit Insurance Corporation an insurance premium for such insurance on an annual basis at such rate as determined by the Presidential Decree of the Depositor Protection Act, which shall not exceed 0.5% of the amount designated by the Presidential Decrees of the Depositor Protection Act, taking into account the policy reserves of insurance companies in any given year (the Premium Amount). The current insurance premium payable by Shinhan Life Insurance is 0.03% of the Premium Amount for each year. If the Korea Deposit Insurance Corporation pays the insured amount to any policyholders, it will acquire the claims of the policyholders in an amount not to exceed the amount of such payment. Under the current rules, the Korea Deposit Insurance Corporation insures only up to a total of W50 million for premiums, surrender value to a policyholder or any other amount payable to such policyholder by the insurance company, regardless of when the premiums were paid and the size of the amount payable to such policyholder.

PROPERTIES

Our registered office and corporate headquarters are located at 120, 2-Ga, Taepyung-Ro, Jung-Gu, Seoul 100-102, Korea. Information regarding certain of our properties in Korea is presented in the following table.

Type of Facility	Location	Area (Square Meters) Building	Site (If Different)
Registered office and corporate headquarters	120, 2-Ga, Taepyung-Ro, Jung-Gu, Seoul 100-102, Korea	59,743	4,416
Good Morning Shinhan Securities	23-2, Yoido-Dong, Youngdungpo-Gu, Seoul, Korea 150-312	70,170	4,765
Shinhan Centennial Building	117, Samgak-Dong, Jung-Gu, Seoul, Korea	19,697	1,389
Shinhan Bank Gwanggyo Branch	14, 1-Ga, Namdaemun-Ro, Jung-Gu, Seoul, Korea	20,379	6,724
Shinhan Myongdong Branch	53-1, 1-Ga, Myong-Dong, Jung-Gu, Seoul, Korea	8,936	1,014
Shinhan Youngdungpo Branch	57, 4-Ga, Youngdungpo-Dong, Youngdungpo-Gu, Seoul, Korea	6,171	1,983
Shinhan Back Office Support Center	781, Janghang-Dong, Ilsan-Gu, Goyang-Si, Kyunggi Province, Korea	24,496	5,856
Storage(1)	731, Yoksam-Dong, Kangnam-Gu, Seoul, Korea	23,374	7,964
Storage(2)	1704-Ga, Yongam-Dong, Sangdang-Gu, Cheongju-Si, Chungcheongbuk-Do, Korea	5,756	6,398
LG Card Customer Satisfaction Center	790-5, Yoksam-Dong, Kangnam-Gu, Seoul, Korea	7,348	1,185

Notes:

(1) Formerly used as an information technology center.

(2) Formerly used as an information technology back-up center.

Our subsidiaries own or lease various land and buildings for their branches and sales offices.

As of December 31, 2006, Shinhan Bank had a countrywide network of 1,007 branches. Approximately 23.4% of these facilities was housed in buildings owned by us, while the remaining branches are leased properties. As of December 31, 2006, Jeju Bank had 36 branches of which we own 18 of the buildings in which the facilities are located, representing 50.0% of its total branches. Lease terms are generally from two to three years, and seldom exceed five years.

As of December 31, 2006, Shinhan Life had 127 branches all of which we leased for a term of generally one to two years. As of December 31, 2006, Good Morning Shinhan Securities had 80 branches of which we own 15 of the buildings in which the facilities are located, representing 15.0% of its total branches. Lease terms are generally from two to three years, and seldom exceed five years. As of December 31, 2006, Shinhan Card had 27 sales offices, all of which are leased. Lease terms are generally from two to three years, and seldom exceed five years. As of December 31, 2006, LG Card had 70 braches, all of which we leased from a term of generally one to two years. We also lease LG Card s headquarters for a term of two years. Shinhan Bank houses its central mainframe computer system at its information technology centers in Ilsan, one of the suburban districts outside of Seoul.

The net book value of all the properties owned by us at December 31, 2006 was W1,609 billion. We do not own any material properties outside of Korea.

ITEM 5. *OPERATING AND FINANCIAL REVIEW AND PROSPECTS*

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements included in this document. The following discussion is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP.

Overview

The Korean Economy

Economic conditions in Korea, elsewhere in Asia, 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 1997 and 1998, Korea experienced a severe financial and economic downturn characterized by, among other things, significant corporate failures, instability in the financial sector, credit and liquidity concerns and volatility in the domestic financial and currency markets. In response, the International Monetary Fund provided a financial aid package to Korea and in late 1997, the government initiated a comprehensive program to address some of the structural weaknesses in the Korean economy. As part of that program, there have been certain significant changes in regulations specifically affecting financial institutions, including changes in loan classification and loss provisioning guidelines, Korean GAAP, securities valuation methods and liquidity requirements. As a result of the downturn, in 1998 there was a general increase in interest rates in Korea and we experienced a decrease in the demand for loans and other products. Since financial crisis of the late 1990 s, the general level of interest rates continued to decrease and demand for financial products increased until October 2005. From October 2005 to August 2006, the Bank of Korea has raised the call rates on five occasions by 25 basis points per occasion, which raised the call rate from 3.25% as of October 2005 to 4.5% as of August 2006. We anticipate that this rate will remain relatively stable in the near future, given the two offsetting policy directives of stimulating the general economy and easing the incentives for speculation on real estate investments.

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, the looming prospect of war in Iraq throughout much of 2002, on-going tensions between the United States and North Korea and the impact of SARS, on global exports and GDP growth rates. Recently, we have witnessed mixed signals of recovery and continuing difficulties in the global economy. While the global economy has shown signs of recovery, the recent increase in oil price and other raw materials as well as concerns raised by the rapid economic growth and expansion in China have partially offset this trend. We believe the capital markets will expand on a global basis due to the expanded liquidity driven by low interest rates in general, although such expansion will be accompanied by a greater risk of substantial market adjustments in the event of the bursting of the speculative bubble, which may contribute to a downturn in the global business cycle.

In addition, the economic conditions of Korea s major trading partners, such as China, Japan and the United States, and volatility in exchange rates and commodity prices (including oil prices) continue to affect the Korean economy. In particular, the recent and significant appreciation of the Korean Won against the U.S. dollar and other major foreign currencies have resulted in adverse effects on the price competitiveness of Korean companies in export markets.

Government Regulation and Policy

Over the past thirteen years successive Korean government administrations have taken steps to reform the Korean economy in line with prevailing international standards. The reforms have focused on restructuring the large corporate sector and reducing *chaebol* influence; modernizing the banking sector to eliminate policy lending and most interest rate regulations, to improve credit risk evaluation and provisioning, and to increase transparency; creating a more liquid and efficient domestic capital market; and fostering changes in the law to support these developments. This ongoing proactive government role has had, and will continue to have, a profound effect on the Korean banking sector. Over the past several years national banks have undergone consolidation and banks lending primarily to large corporate borrowers have shifted their focus to the retail and small- and medium-sized enterprise sectors. This shift has led to very intense competition in sectors which have historically been our principal markets.

The result so far has been a major increase in retail sector lending levels, including credit cards and home mortgages, with attendant pressures on margins and credit quality for the sector as a whole. Government initiatives to further regulate this sector have also affected the market. 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%. In recent years, the Korean government has issued several policy-driven regulations to suppress the increasing real estate prices in certain zones of the Seoul Metropolitan area that are in high demand, including the further reduction of maximum loan-to-value ratio applicable to mortgage and home equity loans for real estate in those regulated zones. In addition, we expect that the current focus on small- and medium-sized enterprise lending will lead to competitive pressures and possibly regulatory initiatives in this segment as well. Our ability to anticipate and respond to government initiatives and their competitive implications will have a significant effect on our future performance.

Basel Capital Accord

In December 2004, the Financial Supervisory Service announced that it would implement Basel II in Korea by the end of 2007. The implementation of Basel II will have a substantial effect on the way risk is measured among Korean financial institutions, including us. Building upon the initial Basel Capital Accord of 1988, which focused primarily on market risk and capital adequacy and asset soundness as measures of risk, Basel II expands this approach to contemplate additional areas of risk such as operational risk when calculating risk-weighted assets. Our implementation of Basel II may require an increase in our capital requirements, which may require us to either improve our asset quality or raise additional capital.

Market Developments

Since 2001, home purchases through mortgage and home equity loans increased significantly due to soaring real estate prices. As a result, consumer debt has constantly increased since 2002. The recent increase in real estate prices can be attributable to an increase in investment demand in real estate and a highly liquid market condition. However, consumer spending has not increased due to slowdown in the overall economy and decrease in consumer income, which was further aggravated by the effects from the restructuring of the credit card industry. Such restructuring was largely completed in 2005, and since then consumption has been steadily increasing. Private consumption increased by 3.2% in 2005 and by 4.2% in 2006. We believe that private consumption will continue to increase in 2007.

The Korean government s deregulation of the financial sector and policy to increase consumer spending through credit cards, and excessive competition among credit card companies resulted in the deterioration of credit companies assets and large number of individual credit delinquencies. This further led to financial difficulties among credit card companies, including LG Card, which has since been acquired by us.

In 2003, the credit risk of large corporations increased significantly as a result of accounting irregularities discovered at SK Networks. In 2004, credit risk of large corporations improved as a result of reduced leverage through corporate restructuring and increase in cash flow from exports of corporate customers. However, decrease in consumer spending continued to adversely affect corporate expenditures as well as revenues earned by small- and medium-sized enterprises focusing on the domestic market, which in some cases led to heightened risk of insolvency for small- and medium-sized enterprises. Since the second half of 2005, small-and medium-size enterprises have gradually been adjusting to changes in market conditions, and the credit risks of such enterprises have relatively stabilized.

In 2006, the credit risks of the major banks in Korea remained relatively low, with the delinquency ratio below 1% with respect to each of the corporate segments (including the small-to-medium enterprises), the household segments and the credit card segment and a decrease in loss provisions.

As a result of revived domestic consumption, decrease in credit card and other consumer loan delinquencies, continued growth in the export sector, an increase in corporate investments and signs of resolution of the North Korean nuclear crisis following the six-party talks, we expect the Korean economy to maintain stable growth in the near future. However, we cannot assure the Korean economy will continue to grow in the near future in light of risks associated with the high fuel prices, the appreciation of Won, the potential bubble in the stock market and the

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weakening of the real estate market, among others. Korea s real gross domestic products grew by 4.7% in 2004, 4.0% in 2005 and 5.0% in 2006 while the unemployment rate remained relatively stable at 3.7%, 3.7% and 3.5% in 2004, 2005 and 2006, respectively.

Interest Rates

Over the past ten years, we have operated in environments characterized by high interest rates, periods of significant interest-rate volatility and low interest rates. The following table shows certain benchmark Won-denominated borrowing interest rates as of the dates indicated.

	Corporate Bond Rates(1)	**Treasury Bond Rates(2)**	**Certificate of Deposit Rates(3)**
December 31, 2002	5.68	5.11	4.90
June 30, 2003	5.45	4.16	4.30
December 31, 2003	5.58	4.82	4.36
June 30, 2004	4.84	4.24	3.93
December 31, 2004	3.72	3.28	3.43
June 30, 2005	4.41	4.02	3.54
December 31, 2005	5.52	5.08	4.09
June 30, 2006	5.20	4.92	4.59
December 31, 2006	5.29	4.92	4.86
March 31, 2007	5.19	4.76	4.94

Source: The Bank of Korea

Notes:

(1) Measured by the yield on three-year AA- rated corporate bonds.

(2) Measured by the yield on three-year treasury bonds.

(3) Measured by the yield on certificates of deposit (with maturity of 91 days).

Interest rate movements on the asset and liability side have often been divergent, both in terms of the size of the movement as well as the timing thereof, and the movements together with this divergence have had a significant impact on our margins, particularly with respect to financial products that are sensitive to such fluctuations. We continually manage our respective balance sheet to minimize volatility exposure, but the impact has been, and may continue to be, significant in analyzing period-to-period margin comparisons and the trends that they may indicate for our business.

Financial Holding Company Restructuring

On September 1, 2001, we restructured our corporate existence as a financial holding company by exchanging the shares of our common stock for the respective shares of common stock held by the shareholders of Shinhan Bank, Shinhan Capital, Shinhan Securities and Shinhan Investment Trust Management Company. Upon successful restructuring into a financial holding company, Shinhan Bank, Shinhan Capital, Shinhan Securities and Shinhan Investment Trust Management Company have all become our wholly-owned subsidiaries. This restructuring has been accounted for using the purchase method of accounting, with Shinhan Bank being the accounting acquirer.

Financial Impact of Acquisitions

Acquisition of LG Card

On March 19, 2007, we acquired 98,517,316 shares, or 78.6%, of LG Card s issued and outstanding common stock through a tender offer to the public, following which we owned 85.73% of LG Card s outstanding common shares, when counted together with the shares of LG Card previously held by us.

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The acquisition of LG Card was accounted for under the purchase method of accounting in accordance with SFAS 141. The purchase price has been allocated to the assets acquired and the liabilities assumed based on their estimated fair values as of February 28, 2007 as summarized below. The information below is unaudited and this allocation is based on management s current estimation and could change as their fair value calculations are finalized and more information becomes available. In addition, since LG Card became our subsidiary in March 2007, the figures below are not reflected in our consolidated financial statements as of and for the year ended December 31, 2006.

		(In millions of Korean Won)
Cash and cash equivalents	W	240,452
Deposits		2,289
Call loans		473,361
Trading assets		1,039
Securities		36,540
Loans, net of allowance for loan losses		8,218,874
Premises and equipment, net		105,548
Other assets		548,225
Total assets		9,628,928
Due to depositors		
Borrowings and debentures		5,818,374
Other liabilities		1,077,130
Total liabilities		6,895,504
Fair value of net assets of LG Card	W	2,731,424

The allocation of the purchase consideration is as follows:

		(In millions of Korean Won)
Market value of consideration	W	6,676,519
Direct acquisition costs		7,225
Total purchase price	W	6,683,744(1)
Allocation of purchase price:		
Fair value of net assets of LG Card (excluding effect of deferred taxes)	W	2,973,914
Deferred tax		(242,490)
Credit card relationship intangible asset		917,101
Goodwill		3,035,219

Total purchase price	W	6,683,744

Note:

(1) The total purchase price was paid in cash.

Credit card relationship intangible reflects the estimated fair value of the credit card relationships acquired from LG Card from which the Group expects to derive future benefits over the estimated life of such relationships. The customer relationship intangible is amortized over its estimated useful life on a sum-of-the years -digits basis. The estimated weighted average life of the customer relationship intangible is approximately six years. The fair value of this asset was based principally upon the estimates of (i) the profitability of the acquired accounts and (ii) the projected run-off of the acquired accounts.

See Item 4. Information on the Company Acquisition of LG Card .

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Acquisition of Good Morning Securities

In December 2004, we completed the acquisition of the 100% equity interest in Good Morning Shinhan Securities through a small-scale share exchange pursuant to applicable Korean laws. Good Morning Shinhan Securities was delisted from the Stock Market Division of the Korea Exchange on January 5, 2005.

As of December 31, 2006, we recorded W129 billion of impairment loss on goodwill with respect to Good Morning Shinhan Securities due to a reduction in the volume of brokerage transactions due to the growing popularity of investment funds, which Good Morning Shinhan Securities is not permitted to service. The carrying amount of goodwill currently is W16 billion.

Acquisition of Shinhan Life Insurance

In December 2005, in a series of related transactions, we completed the acquisition of the 100% equity interest in Shinhan Life Insurance, an insurance company, through a small scale share exchange mechanism provided under applicable Korean law, pursuant to which we issued 17,528,000 new shares of our common stock to the shareholders of Shinhan Life Insurance in exchange for all outstanding common stock of Shinhan Life Insurance held by them for an aggregate purchase price of W612 billion, or W15,300 per share. As part of this share exchange, Shinhan Bank exchanged 5,524,772 shares of common stock of Shinhan Life Insurance previously held by it into 2,420,955 shares of our common stock and Good Morning Shinhan Securities exchanged 464,800 shares of common stock of Shinhan Life Insurance previously held by it into 203,675 shares of our common stock. Similarly, as part of this transaction, Shinhan Life Insurance also exchanged 9,000 shares of its common stock, which Shinhan Life Insurance acquired as a result of the exercise of appraisal rights by dissenting shareholders of Shinhan Life Insurance, into 3,943 shares of our common stock. All of the shares of our common stock so exchanged have been sold in the market.

Certain Income Tax Expenses and Provision for Other Losses

Beginning in 2002, commercial banks in Korea, including Shinhan Bank and Chohung Bank, offered to their customers deposit products that utilize Korean Won and Japanese Yen swaps to maximize the return for such customers. According to the terms of these deposit products, deposits made by customers in Korean Won are converted into Japanese Yen and repaid in Japanese Yen at maturity. The repayment amount is then converted back into Korean Won. While these deposit products typically carry a low interest rate, ranging from 0.05% to 0.3% per annum, the actual return to the customers was higher as a result of foreign exchange gains. These deposit products are attractive to customers, in particular high net worth customers, since the gains from foreign exchange were deemed not to be interest subject to income tax. However, in 2005, the Korean National Tax Service announced that foreign currency deposits disguised as derivative products would be subject to tax and tax withholding and issued a recommendation that the banks should refile its tax returns to include the unwithheld amounts. Eight of the commercial banks in Korea, who are subject to this adverse tax treatment, have announced their intention to challenge the foregoing decision by the Korean National Tax Service while complying with the Tax Service s information requests. Following the announcement, Shinhan Bank ceased to offer these deposit products.

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

In October 2006, following a tax audit of us, the Korean National Tax Service imposed additional taxes in the amount of W12 billion with respect to our tax liabilities and additional taxes in the amount of W21 billion with respect to our customers tax liabilities, in each case, in respect of the deposits utilizing the Korean Won and Japanese Yen swaps as described above. We are currently appealing such imposition by the Korean National Tax Service although we have already made the imposed payments in order to avoid any further interest and penalty on unpaid taxes. For the purpose of fostering customer goodwill, we have determined, on a voluntary basis, to indemnify our customers for their increased tax liability to the extent resulting from their investment in these deposit products, including any additional tax liability that our customers may have against the Korean National Tax Service for gifts tax from the benefit of this indemnity. In 2006, based on the assumption that we may be subject to maximum additional tax-related liability, including the liability from the indemnity to our customers, we recorded a total charge to our income of W52 billion in the year ended December 31, 2005, consisting of additional tax expenses of W13 billion and provision for other losses of W39 billion. In addition, we also recorded W11 billion as deferred tax assets on our balance sheet as of December 31, 2006.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with US GAAP, including prevailing practices within the financial services industry. The preparation of consolidated financial statements requires management to make judgments, involving significant estimates and assumptions, in the application of certain accounting policies about the effects of matters that are inherently uncertain. These estimates and assumptions, which may materially affect the reported amounts of certain assets, liabilities, revenues and expenses, are based on information available to us as of the date of the financial statements, and changes in this information over time could materially impact amounts reported in the financial statements as a result of the use of different estimates and assumptions. Certain accounting policies, by their nature, have a greater reliance on the use of estimates and assumptions, and could produce results materially different from those originally reported.

Based on the sensitivity of financial statement amounts to the methods, estimates and assumptions underlying reported amounts, we have identified the following significant accounting policies that involve critical accounting estimates. These policies require subjective or complex judgments, and as such could be subject to revision as new information becomes available. Our significant accounting policies are described in more detail in Note 1 in the notes to our consolidated financial statements included in this annual report.

Allowance for Credit Losses

The allowance for credit losses includes allowance for loan losses and allowance for off-balance sheet credit instruments. The allowance for loan losses is reported as a reduction of loans and the allowance for off-balance sheet credit instruments is reported in other liabilities. The allowance for credit losses represents the amount available for estimated probable credit losses existing in our lending portfolio. The methodology used to provide the appropriate level of reserve is inherently subjective and involves many complex estimates and assumptions. We perform periodic systematic reviews of our credit portfolios to identify inherent losses and assess the overall probability of collection. Each loan portfolio is evaluated based on its respective characteristics.

We evaluate large impaired corporate loans individually as part of our normal corporate review practice due to the unique characteristics of such borrowers. As described in more detail in the footnotes to our consolidated financial statements, we consider a loan to be impaired when, after consideration of risk characteristics and current information and events, we believe it is probable that we will be unable to collect all amounts owed under the contractual terms of the agreement, including principal and interest, according to the contractual terms of the loan.

We generally consider the following corporate loans to be impaired:

- loans classified as substandard or below according to the asset classification guidelines of the Financial Supervisory Commission;
- loans that are 90 days or more past due; and
- loans which are troubled debt restructuring as defined under U.S. GAAP.

Once we have identified a loan as impaired, we value that loan either based on the present value of expected future cash flows discounted at the loan s effective interest rate or, as a practical expedient, at the loan s observable

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market price or the fair value of the collateral if the loan is collateral dependent. Each of these variables involves judgment and the use of estimates. For instance, discounted cash flows are based on estimates of the amount and timing of expected future cash flows. Forecasts of expected future cash flows are based on various data including restructuring plans, due diligence reports, as well as industry forecasts among other quantitative tools. The fair value of collateral is determined by using third party valuation reports. Additional consideration is given to recent auction results and court valuations. If the resulting value is less than the carrying amount of the loan, we establish a specific allowance for the difference.

We generally evaluate consumer loans and certain smaller balance corporate loans, including leases, mortgage and home equity loans, and credit card balances, as individual pools for credit loss allowance purposes due to their homogeneous nature based on historical loss experience. Such allowances have been established using a risk rating migration model when considering consumer loans and a delinquency roll-rate model when considering credit cards.

The allowance for off-balance sheet credit instruments represents the amounts available for estimated probable credit loss existing in our unfunded credit facilities such as commitments to extend credit, guarantees, acceptances, standby and commercial letters of credit and other financial instruments. As stated above, we perform periodic systematic reviews of our credit portfolio including off-balance sheet credit instruments to identify inherent losses and assess the overall probability of collection.

When we evaluate large impaired corporate loans individually for specific allowance, the related guarantees and acceptances made to the same borrowers are also evaluated for inherent loss. We generally evaluate the remaining guarantees and acceptances, which are generally smaller balances, on a pool basis. Allowance for the remaining guarantees and acceptances is generally established using estimated payout ratios and loss severity which are based on historical loss experience and various factors such as macroeconomic factors.

The determination of the allowance for credit losses requires a great deal of judgment and the use of estimates as discussed above. As such, we have also considered changes in underwriting, credit monitoring, the Korean and global economic environment, industry concentrations, and delinquencies among other factors when concluding on the level of the allowance for credit losses.

Fair Value of Financial Instruments

Our securities and trading assets and liabilities include debt and marketable equity securities, equity securities that do not have readily determinable fair values and derivatives. Fair value of financial instruments is the current amount that would be exchanged between willing parties, other than in a forced sale or liquidation. The fair values of our securities and trading assets and liabilities are estimated based on quoted market prices or internally developed pricing models.

Fair value is best determined based on quoted market prices, if available. If quoted market prices are not available, fair value is estimated using the present value of expected future cash flows calculated by using market interest rates comparable with the credit rating and maturity of the security. An alternative to estimate fair value is to use internally developed pricing models based on external market variables including interest rate yield curves, option volatilities and foreign exchange rates. The estimation of fair value involves the assessment of various financial variables, prices of comparable financial instruments, credit ratings of counterparties, liquidity of the financial instruments and transaction costs. Our management applies judgments in assessing the variables used in the fair valuation process and also if certain external market variables are less readily available. Changes in model assumptions, market conditions and unexpected circumstances can affect the fair values of the securities and trading assets and liabilities.

Debt securities and equity securities with readily determinable fair values classified as available-for-sale are carried at fair value with corresponding changes recognized in other comprehensive income within stockholders equity net of taxes. Debt securities classified as held-to-maturity securities are recorded at amortized cost. Equity securities that do not have readily determinable fair values are carried at cost. Declines in values of available-for-sale securities, held-to-maturity debt securities and equity securities that do not have readily determinable fair values that are deemed to be other-than-temporary are reflected in earnings as realized losses. We perform regular assessment of various quantitative and qualitative factors to determine whether impairment is other-than-temporary. Such factors include the duration and extent of the decline in the fair values of securities, the current operating and future expected performance, market values of comparable companies, and changes in industry and market prospects. These factors can be adversely affected by changing economic conditions that are global or regional in nature or are issuer or industry specific. For certain securities without readily determinable fair values or with sales restrictions exceeding one year, we may periodically utilize external valuations performed by qualified independent valuation consulting firms.

Trading assets and liabilities are carried at fair value with the corresponding changes recognized in earnings. The majority of our trading assets and liabilities that are actively traded are valued based on quoted market prices except for derivatives. Since few derivatives are actively traded, the majority of our derivatives are valued using internally developed models based on external market variables that can be independently validated by third party sources. However, certain derivatives are valued based on external market variables that are less readily available and are subject to management judgment. For certain derivatives not valued by our internally developed models, we periodically utilize external valuations performed by qualified independent valuation consulting firms.

In August 2003, we issued redeemable preferred shares and redeemable convertible preferred shares as part of the consideration paid to the Korea Deposit Insurance Corporation in connection with our acquisition of Chohung Bank. In January 2007, we issued additional redeemable preferred shares and redeemable convertible preferred shares to 12 government entities and financial institutions in Korea to raise funds for the acquisition of LG Card. Our redeemable preferred shares and redeemable convertible preferred shares are evaluated and recognized initially at fair value based on the present value of their future cash dividend payments and repayment provisions. Changes in the expected future cash dividend payments, repayment provisions or model assumptions and variables used can affect the fair values of the preferred stock. See note 22 in the notes to our consolidated financial statements included in this annual report for additional information related to our redeemable preferred shares.

Goodwill and Other Intangible Assets

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards, or SFAS , No. 142, *Goodwill and Other Intangible Assets*, (SFAS No. 142) as required by the accounting principles generally accepted in the United States.

SFAS No. 142 classified intangible assets into three categories: (1) intangible assets with definite lives subject to amortization; (2) intangible assets with indefinite lives not subject to amortization; and (3) goodwill. For intangible assets with definite lives, tests for impairment must be performed if conditions exist that indicate the carrying amount may not be recoverable. For intangible assets with indefinite lives and goodwill, tests for impairment must be performed at least annually.

We recognized a significant amount of goodwill in connection with our acquisition of Good Morning Securities. In addition, we acquired core deposit, brokerage customer relationship and Korea Securities Finance Corporation deposit in connection with our acquisitions of Good Morning Securities and Jeju Bank in 2002. We also recognized a significant amount of goodwill in connection with our acquisition of Chohung Bank. In addition, we acquired core deposit, credit card and court deposit intangible assets in connection with our acquisitions of Chohung Bank in 2003. We also recognized a significant amount of goodwill in connection with our acquisition of Shinhan Life Insurance. In addition, we acquired a value of business acquisition, or VOBA, in connection with our acquisition of Shinhan Life Insurance in 2005. For discussions on the nature and accounting for goodwill and intangible assets see Notes 1, 3 and 10 in Item 18. Financial Statements Notes to the consolidated financial statements of Shinhan Financial Group .

Our core deposit, credit card relationship, brokerage customer relationship and VOBA intangibles determined to have definite lives are amortized over their useful lives. If conditions exist that indicate the carrying amount may not be recoverable, we review these intangible assets with definite lives for impairment to ensure they are appropriately valued. Such conditions may include adverse changes in business or political climate, actions by regulators and customer account run-off rates.

We do not amortize goodwill or indefinite-lived intangibles consisting of court deposits and borrowings from Korea Securities Finance Corporation. Instead, we perform tests for impairment of goodwill annually or more frequently if events or circumstances indicate it might be impaired. Such tests include comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value is less than the carrying value, a second test is required to measure the amount of goodwill impairment. The second step of the goodwill impairment test compares the implied fair value of reporting unit goodwill with the carrying value of that goodwill. If the carrying value of reporting unit goodwill exceeds the implied fair value of that goodwill, we recognize an impairment loss in an amount equal to that excess. Test for indefinite-lived intangible assets, including borrowings from Korea Securities Finance Corporation and court deposits at Chohung Bank, is also carried out on an annual basis on an asset-by-asset basis, or more frequently if events or circumstances indicate they might be impaired. Impairment assessments are performed using a variety of valuation methodologies, including discounted cash flow estimates. Management estimates the future cash flows expected to be derived from the use and, if applicable, the terminal value of the assets. The key variables that management must estimate include, among other factors, market trading volume, market share, fee income, growth rate and profitability margin. Although the assumptions used are consistent with our internal planning, significant management judgment is involved in estimating these variables, which include inherent uncertainties. A discount rate is applied to the cash flow estimates considering our cost of capital rate and specific country and industry risk factors. The cash flows of Shinhan Bank s reporting units were discounted using discount rates ranging from 12.45% to 12.92%.

The sharp decline in the Korean financial industry during the second half of 2002 prompted a re-assessment of all key assumptions underlying our goodwill valuation judgments. As result of our review, we determined that goodwill impairment charges of W115 billion and W22 billion were required on the goodwill recorded in the brokerage and capital market units of Good Morning Shinhan Securities. The decline of the brokerage industry during 2006 required us to further assess key assumptions underlying our goodwill valuation judgment. As result of our review, we determined that goodwill impairment charges of W129 billion were required on the goodwill recorded in the brokerage market unit of Good Morning Shinhan Securities. The amount of these charges were equal to the difference between the carrying amount of goodwill and its implied fair value, which is based on the fair value of the net assets in respect of reporting units.

The assumptions and conditions for goodwill and intangible assets reflect management s best assumptions and estimates. However, these items involve inherent uncertainties, as described above, that may or may not be controllable by management. Economic and political conditions, such as movements in interest rates, delinquencies in Korea and tension with North Korea, represent uncertainties that are not controllable by management. As a result, if other assumptions and conditions had been used in the current period, the carrying amount of goodwill and other intangible assets could have been materially different. Furthermore, if management uses different assumptions, including the discount rates used to determine the implied fair value of reporting units, or if different conditions occur in future periods, future operating results could be materially impacted.

See notes 3, 10 and 20 in the notes to our consolidated financial statements included in this annual report for additional information related to goodwill and intangible assets.

Consolidation

Under the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 46 and 46R, *Consolidation of Variable Interest Entities* (FIN 46 and FIN 46R), a variable interest entity (VIE) is consolidated by the company holding the variable interest that will absorb a majority of the VIE s expected losses, or receive a majority of the expected residual returns, or both. All other entities are evaluated for consolidation under Statement of Financial Accounting Standards, or SFAS, No. 94, *Consolidation of All Majority-owned Subsidiaries* (SFAS 94). The company that consolidates a VIE is referred to as the primary beneficiary. A variety of complex estimation processes involving both qualitative and quantitative factors are used to determine whether an entity is a variable interest entity, to analyze and calculate expected losses and expected residual returns, which involves estimating the future cash flows of the VIE and analyzing the variability in those cash flows, and allocating the losses and returns among the parties holding variable interests. Also, there is a significant amount of judgment required in interpreting the provisions of FIN 46 and FIN 46R and applying them to specific transactions.

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In our case, FIN 46 and FIN 46R apply to certain asset securitization transactions involving our corporate loans, credit card receivables, mortgage and student loans, financing activities conducted for corporate clients, including conduits that we administer and/or provide liquidity facilities, as well as for our own funding needs, and investing activities conducted for our own account, such as beneficial certificates in investment trusts and for our customers, such as guaranteed trusts.

See note 36 of the notes to our consolidated financial statements included in this annual report for additional information related to VIEs.

In connection with certain asset securitization transactions, we do not sell assets to an entity referred to as a qualifying special-purpose entity (QSPE) as defined pursuant to the FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement 125*.

Contingent Liabilities

We are subject to contingent liabilities, including judicial, tax, regulatory and arbitration proceedings, recourse obligations related to loans sold to Korea Asset Management Corporation, contingent payments to the Korea Deposit Insurance Corporation related to our acquisition of Chohung Bank, commitments provided to our customers and other claims arising from the conduct of our business activities. We establish allowances against these contingencies in our financial statements based on our assessment of the probability of occurrence and our estimate of the obligation. We involve internal and external advisors, such as attorneys, consultants and other professionals, in assessing probability and in estimating any amounts involved. Throughout the life of a contingency, we or our advisors may learn of additional information that can affect our assessments about probability or about the estimates of amounts involved. Changes in these assessments can lead to changes in allowances recorded on our financial statements. In addition, the actual costs of resolving these claims may be substantially higher or lower than the amounts provided in our financial statements for those claims.

See note 31 of the notes to our consolidated financial statements included in this annual report for additional information related to the commitments and contingencies, and Note 3 to our consolidated financial statements describe our contingent considerations to the Korea Deposit Insurance Corporation in connection with our acquisition of Chohung Bank.

Valuation allowance for Deferred Tax Assets

We recognize deferred tax assets and liabilities for the future tax consequences attributes to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, net operating loss carryforwards and tax credits. A valuation allowance is maintained for deferred tax assets that we estimate are more likely than not to be unrealizable based on available evidence at the time the estimate is made. Determining the valuation allowance requires significant management judgments and assumptions. In determining the valuation allowance, we use historical and forecasted future operating results, based upon approved business plans, including a review of the eligible carryforward periods, tax planning opportunities and other relevant considerations.

We believe that the accounting estimate related to the valuation allowance is a critical accounting estimate because the underlying assumptions can change from period to period. For example, tax law changes or variance in future projected operating performance could result in a change in the valuation allowance. If we were not able to realize all or part of our net deferred tax assets in the future, an adjustment to our deferred tax assets valuation allowance would be charged to income tax expense in the period such determination was made.

In 2006, we decided that it is more likely than not that we will not be able to utilize in the future certain net deferred tax assets of net operating loss carryforwards of Shinhan Financial Group. Thus we recorded valuation allowance of W25 billion on such deferred tax assets.

See note 25 of the notes to our consolidated financial statements included in this annual report for additional information related to deferred tax assets and valuation allowance.

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Average Balance Sheet and Volume and Rate Analysis

Average Balance Sheet and Related Interest

The following table shows our average balances and interest rates, as well as the net interest spread, net interest margin and asset liability ratio, for the years ended December 31, 2004, 2005 and 2006.

	Year Ended December 31,							
	2004			2005			2006	
	Average Balance(1)	Interest Income/ Expense	Yield/ Rate	Average Balance(1)	Interest Income/ Expense	Yield/ Rate	Average Balance(1)	Interest Income/ Expense
	(In billions of Won, except percentages)							
aring deposits	W 1,322	W 44	3.33%	W 1,778	W 64	3.60%	W 2,607	W 93
and securities under resale s	3,012	93	3.09	2,499	85	3.40	1,674	73
sets	3,666	168	4.58	3,394	111	3.27	4,152	147
2)	20,924	1,265	6.05	19,348	932	4.82	26,785	1,199
al and industrial	35,753	1,876	5.25	36,079	2,075	5.75	36,663	2,349
mercial	21,632	1,311	6.06	20,130	1,145	5.69	21,054	1,433
ncing	1,039	62	5.97	749	47	5.80	656	37
orate	58,424	3,249	5.56	56,958	3,267	5.74	58,373	3,819
and home equity	21,408	1,138	5.32	24,630	1,290	5.24	27,212	1,665
ls	5,575	609	10.92	4,574	589	12.88	4,877	508
umer	14,481	1,146	7.91	15,552	1,150	7.39	19,357	1,389
umer	41,464	2,893	6.98	44,756	3,029	6.77	51,446	3,562
s	99,888	6,142	6.15	101,714	6,296	6.19	109,819	7,381
est-earning assets								
rest-earning assets	W 128,812	W 7,712	5.99%	W 128,733	W 7,488	5.82%	W 145,037	W 8,893
st-earning assets:								
ash equivalents	3,467			3,855			3,910	
ts	12,507			16,779			18,090	
ts	W 144,786	W 7,712		W 149,367	W 7,488		W 167,037	W 8,893
:								
aring deposits:								

aring demand								
	W 7,880	W 105	1.33%	W 6,594	W 125	1.90%	W 7,964	W 146
posits	21,987	272	1.24	26,100	250	0.96	27,279	577
s of deposit	6,735	275	4.08	8,838	338	3.81	9,934	464
deposits	41,863	1,605	3.83	39,031	1,439	3.69	39,644	1,415
tallment deposits	2,487	113	4.54	1,997	83	4.16	1,211	46
est-bearing deposits	80,952	2,370	2.93	82,560	2,235	2.71	86,032	2,648
borrowings	14,934	370	2.48	14,975	357	2.38	13,688	536
rrowings	7,102	299	4.21	6,584	240	3.65	8,132	334
debt	20,136	1,099	5.46	22,209	1,182	5.32	28,839	1,394
est-bearing liabilities								
rest bearing								
	W 123,124	W 4,138	3.36%	W 126,328	W 4,014	3.18%	W 136,691	W 4,912
st-bearing liabilities:								
st-bearing deposits	2,287			2,393			2,166	
bilities	668			1,177			1,635	
e outstanding	1,539			1,944			1,189	
xpenses and other								
	11,455			11,031			16,076	
nterest	324			73			121	
le convertible								
tock	723			585			195	
ers equity	4,666			5,836			8,964	
ilities and								
ers equity	W 144,786	W 4,138		W 149,367	W 4,014		W 167,037	W 4,912
t spread(4)			2.63%			2.64%		
t margin(5)			2.78%			2.70%		
sset liability ratio(6)			104.62%			101.90%		

Notes:

(1) Average balances are based on (a) daily balances for Shinhan Bank and Jeju Bank and (b) quarterly balances for other subsidiaries.

(2) The average balance and yield on securities are based on amortized cost. The yield on the available-for-sale portfolio is based on average historical cost balances, therefore, the yield information does not give effect to changes in fair value that are reflected as a component of stockholders equity.

(3) Non-accruing loans are included in the respective average loan balances. Income on such non-accruing loans is no longer recognized from the date the loan is placed on nonaccrual status. We reclassify loans as accruing when interest (including default interest) and principal payments are current.

(4) The difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities.

(5) The ratio of net interest income to average interest-earning assets.

(6) The ratio of average interest-earning assets to average interest-bearing liabilities.

Analysis of Changes in Net Interest Income Volume and Rate Analysis

The following tables provide an analysis of changes in interest income, interest expense and net interest income between changes in volume and changes in rates for (i) 2005 compared to 2004 and (ii) 2006 compared to 2005. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest-earning assets and average interest-bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to the absolute volume and rate change.

	From 2004 to 2005 Interest Increase (Decrease) Due to Change in		
	Volume	Rate	Change
	(In billions of Won)		
Increase (decrease) in interest income			
Interest-bearing deposits	W 16	W 4	W 20
Call loans and securities purchased under resale agreements	(17)	9	(8)
Trading assets	(12)	(45)	(57)
Securities	(90)	(243)	(333)
Loans:			
Commercial and industrial	17	182	199
Other commercial	(88)	(78)	(166)
Lease financing	(18)	3	(15)
Total corporate	(89)	107	18
Mortgage and home equity	169	(17)	152
Credit cards	(119)	99	(20)
Other consumer	82	(78)	4
Total consumer	132	4	136

Total loans	43	111	154
Other interest-earning assets			
Total interest income	(60)	(164)	(224)
Increase (decrease) in interest expense			
Interest bearing deposits:			
Demand deposits	(19)	39	20
Savings deposits	46	(68)	(22)
Certificates of deposit	81	(18)	63
Other time deposits	(106)	(60)	(166)
Mutual installment deposits	(21)	(9)	(30)
Total interest-bearing deposits	(19)	(116)	(135)
Short-term borrowings	1	(14)	(13)
Secured borrowings	(21)	(38)	(59)
Long-term debt	111	(28)	83
Other interest-bearing liabilities			
Total interest expense	72	(196)	(124)
Net increase (decrease) in net interest income	(132)	32	(100)

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	From 2005 to 2006 Interest Increase (Decrease) Due to Change in Volume	Rate	Change
	(In billions of Won)		
Increase (decrease) in interest income			
Interest-bearing deposits	W 30	W (1)	W 29
Call loans and securities purchased under resale agreements	(32)	20	(12)
Trading assets	26	10	36
Securities	337	(70)	267
Loans:			
Commercial and industrial	34	240	274
Other commercial	55	233	288
Lease financing	(7)	(3)	(10)
Total corporate	82	470	552
Mortgage and home equity	144	231	375
Credit cards	37	(118)	(81)
Other consumer	274	(35)	239
Total consumer	455	78	533
Total loans	537	548	1,085
Other interest-earning assets			
Total interest income	898	507	1,405
Increase (decrease) in interest expense			
Interest bearing deposits:			
Demand deposits	25	(4)	21
Savings deposits	12	315	327
Certificates of deposit	45	81	126
Other time deposits	22	(46)	(24)
Mutual installment deposits	(32)	(5)	(37)
Total interest-bearing deposits	72	341	413
Short-term borrowings	(33)	212	179
Secured borrowings	61	33	94
Long-term debt	328	(116)	212
Other interest-bearing liabilities			
Total interest expense	428	470	898
Net increase (decrease) in net interest income	470	37	507

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Operating Results

2006 Compared to 2005

Net Interest Income

The following table shows, for the periods indicated, the principal components of our net interest income.

	Year Ended December 31,		
	2005	2006	% Change
	(In billions of Won, except percentages)		
Interest and dividend income:			
Interest and fees on loans	W 6,296	W 7,381	17.2%
Interest and dividends on securities	932	1,199	28.6
Trading assets	111	147	32.4
Other interest income	149	166	11.4
Total interest and dividend income	W 7,488	W 8,893	18.8
Interest expense:			
Interest on deposits	W 2,234	W 2,648	18.5%
Interest on short-term borrowings	340	524	54.6
Interest on secured borrowings	240	334	39.2
Interest on long-term debt	1,182	1,394	17.9
Other interest expense	18	12	(33.3)
Total interest expense	4,014	4,912	22.4
Net interest income	W 3,474	W 3,981	14.6%
Net interest margin(1)	2.70%	2.74%	

Note:

(1) The ratio of net interest income to average interest-earning assets. See Average Balance Sheet and Volume and Rate Analysis Average Balance Sheet and Related Interest.

Interest and dividend income. The 18.8% increase in interest and dividend income is due primarily to a 17.2% increase in interest and fees on loans and a 28.6% increase in interest and dividends on securities.

The average balance of our interest earning assets increased 12.7% from W128,733 billion in 2005 to W145,037 billion in 2006, principally as a result of an increase in the average balances of investment securities and loans.

The 28.6% increase in interest and dividends on securities was due primarily to a 38.4% increase in the average balance of securities from W19,348 billion in 2005 to W26,785 billion in 2006, which was partially offset by a decline by 34 basis points in the average yield on securities from 4.82% in 2005 to 4.48% in 2006.

The 17.2% increase in interest and fees on loans was due primarily to the following;

a 29.1% increase in interest and fees on mortgage and home equity loans from W1,290 billion in 2005 to W1,665 billion in 2006, which was due primarily to a 10.5% increase in the average balance of mortgage and home equity loans from W24,630 billion in 2005 to W27,212 billion in 2006 and an increase of 88 basis points in the average yield on such loans from 5.24% in 2005 to 6.12% in 2006;

a 25.2% increase in interest and fees on other commercial loans from W1,145 billion in 2005 to W1,433 billion in 2006, which was due primarily to a 4.6% increase in average balance of other commercial loans from W20,130 billion in 2005 to W21,054 billion in 2006 and an increase by 112 basis points in the average yield on such loans from 5.69% in 2005 to 6.81% in 2006; and

a 13.2% increase in interest and fees on commercial and industrial loans from W2,075 billion in 2005 to W2,349 billion in 2006, which was due primarily to an increase by 66 basis points in the average yield on such loans from 5.75% in 2005 to 6.41% in 2006 and a 1.6% increase in the average balance of such loans from W36,079 billion in 2005 to W36,663 billion in 2006.

Our loans in 2006 recorded a 8.0% increase in average volume from W101,714 in 2005 to W109,819 in 2006, due primarily to an increase in the average balance of consumer loans as follows:

a 10.5% increase in the average balance of mortgage and home equity loans from W24,630 billion in 2005 to W27,212 billion in 2006; and

a 24.5% increase in the average balance of other consumer loans from W15,552 billion in 2005 to W19,357 billion in 2006.

Our credit cards recorded a 6.6% increase in average volume from W4,574 billion in 2005 to W4,877 billion, due primarily to an increase in one-time credit card purchases, which was partially offset by a decrease in cash advances and card loans. The average yield on credit cards decreased by 246 basis points from 12.88% in 2005 to 10.42% in 2006.

Interest Expense. Interest expense increased by 22.4% from W4,014 billion in 2005 to W4,912 billion in 2006, due primarily to a 18.5% increase in interest on deposits from W2,234 billion in 2005 to W2,648 billion, a 17.9% increase in interest on long-term debt from W1,182 billion in 2005 to W1,394 billion in 2006, and a 39.2% increase in interest on secured borrowings from W240 billion in 2005 to W334 billion in 2006.

The 18.5% increase in interest expense on deposits in 2006 was primarily the result of an increase by 46 basis points in the cost of interest-bearing deposits from 2.71% in 2005 to 3.08% in 2006 and a 4.2% increase in the average volume of interest-bearing deposits from W82,560 billion in 2005 to W86,032 billion in 2006.

The principal reason for the increase in interest rates payable on our interest-bearing deposits was the general increase in short-term market interest rates. The average interest rate paid on our savings deposits, which accounted for 31.7% of our average interest-bearing deposits in 2006, increased by 116 basis points from 0.96% in 2005 to 2.12% in 2006. The average interest rate paid on our certificates of deposit, which accounted for 11.5% of our average interest-bearing deposits in 2006, increased by 85 basis points from 3.82% in 2005 to 4.67% in 2006. The average interest rate paid on our time deposits other than certificate of deposit, which generally have maturities of more than one year and accounted for 46.1% of our average interest-bearing deposits in 2006, decreased by 12 basis points from 3.69% in 2005 to 3.57% in 2006.

The increase in the average volume of interest-bearing deposits is due primarily to a 4.5% increase in average volume of savings deposits from W26,100 billion in 2005 to W27,279 billion in 2006 and a 12.4% increase in the average volume of certificate of deposits from W8,838 billion in 2005 to W9,934 billion in 2006, which was partially offset by a 1.6% increase in the average volume of time deposits other than certificates of deposit from W39,031 billion in 2005 to W39,644 billion in 2006 and a decrease in the average volume of other deposit products.

The 17.9% increase in interest expense on long-term debt was due to a 29.9% increase in the average volume of long-term debt from W22,209 billion in 2005 to W28,839 billion in 2006 resulting from the issuance of financial debentures by Shinhan Bank to secure long-term funding for operations and the issuance of corporate debentures and long-term debt by our holding company to fund the operations of its non-banking subsidiaries, make repayments on the redeemable preferred shares and secure advance funding for the LG Card acquisition, which was partially offset by a decline by 14 basis points in the average interest rates paid on our long-term debt from 5.32% in 2005 to 4.83% in 2006, primarily as a result of the general decline in the average market interest in 2006.

The 39.2% increase in interest on secured borrowings was due primarily to an increase by 46 basis points in the average interest rate paid from 3.65% in 2005 to 4.11% in 2006, resulting from an increase in interest rates payable on secured borrowings following the general increase in the average market interest rates.

Net interest margin. Net interest margin represents the ratio of net interest income to average interest earning assets. Our overall net interest margin increased from 2.70% in 2005 to 2.74% in 2006, primarily due to a 14.6% increase in net interest income from W3,474 billion in 2005 to W3,981 billion in 2006 and a 12.7% increase in the average volume of our interest earning assets from W128,733 billion in 2005 to W145,037 billion in 2006.

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Provision for loan losses

Our provision for loan losses was W252 billion in 2006 as compared to reversal of provision for loan losses of W255 billion in 2005, primarily reflecting an increase in the total allowance for loan losses as a result of an increase in the total loan balance, which was partially offset by a decrease by 14 basis points in the rate of provision for loan losses, which is computed as the ratio of allowance for loan losses to the total loan balance. We decreased the rate of provision for loan losses in light of the continued improvement in the credit quality of our overall loan portfolio following the growth in Korean economy.

The total loan balance increased by W16,598 billion in 2006, and mortgage and home equity loans which are considered to have a lower credit risk than other types of loans accounted for W4,257 billion, or 25.6% of the increase in our total loan balance. On the other hand, our credit card portfolio which is with a higher credit risk decreased by W317 billion in 2006. Our ratio of non-performing loans over total loans decreased to 1.02% as of December 31, 2006 from 1.51% as of December 31, 2005. In addition, our nonaccrual loans, including the past due loans within the repayment grace period , increased to W2,099 billion, or 1.71% of total loans, as of December 31, 2006, from W2,052 billion, or 1.94% of total loans, as of December 31, 2005.

The foregoing contributed to a significant increase in our provision for loan losses in 2006, which may be further explained by reference to:

- an increase in the total amount of non-impaired corporate loans from W55,606 billion in 2005 to W66,592 billion in 2006, which more than offset an improvement in the loss ratio for non-impaired loans following the overall economic turnaround; and

- an increase in the average loss rates from 30.8% in 2005 to 62.9% in 2006 for corporate loans, primarily resulting from the relatively high loss rates for corporate loans that were newly reclassified as impaired, which more than offset a decrease in the total amount of impaired loans from W2,285 billion in 2005 to W1,375 billion in 2006.

The extent of provision for credit losses in 2006 were partially offset by a decrease in provision for credit losses in respect of unused portions of lines of credits that we extended to our customers, which are not immediately cancelable at our option. In 2005, our provision for credit losses on such unused portions of credit lines was W111 billion. In 2006, a reversal of provision for credit losses on such unused portions of credit lines amounted to W11 billion primarily due to a decrease in the loss rate of non-impaired loans.

The following table sets forth for the periods indicated the components of provision for credit losses by product type.

	As of December 31,		
	2005	2006	% Change
	(In billions of Won, except percentages)		
Total (reversal of) provision for loan losses(A):			
Corporate	W (402)	W 194	N/M
Mortgages and home equity	(1)	(18)	180%
Other consumer	76	44	(42.1)
Credit cards	72	32	(55.5)
	(255)	252	N/M

Total (reversal of) provision for off-balance sheet credit instruments(B):			
Guarantees and acceptances	W (39)	W (15)	(61.5)%
Unused portions of credit line	111	(11)	N/M
	72	(26)	N/M
Total (reversal of) provision for credit losses (A+B)	W (183)	W 226	N/M

N/M = not meaningful

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We recorded reversal of provision for loan losses against corporate loans of W402 billion in 2005 compared to provision for loan losses of W194 billion in 2006. This was due primarily to an increase of provision for loans losses of impaired corporate loans. Our loan loss allowance against corporate loans increased by 18.2% from W1,074 billion as of December 31, 2005 to W1,269 billion as of December 31, 2006, due primarily to a higher loss rate for impaired corporate loans and an increase in the amount of total corporate loans, which more than offset decreases in the total amount of non-performing loans and net charge-offs.

Reversal of provision for loan losses against mortgage and home equity loans increased from W1 billion in 2005 to W18 billion in 2006 due primarily to the improved quality of loans. Our loan loss allowance against mortgage and home equity loans decreased 78.95% from W19 billion as of December 31, 2005 to W4 billion as of December 31, 2006 while our mortgage and home equity loans increased 16.47% from W25,840 billion as of December 31, 2005 to W30,097 billion as of December 31, 2006 reflecting increased demand for such loans. The ratio of non-performing loans to total loans within this portfolio declined from 0.4% in 2005 to 0.2% in 2006.

Our provision for loan losses against other consumer loans decreased 42.1% from W76 billion in 2005 to W44 billion in 2006 primarily reflecting a decrease in the amount of write-offs. Net charge-offs within the other consumer loan portfolio has decreased from W262 billion in 2005 to W53 billion in 2006. Other consumer loans have increased 14.45% from W17,875 billion as of December 31, 2005 to W20,458 billion as of December 31, 2006. However, the allowance for loan losses has decreased 4.37% from W183 billion as of December 31, 2005 to W175 billion as of December 31, 2006, reflecting continued aggressive charge-offs of delinquent accounts, decreased levels of delinquencies within the loan portfolio, and improved credit quality of impaired loans. The ratio of non-performing loans to total loans within this portfolio decreased from 1.0% as of December 31, 2005 to 0.6% as of December 31, 2006.

Our provision for loan losses against credit cards decreased 55.5% from W72 billion in 2005 to W32 billion in 2006 reflecting a decrease in delinquencies during 2006 and a decrease in the size of the loan portfolio. Net charge-offs within the credit card portfolio has decreased from W244 billion in 2005 to W141 billion in 2006. Our credit card balances resulted in a 7.50% decrease from W4,242 billion as of December 31, 2005 to W3,924 billion as of December 31, 2006. Our allowance for losses against credit cards has decreased 46.19% from W236 billion as of December 31, 2005 to W127 billion as of December 31, 2006, primarily due to an improvement in the overall quality of our credit card assets following continued charge-offs of delinquent accounts. The ratio of non-performing loans to total loans within our credit card portfolio decreased from 1.1% as of December 31, 2005 to 1.0% as of December 31, 2006.

Total provision for off-balance sheet credit instruments decreased from 2005 to 2006 due to reversal of unused portions of credit lines. The decrease in provision for unused portions of credit lines was primarily due to a decrease in loss rates of non-impaired corporate loans.

Noninterest Income

The following table sets forth for the periods indicated the components of our noninterest income.

	As of December 31,		
	2005	**2006**	**% Change**
	(In billions of Won, except percentages)		
Commissions and fees from non-trust management:			

Brokerage fees and commissions(1)	W 345	W 479	38.8%
Other fees and commissions(2)	1,160	1,032	(11.0)
Net trust management fees(3)	100	106	6.0
Net trading profits	116	141	21.6
Net gains (losses) on securities	96	31	(67.7)
Gain on other investment	284	207	(27.1)
Net gain on foreign exchange	94	229	143.6
Insurance income	189	1,366	622.8
Other	334	334	0.3
Total noninterest income	W 2,718	W 3,926	44.4%

Notes:

(1) Consists of commissions, fees and markup on securities brokerage activities.

(2) Includes commissions received on remittance, commissions received on imports and export letters of credit and commissions received from foreign exchange transactions.

(3) Consists principally of fees from management of trust accounts in our banking operations.

The 44.4% increase in noninterest income was mainly attributable to a significant increase in insurance income, which was due to the acquisition of Shinhan Life Insurance in November 2005.

Noninterest Expenses

The following table shows, for the periods indicated, the components of our noninterest expense.

	Year Ended December 31,		
	2005	**2006**	**% Change**
	(In billions of Won, except percentages)		
Employee compensation and other benefits	W 1,480	W 1,789	20.9%
Depreciation and amortization	377	471	24.9
General and administrative expenses	516	666	29.1
Credit card fees	134	205	53.0
Provision (reversal) for other losses	113	(16)	N/M
Insurance fees on deposits	125	128	2.4
Other fees and commission expenses	292	358	22.6
Taxes (except income taxes)	110	96	(12.7)
Insurance operating expense	200	1,404	602.0
Other	347	483	38.9
Total noninterest expenses	W 3,694	W 5,583	51.1%

The 51.1% increase in noninterest expenses was mainly attributable to a significant increase in insurance operating expenses, which was due to the acquisition of Shinhan Life Insurance in November 2005, and an increase in employee compensation other benefits paid out after the merger of Shinhan Bank and Chohung Bank.

Income Tax Expense

Income tax expense decreased by 34.5% from W942 billion in 2005 to W617 billion in 2006 to as a result of our decreased income and related tax expense. The statutory tax rate was 27.5% in both 2005 and 2006. Our effective rate of income tax decreased to 29.2% in 2006 from 35.0% in 2005. Our effective rate of income tax in 2005 was high compared to 2006 due to additional tax assessed by the Korean tax authority and provision of valuation allowance for deferred tax assets in 2005 and the reversal of the valuation allowance in 2006.

Net Income Before Extraordinary Item

As a result of the foregoing, our net income before extraordinary items decreased by 14.9% from W1,739 billion in 2005 to W1,480 billion in 2006.

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2005 Compared to 2004

Net Interest Income

The following table shows, for the periods indicated, the principal components of our net interest income.

	Year Ended December 31,		
	2004	2005	% Change
	(In billions of Won, except percentages)		
Interest and dividend income:			
Interest and fees on loans	W 6,142	W 6,296	2.5%
Interest and dividends on securities	1,265	932	(26.3)
Trading assets	168	111	(33.9)
Other interest income	137	149	8.8
Total interest and dividend income	W 7,712	W 7,488	(2.9)
Interest expense:			
Interest on deposits	W 2,370	W 2,234	(5.7)%
Interest on short-term borrowings	341	340	(0.6)
Interest on secured borrowings	299	240	(19.7)
Interest on long-term debt	1,099	1,182	7.6
Other interest expense	29	18	(37.9)
Total interest expense	4,138	4,014	(3.0)
Net interest income	W 3,574	W 3,474	(2.8)%
Net interest margin(1)	2.78%	2.70%	

Note:

(1) The ratio of net interest income to average interest-earning assets. See Average Balance Sheet and Volume and Rate Analysis Average Balance Sheet and Related Interest.

Interest and dividend income. The 2.9% decrease in interest and dividend income is due primarily to a 26.3% decrease in interest and dividends on securities, which was partially offset by a 2.5% increase in interest and fees on loans. The average balance of our interest earning assets decreased 0.1% from W128,812 billion in 2004 to W128,733 billion in 2005, principally as a result of the decrease in our average balance of securities.

The 26.3% decrease in interest and dividends on securities was due primarily to a decline by 123 basis points in average yield on securities from 6.05% in 2004 to 4.82% in 2005 and a 7.5% decrease in average balance of securities from W20,924 billion in 2004 to W19,348 billion in 2005. The decline in average yield on securities results primarily from the continuing general decline in average market interest rates during the periods under review and the reduction in interest income in the redemption at maturity of high-interest bearing notes. Approximately 87% of our securities portfolio consists of debt securities issued or guaranteed by the Korean government or government-controlled entities and debt securities issued by financial institutions and other Korean banks as of December 31, 2005.

The 2.5% increase in interest and fees on loans was due primarily to the following:

a 10.6% increase in interest and fees on commercial and industrial loans from W1,876 billion in 2004 to W2,075 billion in 2005, which was due primarily to an increase by 50 basis points in the average yield on such loans from 5.25% in 2004 to 5.75% in 2005 and a 0.9% increase in average balance of such loans from W35,753 billion in 2004 to W36,079 billion in 2005; and

a 13.4% increase in interest and fees on mortgage and home equity loans from W1,138 billion in 2004 to W1,290 billion in 2005, which was due primarily to a 15.1% increase in average balance of mortgage and home equity loans from W21,408 billion in 2004 to W24,630 billion in 2005, which was partially offset by a decline of 8 basis points in the average yield on such loans from 5.32% in 2004 to 5.24% in 2005,

which more than offset:

a 12.7% decrease in interest and fees on other commercial loans from W1,311 billion in 2004 to W1,145 billion in 2005, which was due primarily to a 6.9% decrease in average balance of other commercial loans from W21,632 billion in 2004 to W20,130 billion in 2005 and a decrease by 37 basis points in the average yield on such loans from 6.06% in 2004 to 5.69% in 2005.

Our loans in 2005 recorded a 1.8% increase in average volume from W99,888 in 2004 to W101,714 in 2005 primarily as a result of increased average balance of consumer loans (except credit cards) as follows:

mortgage and home equity loans increased by 15.1% from W21,408 billion in 2004 to W24,630 billion in 2005, which was partially offset by a decrease in the average yield on such loans by eight basis points from 5.32% in 2004 to 5.24% in 2005; and

other consumer loans increased by 7.4% from W14,481 billion in 2004 to W15,552 billion in 2005, the effect of which was partially offset by a decline of 52 basis points in the average yield on such loans from 7.91% in 2004 to 7.39% in 2005.

As noted, our average yield on loans increased by four basis points from 6.15% in 2004 to 6.19% in 2005, primarily reflecting the improvement in asset quality of our loans, which was partially offset by continuing general decline in average market interest rates during the periods under review and increased competition in the Korean lending market.

Our credit cards experienced a 18.0% decrease in average volume from W5,575 billion in 2004 to W4,574 billion in 2005 due primarily to continued charge-offs of delinquent accounts. The average yield on credit cards increased by 196 basis points from 10.92% in 2004 to 12.88% in 2005 due primarily to the improvement in asset quality of our credit card balances.

Interest Expense. Interest expense decreased 3.0% from W4,138 billion in 2004 to W4,014 billion in 2005, due primarily to a 5.7% decrease in interest on deposits and a 19.7% decrease in interest on secured borrowings, which more than offset a 7.6% increase in interest on long-term debt.

The 5.7% decrease in interest expense on deposits from W2,370 billion in 2004 to W2,234 billion in 2005 was primarily the result of a decline of 22 basis points in the cost of interest bearing deposits from 2.93% in 2004 to 2.71% in 2005, which was partially offset by a 2.0% increase in average volume of interest bearing deposits from W80,952 billion in 2004 to W82,560 billion in 2005.

The principal reason for the decline in interest rates payable on our interest-bearing deposits was the general decline in market interest rates. The average interest rate paid on our time deposits other than certificates of deposit, which accounted for 47.3% of our average interest-bearing deposits in 2005, decreased from 3.83% in 2004 to 3.69% in 2005. The average interest rate paid on our savings deposits, which accounted for 31.6% of our average interest-bearing deposits in 2005, decreased from 1.24% in 2004 to 0.96% in 2005. The average interest rate paid on our interest-bearing demand deposits, on the other hand, increased from 1.33% in 2004 to 1.90% in 2005 due primarily to an increase in the interest rate applicable to court deposits.

The increase in average volume of interest bearing deposits is due primarily to a 18.7% increase in average volume of savings deposits from W21,987 billion in 2004 to W26,100 billion in 2005 and a 31.2% increase in average volume of certificate of deposits from W6,735 billion in 2004 to W8,838 billion in 2005, which more than offset a 6.8% decrease in average volume of other time deposits from W41,863 billion in 2004 to W39,031 billion in 2005 and a decrease in the average volume of other deposit products. Our growth in deposit products in 2005 was focused on savings deposits and certificates of deposit because of the growing customer preference for short-term deposit products such as money market deposit accounts due to the decline in interest rate payable to interest-bearing deposits. Other time deposits decreased due primarily to an increasing customer aversion to time deposits following the general decline in interest rates payable on interest-bearing deposits.

The 19.7% decrease in interest on secured borrowings was due primarily to a decline in the average interest rate paid by 56 basis points from 4.21% in 2004 to 3.65% in 2005, resulting from the decline in interest rates payable on secured borrowings following the general decline in average market interest rates.

The 7.6% increase in interest expense on long-term debt was due to a 10.4% increase in average volume of long-term debt from W20,136 billion in 2004 to W22,209 billion in 2005 resulting from the issuance of corporate debentures and long-term debt in response to the smaller growth in the volume of deposits compared to the growth in the volume of loans, partially offset by a decline of 14 basis points in average interest rates paid on our long-term debt from 5.46% in 2004 to 5.32% in 2005, which reflects the general decline in average market interest during the period.

Net interest margin. Net interest margin represents the ratio of net interest income to average interest earning assets. As net interest income decreased 2.8% from W3,574 billion in 2004 to W3,474 billion in 2005 and the average volume of our interest earning assets decreased 0.1% from W128,812 billion in 2004 to W128,733 billion in 2005, our overall net interest margin decreased eight basis points from 2.78% in 2004 to 2.70% in 2005.

Provision for credit losses

Our provision for loan losses was W195 billion in 2004 as compared to a reversal of provision for loan losses of W255 billion in 2005, primarily reflecting a decrease in total allowance for loan losses. The decrease in our total allowance for loan losses reflects continuous improvement in the credit quality of our overall loan portfolios following continued improvements in Korean economy in 2005 as compared to 2004.

The total loan balance increased by W8,768 billion in 2005, and mortgage and home equity loans which are considered to have a lower credit risk than other types of loans accounted for W3,660 billion, or 41.7% of the increase in our total loan balance. On the other hand, our credit card portfolio which is with a higher credit risk decreased by W490 billion in 2005. Our ratio of non-performing loans over total loans slightly decreased to 1.51% as of December 31, 2005 from 1.80% as of December 31, 2004. In addition, our nonaccrual loans, which represent one day and over delinquent loans, decreased to W2,052 billion, or 1.94% of total loans, as of December 31, 2005 from W2,454 billion, or 2.53% of total loans, as of December 31, 2004.

The foregoing contributed to a significant decrease in our provision for loan losses in 2005, which may be further explained by reference to the following:

changes in the asset quality of individually identified impaired corporate loans Changes in the asset quality of individually identified impaired corporate loans are attributed to a decrease in the outstanding balance which may result from collection through the disposal of collateral or relaxing requirements for troubled debt restructurings. Such changes have a direct impact on provisioning for loan losses through individual analysis of those loans. See Item 4. Information on the Company Description of Assets and Liabilities Loans individually identified for review and considered impaired . Specific allowances are established by discounting the estimated cash flows expected to receive using the loan s effective interest rate or by reference to the fair value of the collateral; and

the improvement in asset quality classifications of loans which are not specially identified as impaired For loans which are not specially identified as impaired, the general allowance for loan losses is determined based on loss factors taking into consideration past performance of the portfolio, previous loan loss history and charge-off information which are developed through a migration model. See Item 4. Information on the Company Description of Assets and Liabilities Loans not specifically identified as impaired . Due primarily to the enhanced condition of the Korean economy, our asset quality classifications of non-impaired loans improved and the loss rates decreased in 2005 as compared to 2004. As a result, provision for loan losses against non-impaired loans decreased from 2004 to 2005.

The extent of the reversal of provision for credit losses in 2005 were partially offset by an increase in provision for credit losses in respect of unused portions of lines of credits that we extended to our customers, which are not immediately cancelable at our option. In 2004, our provision for credit losses on such unused portions of credit lines was W23 billion. In 2005, following certain guidelines announced by the bank regulatory authorities in Korea, the scope of unused portions of lines of credit that are deemed immediately cancelable at our option has been reduced

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significantly. Accordingly, the amount of unused portions of lines of credit subject to credit loss provisioning increased compared to 2004. As a result, we raised provisions for losses on such unused portions of lines of credit in the amount of W111 billion in 2005.

The following table sets forth for the periods indicated the components of provision for credit losses by product type.

	As of December 31,		
	2004	2005	% Change
	(In billions of Won, except percentages)		
Total provision for loan losses(A):			
Corporate	W (293)	W (402)	37.2%
Mortgages and home equity	(1)	(1)	
Other consumer	130	76	(41.5)
Credit cards	359	72	(79.9)
	195	(255)	N/M
Total provision for off-balance sheet credit instruments(B):			
Guarantees and acceptances	W (83)	W (39)	(53.0)%
Unused portions of credit line	23	111	382.6
	(60)	72	N/M
Total provision for credit losses (A+B)	W 135	W (183)	N/M

N/M = not meaningful.

Reversal of provision for loan losses against corporate loans increased by 37.2% from W293 billion in 2004 to W402 billion in 2005 due primarily to the improved quality of loans. Our loan loss allowance against corporate loans decreased 28.4% from W1,499 billion as of December 31, 2004 to W1,074 billion as of December 31, 2005 due primarily to due to the improved quality of loans following decreased levels of delinquencies within the portfolio and improved credit quality of impaired loans. Non- performing corporate loans decreased from W1,385 billion as of December 31, 2004 to W1,263 billion as of December 31, 2005, representing 2.4% and 2.2% of the total corporate loan portfolio, respectively. Total net charge offs decreased by 90.5% from W263 billion in 2004 to W25 billion in 2005.

Reversal of provision for loan losses against mortgage and home equity loans remained stable at W1 billion in 2004 and 2005 due primarily to the substantial offset between the effects of the increased volume of loans and the effects of improved quality of loans. Our loan loss allowance against mortgage and home equity loans decreased 47.2% from W36 billion as of December 31, 2004 to W19 billion as of December 31, 2005 while our mortgage and home equity loans increased 16.5% from W22,180 billion as of December 31, 2004 to W25,840 billion as of December 31, 2005 reflecting the increased demand for such loans. The ratio of non-performing loans to total loans within this portfolio declined from 0.6% in 2004 to 0.4% in 2005.

Our provision for loan losses against other consumer loans decreased 41.5% from W130 billion in 2004 to W76 billion in 2005 primarily reflecting a decrease in the amount of write-offs. Net charge-offs within the other consumer loan portfolio has decreased from W419 billion in 2004 to W262 billion in 2005. Other consumer loans have increased 14.9% from W15,546 billion as of December 31, 2004 to W17,875 billion as of December 31, 2005. However, the allowance for loan losses has decreased 50.3% from W368 billion as of December 31, 2004 to W183 billion as of December 31, 2005, reflecting continued aggressive charge-offs of delinquent accounts, decreased levels of delinquencies within the portfolio, and improved credit quality of impaired loans. The ratio of non-performing loans to total loans within this portfolio remained stable at 1.0% as of December 31, 2004 and December 31, 2005.

Our provision for loan losses against credit cards decreased 79.9% from W359 billion in 2004 to W72 billion in 2005 reflecting decreased delinquencies during 2005 and a decrease in the size of the portfolio. Net charge-offs within the credit card portfolio has decreased from W816 billion in 2004 to W244 billion in 2005. Our credit card balances resulted in a 10.4% decrease from W4,732 billion as of December 31, 2004 to W4,242 billion as of December 31, 2005. Our allowance for losses against credit cards has decreased 42.2% from W408 billion as of December 31, 2004 to W236 billion as of December 31, 2005, primarily due to an improvement in overall quality of our credit card assets following continued charge-offs of delinquent accounts. The ratio of non-performing loans to total loans within our credit card portfolio decreased from 1.8% as of December 31, 2004 to 1.1% as of December 31, 2005.

Total provision for off-balance sheet credit instruments increased from 2004 to 2005 due to the reduction in the reversal of guarantees and acceptances and an increase in provision for the unused portions of credit lines. The reduction in the reversal of guarantees and acceptances was primarily due to the improved credit quality of the underlying portfolio. The increase in provision for unused portions of credit lines was primarily due to an increase in the amount of credit lines that were not immediately cancelable at our option . Based on prior industry practice, we considered a substantial portion of our outstanding credit lines with customers as being immediately cancelable at our option during the periods before 2005. During 2005, the Korean bank regulatory authorities strengthened the provisioning for credit losses in respect of unused portions of credit lines under Korean GAAP. In response to, among other things, this bank regulatory guidance, we adopted a more conservative approach in 2005 and applied a narrower definition when identifying which of our outstanding credit lines with customers should be deemed immediately cancelable at our option . Accordingly, the amount of unused portions of lines of credit which became subject to credit loss provisioning increased in 2005, resulting in higher provisions as compared to 2004.

Noninterest Income

The following table sets forth for the periods indicated the components of our noninterest income.

	As of December 31,		
	2004	**2005**	**% Change**
	(In billions of Won, except percentages)		
Commissions and fees from non-trust management:			
Brokerage fees and commissions(1)	W 232	W 345	48.7%
Other fees and commissions(2)	947	1,160	22.5
Net trust management fees(3)	84	100	19.0
Net trading profits	138	116	(15.9)
Net gains (losses) on securities	(77)	96	N/M
Gain on other investment	53	284	435.8
Net gain on foreign exchange	353	94	(73.4)
Insurance income		189	N/M
Other	366	334	(8.7)
Total noninterest income	W 2,096	W 2,718	29.7%

N/M = Not meaningful

Notes:

(1) Consists of commissions, fees and markup on securities brokerage activities.

(2) Includes commissions received on remittance, commissions received on imports and export letters of credit and commissions received from foreign exchange transactions.

(3) Consists principally of fees from management of trust accounts in our banking operations.

The 29.7% increase in noninterest income was attributable to a 435.8% increase in gain on other investment, our recording of insurance income in 2005 that we did not record in 2004 following the consolidation of Shinhan Life Insurance into our results of operations, our recording of net gain on securities in 2005 as compared to net loss

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in 2004, a 22.5% increase in other fees and commissions, including commissions received on remittance, and 48.7% increase in brokerage fees and commissions, which more than offset a 73.4% decrease in net gain on foreign exchange. In 2005, we recorded gain on other investment of W284 billion primarily as a result of our sales of equity securities of LG Card and Hynix Semiconductor that we previously received in connection with the debt restructuring of these companies. These sales were made into the market following the expiration of the lock-up period. The W189 billion of insurance income that we recorded in 2005 results from insurance premiums received by Shinhan Life Insurance during the last month of 2005 which was consolidated into our results of operations. We recorded net gain on securities in 2005 compared to net loss on securities in 2004, primarily due to gains from the sale of the equity securities of Ssangyong Motors held by Chohung Bank in 2005 and the absence of significant losses from the write-down of investment securities in 2005 as compared to 2004. The 48.7% increase in brokerage fees and commissions from 2004 to 2005 was due primarily to the increased volume of securities transactions involving the beneficiary certificates sold by investment trust companies. The 22.5% increase in other fees and commissions from 2004 to 2005 was primarily due to the increase in investment banking activities, including, among others, real estate financing, asset-backed securities and project financing. The 73.4% decrease in net gain on foreign exchange reflects the reduced transaction gains as a result of the appreciation of the Korean Won against foreign currencies and the decrease in foreign exchange transaction volume after Shinhan Bank ceased to offer deposit products utilizing the Korean Won and Japanese Yen swaps as described in Overview Certain Income Tax Expenses and Provision for Other Losses. .

Noninterest Expenses

The following table shows, for the periods indicated, the components of our noninterest expense.

	Year Ended December 31,		
	2004	2005	% Change
	(In billions of Won, except percentages)		
Employee compensation and other benefits	W 1,217	W 1,480	21.6%
Depreciation and amortization	429	377	(12.1)
General and administrative expenses	543	516	(5.0)
Credit card fees	147	134	(8.8)
Provision for other losses	16	113	N/M
Insurance fees on deposits	123	125	1.6
Other fees and commission expenses	241	292	21.2
Taxes (except income taxes)	92	110	19.6
Insurance operating expense		200	N/M
Other	348	347	(0.3)
Total noninterest expenses	W 3,156	W 3,694	17.0%

N/M = Not meaningful

The 17.0% increase in noninterest expenses was due primarily to our recording insurance operating expenses of W200 billion in 2005 including payment of insurance premiums and provision for insurance payment reserves following the consolidation of operations of Shinhan Life Insurance into our results of operations, a 21.6% increase in employee compensation and severance benefits, which primarily resulted from increase in our salaries and bonuses for our labor force in connection with the harmonization of compensation between Shinhan Bank and Chohung Bank, and a significant increase in provision for other losses which reflects the additional W49 billion of provisions we raised in anticipation of the losses from our dispute with the Korean National Tax Service in respect of certain deposit products utilizing Korean Won and Japanese Yen swaps as described in Overview Certain Income Tax Expenses and Provision for Other Losses.

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Income Tax Expense

Income tax expense increased from W764 billion in 2004 to W942 billion in 2005 as a result of our increased income and the additional tax expense incurred as a result of the events described in Certain Income Tax Expenses and Provision for Other Losses above. The statutory tax rate was 29.7% in 2004 and 27.5% in 2005.

Our effective rate of income tax increased to 35.0% in 2005 from 32.1% in 2004 due primarily to an increase in expenses not deductible for tax purposes and an increase of valuation allowance on net deferred tax assets that we determined to be unlikely to be available following the split-merger of Chohung Bank s credit card operations into Shinhan Card.

Net Income Before Extraordinary Item

As a result of the foregoing, our net income before extraordinary items increased by 18.9% from W1,462 billion in 2004 to W1,739 billion in 2005.

Business Outlook

In 2004, 2005 and 2006, according to the Bank of Korea, Korea s gross domestic products grew by 4.7%, 4.2% and 5.0%, respectively. This steady growth was largely due to an increase in exports, an increase in domestic consumption and stable unemployment rates (which were 3.8%, 3.5% and 3.3% in 2004, 2005 and 2006, respectively, according to the Bank of Korea). We expect that the Korean economy will continue to maintain steady growth in the near future. However, a number of economic and political risks in Korea and abroad could impede the growth of the Korean economy, which would have a material adverse effect on our business. See Item 3 Key Information Risk Factors Risks Relating to Korea and the Global Economy . In addition, the continued intense competition in the banking and other financial sectors may also constrain our ability to increase our revenues and improve our profitability in the near future.

In corporate banking, lending to small- and medium-sized enterprises has long been our core focus of business. Our small- and medium-sized enterprises lending portfolio has grown steadily from a balance of W38,713 billion in 2004 to W39,943 billion in 2005 and to W47,159 billion in 2006. During this period, most of the national banks have shifted their corporate banking focus to, or increased their emphasis on, this type of lending, as opportunities in the large corporate sectors diminish. While we expect the competition in this sector to intensify and result in lower margins from lending to this customer sector, we believe our established customer base, quality brand image and experienced lending staff will provide an opportunity to maintain steady growth in this environment. This increase in lending has brought with it increasing delinquencies in this portion of our portfolio, in particular in loans to the real estate, leasing and service industry and the hotel and leisure industry (principally consisting of hotels, motels and restaurants) in 2004, resulting in higher charge-offs and provisions in 2004 and 2005. The rate of delinquencies in these industry sectors began to improve in the second half of 2005, and improved from 1.98% as of December 31, 2004 to 1.55% as of December 31, 2005 and 0.61% as of December 31, 2006.

In retail banking, over the past several years, we have experienced a significant growth in home mortgage-based secured consumer lending, both for home purchases as well as for general purpose borrowing through home equity loans. Our mortgage and home equity lending portfolio increased from an average balance of W21,408 billion during 2004 to W24,630 billion in 2005 and to W27,212 billion during 2006. The volume of such lending by us is significantly dependent on competitive conditions, real estate prices, interest rate levels and government policies affecting these markets, and the trends indicated by prior periods will be altered accordingly. In 2006, given the relative low home ownership ratio in Korea, the increasing demand for ownership of larger homes and the growing trend within the newly financially independent young population to seek their own housing, we expect the demand for home mortgage-based secured lending to be fairly strong and the banks to increase their lending. In addition, since the home mortgaged-based loans were introduced only in 2004, we believe that the market for such loans has a strong growth potential. We believe that consumer demand for the 15-year or longer term loans is likely to continue to grow given the tax benefits applicable to their interest payments. However, this trend may be counter-balanced by recent regulatory developments in Korea. For example, 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%, and the adoption of maximum debt-to-income ratio of 60% as a requirement for approving mortgage and home equity loans. In

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recent years, the Korean government has issued several policy-driven regulations to suppress the increasing real estate prices in certain zones of the Seoul Metropolitan area that are in high demand, including the further reduction of maximum loan-to-value ratio applicable to mortgage and home equity loans for real estate in those regulated zones. We have also experienced a significant increase in other consumer loans (principally general unsecured loans) as we seek to diversify our consumer lending portfolio. Our other consumer loans increased from an average balance of W14,481 billion during 2004 to W15,552 billion in 2005 and to W19,357 billion during 2006.

In the credit card business, we witnessed our customers become more active borrowers until the first half of 2003 as the credit card markets expanded rapidly. Beginning in 2003, however, the growth in credit card usage and balances have been moderated as a result of heightened concerns about increasing delinquencies, credit defaults and asset quality deterioration. Our growth in this sector, represented by Shinhan Card, was not as dramatic as that experienced by other Korean banks and credit card companies, some of whom were shifting from large corporate lending to the credit card sector and others of whom chose to expand more aggressively. Our credit card portfolio growth trend reflects this difference, and this in turn was reflected in a lower level of credit defaults and delinquencies. Three credit card companies, including Shinhan Card, with sound asset quality recorded profit in 2004. The credit card asset size stabilized during 2005 and 2006. We experienced a continued improvement in the profitability of the credit card companies in 2006 primarily as a result of a decrease in the provision for credit losses due to improved asset quality and, to a lesser extent, an increase in lending. Our acquisition of Chohung Bank (including its credit card division) has resulted in a significant increase in our credit card assets, including considerable amounts of credit card assets with a higher level of delinquencies and credit defaults compared to our credit card assets of Shinhan Card. However, in 2005 and 2006, our provision for possible losses relating to the credit card assets of Chohung Bank decreased significantly compared to prior years. Simultaneous with the merger of Shinhan Bank and Chohung Bank, the credit card division of Chohung Bank was merged into Shinhan Card in April 2006. In March 2007, we acquired LG Card. Since the asset quality of LG Card substantially improved prior to our acquisition, we believe that the acquisition will not materially deteriorate the overall asset quality of our credit card business units, and any such effect will be more than offset by the positive impacts of the acquisition, including the expanded customer base, opportunities for cost-cutting and cross-selling and other synergy effects.

In securities brokerage services, we expect an increase in brokerage fees and commissions due primarily to improving stock market performance based on increased investment in equity funds by individual investors, growing interest in asset management products and anticipated improvement in corporate earnings, as well as an anticipated increase in volume through the use of our banking network to promote our securities brokerage services and products.

We believe that, over the long term, the establishment of the Shinhan Financial Group as a diversified financial services platform and the addition of subsidiaries, such as Chohung Bank, Shinhan Life Insurance and LG Card, to that platform will provide significant opportunities to enhance our prospects as and when economic conditions improve.

Results by Principal Business Segment Under Korean GAAP

As of December 31, 2006, we were organized into eight major business segments as follows:

the following business segments of Shinhan Bank (1):

retail banking;

corporate banking;

treasury and international business; and other banking services;

credit card services of Shinhan Card (2);

securities brokerage services of Good Morning Shinhan Securities;

life insurance services of Shinhan Life Insurance; and

others.

Notes:

(1) The respective business segments of Chohung Bank were consolidated into corresponding business segments of Shinhan Bank following the merger in 2006.

(2) The credit card services division of Chohung Bank was consolidated into the credit card services sector of Shinhan Card following the split-merger in 2006. Currently, we provide credit card services also through LG Card, which we acquired in February 2007.

The following discussion of our results of operations by principal business segment is provided on a Korean GAAP basis since this is the basis of accounting that we currently use to manage our business. Our chief operating decision maker regularly makes decisions about resources to be allocated to these activities and assesses performance of the activities using this information, and consequently this forms the basis of our segment reporting included in Note 34 in the notes to our consolidated financial statements included in this annual report. The data below for Shinhan Bank include the data for Chohung Bank, which merged with Shinhan Bank in April 2007.

Segment Results(1)